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Trade Policy Review Body

TRADE POLICY REVIEW

REPORT BY THE SECRETARIAT

JAPAN

This report, prepared for the fourteenth Trade Policy Review of Japan, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from Japan on its trade policies and practices.

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Document WT/TPR/G/397 contains the policy statement submitted by Japan.

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SUMMARY

1. Since the previous Trade Policy Review in 2017, the Government continued to support growth by easing financial conditions, reducing the fiscal deficit, and raising employment and female labour force participation, thus ensuring Japan's longest economic expansion of the post-war era. Annual GDP growth peaked at 1.9% in 2017, and its annual average rate stood at 1.1% (2016-18), a minor slowdown compared to previous performance (averaging 1.2% over 2013-15). Monetary and fiscal stimulus measures are being used to spur economic recovery. Japan has maintained its position as the world's third largest and fifth most competitive economy (2018). According to latest available data, income inequality and a poverty gap remained virtually unchanged. Inflation dropped considerably below the Bank of Japan's target before picking up (1% in 2018), whereas the relatively low unemployment rate continued to decline (2.4% in 2018).

2. During the review period, trade-related structural reforms (e.g. in the areas of taxation, competition policy, corporate governance, and labour market policies) were undertaken. Both multi factor and labour productivity registered positive growth, and targets were set for the latter; SMEs' productivity in manufacturing remains relatively low compared to large firms. Monetary policy, involving, among others, Quantitative and Qualitative Monetary Easing (QQE) with negative interest rate, continued to provide a monetary stimulus to growth and help building a stable financial environment.

3. Japan maintains a free-floating exchange rate regime; no foreign exchange intervention took place during the review period. Heightened global uncertainty contributed to a slight appreciation in the JPY/USD exchange rate. The current account registered a larger overall surplus, that peaked at 4.1% of GDP in 2017, *inter alia*, due to a rising primary income surplus deriving mainly from investment income, and shrank in 2018 to 3.5% of GDP, reflecting smaller goods trade and income balances; this ratio was estimated to remain virtually unchanged in 2019. Foreign exchange reserves (excluding gold) increased steadily. Gross external debt also rose steadily over the review period (81% of GDP in 2018). The fiscal deficit, often financed through supplementary budgets to the annual budget, declined slightly (3.2% of GDP in 2017 and 2018) but the gross financial liabilities of general government rose (224.2% of GDP in 2018). The authorities envisaged taking temporary and special offsetting/mitigating fiscal measures in the initial budgets for FY 2019 and FY 2020 to address concerns related to the increase in the consumption tax rate from 8% to 10% on 1 October 2019.

4. The relative importance of international trade in Japan's economy, its degree of openness, and its integration into the world economy and global value chains continued to be reflected by the ratio of its trade (exports plus imports) in goods and services to GDP; despite a drop from its 2014 peak to a 2016 trough, this ratio increased to 36.7% in 2018. Notwithstanding some minor fluctuations in trade shares, Japan's main trading partners remain China, the United States and the European Union, whereas its main inbound/outbound foreign direct investment (FDI) partners were virtually the same, i.e. the United States, the British Cayman Islands, the European Union and the Republic of Korea. The FDI inbound stock continued to rise steadily and was largely held by European Union investors. Government initiatives to attract FDI have been focused on providing matching and advisory services. Over the review period, the main law governing FDI, the Foreign Exchange and Foreign Trade Act, was amended for reasons of security protection, by: expanding the scope of prior checking of unlisted stock transfers between foreign investors; and introducing a provision that unregistered foreign investors may be subject to executive orders, including orders to sell their holding stocks. Prior notification and approval requirements are in place for investments where there could be significant adverse effects on the smooth management of the national economy or on the grounds of public order, public safety or national security. FDI restrictions remain in place in the telecommunications, broadcasting and radio sectors.

5. Japan aims to develop "free, fair and high-level trade rules" domestically, with key trading partners and in international fora (including the WTO), as well as to make progress in reinforcing economic ties and cooperation with emerging economies. Its 2018 White Paper on International Economy and Trade includes promoting exports and the use of Economic Partnership Agreements (EPAs). Trade-related policy objectives are also contained in various other strategies also being implemented, including: the evolving Abenomics programme; the 2016 Japan Revitalization Strategy; the Future Investment Strategy; the New Economic Policy Package; and the 2019 Growth Strategy. Over the review period, Japan was involved in three new dispute settlement cases as complainant, and reserved its third-party rights in 34 cases. Japan maintained a strong record of

notifications to the WTO, although up-to-date notifications on domestic support in agriculture and government procurement are outstanding. Since 2017, new regional trade agreements that have entered into force for Japan are: the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU-Japan EPA. Japan also signed the First Protocol to Amend the Agreement on ASEAN-Japan Comprehensive Economic Partnership (AJCEP), which includes chapters on trade in services and on investment, as well as a trade agreement with the United States. Changes were made to the framework for graduation from Japan's GSP scheme, with a view to granting preferences to the economies that need them most. Key initiatives to improve the business environment include: introducing labour force reforms; improving corporate governance; and lowering corporate tax. Regulatory reform pilot schemes continue to be undertaken through the National Strategic Special Zone initiative.

6. The general thrust of Japan's trade policy remained relatively unchanged during the period under review. The tariff remains one of the main trade policy instruments and a minor source of tax revenue (1.65% of total tax revenue in FY2019). The structure of the MFN applied tariff remains complex, with a total of 272 tariff rates (same as in FY2016); there are 136 different *ad valorem* rates, 75 different specific rates, 29 different alternate rates and 24 different compound rates, as well as 8 different other types of duty. In FY2019, Japan's overall simple average applied MFN tariff rate rose slightly to 6.3% (up from 6.1% in FY2016), mainly due to higher AVEs and, to a much lesser extent, to a HS nomenclature change. The simple average tariff rate for agricultural products (WTO definition) is 17.9% compared with 3.5% for non-agricultural products. Duty-free lines represent 40.5% of all lines. 7.1% of Japan's tariff lines are non-*ad valorem*, and all the highest tariffs have non-*ad valorem* rates. Japan bound 98.1% of tariff lines, and the overall gap between the simple averages of MFN applied and bound rates remains minimal, at 0.05 percentage points, thus conferring a high level of predictability. Under Japan's RTAs, preferential tariffs have significantly increased market access for these trading partners by around doubling the number of duty-free tariff lines.

7. Since 2017, there have only been minor changes to Japan's customs procedures. These include the introduction of: tougher penalties for failure to obtain the required import/export permissions; a new principle on cargo reporting; and flexibility to authorized economic operators to lodge their import/export declarations at any customs office, not just the one where their imports/exports are stored.

8. During the review period, changes to Japan's import licensing regime related to the removal of import restrictions on whales and their preparations, due to Japan's withdrawal from the International Whaling Commission, and the lifting of restrictions in line with the removal of United Nations sanctions. Import quotas continue to be applied to various marine products, with the aim of conserving exhaustible natural resources and enforcing government measures to restrict quantities of the like domestic products; quota fill rates in 2017 ranged from 2.7% to 98.4%.

9. Amendments to the legislation on anti-dumping and countervailing measures aimed to ease the conditions for applicants requesting the imposition of these measures. Japan maintains seven anti-dumping measures, relating to four products and applying to two trading partners. Definitive duties were imposed for the first time during the review period on polyethylene terephthalate from China and carbon steel butt-welding fittings from China and the Republic of Korea; they were removed on electrolytic manganese dioxide from South Africa and Spain. Japan did not apply any safeguard or countervailing measures during the review period, nor did it initiate any investigations in these areas.

10. Over the review period, there were various changes to Japan's export control regime with respect to goods and destinations. Japan does not levy any export taxes, nor does it maintain any export quotas or operate export subsidy programmes. The Nippon Export and Investment Insurance, one of Japan's official export credit agencies, was transformed from an incorporated administrative agency to a wholly government owned special stock company, in order to, *inter alia*, better reflect in its business practices the Government's priority areas.

11. Domestic support to production and trade remains in place. It is available to foreign and domestic companies through tax incentives, grants and loan schemes. New programmes launched over the review period were aimed at: promoting business investment by local SMEs, assisting the business succession of SMEs, and spurring wage hikes and productivity. Activity-specific support was provided by central or local governments.

12. During the review period, various amendments were made to standards legislation, *inter alia*, to expand the scope of Japanese Industrial Standards to encompass services, programmes and other electronic records and business management systems, as well as to allow standards to be drafted by accredited private-sector associations. The scope of Japanese Agricultural Standards was enlarged to include production processes, handling methods (related to services) and testing methods. Amendments to food labelling standards, *inter alia*, require the place of origin of the product's heaviest ingredient to be labelled, and introduce stricter requirements for the use of "non-GM" labels.

13. Concerning SPS, the Food Sanitation Act was amended in order to reflect changing dietary patterns and the environment surrounding food in Japan, as well as to increase hygiene controls; with respect to imports, control processes applied to the competent authorities in the country of export have been strengthened. The Agricultural Chemicals Control Act was also amended, with a view to improving pesticide safety and contribute to more efficient agriculture. Japan sets some standards on food additives and maximum residue limits (MRLs) that are different from Codex standards and MRLs; these are apparently based on scientific evidence. Over the review period, Japan expanded the scope of animal quarantine for raw milk to also include milk products.

14. State participation in certain activities persists. State trading entities engaging in leaf tobacco, opium, rice, wheat, barley, and milk products remained in place. Major commercial state-owned enterprises include those engaging in energy, financial services, telecommunications and some transport-related activities. Market monopolies are retained in the domestic manufacturing of tobacco and in the importation of leaf tobacco. During the review period, the basic rules on government procurement remained virtually unchanged. Japan, a WTO Government Procurement Agreement signatory, promotes Green procurement and the participation of SMEs in the market. Despite no origin-based restrictions, foreign companies continue to retain a low share in the public procurement market.

15. Since the last Review, the legal framework governing competition policy was updated to, *inter alia*, introduce procedural undertakings under the CPTPP. The number of cease-and-desist orders, as well as the surcharge payment amounts, dropped. Price surveys remain in place on certain pharmaceutical products based on a drug price standard. Action was taken to improve corporate governance by amending the main regulatory framework in this area.

16. Intellectual property (IP) remains of vital importance to the economy, and revenue from IP rights grew exponentially in recent years. A new IP Strategy Vision was released in 2018 to offer a medium- to long-term perspective on the evolution of society and the IP system. Recent amendments to legislation were linked to this Strategy, and related to: patents, trademarks and geographical indications; expansions in the scope and length of protection for designs; new data protections; new copyright restrictions; and measures to facilitate IP right enforcement. An Integrated Innovation Strategy was adopted in 2018 and an Integrated Innovation Strategy Promotion Council was set up.

17. The agricultural sector accounts for a small share of GDP (1.2% in 2017) and employment (3.8% in the same year), and continues to be characterized by small farm holdings, most of which are run as side-businesses. While agricultural output and exports were on a growing trend over the review period, Japan continues to run a significant trade deficit in agricultural goods. Agricultural policy goals, *inter alia*, include making agriculture a growth industry, with greater private-sector participation, increasing exports, and reaching certain self-sufficiency targets. Support to the agricultural sector (0.84% of GDP in 2018) remains relatively high, and was estimated to be over double the OECD average. Tariffs vary considerably among agricultural products, with just below one quarter duty-free and a maximum tariff (AVE, out of quota) of 499.7%. Japan applies 18 tariff rate quotas, covering 101 tariff lines (HS six-digit level); fill rates ranged from 23.4% to 305.6%. Over the review period, Japan applied either volume- or price-based special safeguards several times to out-of-quota imports of a variety of products. Key developments over the review period were: the abolition of direct payments for rice and rice production volume targets (although direct payments to rice farmers remain in place for optimizing the use of paddy fields); the introduction of a new revenue insurance programme applicable to almost all farm products; a review of the Agricultural Mutual Aid system; the abolition of administered prices for beef and pig meat; increased support for domestic beef and pork producers; and the introduction of a modified support system for milk.

18. During the review period, the fisheries production, fishing fleet, number of fishermen and fish consumption all declined. Japan amended its Fisheries Act in 2018 to adopt the system of individual quotas, transferrable under certain conditions, within a Total Allowable Catch system, and to open the sector to private investors in addition to cooperatives by reforming the allocation of fishing rights. For FY2019, the average MFN tariff applied on fish and fish products was 6.1%, and rates ranged from zero to 15% (same in FY2016). Programmes to support fisheries totalled JPY 68.7 billion in FY2017. Various measures against illegal, unreported and unregulated fishing were taken. In December 2018, Japan withdrew from the International Convention for the Regulation of Whaling, with effect from June 2019, in order to resume commercial whaling.

19. The mining and quarrying sector continued to contribute a small share to GDP and employment (0.1% in 2017). Mineral resource exploitation is undertaken under concession agreements. Japan continues to import nearly 92% of its energy supplies and, as such, remains vulnerable to global commodity price movements. A 2018 Strategic Energy Plan is aimed, inter alia, at increasing the share of locally produced renewable energy (including nuclear) in the total energy mix, from 12% in 2017 to 24% in 2030, restoring nuclear capacity, meeting national objectives for the reduction of greenhouse gas emissions, developing electric and hydrogen vehicles, and promoting energetically autonomous housing, and raising energy efficiency. During the review period, Japan pursued the liberalization and reform of its electricity and gas sectors. For both sectors, entry to the retail market was completely liberalized, and the next phase, i.e. the unbundling of vertically integrated regional utility, is underway. Electricity retail prices remain regulated.

20. Manufacturing (20.8% of GDP in 2018) accounts for the majority of merchandise exports, and remains driven by the transport equipment, machinery (general purpose, production and business-oriented), food products, chemical, and basic metals activities. During the review period, certain manufacturing policy developments, including artificial intelligence, robotics and related plans interlinked with services activities, were undertaken. Since the previous review, the average MFN applied tariff for manufactured products dropped, and TRQs continued to apply on 62 manufactured items; peak rates (AVEs) affect footwear (219.4%) and silk (97.9%). A few more industrial items, were subject to anti-dumping duties. Domestic support continued under several non-industry-specific schemes, involving tax and non-tax incentives; activity-specific incentives were available, *inter alia*, to the bekko (tortoiseshell) and ivory crafts industries, the leather and leather goods industries, the manufacture of traditional craft products, R&D for care robot equipment, sochu manufacture, and fuel-cell vehicles and connected industries

21. The share of services in GDP and total employment stood at 69.5% and 72.7%, respectively, in 2017; in 2018, services represented 7.2% of total merchandise and services exports. During the review period, the financial services regime remained basically unchanged. The Financial Services Authority was reorganized to be less sanction-oriented and to encourage financial services stakeholders to develop and consolidate their position in the market. Basel IV principles and anti-money laundering measures were progressively implemented. Japan is in the process of developing a safe regulatory framework for e-payments and crypto currencies. High-speed trading of securities was further regulated.

22. During the period under review, changes to the telecommunications services regulatory framework involved the protection of consumers and their ability to change operators without excessive penalties and keep the same number. The prices of telecom services remain relatively high by international standards. Modern networks and equipment, such as LTE, 5G and IoT, are being actively deployed.

23. The regime governing the postal, courier and express regimes remained stable during the period. The Japan Post Holdings privatization process was relaunched in 2017, with the sale of 23.6% of government shares, and a further sale is scheduled. The universal service encompasses the totality of postal items and services. "General correspondence services" and "special correspondence services" were liberalized in 2002, but no licences were awarded to private operators for general correspondence services, and the 532 special correspondence services operators are all Japanese despite a non-discriminatory regime. Some foreign express carriers operate in Japan and receive national treatment except air cabotage rights.

24. The air transport regime remains basically unchanged, except for the concession process of airports which was accelerated. Japan signed several air services agreements, liberalizing additional frequencies and capacities, during the review period. Regarding maritime transport, the ports

concession process was also accelerated, and support for the Japanese merchant fleet was prolonged and extended. Japan imposes no restrictions on foreign carriers, except for access to the flag and cabotage. The port sector remains open to foreign investment.

25. During the review period, the regime of distribution services remained unchanged. There are no economic needs tests for large stores, and several major foreign distributors are present in the market. The share of e-commerce in the distribution of physical goods is progressing smoothly but at a faster pace in the Business to Business than in the Business to Consumers segment.

26. Network environmental services, such as distribution of water, sewage and waste disposal, remain open to the private sector, including foreign operators and investors, via various PPP formulas. However, no foreign operators are present in these segments. National treatment applies across the board to all environmental services.

27. The practice of legal services is not reserved for nationals but, with respect to the practice of Japanese law, a Japanese qualification is required. Foreign firms can establish and employ Japanese lawyers to practice Japanese law.

1 ECONOMIC ENVIRONMENT

1.1 Main Features of the Economy

1.1. Japan's highly-developed, high-income and market-oriented economy, with a population of 126.2 million (as at 1 March 2019), remains the world's third largest, behind the United States and China, in gross domestic product (GDP) terms.[1] According to the World Bank economic complexity index, it remains the world's most diverse economy, due to the sophistication of its exports, with the services sector constituting the backbone of the economy.[2] Japan has an ageing population, and the highest ratio of public debt (gross financial liabilities of general government) to GDP of any developed nation. Small and medium-sized enterprises (SMEs) continue to play a considerable role in the economy. However, according to the Organisation for Economic Co-operation and Development (OECD), despite public support, they face a productivity gap with large companies, and struggle to take advantage of international trade opportunities (Section 1.2.1).[3] The Government continued to support growth (Table 1.1) by easing financial conditions, reducing the fiscal deficit, and raising employment and female labour force participation, thus ensuring Japan's longest economic expansion in the post-war era.[4] According to latest available data, between 2012 and 2015, Japan's income inequality and poverty gap remained virtually unchanged.[5]

1.2. Despite an estimated growth above the potential growth (Section 1.2.1), as at May 2019, risks to the outlook were skewed to the downside.[6] Endogenous risks involving macro-financial vulnerabilities, fiscal consolidation needs, and limited monetary policy space make the economy vulnerable to adverse shocks. The intertwined challenges of rapid population ageing, involving a sharp rise in social spending, and high government debt (gross financial liabilities of general government) intensified during the review period. Risks have also risen from deteriorating global conditions. Exogenous risks involve developments in overseas economies, including the consequences of protectionist moves, developments in the Chinese economy, and progress in global adjustments in IT-related goods.[7]

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[1] World Bank, *The World by Income and Region*. Viewed at: http://datatopics.worldbank.org/world-development-indicators/the-world-by-income-and-region.html; and *World Bank Country and Lending Groups.* Viewed at: https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups.

[2] World Bank, *Countries With The Most Diverse Economies.* Viewed at: https://www.worldatlas.com/articles/countries-with-the-most-diverse-economies.html.

[3] In 2016, SMEs represented 68.9% of all employment, 99.7% of all enterprises and 52.9% (2015) of total value added. Data from the 2016 Economic Census for Business Activity, prepared by the Ministry of Internal Affairs and Communications and Ministry of Economy, Trade and Industry.

[4] The current economic plan of the Government (Abenomics) is anchored on "three arrows" — bold monetary easing, flexible fiscal policy, and structural reforms. International Monetary Fund (IMF) (2018), *Japan: 2018 Article IV Consultation — Press Release; Staff Report; and Statement by the Executive Director for Japan,* IMF Country Report No. 18/333, 28 November, Washington, D.C. Viewed at: https://www.imf.org/en/Publications/CR/Issues/2018/11/27/Japan-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-46394; and OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en.

[5] As at 2015, Japan's income inequality indicator stood at 0.339 compared to 0.330 in 2012. The Gini coefficient is based on the comparison of cumulative proportions of the population against cumulative proportions of income they receive, and it ranges between 0 in the case of perfect equality and 1 in the case of perfect inequality. As at 2015, Japan's poverty gap stood at 0.337 compared to 0.339 in 2012. The poverty gap is the ratio by which the mean income of the poor falls below the poverty line. The poverty line is defined as half the median household income of the total population. In 2015, the relative poverty rate of the elderly in Japan was 20%, well above the 12.5% OECD average. OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en OECD (2019), Income inequality (indicator) (doi: 10.1787/459aa7f1-en) (Accessed on 28 May 2019); OECD (2019), Poverty gap (indicator) doi: 10.1787/349eb41b-en (Accessed on 28 May 2019).

[6] IMF (2018), *Japan: 2018 Article IV Consultation — Press Release; Staff Report; and Statement by the Executive Director for Japan,* IMF Country Report No. 18/333, 28 November, Washington, D.C. Viewed at: https://www.imf.org/en/Publications/CR/Issues/2018/11/27/Japan-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-46394; and OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en.

[7] Bank of Japan,Statement by Haruhiko Kuroda, Governor of the Bank of Japan, concerning the Bank's Semiannual Report on Currency and Monetary Control before the Committee on Financial Affairs, House of Councillors, on May 9, 2019. Viewed at: https://www.boj.or.jp/en/announcements/press/koen_2019/data/ko190509a.pdf.

Table 1.1 Selected macroeconomic indicators, 2014-18

	2014	2015	2016	2017	2018
National accounts (% change, unless otherwise indicated)					
GDP real growth rate	0.4	1.2	0.6	1.9	0.8
Consumption	-0.5	0.2	0.3	0.9	0.5
Private consumption	-0.9	-0.2	-0.1	1.1	0.4
Government consumption	0.5	1.5	1.4	0.3	0.8
Gross fixed capital formation	3.1	1.6	-0.3	2.9	1.1
Exports of goods and services (XGS)	9.3	2.9	1.7	6.8	3.3
Imports of goods and services (MGS)	8.3	0.8	-1.6	3.5	3.4
XGS/GDP (%) (at current market price)	17.5	17.6	16.3	17.8	18.5
MGS/GDP (%) (at current market price)	20.0	18.0	15.3	16.8	18.2
Unemployment rate (%)	3.6	3.4	3.1	2.8	2.4
Productivity (% change)					
Labour productivity	0.1	1.4	-0.1	1.2	0.5
Multi-factor productivity	0.0	1.2	0.4	..	..
Prices and interest rates (%, unless otherwise indicated)					
Consumer price index (CPI) (average, % change)	2.8	0.8	-0.1	0.5	1.0
GDP deflator (% change)	1.7	2.1	0.3	-0.2	-0.1
Discount rate	0.30	0.30	0.30	0.30	..
Six-month London interbank offered rate (LIBOR)	0.178	0.132	0.013	0.015	0.015
Deposit rate	0.415	0.406	0.300	0.321	..
Lending rate	1.219	1.143	1.045	0.994	..
Interest rate spread	0.804	0.737	0.744	0.673	..
Exchange rates					
JPY/USD (annual average)	105.94	121.04	108.79	112.17	110.42
NEER based on Unit Labour Costs, Index (2010=100)	81.24	77.59	87.58	83.62	83.32
NEER, Index (2010=100)	81.09	75.74	87.50	84.43	84.67
REER based on CPI, Index (2010=100)	74.58	69.40	78.82	75.01	74.38
REER based on Unit Labour Costs, Index (2010=100)	78.16	74.36	84.58	78.72	77.56
Money and credit (% change)					
Broad money (M2)	3.4	3.7	3.4	4.0	2.9
Domestic credit to private sector	2.5	3.0	1.7	5.2	0.1
General government (% of current GDP)					
Revenue	33.3	34.2	34.3	34.2	33.9
Expenditure	38.9	38.0	37.9	37.4	37.1
Overall balance	-5.6	-3.8	-3.7	-3.2	-3.2
Primary balance	-4.9	-3.2	-3.0	-2.7	-2.9
Gross financial liabilities of general government	217.9	216.5	222.8	222.5	224.2
Saving and investment (% of current GDP)					
National savings (gross)	24.7	27.1	27.4	27.9	27.9
National investment	23.9	24.0	23.4	23.9	24.4
External data (% of current GDP, unless otherwise indicated)					
Current account	0.7	3.1	4.0	4.1	3.5
Merchandise trade balance	-2.1	-0.2	1.0	0.9	0.2
Merchandise exports	14.4	14.2	12.9	14.2	14.8
Merchandise imports	16.5	14.3	11.9	13.3	14.6
Services balance	-0.6	-0.4	-0.2	-0.1	-0.1
Capital account	3.4	3.7	3.6	3.8	3.9
Financial account	4.0	4.1	3.8	4.0	4.0
Direct investment	0.0	-0.1	-0.1	-0.1	0.0
Merchandise exports (% change in USD)	0.6	-11.0	2.2	8.3	6.8
Merchandise imports (% change in USD)	1.8	-21.2	-7.1	10.3	12.3
Service exports (% change in USD)	21.0	-0.7	8.0	6.3	3.7
Service imports (% change in USD)	12.7	-7.2	4.4	3.6	4.1

	2014	2015	2016	2017	2018
Terms of trade	86.2	98.4	106.8	101.4	95.5
Total reserves, excluding gold (USD billion)	1231.0	1207.0	1188.3	1232.2	1238.9
% of GDP	25.4	27.5	24.1	25.4	24.9
in months of imports of goods and services	14.2	16.8	17.0	16.2	14.7
Gross external debt (JPY trillion, end-period)	328.9	356.0	399.5	406.4	444.7
Short-term	247.1	265.6	296.0	292.2	321.1
Long-term	78.6	86.9	97.9	108.3	116.7
Direct investment: intercompany lending	3.2	3.5	5.6	5.9	6.9
Debt service ratio	..	..	..	..	..

.. Not available.

Note: Annual percentage changes under the national account are based on chain-linked 2011 real figures.

Source: Cabinet Office (Japan), Ministry of Finance (Japan), International Monetary Fund (IMF), World Bank, and OECD online information.

1.2 Recent Economic Developments

1.2.1 Growth, income, and employment

1.3. During the review period (2016-18), the annual average GDP growth rate stood at 1.1%, a minor slowdown compared to the average of 1.2% over the period 2013-15 (Table 1.1). Growth above its estimated potential rate continued to be supported by the "three arrows" of Abenomics, and by both domestic and external demand, where corporate profits and fixed business investment remain favourable, even after accounting for recent natural disasters.[8] An increase in private consumption, which was supported by improvement in employment and income conditions, constituted another factor that stimulated growth. Nevertheless, output growth slowed since 2017, reflecting weaker exports as world trade decelerated.[9] As at May 2019, Japan's economy was likely to continue on a moderate expanding trend, despite being affected by the current slowdown in overseas economies.[10]According to the IMF, underlying growth is to remain solid, notwithstanding the effects of the October 2019 consumption tax rate hike from 8% to 10% (Section 1.2.4.1), and growth will move closer to its estimated potential over the medium term.[11] According to the OECD, output growth is expected to remain close to 0.75% through 2020, as shortages of labour and capacity, combined with record-high profits, continue to support business investment and wages.[12]

1.4. Since 2016, the overall sectoral pattern of Japan's GDP and employment has remained virtually unchanged (Table 1.2). According to OECD data, the annual growth rate of multi-factor productivity in the economy was -0.05% (2014), 1.05% (2015), -0.02% (2016) and 1.20% (2017); the annual growth rate of labour productivity forecast stood at 0.99% (2014), 1.00% (2015), 0.99% (2016), 1.00% (2017) and 0.99% (2018 and 2019).[13] According to the OECD, since 2012, labour productivity growth has slowed to an annual pace of 1.0%; the Government set a goal to double

[8] IMF (2018), *Japan: 2018 Article IV Consultation — Press Release; Staff Report; and Statement by the Executive Director for Japan,* IMF Country Report No. 18/333, 28 November, Washington, D.C. Viewed at: https://www.imf.org/en/Publications/CR/Issues/2018/11/27/Japan-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-46394; OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en.

[9] OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en.

[10] Bank of Japan online information. Viewed at: https://www.boj.or.jp/en/announcements/press/koen_2019/data/ko190509a.pdf.

[11] According to the IMF, in the absence of effective mitigating fiscal measures, the consumption tax increase could lead to volatility in private consumption and investment. Its effect is expected to carry past 2019 and adversely affect domestic demand and overall growth in 2020. IMF (2018), *Japan: 2018 Article IV Consultation — Press Release; Staff Report; and Statement by the Executive Director for Japan,* IMF Country Report No. 18/333, 28 November, Washington, D.C. Viewed at: https://www.imf.org/en/Publications/CR/Issues/2018/11/27/Japan-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-46394.

[12] OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en.

[13] OECD data as at 12 November 2019. Viewed at: https://data.oecd.org/lprdty/multifactor-productivity.htm#indicator-chart and https://data.oecd.org/lprdty/labour-productivity-forecast.htm#indicator-chart.

productivity growth to 2% by 2020, including by promoting artificial intelligence and robots, as well as measures for the Supply System Innovation under the 2017 New Economic Policy Package (Sections 2.1 and 2.4.2).[14] Furthermore, according to the OECD, despite a high level of public support for SMEs, in financial year (FY) 2017, productivity in large firms was 2.5 times higher than in SMEs in manufacturing, a large gap by international standards (Sections 1.1, 1.2.4.1, 1.2.4.3, 1.2.4.4 and 3.3.1.2).[15] Nevertheless, according to the World Economic Forum's Global Competitiveness report for 2018, Japan was the world's fifth most competitive nation out of 140 countries (Section 2.4.2). According to United Nations Conference on Trade and Development (UNCTAD) estimates, in 2017, Japan ranked 19th (17th in 2010) among the world's 25 top exporting economies by global value chain (GVC) participation rate, as its average GVC participation growth was zero in the period 2010-17 compared to 9% between 2000 and 2010; its GVC participation in exports (48%) stood below the average level of both the developed (60%) and developing (56%) exporting economies.[16]

Table 1.2 Basic economic indicators, 2014-17

	2014	2015	2016	2017[a]
Real GDP (JPY trillion, 2011 price (chain-linked))	510.7	516.9	520.1	530.1
Current GDP (JPY trillion)	513.9	531.3	536.0	545.1
Current GDP (USD billion)	4,850.4	4,389.5	4,926.7	4,859.8
GDP per capita at current market price (USD)	38,156.2	34,568.8	38,804.9	38,342.7
GDP by economic activity (2011 real price, chain-linked, % change)				
Agriculture, forestry, and fishing	-3.1	-4.5	-7.6	-1.7
Mining	-3.5	-19.0	-9.5	11.4
Manufacturing	3.0	4.1	-0.7	3.7
Transport equipment	4.7	6.6	-1.0	6.1
General-purpose, production and business-oriented machinery	3.5	5.9	-3.1	9.7
Food products and beverages	1.7	3.8	1.1	-0.5
Chemicals	0.7	12.7	9.7	-2.2
Basic metals	3.6	-4.9	2.8	0.5
Construction	3.9	0.9	1.5	4.2
Electricity, gas and water supply	1.1	-9.7	1.2	9.4
Electricity supply	6.0	-15.2	2.6	14.7
Gas and water supply	-1.2	-6.3	0.2	4.9
Services	-0.4	1.1	0.7	1.3
Wholesale and retail trade	-3.8	2.0	0.0	1.5
Wholesale trade	-5.3	3.6	1.5	2.8
Retail trade	-1.5	-0.4	-2.1	-0.4
Transport and postal services	2.3	-3.8	-1.6	3.2
Accommodation and food service activities	1.1	-5.4	4.7	1.9
Information and communications	0.6	2.3	-0.2	0.9
Communications and broadcasting	-0.1	2.7	0.5	1.3
Information, image and sound	1.2	2.0	-0.7	0.5
Finance and insurance	0.0	4.1	-1.4	2.5
Real estate	1.3	1.3	1.1	1.6
Renting of dwellings	1.6	1.7	0.9	1.6
Other real estate	-0.5	-1.4	2.1	1.7
Professional, scientific and technical activities	-1.2	1.1	4.0	0.1
Public administration	0.4	-0.2	0.0	0.0
Education	0.7	1.1	0.4	0.6
Human health and social work activities	-0.5	4.3	2.7	0.8
Other service activities	-0.2	-1.5	-2.1	0.6
Share of economic activities in current GDP, at factor cost (%)				
Agriculture, forestry, and fishing	1.1	1.1	1.2	1.2
Mining	0.1	0.1	0.1	0.1

[14] According to the authorities, the productivity-enhancing measures of the Package included: the establishment and enforcement of the Act on Special Measures for Productivity Improvement (regulatory sandbox, promotion of industrial data utilization, etc.); tax reduction on capital investment by SMEs; establishment and enforcement of tax policies, such as the reduction of corporate tax on companies actively investing in equipment and information technology; budget measures such as the Subsidy for Manufacturing and Service of SMEs; and the promotion of regulatory reforms, such as the System Improvements of Self-Driving-Cars.OECD, *OECD Economic Surveys: Japan 2019*. Viewed at: https://doi.org/10.1787/fd63f374-en.

[15] OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en.

[16] UNCTAD (2018), *World Investment Report 2018 – Investment and New Industrial Policies*, Geneva. Viewed at: https://unctad.org/en/PublicationsLibrary/wir2018_en.pdf.

	2014	2015	2016	2017[a]
Manufacturing	19.9	20.9	20.8	20.8
Transport equipment	3.1	3.4	3.2	3.3
General-purpose, production and business-oriented machinery	2.9	3.1	3.0	3.2
Food products and beverages	2.4	2.5	2.6	2.5
Chemicals	1.9	2.2	2.3	2.2
Basic metals	1.8	1.8	1.8	1.8
Construction	5.6	5.6	5.6	5.8
Electricity, gas and water supply	2.4	2.6	2.6	2.6
Electricity supply	0.9	1.2	1.2	1.2
Gas and water supply	1.5	1.5	1.4	1.4
Services	71.0	69.7	69.7	69.5
Wholesale and retail trade	14.4	14.1	13.9	14.0
Wholesale trade	8.6	8.4	8.3	8.5
Retail trade	5.8	5.6	5.6	5.5
Transport and postal services	5.2	5.1	5.1	5.1
Accommodation and food service activities	2.5	2.3	2.6	2.5
Information and communications	5.1	5.1	5.0	4.9
Communications and broadcasting	2.3	2.3	2.3	2.2
Information, image and sound	2.8	2.7	2.7	2.7
Finance and insurance	4.5	4.4	4.2	4.2
Real estate	11.8	11.5	11.5	11.4
Renting of dwellings	10.2	9.9	9.9	9.8
Other real estate	1.6	1.5	1.6	1.6
Professional, scientific and technical activities	7.3	7.3	7.5	7.5
Public administration	5.2	5.0	5.0	5.0
Education	3.7	3.6	3.6	3.6
Human health and social work activities	6.8	6.9	7.1	7.0
Other service activities	4.6	4.4	4.3	4.3
Share of employment by economic activity (%)				
Agriculture, forestry, and fishing	4.1	4.0	3.9	3.8
Mining	0.1	0.1	0.1	0.1
Manufacturing	15.5	15.3	15.2	15.2
Food products and beverages	2.4	2.3	2.3	2.3
Transport equipment	2.0	2.0	2.1	2.1
General-purpose, production and business-oriented machinery	2.0	2.0	2.0	2.0
Fabricated metal products	1.3	1.3	1.3	1.3
Electrical machinery, equipment and supplies	1.0	1.0	1.0	1.0
Construction	7.7	7.6	7.4	7.4
Electricity, gas and water supply	0.9	0.9	0.9	0.9
Services	71.8	72.1	72.6	72.7
Wholesale and retail trade	17.4	17.3	17.2	17.2
Transport and postal services	6.0	5.9	5.9	5.9
Accommodation and food service activities	6.2	6.1	6.1	6.1
Information and communications	2.7	2.8	2.7	2.8
Finance and insurance	2.4	2.4	2.5	2.6
Real estate	1.5	1.6	1.6	1.6
Professional, scientific and technical activities	8.3	8.5	8.7	8.9
Public administration	2.9	2.9	2.9	2.9
Education	2.9	2.9	2.8	2.8
Human health and social work activities	12.0	12.4	12.7	12.6
Other service activities	9.5	9.4	9.4	9.3

a Latest available data as at end-November 2019.

Source: Cabinet Office; and IMF online information.

1.5. Japan's relatively low unemployment rate declined significantly to 2.4% in 2018 (Table 1.1) or less than half of the OECD average (5.3%).[17] This reflects growth developments and the increasingly tight labour market. Furthermore, Japan's labour market remains characterized by the simultaneous hiring of new graduates, which helps to avoid periods of joblessness and contributes to the relatively low youth unemployment rate.[18]

[17] OECD, *Unemployment rate*. Viewed at: https://data.oecd.org/unemp/unemployment-rate.htm.

[18] OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en.

1.2.2 Prices

1.6. During the review period, CPI inflation remained considerably below the Bank of Japan's target, picking up from -0.1% (2016) to 1.0% in 2018, *inter alia,* on the back of soaring vegetable prices, higher energy prices, high raw materials prices, and personnel expenses reflected in firms' prices, as well as quantitative and qualitative monetary easing, accompanied by yield curve control and negative interest rates since 2016 (Table 1.1, Section 1.2.3.1).[19] According to the authorities, sluggish inflation was also partly due to firms' preference to invest in labour-saving technology rather than raise prices and wages. According to the IMF, under current policies, including the 2.2% hike in unit labour costs in 2018, a consumption tax-induced spike expected in 2020 and the provision of free childcare for children aged three to five, with the output gap remaining positive, inflation is likely to rise gradually but to remain below target.[20]

1.2.3 Main macroeconomic policy developments

1.2.3.1 Monetary and exchange rate policy

1.7. The Bank of Japan (BoJ), the independent central bank, has continued to carry out currency and monetary control to achieve a price stability target of 2%.[21] To this end, it has encouraged short- and long-term interest rates to remain at target levels, and has purchased assets, mainly through open market operations classified into two broad categories: operations to supply funds to financial markets via loans or the purchase of Japanese government bonds (JGBs); and operations to absorb funds from financial markets, such as sales of bills issued by the BoJ and sales of Japanese government securities (JGSs) held by the BoJ with repurchase agreements.

1.8. A loose monetary policy continued to provide a monetary stimulus to growth, and helped to build a stable financial environment. Since 2013, the BoJ has maintained a framework of Quantitative and Qualitative Monetary Easing (QQE). The 2016 QQE with a negative interest rate was strengthened in September 2016 with a QQE with Yield Curve Control.[22] In July 2018, the BoJ decided to strengthen its commitment to achieving the price stability by maintaining low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices, including the effects of the October 2019 consumption tax

[19] IMF (2018), *Japan: 2018 Article IV Consultation — Press Release; Staff Report; and Statement by the Executive Director for Japan,* IMF Country Report No. 18/333, 28 November, Washington, D.C. Viewed at: https://www.imf.org/en/Publications/CR/Issues/2018/11/27/Japan-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-46394; OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en; and BoJ, *Statement by Haruhiko Kuroda, Governor of the Bank of Japan, concerning the Bank's Semiannual Report on Currency and Monetary Control before the Committee on Financial Affairs, House of Councillors, on 9 May 2019*. Viewed at: https://www.boj.or.jp/en/announcements/press/koen_2019/data/ko190509a.pdf.

[20] IMF (2018), *Japan: 2018 Article IV Consultation — Press Release; Staff Report; and Statement by the Executive Director for Japan,* IMF Country Report No. 18/333, 28 November, Washington, D.C. Viewed at: https://www.imf.org/en/Publications/CR/Issues/2018/11/27/Japan-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-46394; OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en; and BoJ, *Statement by Haruhiko Kuroda, Governor of the Bank of Japan, concerning the Bank's Semiannual Report on Currency and Monetary Control before the Committee on Financial Affairs, House of Councillors, on May 9, 2019*. Viewed at: https://www.boj.or.jp/en/announcements/press/koen_2019/data/ko190509a.pdf.

[21] BoJ, *About the Bank*. Viewed at: https://www.boj.or.jp/en/about/outline/index.htm/; and *What is monetary policy and how is it carried out inJapan?* Viewed at: https://www.boj.or.jp/en/announcements/education/oshiete/seisaku/b26.htm/.

[22] In January 2016, the BoJ introduced a negative interest rate of -0.1% on part of banks' excess reserves, a policy also used by a number of European central banks. With headline inflation falling back into negative territory in the second quarter of 2016, it introduced QQE with yield curve control in September 2016, that consists of two major components: the first is yield curve control, in which the BoJ controls short- and long-term interest rates through market operations; and the second is an inflation-overshooting commitment, in which the BoJ commits to expanding the monetary base until the year-on-year rate of increase in the observed CPI exceeds the price stability target of 2% and stays above the target in a stable manner. BoJ, *What is Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control?* Viewed at: https://www.boj.or.jp/en/announcements/education/oshiete/seisaku/b27.htm/; OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en; and WTO document WT/TPR/S/351/Rev.1, 20 June 2017.

hike.[23] The BoJ decided to conduct market operations and asset purchases in a more flexible manner (i.e. widening the range for the 10-year JGB yield, in effect allowing yields to drift upward and downward) in order to enhance the sustainability of the QQE with Yield Curve Control; it also explicitly committed to keep short- and long-term policy rates low for an extended period of time. Since then, the degree of market functioning has improved, with the BoJ conducting JGB purchases in a flexible manner. In April 2019, the BoJ decided to clarify forward guidance for policy rates introduced in July 2018, and maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, at least through around spring 2020, taking into account uncertainties regarding economic activity and prices including developments in overseas economies and the effects of the scheduled consumption tax hike.[24] At the same time, it decided to take measures for the expansion of eligible collateral for the BoJ's provision of credit, thereby contributing to smooth fund-provisioning, and securing market functioning. Under the QQE, as at 1 March 2019, the BoJ's holdings of JGBs had reached 85% of GDP.[25] On 31 October 2019, the BoJ decided on a new forward guidance where, as for the policy rates, it expected short- and long-term interest rates to remain at their current or lower levels as long as it was necessary to pay close attention to the possibility that the momentum toward achieving the price stability target is lost.[26] Regarding the short-term rates, the BoJ would apply a negative interest rate of minus 0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the BoJ. Concerning the long-term interest rate, the BoJ would purchase JGBs so that 10-year JGB yields remain at around zero percent. Monetary policy is expected to remain accommodative, and support favourable financial conditions, possibly for an extended period, to successfully reflate the economy, while carefully monitoring and mitigating side effects.[27]

1.9. Japan continues to maintain a free-floating exchange rate regime; there has been no foreign exchange intervention in recent years (last one in 2011).[28] The exchange system is free of restrictions on the making of payments and transfers for current international transactions, with the exceptions of restrictions imposed solely for the preservation of national or international security. According to the IMF, Japan's 2018 external position and real exchange rate were projected to be broadly consistent with fundamentals and desirable policies.[29] Furthermore, the IMF indicated that heightened global uncertainty contributed to a slight appreciation in the JPY/USD exchange rate (Table 1.1) and weaker equity prices.

[23] The policy guideline set the short-term policy interest rate at minus 0.1% on the Policy-Rate Balances in current accounts. While the target level of the 10-year JGB yields was maintained at around zero interest, the BoJ made it clear that the actual yields might move upward or downward to some extent, mainly depending on developments in economic activity and prices. Regarding the amount of JGBs to be purchased, the BoJ would: purchase them promptly and appropriately in case of a rapid increase in the yields; and purchase them in a flexible manner so that their outstanding amount would increase at an annual pace of about JPY 80 trillion. IMF (2018), *Japan: 2018 Article IV Consultation — Press Release; Staff Report; and Statement by the Executive Director for Japan,* IMF Country Report No. 18/333, 28 November, Washington, D.C. Viewed at: https://www.imf.org/en/Publications/CR/Issues/2018/11/27/Japan-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-46394; BoJ, *Strengthening the Framework for Continuous Powerful Monetary Easing*. Viewed at: http://www.boj.or.jp/en/mopo/mpmdeci/state_2018/k180731a.htm/; and BoJ, *Statement on Monetary Policy, 25 April 2019*. Viewed at: https://www.boj.or.jp/en/announcements/release_2019/k190425a.pdf.

[24] BoJ, Statement by Haruhiko Kuroda, Governor of the Bank of Japan, concerning the Bank's Semiannual Report on Currency and Monetary Control before the Committee on Financial Affairs, House of Councillors, on May 9, 2019. Viewed at: https://www.boj.or.jp/en/announcements/press/koen_2019/data/ko190509a.pdf.

[25] OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en.

[26] BoJ, *Statement on Monetary Policy 31 October 2019*. Viewed at: https://www.boj.or.jp/en/mopo/mpmdeci/state_2019/index.htm/.

[27] IMF (2018), *Japan: 2018 Article IV Consultation — Press Release; Staff Report; and Statement by the Executive Director for Japan,* IMF Country Report No. 18/333, 28 November, Washington, D.C. Viewed at: https://www.imf.org/en/Publications/CR/Issues/2018/11/27/Japan-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-46394.

[28] IMF (2018), *Japan: 2018 Article IV Consultation — Press Release; Staff Report; and Statement by the Executive Director for Japan,* IMF Country Report No. 18/333, 28 November, Washington, D.C. Viewed at: https://www.imf.org/en/Publications/CR/Issues/2018/11/27/Japan-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-46394.

[29] IMF (2018), *Japan: 2018 Article IV Consultation — Press Release; Staff Report; and Statement by the Executive Director for Japan,* IMF Country Report No. 18/333, 28 November, Washington, D.C. Viewed at: https://www.imf.org/en/Publications/CR/Issues/2018/11/27/Japan-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-46394.

1.2.3.2 Fiscal policy

1.10. The fiscal deficit of the general government (central Government, local government and social expenditure) declined slightly from 3.8% (2015) to 3.2% (2017 and 2018) of GDP (Table 1.1.) as a result of efforts to reduce the primary deficits of the central and local governments**.** With major expenditure consisting of social welfare, public works and defence, the fiscal deficit continues to be mainly financed by tax revenue and the issuance of JGBs.[30] Gross financial liabilities of general government rose from 216.5% of GDP in 2015 to 224.2% in 2018, the highest ever recorded in the OECD area.[31] Japan's sizeable fiscal shortfalls are partly due to either revenue shortfall or expenditure overruns, for which supplementary budgets are, *inter alia,* needed to supplement the annual budget. Due to lower-than-expected growth, repeated supplementary budgets (three in FY2016, one in FY2017, and two in FY2018) and delays in the consumption tax rate hike from 8% to 10%, the FY2018 benchmark for the primary deficit of central and local governments was missed.[32] The New Plan to Advance Economic and Fiscal Revitalization (Cabinet Decision of 15 June 2018) postponed the primary surplus target of central and local governments from FY2020 to FY2025; according to the IMF, while the Plan sets up a review of the social security system by FY2020, the current framework lacks a long-term plan to address the increases in social security expenditures and ensure debt sustainability.[33] The Council on Economic and Fiscal Policy, which is chaired by the Prime Minister and includes five ministers, the central bank governor and four private-sector experts, also formulated three benchmarks for FY2021 to monitor progress: halving the primary deficit of central and local governments from its FY2017 level to around 1.5% of GDP; reducing the outstanding debt of central and local governments to 180%-185% of GDP (according to the Government, it was 189% in FY2017); and cutting the fiscal deficit of central and local governments to below 3% of GDP.[34]

1.2.4 Structural policies

1.11. Trade and domestic reform are considered intrinsically linked, and constitute the "third arrow" of Abenomics. Japan's ambitious structural reform agenda, *inter alia,* covering deregulation efforts in the gas and electricity markets, was aimed at lifting growth, including reflation. However, according to the IMF, bottlenecks remain in labour and product markets, and in the corporate sector (Sections 1.2.4.3, 1.2.4.4 and 2.4.2).[35]

1.2.4.1 Tax reform

1.12. The 2019 tax reform proposals were, *inter alia,* aimed at levelling demand fluctuations that could occur upon the consumption tax rate hike (see below), ensuring the termination of deflation and economic revitalization, addressing international tax avoidance in an effective manner, and developing the environment for tax payments taking into account the diversification of economic transactions.[36] On 27 March 2019, the Diet reportedly approved legislation for the Government's tax reform proposals for 2019. Some of the main measures affecting corporate and international taxation included: tax treatment of virtual currencies; amendments to the taxation of reorganizations;

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[30] Population ageing has a major impact on the fiscal situation. Public social spending doubled from 11% of GDP in 1991 to 22% in 2018, surpassing the OECD average. Around 80% of this is for pensions, health and long-term care, the second-highest share in the OECD. OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en.

[31] OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en.

[32] OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en; and Ministry of Finance. Viewed at: https://www.mof.go.jp/english/budget/budget/index.html.

[33] IMF (2018), *Japan: 2018 Article IV Consultation — Press Release; Staff Report; and Statement by the Executive Director for Japan,* IMF Country Report No. 18/333, 28 November, Washington, D.C. Viewed at: https://www.imf.org/en/Publications/CR/Issues/2018/11/27/Japan-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-46394.

[34] OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en.

[35] IMF (2018), *Japan: 2018 Article IV Consultation — Press Release; Staff Report; and Statement by the Executive Director for Japan,* IMF Country Report No. 18/333, 28 November, Washington, D.C. Viewed at: https://www.imf.org/en/Publications/CR/Issues/2018/11/27/Japan-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-46394.

[36] *FY2019 Tax Reform (Main Points), (Cabinet decision 21 December 2018)*. Viewed at: https://www.mof.go.jp/english/tax_policy/tax_reform/fy2019/tax2019.pdf.

amendment of the Earnings Stripping Rules (in force from 1 April 2020); Controlled Foreign Company (CFC) Rules (fiscal years of Japanese companies ending on or after 1 April 2019 in respect of CFC fiscal years beginning on or after 1 April 2018); Transfer Pricing Rules in line with OECD guidelines (in force from 1 April 2020); and amendments to the treatment of repo transactions by specified foreign companies.[37] Other areas where measures were passed included: individual income taxation (enhancement of the tax credit for housing loans; and creation of Forest Environment Tax (provisional) and Forest Environment Transfer Tax (provisional); review of the *furusato nozei* or hometown tax donation system; and tax exemption schemes for the individual inhabitant tax, to deal with child poverty); asset taxation (creation of a new tax system for business succession by sole proprietors, etc.; and review of the tax exemption schemes for lump-sum gifts of educational funds and marriage/childcare funds); corporate taxation (revision of the research and development (R&D) tax credit scheme; investment-friendly packages for SMEs; establishment of local taxation systems for the sustainable development of cities and rural areas, etc.); consumption taxation (revisions to automobile taxation; and improvement of convenience of the consumption tax exemption system for foreign tourists); and customs tariffs (extension of the application period of temporary tariff rates, etc.; and review of tariff rates, etc., on individual items).

1.13. Issues related to the consumption tax rate hike from 8% to 10% on 1 October 2019, such as economic/demand fluctuations and the impact on low-income households, have been of major concern.[38] The authorities have envisaged taking a number of fiscal measures in the initial budgets for FY 2019 and FY 2020 to avoid a situation similar to the economic volatility that followed the 2014 consumption tax rate hike.[39] The measures under consideration include: providing free early childhood education and care for children aged three to five; maintaining the consumption tax rate at 8% for foods and drinks, excluding liquors and eating-out services; increasing public investment in FY 2019-20; introducing tax or spending measures to support purchases of cars and homes; increasing support for older persons through subsidies and reduced long-term care insurance premiums for those with low income; providing vouchers for purchases of goods and services by low-income households and those with children under the age of three; and introducing points rewards for purchases using cashless payment at small retailers. According to OECD estimates, the implementation of these measures could cost around 1% of GDP, offsetting the revenue from the tax rate hike in FY 2019-20.[40]

1.2.4.2 Privatization

1.14. During the review period, state involvement in the economy remained relatively unchanged, and was spread over several activities (e.g. trading of leaf tobacco, rice, wheat, barley and milk products, as well as energy, financial services, telecommunications, water supply, and some transport-related activities), as there was a virtual standstill in the privatization process (Section 3.3.5); some airport operation concessions were granted, and a reduction of the government shareholding in Japan Post Holdings was underway during the review period (Sections 4.4.2 and 4.4.7.2).

1.2.4.3 Competition policy and corporate governance

1.15. Since its last Review, Japan undertook competition policy-related legislative amendments. The Antimonopoly Law was amended to fulfil its commitments under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) (Section 2.3.2.1.1) in 2018, and to revise the surcharge system in 2019. The Unfair Competition Prevention Law was amended to

[37] KPMG, *Japan e-Tax News*. Viewed at: https://assets.kpmg/content/dam/kpmg/jp/pdf/2019/jp-en-e-taxnews-20190327.pdf; and Orbitax, *Japan Passes 2019 Tax Reform Measures*. Viewed at: https://www.orbitax.com/news/archive.php/Japan-Passes-2019-Tax-Reform-M-37132.

[38] The 8% consumption tax rate was one of the lowest in the OECD; it was last raised from 5% in 2014. According to the OECD, achieving a sufficient primary surplus (Section 1.2.3.2) through the consumption tax alone would require raising the rate to between 20% and 26%, above the 19% OECD average. OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en.

[39] IMF (2018), *Japan: 2018 Article IV Consultation — Press Release; Staff Report; and Statement by the Executive Director for Japan,* IMF Country Report No. 18/333, 28 November, Washington, D.C. Viewed at: https://www.imf.org/en/Publications/CR/Issues/2018/11/27/Japan-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-46394.

[40] OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en.

encourage businesses to utilize data and increase productivity from new information technologies (Sections 2.1, 2.4.2 and 3.3.4.1).

1.16. The 2017 New Economic Policy Package (Sections 2.1 and 2.4.2) called for improving corporate governance to boost strategic investment in fixed assets, R&D and human resources.[41] The revision of the 2015 Corporate Governance Code, based on the G20/OECD Principles of Corporate Governance, and the Corporate Governance System Guideline in 2018 made a number of important changes relating to cross-shareholdings annual assessments, the diversity of corporate boards, chief executive officer appointments/dismissals, and independent advisory committees for nominations/remuneration (Section 3.3.4.3). In addition, the Group Governance System Guideline was formulated in 2019, demonstrating best practices for governance in the management of group companies, including those in the management of listed subsidiaries with a controlling shareholder. Furthermore, the 2014 Stewardship Code was revised in 2017 to require asset managers to resolve conflicts of interest and to promote effective monitoring of asset managers by asset owners (e.g. corporate pension funds) (Section 3.3.4.3).

1.2.4.4 Labour market policies

1.17. During the review period, action was taken to address labour market rigidities, which is a priority reform area.[42] According to the IMF, despite challenges posed by the dual labour market, seniority system, and long-working-hours culture, new regulations on wage gaps, working hours and overtime (to come into effect in April 2020) are to boost productivity.[43] On 29 June 2018, legislation, commonly referred to as the Work Style Reform Law, was passed, principally to address issues related to working hours and to the disparity in treatment between regular and non-regular employees. It provides for: an upper limit for permitted overtime hours of 45 hours per month and 360 hours per year or, under agreement with workers, up to 100 hours of overtime per month, as long as they do not exceed an annual limit of 720 hours (large companies since April 2019, SMEs from April 2020); fair treatment of employees, regardless of employment status (large companies from April 2020, SMEs from April 2021); mandatory Paid Time Off usage by employees (since April 2019); a mandatory minimum interval between working hours (since April 2019); reinforcement of the protective role of industrial (company) doctors; and the obligation of awareness of employee working hours.[44] To promote faster growth in base wages, after the FY2018 Tax Reform (Cabinet Decision 22 December 2017), the Government implemented a three-year corporate tax credit for firms that increase employees' pay by 3% a year or more and reach a certain threshold for domestic investment.[45] Since 2016, it has also raised the minimum wage, which is only around 40% of the median wage, by 3% per year. An Overtime Work Improvement Subsidy, established in FY2017, encourages the introduction of rest periods in SMEs, and the recently revised Act on Special Measures for Improvement of Working Hours Arrangements requires all firms to make "efforts" to establish an interval time.[46]

[41] OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en.

[42] According to the OECD, Japan's traditional labour model – lifetime employment, a seniority-based wage system and mandatory retirement – discourages the employment of older persons and women, and labour mobility. In 2016, 81% of firms set a mandatory retirement age of 60. Those who are re-hired tend to work in non-regular jobs that pay less and do not fully utilize their skills. According to the World Economic Forum's Global Competitiveness Index, Japan is ranked as the 10th most severe among OECD countries restrictions on hiring and firing of workers. The employment rate for women rose sharply over the past five years, from 60.7% in 2012 to 69.6% in 2018, well above the 60.1% OECD average; nevertheless, half of the new workers are non-regular workers. OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en.

[43] IMF (2018), *Japan: 2018 Article IV Consultation — Press Release; Staff Report; and Statement by the Executive Director for Japan,* IMF Country Report No. 18/333, 28 November, Washington, D.C. Viewed at: https://www.imf.org/en/Publications/CR/Issues/2018/11/27/Japan-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-46394.

[44] OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en; and Orrick, *Japan Enacts Work Style Reform Law*. Viewed at: https://blogs.orrick.com/employment/2018/08/08/japan-enacts-work-style-reform-law/.

[45] *FY2018 Tax Reform (Main Points) (Cabinet Decision on December 22, 2017)*. Viewed at: https://www.mof.go.jp/english/tax_policy/tax_reform/fy2018/tax2018a.pdf; OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en.

[46] OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en.

1.18. Efforts toward further boosting labour supply in order to compensate for demographic headwinds, including from female (Section 2.4.2), older and foreign workers, continued. In December 2018, the Diet approved a new status of residence for work-ready foreigners with certain expertise and skills in industries that need more workers, such as construction, agriculture and care workers, to be employed for up to five years in Japan for the first time, beginning in April 2019.[47] In line with the Basic Policy 2018, which has the subtitle of "Realizing Sustainable Economic Growth by Overcoming the Decreasing Birth Rate and Aging Population", and with the Growth Strategy 2018 and 2019, the Government is to, *inter alia,* promote investment in human resources by greater labour participation of female and older workers and free early childhood education ("human resources development revolution").[48]

1.2.5 Balance of payments

1.19. Japan's merchandise trade deficit shifted to a declining surplus in 2016, 2017 and 2018, whereas its declining deficit in services bottomed out in 2017 and rose in 2018 (Table 1.3). The merchandise trade surplus exceeded the deficit in services. Consequently, the current account registered a larger overall surplus, that rose from 3.1% of GDP in 2015 to a peak of 4.1% in 2017 (Table 1.1), *inter alia,* due to a rising primary income surplus (almost entirely investment income). Direct investment abroad, particularly toward Asia, was continuously in net outflow in recent years. According to the IMF, the current account surplus shrunk in 2018 to 3.5% of GDP, reflecting smaller goods trade and income balances; it was projected to 3.485% in 2019.[49]

Table 1.3 Balance of payments, 2014-18

(USD billion)

	2014	2015	2016	2017	2018
Current account	36.4	136.5	197.0	201.6	174.7
Goods and services balance	-128.6	-23.3	40.4	37.6	4.0
Goods balance	-99.8	-7.3	51.2	43.8	11.2
Exports	699.2	622.0	635.8	688.7	735.7
Imports	799.0	629.4	584.7	644.8	724.5
Services balance	-28.8	-15.9	-10.7	-6.2	-7.2
Receipts	163.8	162.7	175.7	186.8	193.7
Payments	192.6	178.6	186.4	193.0	200.9
Primary income	183.9	176.0	176.3	183.0	189.1
Credit	256.8	248.7	265.5	278.9	297.4
Compensation of employees	0.2	0.2	0.2	0.2	0.2
Investment income	256.6	248.5	265.3	278.6	297.2
Debit	72.9	72.6	89.2	95.9	108.3
Compensation of employees	0.2	0.2	0.3	0.3	0.3
Investment income	71.5	71.7	88.0	95.0	107.2
Secondary income	-19.0	-16.3	-19.7	-18.9	-18.4
Credit	16.6	16.9	17.9	20.1	21.9
Debit	35.5	33.2	37.7	39.0	40.3
Capital account	-2.0	-2.3	-6.6	-2.5	-1.9
Balance on current and capital account	*34.4*	*134.2*	*190.5*	*199.1*	*172.8*

[47] The number of foreign employees (including foreign trainees) reported by firms doubled from 0.70 million in 2013 to 1.46 million in October 2018; they account for only about 2% of Japan's labour force, one of the lowest shares in the OECD. It is estimated that, under the new residency status, up to 345,150 foreign workers are to be accepted in 14 industries in the period 2019-24. OECD (2019), *OECD Economic Surveys: Japan 2019*, OECD Publishing, Paris. Viewed at: https://doi.org/10.1787/fd63f374-en.

[48] IMF (2018), *Japan: 2018 Article IV Consultation — Press Release; Staff Report; and Statement by the Executive Director for Japan,* IMF Country Report No. 18/333, 28 November, Washington, D.C. Viewed at: https://www.imf.org/en/Publications/CR/Issues/2018/11/27/Japan-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-46394.

[49] IMF (2018), *Japan: 2018 Article IV Consultation — Press Release; Staff Report; and Statement by the Executive Director for Japan,* IMF Country Report No. 18/333, 28 November, Washington, D.C. Viewed at: https://www.imf.org/en/Publications/CR/Issues/2018/11/27/Japan-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-46394; IMF (2019) World Economic Outlook, April; and IMF, *World Economic Outlook, April 2019, Growth Slowdown, Precarious Recovery.* Viewed at: https://www.imf.org/en/Publications/WEO/Issues/2019/03/28/world-economic-outlook-april-2019.

	2014	2015	2016	2017	2018
Financial account	58.7	180.9	264.8	166.2	181.9
Direct investment	118.2	133.2	137.7	153.4	133.2
Japan's direct investment abroad	137.9	138.4	178.6	173.8	159.1
Direct investment in Japan	19.8	5.3	41.0	20.4	25.9
Portfolio investment	-40.3	132.4	268.0	-49.2	92.2
Financial derivatives	34.3	17.9	-15.2	30.6	1.0
Other investment	-61.9	-107.7	-120.4	7.9	-68.5
Reserve assets	8.5	5.1	-5.3	23.6	23.9
Net errors and omissions	24.4	46.7	74.3	-32.9	9.1

Source: IMF e-library data.

1.20. Japan's gross external debt, which remains largely short-term (72.2% in 2018), rose steadily over the review period (Table 1.1). No debt service ratio data and/or analysis were available from the authorities.

1.21. Since 2016, a bottom year, the annual amount of Japan's foreign exchange reserves (excluding gold) have increased steadily by an overall 10.4%, to about USD 1,239 billion in 2018 (Table 1.1); they were equivalent to 24.9% of GDP and 14.7 months of imports of goods and services, compared to 24.1% of GDP and 17.0 months in 2016, and almost four times the short-term external debt. On 31 August 2019, according to Ministry of Finance data, they totalled USD 1,331.5 billion.[50] Japan, remains the second largest foreign creditor of the United States; as at February 2019, its holdings of US Treasury Bills stood at USD 1.07 trillion (having peaked at the end of 2014 at USD 1.24 trillion).[51]

1.3 Developments in Trade and Investment

1.3.1 Trends and patterns in merchandise and services trade

1.22. The relative importance of international trade in Japan's economy, its degree of openness, and its integration into the world economy and global value chains continued to be reflected in the ratio of its trade (exports plus imports) in goods and services to GDP; despite a drop from its 2014 peak to a 2016 trough, this ratio increased to 36.7% in 2018 (Table 1.1).

1.23. Since its previous Review, Japan's merchandise trade (both for imports and exports) has remained largely dependent on manufactures (Chart 1.1, Tables A1.1 and A1.2). The share of non-electrical machinery and chemicals in total exports has risen, whereas the share of automotive equipment, office machines and telecommunications equipment and iron and steel has dropped. The share of fuels and other mining rose to 23.3% and 6.5% of total imports respectively whereas manufactures and agriculture dropped to 57.4% and 11.1%, respectively.

1.24. At the same time, while Japan's merchandise exports to economies in the region rose, their share in imports was reduced (Chart 1.1, Tables A1.1 and A1.2). Notwithstanding some minor fluctuations in trade shares, Japan's main trading partners remain China, the United States and the European Union. The share of Japan's merchandise trade with the European Union increased. China's share in exports rose, and that in imports decreased; regarding the United States, the opposite occurred.

1.25. During the review period, Japan remained a net importer of services, running a declining deficit in the services account, amounting to 0.1% of GDP in 2017 and 2018 (Section 1.2.5, and

[50] Ministry of Finance, *International Reserves/Foreign Currency Liquidity (as of August 31, 2019)*. Viewed at: https://www.mof.go.jp/english/international_policy/reference/official_reserve_assets/e0108.html; and *International Reserves/Foreign Currency Liquidity (as of April 30, 2019).* Viewed at: https://www.mof.go.jp/english/international_policy/reference/official_reserve_assets/e3104.html.

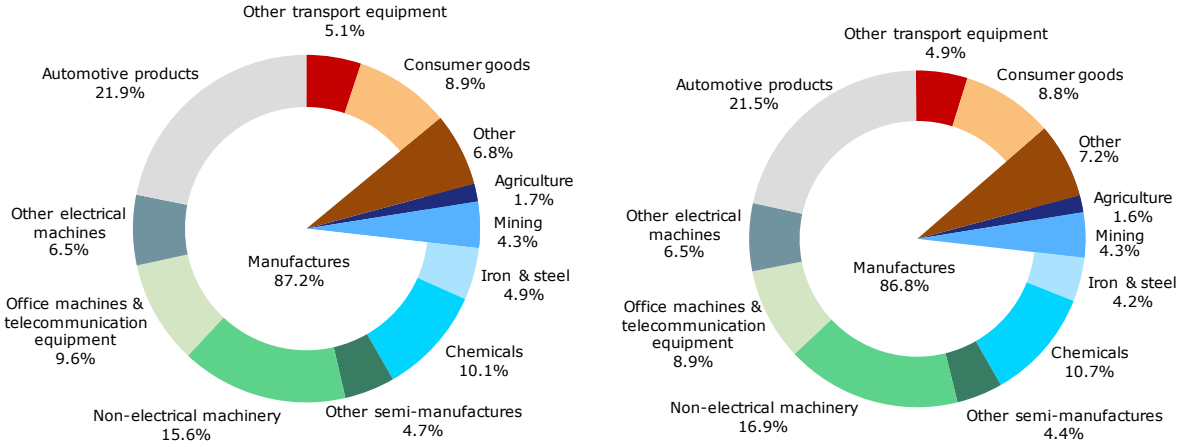
[51] The authorities clarified that the amount of the holdings of US Treasury Bills includes Japan's foreign exchange reserves and also those of Japanese financial institutions and Japanese companies, etc. Viewed at: https://wolfstreet.com/2019/04/15/who-bought-the-huge-1-26-trillion-of-new-us-government-debt-over-the-past-12-months/.

Tables 1.1 and 1.4). Business services, charges for intellectual property, transportation and travel remain the major traded services.

Chart 1.1 Product composition of merchandise trade, 2015 and 2018

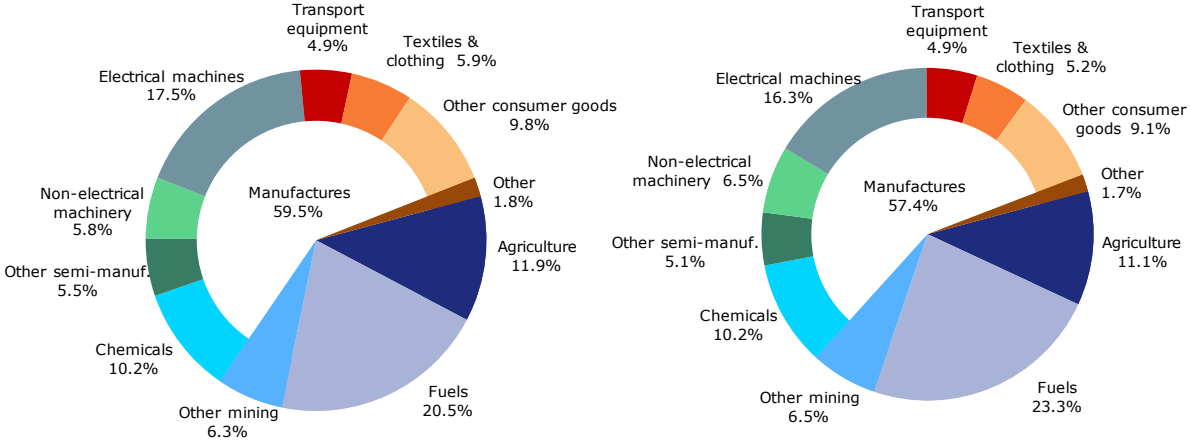
2015 **2018**

Exports (f.o.b.)



Total: USD 624.9 billion **Total: USD 738.2 billion**

Imports (c.i.f.)



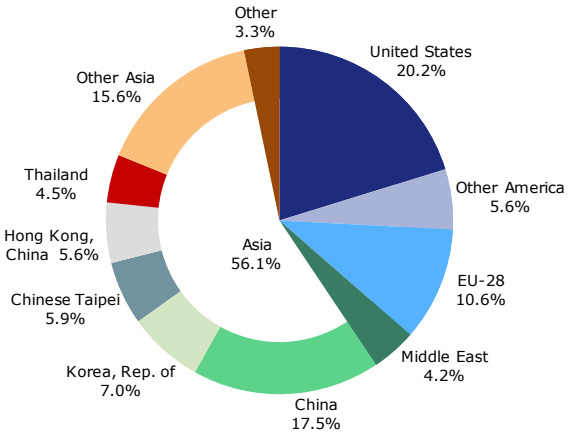
Total: USD 625.6 billion **Total: USD 748.2 billion**

Source: UNSD, Comtrade database (SITC Rev.3).

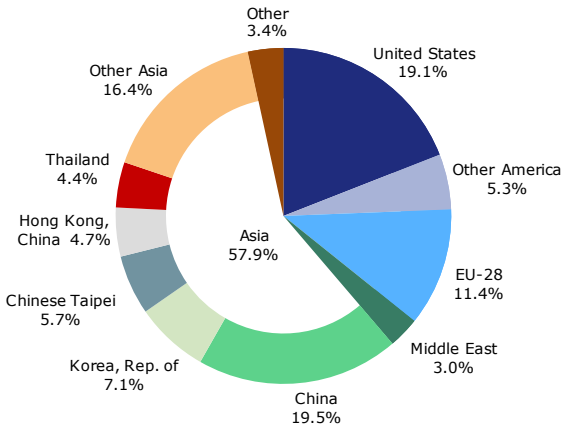
Chart 1.2 Direction of merchandise trade, 2015 and 2018

2015 **2018**

Exports (f.o.b.)

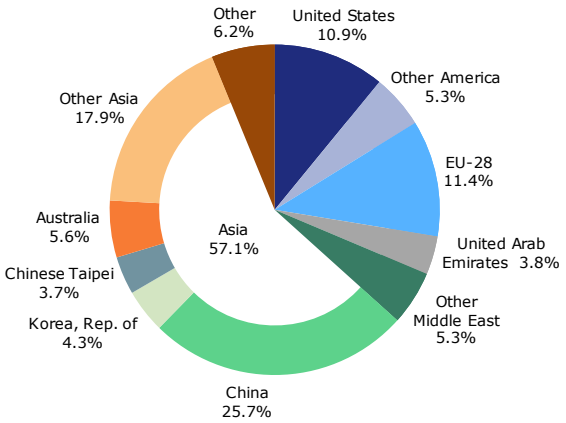


Total: USD 624.9 billion

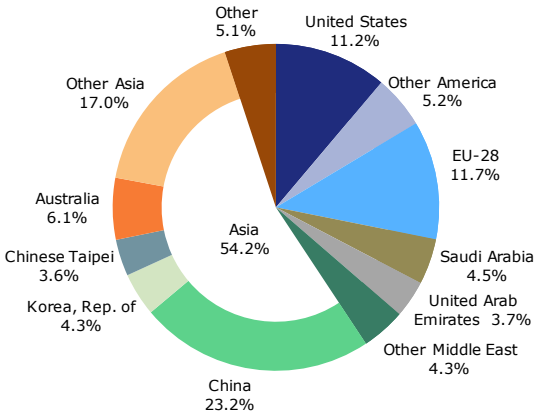


Total: USD 738.2 billion

Imports (c.i.f.)



Total: USD 625.6 billion



Total: USD 833.2 billion

Source: UNSD, Comtrade database.

Table 1.4 Trade in services, 2014-18

	2014	2015	2016	2017	2018
Total credit (USD billion)	163.8	162.7	175.7	186.8	193.7
	(% of total credit)				
Manufacturing services on physical inputs owned by others	0.2	0.1	0.4	0.4	0.4
Maintenance and repair	1.2	0.4	0.5	0.5	0.5
Transportation	24.2	21.8	18.0	18.3	14.9
Travel	11.5	15.3	17.5	18.2	21.7
Business	1.6	1.6	1.5	1.4	1.8
Personal	9.9	13.8	16.0	16.8	19.9
Construction	6.9	6.6	5.3	5.6	4.8
Insurance and pension	1.0	1.0	1.2	1.2	1.3
Financial services	4.5	6.3	6.7	5.6	6.0
Charges for the intellectual property	22.8	22.4	22.3	22.3	23.5
Telecommunication, computer and information	2.0	2.0	2.2	2.7	2.4
Other business services	22.9	21.0	22.4	22.1	21.8
Personal, cultural and recreational services	0.3	0.4	0.5	0.6	0.3
Government goods and services n.i.e.	2.7	2.7	2.9	2.6	2.4
Total debit (USD million)	192.6	178.6	186.4	193.0	200.9
	(% of total debit)				
Manufacturing services on physical inputs owned by others	2.6	2.5	2.8	2.8	2.5
Maintenance and repair	3.7	1.9	2.4	2.6	2.7
Transportation	23.8	23.0	20.5	20.8	19.1
Travel	10.0	8.9	10.0	9.4	10.1
Business	1.6	1.4	1.6	1.4	1.7
Personal	8.5	7.6	8.4	8.0	8.4
Construction	5.4	4.6	4.0	4.3	4.1
Insurance and pension	2.7	2.7	3.1	3.3	3.6
Financial services	2.7	3.4	3.3	4.0	4.1
Charges for the intellectual property	10.9	9.5	10.9	11.1	10.8
Telecommunication, computer and information	6.0	7.5	7.7	7.4	7.9
Other business services	30.7	34.2	33.6	32.7	33.9
Personal, cultural and recreational services	0.4	0.7	0.7	0.6	0.3
Government goods and services n.i.e.	1.0	1.1	1.1	1.0	1.0

Source: IMF e-library data.

1.3.2 Trends and patterns in foreign direct investment (FDI)

1.26. FDI is not only an additional source of capital. It is also considered to bring with it entrepreneurship, management skills and, especially, new technology, which contribute to improved multi-factor productivity. Japan's inbound FDI stocks as a share of GDP (4% in 2016) are the lowest in the OECD, due to tradition-related challenges in certain areas (e.g. mergers and acquisitions, corporate governance, and labour market rigidities) that are being addressed by the authorities.[52] FDI inflows peaked at USD 19.4 billion in 2016 (Table 1.5). During the review period, inflows were largely concentrated in the manufacturing of electric machinery, transportation equipment, and chemicals and pharmaceuticals, as well as in services, mainly finance and insurance (Tables 1.4 and 1.5); in 2018, they originated mainly in the United States, the Cayman Islands, the European Union and the Republic of Korea. The FDI inbound stock continued to rise steadily and was largely held by European Union investors (Table 1.7). Despite a decline in its share, the United States remains the second FDI stock holder, followed by Singapore. Within the European Union, in 2017, the largest single stock holder remained the Netherlands, where around 80% of investment was in electrical machinery, followed by France, where over 70% of investment was in transportation equipment;

[52] U.S. Department of State, *2018 Investment Climate Statements: Japan*. Viewed at: https://www.state.gov/reports/2018-investment-climate-statements/japan/; and OECD, *Foreign direct investment (FDI).* Viewed at: https://www.oecd-ilibrary.org/finance-and-investment/fdi-stocks/indicator/english_80eca1f9-en.

around 80% of the stock from North America was in the non-manufacturing sector, with the majority in the finance and insurance industry.[53]

1.27. Japan remains not only one of the major exporters of goods, but also of capital. Monetary easing in Japan and "search-for-yield" by Japanese investors continued to support FDI outflows and overseas diversification by institutional investors.[54] FDI outflows peaked in 2017 and then dropped by an overall 14.4% in 2018 (Table 1.5). Unlike inflows, during the review period, outflows were largely concentrated in services (communications, and finance and insurance) and manufacturing (chemicals and pharmaceuticals, and transportation equipment) (Table 1.5). At the same time, the main individual destinations were the European Union, the United States (albeit a decline) and the Cayman Islands. Similar to the inbound stock, the outward FDI stock continued to rise steadily, with the United States and the European Union remaining the main destinations (Table 1.7).

Table 1.5 Inbound and outbound flows of direct investment, by activity, 2014-18

	2014	2015	2016	2017	2018
Inbound flows					
Total (JPY billion)	1,274.5	360.2	2,106.1	1,231.3	1,088.5
Total (USD billion)	12.0	3.0	19.4	11.0	9.9
	(% of total inbound flows)				
Manufacturing	35.0	84.2	64.9	91.4	134.4
Food	9.9	6.1	2.2	2.4	2.2
Textiles	0.3	3.4	0.1	0.2	-0.3
Lumber and pulp	0.2	0.6	0.1	0.0	0.0
Chemicals and pharmaceuticals	-2.5	39.4	2.4	-0.8	15.2
Petroleum	-5.8	-0.1	-6.9	1.8	2.2
Rubber and leather	-0.8	0.0	0.0	0.0	-0.1
Glass and ceramics	0.8	5.1	-0.1	0.9	0.2
Iron, non-ferrous, and metals	0.9	-2.4	-0.3	-0.2	0.4
General machinery	5.1	15.1	6.1	16.2	-1.6
Electric machinery	9.9	9.0	38.6	40.9	75.1
Transportation equipment	10.8	-34.9	19.1	31.4	28.1
Precision machinery	3.6	-0.7	-0.5	-2.7	-0.7
Other manufacturing	2.7	43.7	4.1	1.4	13.6
Non-manufacturing	65.0	15.8	35.1	8.6	-34.4
Farming and forestry	0.0	0.3	0.0	0.1	0.4
Fishery and marine products	0.0	0.1	0.0	0.0	0.2
Mining	0.1	0.5	0.1	1.5	0.3
Construction	-0.1	2.1	0.5	0.4	-2.1
Transportation	-7.1	19.7	7.7	6.4	0.2
Communications	14.4	34.1	5.4	-2.1	-27.1
Wholesale and retail	-20.3	-132.4	-12.5	-47.5	-65.2
Finance and insurance	62.4	50.9	18.0	15.6	44.7
Real estate	1.9	-4.5	1.9	4.2	8.5
Services	2.9	9.1	7.9	21.7	-0.9
Other non-manufacturing	10.9	35.9	6.3	8.1	6.9
Outbound flows					
Total (JPY billion)	13,862.2	16,492.1	16,964.8	18,471.9	15,808.3
Total (USD billion)	130.8	136.2	155.9	164.7	143.2
	(% of total outbound flows)				
Manufacturing	50.0	37.4	34.9	34.2	38.3
Food	14.4	2.6	2.4	6.1	0.2

[53] JETRO (2018), *JETRO Invest Japan Report 2018*, November. Viewed at:https://www.jetro.go.jp/en/invest/reports/.

[54] IMF (2018), *Japan: 2018 Article IV Consultation — Press Release; Staff Report; and Statement by the Executive Director for Japan,* IMF Country Report No. 18/333, 28 November, Washington, D.C. Viewed at: https://www.imf.org/en/Publications/CR/Issues/2018/11/27/Japan-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-46394.

	2014	2015	2016	2017	2018
Textiles	0.9	0.3	1.0	0.5	1.2
Lumber and pulp	1.2	0.7	0.7	0.1	0.7
Chemicals and pharmaceuticals	5.0	6.5	5.0	6.4	10.0
Petroleum	0.4	-0.1	0.0	0.1	0.3
Rubber and leather	2.4	1.4	2.3	0.7	1.1
Glass and ceramics	1.4	1.2	0.7	1.0	1.2
Iron, non-ferrous, and metals	5.1	1.8	2.6	2.1	2.6
General machinery	5.6	5.8	4.0	5.3	4.3
Electric machinery	4.6	6.2	6.4	3.7	5.7
Transportation equipment	7.4	9.5	8.1	5.5	8.9
Precision machinery	0.5	0.6	0.8	1.9	0.8
Other manufacturing	1.0	0.8	0.8	0.9	1.1
Non-manufacturing	50.0	62.6	65.1	65.8	61.7
Farming and forestry	0.2	0.1	-0.1	-0.1	0.0
Fishery and marine products	1.1	0.1	0.1	0.0	0.0
Mining	4.1	3.5	4.0	0.5	5.5
Construction	0.3	0.3	1.1	1.0	1.7
Transportation	1.2	5.9	1.4	0.6	1.5
Communications	5.9	8.7	11.4	13.8	27.2
Wholesale and retail	14.2	10.0	12.0	16.9	9.8
Finance and insurance	14.7	25.4	5.5	20.3	17.4
Real estate	1.2	2.7	3.3	3.9	3.2
Services	5.0	4.0	24.1	5.5	-9.0
Other non-manufacturing	2.1	1.8	2.2	3.3	4.4
Memorandum:					
JPY/USD	105.94	121.04	108.79	112.17	110.42

Source: Ministry of Finance (Japan), *Outward/Inward Direct Investment, breakdown by Region and Industry*. Viewed at: https://www.mof.go.jp/english/international_policy/reference/balance_of_payments/ebpfdii.htm.

Table 1.6 Inbound and outbound flows of direct investment, by main origin and destination, 2014-18

	2014	2015	2016	2017	2018
Inbound flows					
Total (JPY billion)	1,274.5	360.2	2,106.1	1,231.3	1,088.5
Total inbound flows (USD billion)	12.0	3.0	19.4	11.0	9.9
	(% of total inbound flows)				
United States	56.8	107.0	23.3	37.5	47.7
Cayman Islands	5.3	4.7	3.0	29.4	37.3
EU-28	-18.7	-164.4	29.4	23.5	19.8
France	11.7	73.6	24.2	31.8	31.8
United Kingdom	9.9	28.2	-6.3	0.9	10.8
Belgium	-2.3	-1.0	0.3	-1.5	6.1
Sweden	-11.5	-9.2	-0.4	2.4	1.8
Republic of Korea	6.4	30.4	3.1	8.5	19.2
Israel	2.4	-1.0	-0.1	0.2	12.7
Hong Kong, China	13.3	29.3	6.5	-0.9	7.6
China	2.8	2.8	1.4	5.5	4.5
Chinese Taipei	9.9	18.4	11.9	6.8	4.4
British Virgin Islands	0.5	0.6	1.3	-0.3	4.1
Australia	3.7	12.5	2.3	2.8	1.0
Saudi Arabia, Kingdom of	0.1	1.8	0.3	0.5	0.8
Outbound flows					
Total (JPY billion)	13,862.2	16,492.1	16,964.8	18,471.9	15,808.3
Total (USD billion)	130.8	136.2	155.9	164.7	143.2

	2014	2015	2016	2017	2018
	(% of total outbound flows)				
EU-28	16.4	24.3	33.5	35.0	31.2
United Kingdom	5.6	12.0	27.5	15.8	12.6
Netherlands	3.4	5.3	2.0	9.0	5.5
Ireland	0.4	-0.6	1.7	1.2	4.4
Spain	0.7	0.4	0.5	0.2	3.0
Germany	1.4	2.2	1.1	1.6	1.6
United States	37.6	36.0	33.0	28.8	14.3
Cayman Islands	0.8	5.8	13.1	2.4	11.7
Singapore	6.2	5.1	-11.8	4.1	8.8
China	8.0	6.9	6.3	6.5	7.3
Thailand	4.2	2.8	2.7	3.3	3.8
Republic of Korea	2.5	1.1	1.1	1.0	3.3
Indonesia	3.7	2.3	2.0	2.2	2.2
India	1.8	-0.8	2.7	0.9	2.2
British Virgin Islands	0.2	0.1	2.3	0.1	2.0
Canada	1.4	0.9	0.5	0.6	1.7
Brazil	2.4	-0.2	1.3	-0.8	1.5
Hong Kong, China	2.0	1.9	1.2	1.7	1.5
Viet Nam	1.3	1.1	1.1	1.2	1.3
Memorandum:					
JPY/USD	105.94	121.04	108.79	112.17	110.42

Source: Ministry of Finance (Japan), *Outward/Inward Direct Investment, breakdown by Region and Industry*. Viewed at: https://www.mof.go.jp/english/international_policy/reference/balance_of_payments/ebpfdii.htm.

Table 1.7 Inbound and outbound stock of direct investment, by main origin and destination, 2014-18

	2014	2015	2016	2017	2018
Inbound stock (USD billion)	198.2	205.7	241.1	256.8	278.2
	(% of total inbound stock)				
EU-28	41.9	42.4	43.8	45.2	44.4
Netherlands	13.3	14.9	13.7	16.6	15.1
France	11.8	12.3	12.0	12.1	12.2
United Kingdom	8.0	7.8	7.8	6.2	8.5
Germany	4.5	3.1	3.2	3.2	3.6
Luxembourg	2.7	3.2	3.1	3.0	2.7
Sweden	0.3	0.6	0.8	0.9	0.9
United States	29.0	27.6	25.2	23.2	21.3
Singapore	7.3	7.3	8.4	8.6	8.6
Cayman Islands	4.4	4.3	4.2	4.7	5.4
Switzerland	4.6	4.5	4.6	4.4	4.7
Hong Kong, China	3.8	4.2	3.9	3.3	3.3
Republic of Korea	1.2	1.6	1.4	2.0	2.4
Chinese Taipei	1.7	2.1	2.7	2.3	2.4
Australia	1.5	1.1	1.2	1.2	1.8
China	0.6	0.9	0.7	1.0	1.2
Thailand	0.6	0.7	0.8	0.8	0.8
Canada	0.8	0.7	0.7	0.6	0.6
Outbound stock (USD billion)	1,185.4	1,261.0	1,356.7	1,554.7	1,645.9
	(% of total outbound stock)				
United States	32.2	33.2	33.4	31.6	30.6
EU-28	22.5	23.1	23.9	25.9	26.0
United Kingdom	6.5	7.1	9.1	9.9	9.9
Netherlands	8.2	8.4	7.8	8.4	8.1

	2014	2015	2016	2017	2018
Germany	1.6	1.7	1.6	1.7	1.8
Belgium	1.6	1.4	1.3	1.3	1.3
France	1.2	1.0	1.0	1.0	1.0
China	8.8	8.6	8.0	7.7	7.5
Singapore	3.9	4.0	3.1	4.1	4.8
Thailand	4.4	4.1	4.1	4.1	4.2
Australia	5.3	5.3	4.9	4.4	4.1
Cayman Islands	1.1	1.2	2.4	2.3	2.9
Republic of Korea	2.7	2.5	2.4	2.4	2.4
Hong Kong, China	2.0	2.0	2.1	2.0	2.0
Indonesia	2.0	1.9	2.0	2.0	1.8
India	1.2	1.1	1.3	1.4	1.5
Brazil	2.6	2.0	1.8	1.4	1.3
Canada	1.4	1.3	1.2	1.1	1.1
Viet Nam	1.0	1.0	1.1	1.0	1.0
Malaysia	1.2	1.1	0.9	0.9	1.0
Chinese Taipei	1.0	1.0	1.0	1.0	0.9

Note: End-period figures.

Source: JETRO, *Japanese Trade and Investment Statistics*. Viewed at: https://www.jetro.go.jp/en/reports/statistics.html.

2 TRADE AND INVESTMENT REGIMES

2.1 General Framework

2.1. There were no changes to the Japanese Constitution over the review period. This, *inter alia*, sets out the roles and responsibilities of the legislature (the Diet[1]), the executive branch (the Cabinet) and the Judiciary.[2] With respect to the legislative process, bills can be submitted either by Diet Members or by the Cabinet, but only the Cabinet can submit the national budget or treaties. Bills become law on passage by both Houses, except as otherwise provided by the Constitution. The newly enacted law must be promulgated before it comes into force by publication in an official gazette.[3] Under Article 73 of the Constitution, the Cabinet is responsible for enacting cabinet orders to execute the provisions of Constitution and the law.

2.2. The overall economic policy of Japan continues to be guided by the evolving Abenomics programme, which has two key goals: Achieving Sustainable Growth, and Realizing Society 5.0. With respect to the former, the aim is to reach a nominal GDP of JPY 600 trillion through a virtuous cycle of increases in production, income and consumption. Efforts are centred on four areas, relating to: (a) productive individuals; (b) smart regulations and laws; (c) attractive international opportunities; and (d) more competitive businesses.[4] The goal of Realizing Society 5.0 is to enhance human comfort and sustainability, and resolve social challenges, such as the declining birth rate, an ageing population, and environmental and energy issues, through the development and use of new innovations, including the Internet of Things, big data, artificial intelligence, robotics, and the sharing economy.[5]

2.3. As part of the implantation strategy for the Abenomics programme, the 2016 Japan Revitalization Strategy is being pursued.[6] This involves reforms to: cultivate new promising markets; engender a productivity revolution to mitigate supply-side constraints and impending workforce shortages; and enhance the capability of individuals to facilitate industrial transformation. Initiatives being implemented are: the launch of the 10 Strategic Public-Private Joint Projects (an initiative to cultivate new markets and for knowledge- and strategy-sharing between the public and private sectors); the introduction of a road-map method for the back calculation of goals[7]; regulatory reforms to reduce administrative costs for businesses; education/skills/workforce reforms; encouraging joint research between industry and academia; the introduction of a Japanese Green Card for Highly-Skilled Foreign Professionals (see below); support to business to introduce information technology and robots; promotion of technology in the fields of health care, the environment and energy; development of a large-scale hydrogen supply chain (by 2030); development of the sports sector in connection with the 2020 Olympic Games; measures to improve the productivity of the services sector (Section 4.4); continued reform of the agriculture sector (Section 4.1); measures to enhance and promote tourism; encouragement of National Strategic Special Zones utilization (see below); corporate governance reforms (see below); measures to ensure vibrant financial/capital markets (Section 4.4.1); and expansion of private participation in public services and assets. Various new entities were established to guide some of these efforts, namely, the Public-Private Council for the Fourth Industrial Revolution, the Artificial Intelligence Technology Strategy Council; and the Council for Promoting Human Resource Development to Respond to the Fourth Industrial Revolution.

[1] The Diet consists of two houses; a House of Representatives (Lower house) and a House of Councillors (Upper house), and both sets of parliamentarians are directly elected. For more information on their mandate, see House of Representatives, *Powers of the National Diet*. Viewed at: http://www.shugiin.go.jp/internet/itdb_english.nsf/html/statics/guide/powers.htm.

[2] *The Constitution of Japan*. Viewed at: http://japan.kantei.go.jp/constitution_and_government_of_japan/constitution_e.html.

[3] Cabinet Legislation Bureau, *The law-making process*. Viewed at: https://www.clb.go.jp/english/process.html.

[4] As reported by the authorities, simultaneous measures in a wide range of fields will also be necessary to achieve the nominal GDP target.

[5] Government of Japan, *Abenomics*. Viewed at: https://www.japan.go.jp/abenomics/index.html.

[6] *Japan Revitalization Strategy 2016*. Viewed at: http://www.kantei.go.jp/jp/singi/keizaisaisei/pdf/2016_hombun1_e.pdf.

[7] As explained by the authorities, the purpose of the road-map method for the back-calculation of goals is for the Government to implement reform in a timely manner through the sharing of future images of technologies to be implemented between the public and private sectors, as well as coordinating the agreed reforms and their timing.

2.4. In 2017, the Government released its Future Investment Strategy, which identifies five areas for the promotion of investment in order achieve Society 5.0, namely: the extension of a healthy lifespan; the realization of a mobility revolution; creating next-generation supply chains; building and developing pleasant infrastructure and towns; and advancing FinTech.[8]

2.5. Furthermore, in December 2017, the Cabinet released its New Economic Policy Package, which forms the framework up to 2020 for promoting "supply system innovation" and a "human resources development revolution".[9] With respect to supply system innovation, priority areas include, *inter alia*: measures to support SMEs and small-scale entrepreneurs; the creation of a supportive environment for wage increases and business succession; the revitalization of regional economies; continued corporate governance reforms; the enactment of a regulatory sandbox; reforms to areas where there is sluggish productivity; innovation promotion; and infrastructure development for Society 5.0. With respect to the human resources development revolution, the focus is on reducing the costs and increasing the quality and accessibility of education, particularly for children; promoting flexible working styles; and improving compensation for care workers. These human resources-related initiatives will be financed through revenue obtained from a consumption tax increase planned for October 2019 (Section 3.3.1.1).

2.2 Trade Policy Formulation and Objectives

2.6. The institutional framework for trade policy-making has not changed since Japan's previous Review. Overall coordination of trade policies rests with the Cabinet. The Ministry of Economy Trade and Industry (METI) and the Ministry of Foreign Affairs (MOFA) continue to formulate and implement trade policy. Several other ministries and official agencies have trade policy related responsibilities (Sections 3 and 4). The mandates of various of the legislature's (Diet) committees include trade (i.e. committees on economy trade and industry; financial affairs; forestry and fisheries; and fundamental national policies). As indicated in a previous Review, ministries and agencies receive inputs from the private sector concerning matters related to trade policies, through, *inter alia*, exchanging opinions with private entities and receiving petitions from them.

2.7. Progress in realizing Japan's trade policy objectives are contained in the White Paper on International Economy and Trade 2018. This Paper reports on steps taken to develop "free fair and high-level trade rules" domestically, with key trading partners and in international fora (including the WTO), as well as progress in reinforcing economic ties and cooperation with emerging economies in Asia, Africa, the Russian Federation and the Middle East. Its "comprehensive trade policy" includes promoting the use of economic partnership agreements (EPAs), the establishment in 2016 of a Consortium for New Export Nation (Section 3.2), and measures to increase food exports (Section 4.1).[10]

2.8. All laws and regulations are published in the Government Gazette and are made available on the Internet[11]; some have been translated into English on a separate site.[12] The main laws and regulations relating to trade, and amendments since January 2017, are presented in Table 2.1.

Table 2.1 Major trade-related laws and regulations, November 2019

Legislation	Latest amendment(s)
Foreign trade and exchange restrictions	
Foreign Exchange and Foreign Trade Act (1949 Law No. 228)	2017, 2018
Export and Import Transaction Act (1952 Law No. 299)	2019
Foreign Exchange Order (1980 No. 260)	2018
The Order on Inward Direct Investment (1980 No. 261)	2017
Export Trade Control Order (1949 Order No. 378)	2017, 2018, 2019
Import Trade Control Order (1949 Order No. 414)	2003

[8] Prime Minister's Office of Japan, *Fundamental Ideas*. Viewed at: https://www.kantei.go.jp/jp/singi/keizaisaisei/pdf/miraitousi2017_summary.pdf.

[9] *New Economic Policy Package 2017* (English translation). Viewed at: https://www5.cao.go.jp/keizai1/package/20171208_package_en.pdf.

[10] METI, *White Paper on International Economy and Trade 2018*. Viewed at: https://www.meti.go.jp/english/report/data/wp2018/wp2018.html.

[11] Government Gazette (contains documents in Japanese only). Viewed at: https://kanpou.npb.go.jp.

[12] Laws and regulations that have been translated into English may be viewed at: http://www.japaneselawtranslation.go.jp.

Legislation	Latest amendment(s)
Customs- and tariff-related regulations	
Customs Law (1954 Law No. 61)	2017, 2018
Customs Tariff Law (1910 Law No. 54)	2017, 2018, 2019
Temporary Tariff Measures Law (1960 Law No. 36)	2017, 2018, 2019
Cabinet Order Relating to Countervailing Duties (1994 Order No. 415)	2017
Cabinet Order Relating to Anti-Dumping Duties (1994 Order No. 416)	2017
Cabinet Order Relating to Emergency Duties (1994 Order No. 417)	2009
Cabinet Order Relating to Retaliatory Duties (1994 Order No. 418)	2000
Cabinet Order on Tariff Quotas (1961 Order No. 153)	2017, 2018, 2019
Act on the provision of information regarding originating goods declared under Economic Partnership Agreements (2014 Law No. 112)	2016, 2018
Trade promotion	
Trade and Investment Insurance Act (1950 Law No. 67)	2017, 2019
Services and energy	
Banking Law (1981 Law No. 59)	2019
Insurance Business Law (1995 Law No. 105)	2019
Financial Instruments and Exchange Law (1948 Law No. 25)	2017
Telecommunications Business Act (1984 Law No. 86)	2017, 2018, 2019
Law Concerning the Measures by Large-Scale Retail Stores for Preservation of the Living Environment (1998 Law No. 91)	2000
Civil Aeronautics Act (1952 Law No. 231)	2017
Marine Transportation Act (1949 Law No. 187)	2017
Act on Special Measures concerning the Handling of Legal Services by Foreign Lawyers (1986 Law No. 66)	2014
Certified Public Accountants Act (1948 Law No. 103)	2019
Certified Tax Accountant Law (1951 Law No. 237)	2017, 2018
Electricity Business Act (1964 Law No. 170)	2017
Gas Business Act (1954 Law No. 51)	2017
Oil Stockpiling Act (1975 Law No. 96)	2012
Act on the Quality Control of Gasoline and Other Fuels (1976 Law No. 88)	2014
Standards and technical regulations, SPS	
Industrial Standardization Act (1949 Law No. 185)	2017, 2018
Act on Japanese Agricultural Standards (1950 Law No. 175)	2017
Act on Securing Quality, Efficacy and Safety of Products including Pharmaceuticals and Medical Devices (1960 Law No. 145)	2016
Food Sanitation Act (1947 Law No. 233)	2018
Food Labelling Act (2013 Law No. 70)	2018
Quarantine Act (1951 Law No. 201)	2014
Plant Protection Act (1950 Law No. 151)	1996
Act on Livestock Infectious Diseases Control (1951 Law No. 166)	2011
Building Standard Law (Law No. 201)	2018
Electrical Appliances and Materials Safety Act (1961 Law No. 234)	2014
Consumer Product Safety Act (1973 Law No. 31)	2014
High Pressure Gas Safety Act (1951 Law No. 204)	2017
Act on the Rational Use of Energy (1979 Law No. 49)	2018
Fire Service Law (1948 Law No. 186)	2017, 2018
Intellectual property rights	
Patent Act (1959 Law No. 121)	2017, 2018, 2019
Customs Law (1954 Law No. 61)	2017, 2018
Unfair Competition Prevention Act (1993 Law No. 47)	2018
Utility Model Act (1959 Law No. 123)	2019
Design Act (1959 Law No. 125)	2018, 2019
Trademark Act (1959 Law No. 127)	2017, 2018, 2019
Copyright Law (1970 Law No. 48)	2018
Civil Code (1896 Law No. 89)	2017, 2018, 2019
Agriculture	
Basic Law on Food, Agriculture and Rural Areas (1999 Law No. 106)	1999
Others	
Administrative Procedure Act (1993 Law No. 88)	2017
Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (Anti-Monopoly Act) (1947 Law No. 54)	2019
Act Against Unjustifiable Premiums and Misleading Representations (1962 Law No. 134)	2014

Source: WTO document WT/TPR/S/351/Rev.1, 20 June 2017; and Government Gazette. Viewed at: https://kanpou.npb.go.jp.

2.9. As indicated in a previous Review, under the 2001 Government Policy Evaluations Act (GPEA)[13], the Cabinet Order for Enforcement of the Government Policy Evaluation Act[14], and the Basic Guidelines for Implementing Policy Evaluations (as revised in 2017)[15], the Cabinet Office and ministries are required to evaluate policies before and after implementation, and to publish the results of these evaluations. According to the authorities, evaluation reports are published on each ministry's website, and they can also all be accessed (in Japanese only) through the Policy Evaluation Portal Site.[16] The 2017 revision to the Basic Guidelines introduces the provision that, where *ex ante* evaluation of regulations is required by Cabinet Order for Enforcement of the GPEA, *ex post* evaluation is now also mandatory. Since 2007, draft bills to enact, revise or abolish regulations through enactment, revision or abolition of a law or Cabinet Order must be evaluated by *ex ante* regulatory impact analyses, the results of which are published on the Policy Evaluation Portal Site. The GPEA contains provisions that policy evaluations must use the findings of persons with relevant knowledge and experience in accordance with the special characteristics of the policy. While public comment procedures are not a requirement, the administrative organs do have discretion to ask for the opinions of stakeholders and the public.

2.3 Trade Agreements and Arrangements

2.3.1 WTO

2.10. Japan applies at least MFN treatment to all WTO Members. At present, countries or territories to which MFN treatment is not applied are Andorra, Equatorial Guinea, the State of Eritrea, Lebanon, the Democratic People's Republic of Korea, South Sudan, and the Democratic Republic of Timor-Leste.

2.11. Japan is a signatory to the 1979 Agreement on Trade in Civil Aircraft, and is a party to the Plurilateral Agreement on Government Procurement (GPA), as revised. It is a signatory to the WTO Information Technology Agreement (ITA), and participated in the ITA expansion negotiations; once fully implemented, tariff reductions are expected to bring considerable benefits for Japanese exports.[17] Japan accepted the 2005 Protocol Amending the TRIPS Agreement on 31 August 2007, and accepted the 2014 Protocol concerning the Trade Facilitation Agreement on 1 June 2015. During the 2017 WTO Ministerial Conference, Japan joined the joint ministerial statements on electronic commerce[18]; investment facilitation for development[19]; the establishment of a WTO informal programme for MSMEs[20]; and services domestic regulation.[21] Japan also supported the Buenos Aires Joint Declaration on Trade and Women's Economic Empowerment.[22]

2.12. Since 1 January 2017, Japan has been involved in two new dispute settlement cases as a complainant, against the Republic of Korea (DS571 –Measures Affecting Trade in Commercial Vessels and DS553 – Sunset Review of Anti-Dumping Duties on Stainless Steel Bars) and one new complaint

[13] *Government Policy Evaluations Act* (English translation) incorporating revisions in 2003. Viewed at: http://www.soumu.go.jp/english/kansatu/evaluation/evaluation_09.pdf. There were further minor revisions to the Act in 2015.

[14] *Cabinet Order for Enforcement of the Government Policy Evaluation Act*. Viewed (in Japanese) at: http://www.soumu.go.jp/main_content/000556219.pdf. This Order was most recently revised in 2015.

[15] *Basic Guidelines for Implementing Policy Evaluation* (English translation). Viewed at: http://www.soumu.go.jp/main_content/000556221.pdf.

[16] Ministry of Internal Affairs and Communications, *Policy Evaluation Portal Site*. Viewed at: http://www.soumu.go.jp/main_sosiki/hyouka/seisaku_n/portal/.

[17] According to the METI, the value of Japanese exports of the 201 products covered by the expansion negotiations is around JPY 9 trillion, and the value of tariff reductions from these negotiations is estimated at around JPY 170 billion. METI, *White Paper on International Economy and Trade 2018*. Viewed at: https://www.meti.go.jp/english/report/data/wp2018/pdf/3-1-4.pdf.

[18] WTO document WT/MIN(17)/60, 13 December 2017.

[19] WTO document WT/MIN(17)/59, 13 December 2017.

[20] WTO document WT/MIN(17)/58, 13 December 2017.

[21] WTO document WT/MIN(17)/61, 13 December 2017.

[22] WTO, Joint Declaration on Trade and Women's Economic Empowerment on the Occasion of the WTO Ministerial Conference in Buenos Aires in December 2017. Viewed at: https://www.wto.org/english/thewto_e/minist_e/mc11_e/genderdeclarationmc11_e.pdf.

against India (DS584 – Tariff Treatment on Certain Goods).[23] It has been involved in no new cases as respondent over this period, and 34 new cases as third party.[24]

2.13. Over the review period, Japan submitted several notifications under different WTO agreements (Table 2.2); notifications are outstanding in the areas of domestic support in agriculture and government procurement.

Table 2.2 Selected notifications under WTO agreements, January 2017-November 2019

WTO Agreement	Description of requirement	Document symbol and date of most recent notification
Agriculture		
Article 18.2	Domestic support (DS:1)	G/AG/N/JPN/219, 03/07/17 G/AG/N/JPN/235-236, 19/02/19
Article 18.3	Domestic support (DS:2)	G/AG/N/JPN/220, 03/07/17
Article 18.2	Volume of imports under tariff quotas (MA:2)	G/AG/N/JPN/217, 11/05/17 G/AG/N/JPN/225, 22/05/18 G/AG/N/JPN/238, 15/5/2019
Article 5.7	Special safeguard (MA:3 and MA:4)	G/AG/N/JPN/218, 20/06/17 G/AG/N/JPN/221, 09/01/18 G/AG/N/JPN/222, 09/02/18 G/AG/N/JPN/223, 12/03/18 G/AG/N/JPN/227, 12/06/18 G/AG/N/JPN/228, 10/07/18 G/AG/N/JPN/234, 07/02/19 G/AG/N/JPN/242, 09/09/19 G/AG/N/JPN/241, 01/08/2019 G/AG/N/JPN/242, 09/09/19 G/AG/N/JPN/243, 08/10/19 G/AG/N/JPN/244-246, 08/11/19
Articles 5.7 and 18.2	Special safeguard (MA:5)	G/AG/N/JPN/216, 11/05/17 G/AG/N/JPN/226, 23/05/18 G/AG/N/JPN/239, 15/05/19
Articles 10 and 18.2	Export subsidies (outlays and quantities) (ES:1)	G/AG/N/JPN/215, 03/05/17 G/AG/N/JPN/224, 15/05/18 G/AG/N/JPN/240, 15/05/19
Article 10 and 18.2	Volume of food aid in the context of export subsidy commitments (ES:3)	G/AG/N/JPN/230-233, 03/12/18
Article 16.2	Measures concerning the possible negative effects of the reform programme on least-developed and net food importing developing countries (NF:1)	G/AG/N/JPN/229, 15/11/18
Anti-dumping		
Article 16.4 - semi	Semi-annual report under Article 16.4 of the Agreement	G/ADP/N/294/JPN, 07/02/17 G/ADP/N/300/JPN, 21/07/17 G/ADP/N/308/JPN, 02/02/18 G/ADP/N/314/JPN, 09/08/18 G/ADP/N/322/JPN, 04/02/19 G/ADP/N/328/JPN, 22/10/19 G/ADP/N/334/JPN, 15/11/19
Article 16.5	Notification of domestic procedures and authorities competent to initiate and conduct investigations	G/ADP/N/14/JPN/Add.46, 17/10/2018
Article 18.5	Laws and regulations	G/ADP/N/1/JPN/2/Suppl.9, 25/06/2018
State trading		
GATT 1994 Article XVII:4(a) Understanding on the Interpretation of Article XVII		
	Notification of products traded by State enterprises, State trading activities	G/STR/N/17/JPN, 11/10/18
Regional Trading Arrangements		
GATT 1994 Article XXIV:7(a) Free-Trade Areas		
	Notification of regional trade agreement	WT/REG277/N/3, 24/08/18
	Notification of regional trade agreements	S/C/N/920; WT/REG395/N/1, 20/12/18
	Notification of regional trade agreement	S/C/N/921; WT/REG396/N/1, 14/01/19

[23] WTO, *Japan and the WTO*. Viewed at: https://www.wto.org/english/thewto_e/countries_e/japan_e.htm.

[24] The new cases since 1 January 2017 in which Japan has been involved as a third party are cases: DS577; DS576; DS573; DS567; DS566; DS564; DS561; DS560; DS559; DS558; DS557; DS556; DS554; DS552; DS551; DS550; DS548; DS547; DS546; DS545; DS544; DS543; DS542; DS541; DS539; DS538; DS536; DS534; DS533; DS529; DS526; DS523; DS522 and DS521. WTO, *Japan and the WTO*. Viewed at: https://www.wto.org/english/thewto_e/countries_e/japan_e.htm.

WTO Agreement	Description of requirement	Document symbol and date of most recent notification
GATS Article V:7(a)		
	Notification of regional trade agreements	S/C/N/920; WT/REG395/N/1, 20/12/18
	Notification of regional trade agreement	S/C/N/921; WT/REG396/N/1, 14/01/19
Government Procurement		
Article XVI:4-5	Statistics for 2016 reported under Article XVI:4 of the revised GPA	GPA/142/Add.9, 03/04/18
Article XXII:8	Work Programme on the Collection and Reporting of Statistical Data	GPA/WPS/STAT/20, 14/06/17 GPA/WPS/STAT/24, 14/09/17
Annexes 1, 2 and 3 of Appendix 1	Thresholds	GPA/THR/JPN/1, 07/02/18
Import Licensing Procedures		
Articles 5.1 to 5.4	Agreement on Import Licensing Procedures - Notification under Article 5.1 to 5.4 of the Agreement	G/LIC/N/2/JPN/4, 17/04/18
Article 7.3	Replies to questionnaire on import licensing procedures - Notification under Article 7.3 of the Agreement on Import Licensing Procedures	G/LIC/N/3/JPN/16, 02/10/17 G/LIC/N/3/JPN/17, 09/10/18 G/LIC/N/3/JPN/18, 09/10/19
Market Access		
Article XXVIII:5	Invocation of paragraph 5 of Article XXVIII	G/MA/344, 13/10/17
QR (G/L/59) – biennal	Quantitative restrictions	G/MA/QR/N/JPN/4, 16/10/18
Trade Facilitation		
Articles 22.1 and 22.2	Notification under Article 22.1 and 22.2	G/TFA/N/JPN/1/Rev.1, 27/06/17 G/TFA/N/JPN/3, 10/09/18 G/TFA/N/JPN/4, 07/03/19
Articles 1.4, 10.4.3, 10.6.2 and 12.2.2	Notification under Article 1.4, 10.4.3, 10.6.2 and 12.2.2	G/TFA/N/JPN/2, 10/08/17 G/TFA/N/JPN/2/Corr.1, 19/12/18
Subsidies and Countervailing Measures		
Article 25.11	Countervailing duty actions taken	G/SCM/N/321/Add.1, 23/10/17 G/SCM/N/328/Add.1, 20/04/18 G/SCM/N/334/Add.1, 19/10/18
Article 25.1	Subsidies programmes	G/SCM/N/315/JPN, 09/06/17 G/SCM/N/315/JPN/Corr.1, 03/01/18 G/SCM/N/343/JPN, 19/07/19
Article 25.12	Notification of domestic procedures and authorities competent to initiate and conduct investigations	G/SCM/N/18/Add.46, 17/10/18
Article 32.6	Laws and regulations	G/SCM/N/1/JPN/2/Suppl.9, 25/06/18
Rules of Origin		
	Notification of preferential rules of origin for LDCs	G/RO/LDC/N/JPN/1, 11/07/17
	Notification of preferential rules of origin	G/RO/N/188, 16/10/2019
Safeguards		
Article 12.5 and 8.2	Laws and regulations	G/L/1226; G/SG/N/12/JPN/3, 06/04/18 GL/1240; G/SG/N/12/JPN/4, 22/05/18
Sanitary and Phytosanitary Measures		
Article 7, Annex B	Notification of sanitary and phytosanitary measures	2017 – 48 notifications 2018 – 65 notifications 2019– 88 notifications
Technical Barriers to Trade		
Article 2.10	Urgent technical regulations	G/TBT/N/JPN/543, 06/01/2017 G/TBT/N/JPN/548, 01/03/2017 G/TBT/N/JPN/560, 23/06/2017 G/TBT/N/JPN/566, 05/09/2017 G/TBT/N/JPN/571, 03/11/2017 G/TBT/N/JPN/575, 20/12/2017 G/TBT/N/JPN/587, 05/03/2018 G/TBT/N/JPN/599, 22/06/2018 G/TBT/N/JPN/606, 27/08/2018 G/TBT/N/JPN/611, 21/11/2018 G/TBT/N/JPN/616, 21/12/2018 G/TBT/N/JPN/620, 26/02/2019 G/TBT/N/JPN/626, 17/06/2019 G/TBT/N/JPN/632, 11/09/2019 G/TBT/N/JPN/641, 18/11/2019

WTO Agreement	Description of requirement	Document symbol and date of most recent notification
Article 2.9	Technical regulations	2017 – 23 notifications 2018 – 32 notifications G/TBT/N/JPN/617, 03/01/2019 G/TBT/N/JPN/618, 18/01/2019 G/TBT/N/JPN/619, 31/01/2019 G/TBT/N/JPN/621, 01/03/2019 G/TBT/N/JPN/622, 18/03/2019 G/TBT/N/JPN/623-624, 21/03/2019 G/TBT/N/JPN/625, 24/04/2019 G/TBT/N/JPN/627, 19/07/2019 G/TBT/N/JPN/628, 23/07/2019 G/TBT/N/JPN/629-630, 09/08/2019 G/TBT/N/JPN/631, 02/09/2019 G/TBT/N/JPN/633, 03/10/2019 G/TBT/N/JPN/634-635, 10/10/2019 G/TBT/N/JPN/636, 17/10/2019 G/TBT/N/JPN/637, 21/10/2019 G/TBT/N/JPN/638-639, 12/11/2019 G/TBT/N/JPN/642, 18/11/2019 G/TBT/N/JPN/643, 21/11/2019
Articles 2.9 and 5.6	Notification with Article 10.6	G/TBT/N/JPN/562, 14/07/2017 G/TBT/N/JPN/563, 28/07/2017 G/TBT/N/JPN/576, 08/01/2018 G/TBT/N/JPN/578, 09/01/2018 G/TBT/N/JPN/596, 01/05/2018 G/TBT/N/JPN/601, 28/06/2018 G/TBT/N/JPN/640, 12/11/2019
Unspecified	Notification with Article 10.6	G/TBT/N/JPN/552, 27/03/2017
Article 5.6	Conformity assessment procedures	G/TBT/N/JPN/544, 23/01/2017
Annex 3(c)	Notification of acceptance	G/TBT/CS/N/189, 20/04/2017 G/TBT/CS/N/195, 21/11/2017
Intellectual property		
TRIPS Article 63.2	Laws and regulations	IP/N/1/JPN/28; IP/N/1/JPN/G/2, 17/02/2017 IP/N/1/JPN/29; IP/N/1/JPN/G/3, 17/02/2017 IP/N/1/JPN/30; IP/N/1/JPN/P/13, 06/08/2018 IP/N/1/JPN/31; IP/N/1/JPN/T/8, 06/08/2018 IP/N/1/JPN/32; IP/N/1/JPN/D/8, 06/08/2018 IP/N/1/JPN/36; IP/N/1/JPN/C/6, 07/03/2019 IP/N/1/JPN/33; IP/N/1/JPN/T/9, 12/02/2019 IP/N/1/JPN/34; IP/N/1/JPN/P/14, 12/02/2019 IP/N/1/JPN/35; IP/N/1/JPN/U/2, 12/02/2019 IP/N/1/JPN/39; IP/N/1/JPN/P/15, 24/05/2019 IP/N/1/JPN/40; IP/N/1/JPN/P/16, 24/05/2019 IP/N/1/JPN/41; IP/N/1/JPN/P/17, 19/09/2019 IP/N/1/JPN/43; IP/N/1/JPN/D/9, 20/09/19 IP/N/1/JPN/42; IP/N/1/JPN/U/3, 20/09/19 IP/N/1/JPN/44; IP/N/1/JPN/T/11, 26/09/2019
General Agreement on Trade in Services (GATS)		
	Notification pursuant to Article III:3 of the GATS	S/C/N/930, 07/03/19
	Notification pursuant to Article VII:4 of the GATS	S/C/N/961, 15/10/2019
Regional Trade Agreements		
Article V:7(a)	Notification of regional trade agreement	S/C/N/920; WT/REG395/N/1, 20/12/18 S/C/N/921; WT/REG396/N/1, 14/01/19

Source: WTO documents online.

2.3.2 Regional and preferential agreements

2.3.2.1 Regional trade agreements (RTAs)

2.14. As set out in the METI's 2018 White Paper on International Economy and Trade, expanding free trade and promoting economic partnerships is central to Japan's trade policy. It is considered that tapping into the Asia-Pacific region's growth and large markets by creating a global web of economic partnerships is essential to the country's growth. In this regard, a target was set to raise free trade agreement (FTA) coverage to 70% by 2018. Japan is aiming for the swift conclusion of Regional Comprehensive Economic Partnership negotiations, through which the FTA ratio will exceed 70%[25], as set out in the Growth Strategy 2019 (Section 1).

2.15. Japan has RTAs in force with: Australia; Brunei Darussalam; Chile; India; Indonesia; Malaysia; Mexico; Mongolia; Peru; the Philippines; Singapore; Switzerland; Thailand; Viet Nam; ASEAN Member economies[26]; EU member economies[27]; and participants in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). New developments over the review period were the entry into force of the CPTPP and the EU-Japan Economic Partnership Agreement (see below). Taken together, these economies accounted for 38.7% of Japan's merchandise imports and 34.8% of its merchandise exports in 2018. All agreements provide for liberalization of goods and services. An overview of the services provisions in RTAs is provided in Section 4. Japan's transition period in most of its RTAs lasts up to 15 years. However, in the RTAs with the European Union and the CPTPP, Japan has a transition period of 21 years, up to 2038. By the end of these transition periods, between 6% and 5%, respectively, of tariff lines remain subject to duties, most of which relate to agricultural products (Table 2.3). Most of the agreements have been considered in the WTO Committee on Regional Trade Agreements (CRTA) based upon factual presentations prepared by the WTO Secretariat, except for: the EU-Japan EPA, the CPTPP, and the ASEAN-Japan EPA (factual presentations for which are currently being prepared).[28]

2.16. In February 2019, Japan signed the First Protocol to Amend the Agreement on ASEAN-Japan Comprehensive Partnership, which includes chapters on trade in services and investment. In September 2019, Japan signed the Japan-United States Trade Agreement to eliminate or reduce tariffs on certain agricultural and industrial products, and the Japan-United States Digital Trade Agreement, which is intended to establish high standard rules in this area.[29]

2.17. Japan is a participant in the negotiations, launched in 2013, to create the Regional Comprehensive Economic Partnership, which would to bring together in a single RTA the member States of ASEAN and those economies with which ASEAN has RTAs in force [30]; the aim is to conclude this Agreement in 2019. Negotiations on an FTA between Japan, China and the Republic of Korea are ongoing. Bilateral RTAs are also being negotiated with Colombia and Turkey. Negotiations with the Gulf Cooperation Council [31] have been postponed, and those with the Republic of Korea have been suspended.

[25] Share of trade value in total Japanese trade value with economies with which EPAs/FTAs have been signed or entered into force.

[26] ASEAN member economies are: Brunei Darussalam; Cambodia; Indonesia; Lao PDR; Malaysia; Myanmar; the Philippines; Singapore; Thailand; and Viet Nam.

[27] EU member economies: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, and United Kingdom.

[28] Factual presentations are available on the WTO's Regional Trade Agreements Information System (RTA-IS). Viewed at: http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx.

[29] Ministry of Foreign Affairs of Japan, Joint Statement of Japan and the United States, 25 September 2019. Viewed at: https://www.mofa.go.jp/na/na1/us/page4e_001102.html.

[30] The economies with which ASEAN has RTAs in force are: Japan, China, the Republic of Korea; Australia; New Zealand and India. India opted out of RCEP in November 2019.

[31] The Gulf Cooperation Council consists of: Bahrain, Kingdom of; Kuwait, the State of; Oman; Qatar; Saudi Arabia, Kingdom of; and the United Arab Emirates.

Table 2.3 Selected features of RTAs in force

Title (Entry into force)	Goods liberalization	Selected coverage[a]	Japan's merchandise trade (2018)
EU-Japan EPA (01.02.2019)	End transition period 2038: 532 tariff lines will remain dutiable (6% of total)	S, GP, CP, E, L, e-com	11.7% total imports 11.4% total exports
CPTPP (30.12.2018)	End transition period 2038: 459 tariff lines will remain dutiable (5% of total)	S, GP, CP, E, L, e-com	17.1% total imports 13.2% total exports
Mongolia-Japan EPA (07.06.2016)	End transition period 2031: 1,115 tariff lines will remain dutiable (12.3% of total)	S, CP, E, L, e-com	0.004% total imports 0.1% total exports
Australia-Japan EPA (15.01.2015)	End transition period 2029; 868 tariff lines will remain dutiable (9.5% of total)	S, GP, CP, e-com	6.1% total imports 2.3% total exports
Peru-Japan EPA (01.03.2012)	End transition period 2027; 892 tariff lines will remain dutiable (10.1% of total)	S, GP, CP, E	0.3% total imports 0.1% total exports
India-Japan EPA (01.08.2011)	End transition period 2026; 986 tariff lines will remain dutiable (11.1% of total)	S, GP, CP, E	0.7% total imports 1.5% total exports
Viet Nam-Japan EPA (01.10.2009)	End transition period 2024; 946 tariff lines will remain dutiable (10.7% of total)	S, GP, CP, E	2.8% total imports 2.2% total exports
Switzerland-Japan EPA (01.09.2009)	End transition period 2024; 987 tariff lines will remain dutiable (11.2% of total)	S, GP, CP, E, e-com	1.0% total imports 0.5% total exports
Philippines-Japan EPA (11.12.2008)	End transition period 2023; 814 tariff lines will remain dutiable (9.1% of total)	S, GP, CP, E, L, e-com	1.4% total imports 1.5% total exports
ASEAN-Japan EPA (01.12.2008)	End transition period 2023: 1,225 tariff lines will remain dutiable (13.5% of total)	S	15.0% total imports 15.5% total exports
Brunei-Darussalam-Japan EPA 31.07.2008	End transition period 2023; 1,125 tariff lines will remain dutiable (12.6% of total)	S, GP, E	0.3% total imports 0.01% total exports
Indonesia-Japan EPA (01.07.2008)	End transition period 2023; 962 tariff lines will remain dutiable (10.8% of total)	S, GP, CP, E	2.9% total imports 2.1% total exports
Thailand-Japan EPA (01.11.2007)	End transition period 2022; 870 tariff lines will remain dutiable (9.8% of total)	S, GP, CP, E, e-com	3.3% total imports 4.4% total exports
Chile-Japan EPA (03.09.2007)	End transition period 2022; 981 tariff lines will remain dutiable (11% of total)	S, GP, CP[b]	1.0% total imports 0.3% total exports
Malaysia-Japan EPA (13.07.2006)	End transition period 2021; 882 tariff lines will remain dutiable (9.9% of total)	S, CP, E	2.5% total imports 1.9% total exports
Mexico-Japan EPA (01.04.2005)	End transition period 2015: 1,180 tariff lines will remain dutiable (13% of total)	S, GP, CP, E, L	0.8% total imports 1.6% total exports
Singapore-Japan EPA (30.11.2002)	End transition period 2022: 1,281 tariff lines will remain dutiable (14% of total)	S, GP, CP, e-com	1.3% total imports 3.2% total exports

a Services (S); government procurement (GP); competition policy (CP); environment (E); labour (L); e-commerce (e-com).
b Under the Chile-Japan EPA, a joint statement issued upon signature of the Agreement includes attachments on environment and labour.

Source: WTO's RTA-IS. Viewed at: http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx.

2.3.2.1.1 CPTPP

2.18. Japan signed the CPTPP on 8 March 2018, and the agreement entered into force for Japan on 30 December 2018. The agreement covers both trade in goods and services.[32] According to the authorities, the economic benefits are estimated to be a JPY 8 trillion boost to Japan's GDP and the creation of 460,000 jobs; it is expected to serve as a new growth engine for the Japanese economy.

2.19. CPTPP signatories are: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Viet Nam. As at July 2019, the CPTPP had not yet entered into force for: Brunei Darussalam, Chile, Malaysia, and Peru.[33]

2.20. Japan's Schedule to Annex 2-D sets out its reduction and elimination of customs duties. Upon entry into force of the agreement, 83.3% of tariff lines were duty free. The transition period is

[32] New Zealand Foreign Affairs and Trade, *CPTPP text*. Viewed at: https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/cptpp/comprehensive-and-progressive-agreement-for-trans-pacific-partnership-text#CPTPP.

[33] As notified to the WTO in WTO documents WT/REG395/N/1 and S/C/N/920 of 20 December 2018, the CPTPP entered into force on 30 December 2018 for Australia, Canada, Japan, Mexico, New Zealand, on 30 December 2019 for Singapore, and on 14 January 2019 for Viet Nam. For the rest of the parties, entry into force will be in accordance with Article 3, paragraph 2 of the CPTPP.

21 years for Japan (i.e. ending in 2038). At the end of this period, 459 tariff lines will remain subject to duties.[34] Tariff rate quotas, applied to 160 lines, are either CPTPP-wide or country-specific. Services commitments on investment and cross-border trade in services are scheduled on a negative list basis, while commitments on the temporary entry of business persons are scheduled on a positive-list basis (Section 4.4).

2.21. The CPTPP contains a bilateral agreement between Japan and Canada on motor vehicle trade, which stipulates the rights and duties agreed between the two countries as a result of bilateral market access negotiations on motor vehicles.[35] This contains provisions on a 12-year period for transitional safeguard measures; specific dispute settlement procedures; and the establishment of a special bilateral Committee on Motor Vehicles. Safeguard provisions are in place for agricultural products and forest goods (Section 4.1).

2.22. The CPTPP has provisions on, *inter alia*: trade facilitation; e-commerce; government procurement; competition policy; state-owned enterprises and designated monopolies; intellectual property rights (Section 3.3.7); labour; environment; competitiveness and business facilitation; development; SMEs; regulatory coherence; and transparency and anti-corruption.

2.3.2.1.2 EU-Japan Economic Partnership Agreement

2.23. The EU-Japan Economic Partnership Agreement (EPA) was signed on 17 July 2018, and entered into force on 1 February 2019.[36] It was notified to the WTO on 14 January 2019.[37] It covers both trade in goods and services. It is the world's largest RTA, with signatories together accounting for nearly one third of world GDP.[38]

2.24. Customs duty reductions/elimination are implemented over a 21-year period, as set out in Annex 2-A to the EPA, ending in 2038. At the end of this transition period, 94% of Japan's tariff lines at the HS nine-digit level will be duty free. Tariffs, ranging from 3.7% to 22.5% will remain on 532 products. Japan maintains tariff rate quotas on various agricultural products; under the EPA, quota quantities are subject to increases over a specified period, depending on the product.[39] Services commitments on investment, and cross-border trade in services are scheduled on a negative list basis.

2.25. The EPA has provisions on, *inter alia,* e-commerce; government procurement (Section 3.3.6); competition policy (Section 3.3.4); state-owned enterprises; enterprises granted special rights or privileges and designated monopolies; intellectual property (Section 3.3.7); trade and sustainable development; agricultural cooperation; and SMEs.

2.3.2.2 Preferential trade agreements (PTAs)

2.26. Japan offers preferential tariff treatment to 128 developing economies and five territories under its GSP scheme.[40] This includes all least developed countries (LDCs) who qualify for more extensive product coverage (98% of tariff lines[41]) and duty-free and quota-free treatment.[42] In 2017, Japan notified to the WTO its preferential rules of origin for LDCs.[43] Product coverage under

[34] MFAT, *Annex 2-D – Tariff Schedule of Japan*. Viewed at: https://www.mfat.govt.nz/assets/Trans-Pacific-Partnership/Annexes/2-D.-Japan-General-Notes-to-Tariff-Schedule.pdf; and https://www.mfat.govt.nz/assets/Trans-Pacific-Partnership/Annexes/2-D.-Japan-Tariff-Elimination-Schedule.pdf.

[35] CPTPP Appendix D. Viewed at: https://www.mfat.govt.nz/assets/Trans-Pacific-Partnership/Text/2.-National-Treatment-and-Market-Access-for-Goods.pdf.

[36] EU–Japan EPA. Viewed at: http://publications.europa.eu/resource/cellar/5805924c-09a3-11e9-81b4-01aa75ed71a1.0006.01/DOC_1.

[37] WTO documents WT/REG396/N/1; and S/C/N/921, 14 January 2019.

[38] WTO document WT/TPR/OV/21, 27 November 2018.

[39] EU-Japan EPA Annex 2-A, Part 3, Section B.

[40] Japan Customs, *List of GSP Beneficiaries*. Viewed at: http://www.customs.go.jp/english/c-answer_e/imtsukan/1504_e.htm.

[41] WTO document WT/TPR/G/351, 18 January 2017.

[42] Details of the evolution of Japan's GSP scheme are contained in WTO document WT/TPR/G/351, 18 January 2017.

[43] WTO document G/RO/LDC/N/JPN/1, 11 July 2017. This notification was made pursuant to the 2015 Ministerial Declaration on preferential rules of origin for LDCs (WT/L/917/Add.1).

the duty-free, quota-free scheme for LDCs and the GSP scheme is reviewed each year as part of the annual tariff revision. The GSP scheme itself is revised every ten years, with the next revision in March 2021.

2.27. Under the GSP scheme, preferential tariff rates apply to 400 tariff lines at the nine-digit level in Chapters 1 to 24 (agriculture and fisheries) (excluding in-quota rates), and to 2,621 tariff lines in Chapters 25 to 97 (industrial products).[44] The main exclusions are rice and rice products, meat and meat products, fish, dairy products, pineapples, cereal products, textiles and clothing, leather and leather products, and footwear. The preferential margin varies from one product to another.

2.28. In 2017, Japan changed the criteria for graduation from its GSP scheme; it applies rules relating to entire graduation, partial graduation and product-by-exclusion (Table 2.4). Partial graduation has been enforced since 1 April 2018, and entire graduation has been enforced since 1 April 2019.[45] According to the authorities, the aim of the revision is to spread GSP benefits fairly to the economies that really need the preferential treatment. Since 1 January 2017, the following economies have been entirely graduated from Japan's GSP scheme: Chile, Saint Christopher and Nevis, and Uruguay in 2017; Antigua and Barbuda, and the Seychelles in 2018; and Brazil, China, Malaysia, Mexico, and Thailand in 2019. 868 items from China (such as food, chemical products and textiles) and 2 food-related items from Brazil were subject to partial graduation in 2018. As at mid-2019, only one product (grain sorghum (other than seed) (not for feeding purposes) from Argentina was subject to exclusion from preferential treatment under product-by-exclusion.

Table 2.4 GSP graduation rules

Graduation type	Rules applied
Entire graduation (out)	A country/territory shall be excluded from the list of GSP beneficiaries when it has been classified as a high-income economy in the World Bank Statistics for three consecutive years or has been classified as an upper-middle economy and the value of the beneficiary's exports exceeds 1% of the total value of world exports in the WTO Statistics for three consecutive years.
Entire graduation (in)	A country/territory which had been excluded once from the list of beneficiaries can be designated as a beneficiary again, if it so requests, if: it has not been classified as a high-income country for three consecutive years; and has not been classified as an upper middle-income country and the value of the beneficiaries' exports does not exceed 1% of the total value of world exports for three consecutive years.
Partial graduation	A product originating from a beneficiary is to be excluded from application of Japan's GSP scheme for one year (renewable) when: (i) the beneficiary is classified as a high-income economy in the World Bank Statistics of the previous year or is classified as an upper middle-income economy and the value of the beneficiaries exports exceeds 1% of the total value of world exports in the WTO Statistics of the previous year; and (ii) the value of Japan's imports of the product originating from the beneficiary exceeds JPY 1 billion and 25% of the total value of Japan's imports of the product from all over the world in the trade statistics of two years previous.
Product-by-exclusion	A product originating from a beneficiary is to be excluded from Japan's GSP scheme for three years, when the total value of Japan's import of a product originating from the beneficiary for the previous three years exceeds both JPY 4.5 billion and 50% of the total value of Japan's imports of the product from all over the world.

Source: Japan Customs, *Graduation/Exclusion from the GSP scheme.* Viewed at: http://www.customs.go.jp/english/c-answer_e/imtsukan/1506_e.htm.

2.29. Around 1.7% of imports, out of the total amount of imports in 2018, enter under GSP benefits from developing countries and LDCs. In 2017 and 2018, China was the main beneficiary of the Scheme, followed by Bangladesh, Cambodia and Myanmar (Table 2.5).

[44] These figures are based on the 2019/20 tariff schedule in the HS17 nomenclature.

[45] Before this change, Japan applied the "entire graduation" to a beneficiary only when the beneficiary had been classified as a "high income economy" in the World Bank Statistics for three consecutive years; since April 2019, Japan also applies entire graduation to an "upper-middle income economy" when the value of its exports exceeds 1% of the total value of world exports in the WTO Statistics for three consecutive years as well. Japan used to apply "partial graduation" when the beneficiary was classified as a high-income country in the World Bank Statistics of the previous year; since April 2018, the exclusion was also applied to beneficiaries classified as upper-middle income economies, the value of whose exports exceeds 1% of the total value of world exports in the WTO Statistics of the previous year. There were no changes to rules on product-by-exclusion.

Table 2.5 Main beneficiaries of GSP scheme, 2017-18

Country/territory	Imports under GSP 2017		Country/territory	Imports under GSP 2018	
	JPY million	Share (%)		JPY million	Share (%)
Total	**1,375,507**	**100**	**Total**	**1,042,174**	**100**
China	903,295	65.7	China	510,337	49.0
Bangladesh	113,468	8.2	Bangladesh	138,703	13.3
Cambodia	109,930	8.0	Cambodia	138,123	13.3
Myanmar	96,624	7.0	Myanmar	115,613	11.1
Brazil	27,782	2.0	Madagascar	18,983	1.8
South Africa	15,030	1.1	South Africa	16,892	1.6
Ecuador	14,779	1.1	Brazil	16,690	1.6
Mauritania	13,852	1.0	Mauritania	14,994	1.4
Madagascar	11,988	0.9	Ecuador	11,211	1.1
Indonesia	8,710	0.6	Turkey	7,838	0.8
Sri Lanka	7,367	0.5	Colombia	7,706	0.7
Colombia	6,869	0.5	Sri Lanka	7,726	0.7
Turkey	6,707	0.5	Lao PDR	6,147	0.6
Morocco	5,595	0.4	Morocco	4,058	0.4
Lao PDR	5,410	0.4	Iran	3,173	0.3

Source: Information provided by the authorities. Japan Customs. Viewed at: http://www.customs.go.jp/kyotsu/import/tokkei/index.htm.

2.3.2.3 Other agreements and arrangements

2.3.2.3.1 Asia-Pacific Economic Cooperation (APEC)

2.30. Japan is member of APEC[46], which accounted for 74% of its trade (imports and exports) in 2018. One of its objectives is free and open trade and investment by 2020. In APEC's 2018 Bogor Goals Progress Report, which monitors progress towards this target, it is noted that, while positive steps have been taken, there is a need for continuous improvement in various areas.[47] With respect to Japan specifically, the Report, *inter alia*, highlights tariff liberalization undertaken; relaxation of rules in some services sectors; initiatives to attract and facilitate foreign investment; trade facilitation measures; developments in the areas of government procurement and intellectual property rights; energy liberalization; and measures to facilitate entry of visitors into Japan. Attention was also drawn to FDI restrictions in TV broadcasting.

2.31. In 2016, APEC leaders adopted the Lima Declaration on the Free Trade Area of the Asia Pacific (FTAAP), which envisages negotiations on a comprehensive RTA which would include "next-generation trade and investment issues". These negotiations would be held outside of APEC but in parallel with the APEC process, building upon regional undertakings such as the CPTPP and the Regional Comprehensive Economic Partnership. APEC members are now examining how current pathways could contribute to the realization of the FTAAP.[48] Other key areas of the APEC's work over the review period related, *inter alia*, to: the digital economy; building a seamless and comprehensively connected and integrated Asia-Pacific by 2025; increasing the APEC's competitiveness in the services sector by 2025; developing policies to take advantage of global value chains; advancing economic, financial and social inclusion; and ensuring food security and sustainability.[49]

[46] APEC members are: Australia; Brunei Darussalam; Canada; Chile; China; Hong Kong, China; Indonesia; Japan; Korea, Republic of; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; the Philippines; Russian Federation; Singapore; Chinese Taipei; Thailand; United States; and Viet Nam.

[47] Areas of progress at the APEC-wide level noted are: tariff and services liberalization; implementation of measures to attract FDI; trade facilitation efforts; improvements to the quality of regulations; and RTA expansion. Unfinished business relates to high agricultural tariffs, unilateral services restrictions, an increase in trade remedies, and an accumulation of specific trade concerns in areas like sanitary and phytosanitary measures. APEC, *APEC's Bogor Goals Progress Report 2018*. Viewed at: https://www.apec.org/Publications/2018/11/APEC-Bogor-Goals-Progress-Report.

[48] APEC, *Lima Declaration on FTAAP*. Viewed at: https://www.apec.org/Meeting-Papers/Leaders-Declarations/2016/2016_aelm/2016_Annex%20A.aspx.

[49] APEC, *Leaders' Declarations 2016-18*. Viewed at: https://www.apec.org/Meeting-Papers/Leaders-Declarations.

2.3.2.3.2 Other

2.32. Japan participated in numerous trade-related meetings and arrangements, which include the Asia-Europe meeting (ASEM)[50], the Organization for Economic Cooperation and Development (OECD); the G7; the G20; the ASEAN+3; and the Tokyo International Conference on African Development.

2.4 Investment Regime

2.4.1 Investment framework

2.33. The Office of Invest Japan, which falls under the Cabinet Office, is responsible for providing information on investments and related matters, and dealing with any investment-related complaints. It brings together contact points in various ministries, government organizations and local governments.[51] It has three key committees: (i) the Council for Promotion of Foreign Direct Investment, which is responsible for attracting new investment projects and coordinating with foreign businesses to undertake necessary reforms to promote FDI[52]; (ii) the Task Force for Promotion of Foreign Direct Investment in Japan, which manages the Investment Advisor Assignment System (see below); and (iii) the Working Group for Revising Regulations and Administrative Procedures, which is responsible for simplifying regulations and administrative procedures associated with FDI in Japan, and coordinating the relative ministries and agencies.[53]

2.34. The Investment Advisor Assignment System has been operating since 2016; it provides the framework and conditions under which assigned state ministers may advise companies that have made major investments in Japan from abroad.[54]

2.35. Various laws and regulations govern investment in Japan: the Foreign Exchange and Foreign Trade Act (FEFTA)[55] and its implementing regulations (the Cabinet Order on Inward Direct Investment; the Order on Inward Direct Investment[56]; and the Foreign Exchange Order[57]); and the Act for Promotion of Japan as an Asian Business Center, 2012.

2.36. In 2017, the FEFTA was amended, *inter alia*, to expand the scope of a prior checking of unlisted stock transfers between foreign investors, and to introduce a provision that foreign investors investing in Japan without being registered may be subject to executive orders, including orders to

[50] ASEM is a forum for informal dialogue and cooperation; it comprises 30 European economies, 21 Asian economies, the European Union and the ASEAN Secretariat. ASEM. Viewed at: https://www.aseminfoboard.org.

[51] These contact points are: JETRO; Government of Japan; METI; Japan Fair Trade Commission; Financial Services Agency; Ministry of Land, Infrastructure and Transport; Ministry of Justice; Ministry of Education, Culture, Sports, Science and Technology; Ministry of Finance; Ministry of Environment; Ministry of Agriculture, Forestry and Fisheries; Reconstruction Agency; and local governments of Yokohama City and the Osaka prefecture. Cabinet Office, *Invest Japan*. Viewed at: http://www.invest-japan.go.jp/link/link/en_index.html.

[52] Invest Japan. Viewed at: http://www.invest-japan.go.jp/committee/about_council.pdf.

[53] For details of the composition of these entities, see Invest Japan. Viewed at: http://www.invest-japan.go.jp/committee/en_index.html.

[54] Invest Japan. Viewed at: http://www.invest-japan.go.jp/policy/investment_advisor_assignment_system/implementation_en.pdf.

[55] FEFTA (as amended in 2017). Viewed at: http://www.japaneselawtranslation.go.jp/law/detail/?id=3267&vm=04&re=01. Notification requirements on inward direct investment are set out in Chapter V.

[56] *Cabinet Order on Inward Direct Investment*. Viewed at: http://www.japaneselawtranslation.go.jp/law/detail/?re=02&dn=1&x=0&y=0&co=1&ia=03&yo=&gn=&sy=&ht=&no=&bu=&ta=&ky=order+on+inward+foreign+direct+investment&page=3; and http://www.japaneselawtranslation.go.jp/law/detail/?re=02&dn=1&x=0&y=0&co=1&ia=03&yo=&gn=&sy=&ht=&no=&bu=&ta=&ky=order+on+inward+foreign+direct+investment&page=4.

[57] Foreign Exchange Order (English translation). Viewed at: http://www.japaneselawtranslation.go.jp/law/detail/?ft=1&re=02&dn=1&co=01&ia=03&ja=04&x=72&y=12&ky=foreign+exchange+order&page=6.

sell their holding stocks; these measures were taken in order to protect Japan's essential security.[58] There have been no further amendments since 2017.

2.37. Under the 2012 Act for the Promotion of Japan as an Asian Business Centre, incentives are provided to encourage investment in establishing R&D and regional headquarters.[59] Personal income tax benefits are provided under the Act on Special Measures Concerning Taxation.[60] Other investment incentives are: assistance for fund raising by the Small and Medium Business Investment and Consultation Co. Ltd., applicable to SMEs (this also covers small and medium-sized stock companies with capital not less than JPY 300 million); acceleration of patent examinations; shortened investment procedures; and acceleration of the status of residency examinations.[61] As indicated by the authorities, an evaluation has not been undertaken on the effectiveness of these incentive schemes.

2.38. As set out in Article 55-5 of the FEFTA, inward FDI generally requires *ex post facto* reporting to the Minister of Finance and the minister in charge of the sector involved, by the 15th day of the month following the investment. The FEFTA and its implementing regulations set out prior notification and approval requirements for industries where it is considered that there could be "significant adverse effect on the smooth management of the national economy". These include: agriculture, forestry and fisheries, crude oil, leather and leather products, and air and maritime transport.[62] According to the authorities, there were 226 such prior notifications in FY2017 and 220 in FY2018. The FEFTA and its implementing regulations also set out prior notification and approval requirements in some other sectors, on the grounds of public order, public safety, and national security. These sectors include: aircraft, arms, explosives, nuclear power, electric utilities, gas utilities, water, heat generation, rail transport, passenger transport, telecommunications (accompanying certain network facilities), television and cable television, and broadcasting sectors.[63] Prior notifications may be filed within six months before the date of the investment, and the examination period for approval is about two weeks; in FY2017, there were 666 such prior notifications and, in FY2018, 683.

2.39. FDI restrictions exist in the following sectors: broadcasting; radio; and telecommunications (Table 2.6). No new FDI restrictions were introduced over the review period.

Table 2.6 FDI restrictions, 2019

Sector	Description of restriction	Legislative basis
Broadcasting	Basic broadcasting operations may, *inter alia*, not be provided by a person who does not have Japanese nationality; a foreign government or its representative; or a foreign corporation or organization.	Broadcasting Act Radio Act
Radio	Radio station licences may not be granted to: a person who does not have Japanese nationality; a foreign government or its representative; a foreign corporation or organization; a corporation or organization which is represented by any person listed in the preceding items; or one third or more officers which are those persons; or one third or more voting rights of which are made up of the aggregate of voting rights held by those persons. These FDI restrictions do not apply to: experimental radio stations; amateur radio stations; radio stations on board ships and aircraft; radio stations transmitting radio communications between	Radio Act

[58] METI, Promulgation of the Cabinet and Ministerial Orders and the Public Notices for the Enforcement of the Revised Foreign Exchange and Foreign Trade Act. Viewed at: https://www.meti.go.jp/english/press/2017/0714_003.html.

[59] Among the various incentives, a programme to reduce patent fees paid in relation to R&Dproject outcomes ended at the end of FY2018.

[60] *Act on Special Measures Concerning Taxation. Act No. 26 of 1957* (last amended by Act No. 23 of 2008). Viewed at: http://www.japaneselawtranslation.go.jp/law/detail/?id=3132&vm=&re=. As noted by the authorities, corporate income tax incentives under this Act were abolished in the FY2015 tax reform.

[61] METI, *Act for Promotion of Japan as an Asian Business Center*. Viewed at: https://www.meti.go.jp/english/policy/external_economy/investment/act_information.html, supplemented by information provided by the authorities.

[62] The Public Notice setting out requirements in this regard. Viewed at: http://www.japaneselawtranslation.go.jp/common/data/notice/142713_checked_2016-12-15-18-14-08.html.

[63] WTO document WT/TPR/S/276/Rev.1, 18 June 2013. The Public Notice setting out requirements in this regard was viewed at: http://www.japaneselawtranslation.go.jp/common/data/notice/143020.html.

Sector	Description of restriction	Legislative basis
	specific fixed points for embassies/consulates etc.; radio stations established for the purpose of communicating with mobile radio stations or receiving equipment for portable use; radio stations established to conduct telecommunications services; radio stations established for the purpose of controlling the position, etc. of an artificial satellite equipped with radio equipment of a radio station for the purpose of conducting telecommunications services.	
Telecommunications	Less than aggregate one third shares in Nippon Telegraph and Telephone Corporation may be directly held by the aggregate of (i) persons without Japanese nationality; (ii) a foreign government or its representatives; (iii) foreign juridical persons or entities; and (iv) juridical persons/entities whose voting rights are directly held by those persons/entities listed in (i) to (iii) and which exceed the prescribed ratio.	Act on Nippon Telegraph and Telephone Corporation

Source: Information provided by the authorities.

2.40. The Government's investment goals are to increase the inward FDI stock to JPY 35 trillion by 2020.[64] By end-2018, the inward FDI stock reached JPY 30.7 billion. Since its previous Review, the Council for Promotion of Foreign Direct Investment has continued to undertake initiatives to attract inward investment[65], through the 2016 Policy Package for Promoting Foreign Direct Investment into Japan to Make Japan a Global Hub.[66] Specific programmes were adopted. Firstly, the Support Program for Regional Foreign Direct Investment in Japan (Support Program) was adopted in May 2018. Under this Program, relevant ministries and agencies are to: help local governments formulate plans to attract foreign companies; provide support in matching foreign and local companies; advise local governments on the effective use of available measures to attract foreign companies; and advise foreign companies and local governments on regulations and administrative procedures.[67] This Program is designed to ensure FDI inflows, which are currently concentrated in Tokyo, have broader geographical reach. Secondly, the Program to Intensively Attract Foreign Direct Investment in Regional Japan was adopted in April 2019; this Program includes strengthening of the Support Program, and efforts to further improve Japan's business environment.[68] Other programmes aimed at increasing the FDI stock are the Basic Policy on Economic and Fiscal Management and Reform 2017, a Council on Economic and Fiscal Policy initiative decided by the Cabinet, the Japanese Revitalization Strategy 2016, and the Cabinet's 2019 Growth Strategy (Section 1).

2.41. Virtually all of Japan's RTAs in force contain investment provisions; in this regard, new investment commitments entered into force over the review period with CPTPP partners and the European Union (see above). As at July 2019, Japan had bilateral investment treaties (BITs) in force with 30 economies. New BITs entered into force with Uruguay, Saudi Arabia, Oman, Kenya, Israel and Iran in 2017, and with Armenia in 2019 (Box 2.1). BITs were also signed with Argentina, Armenia, Jordan, and the United Arab Emirates, but are not yet in force.[69] As at May 2019, Japan had 61 tax conventions in force, dealing with the elimination of double taxation, with 71 jurisdictions. Over the review period, Japan signed new such tax conventions with Latvia, Lithuania, Estonia, Iceland, Croatia, Colombia, Ecuador, and Argentina; and amended existing conventions with: Austria, the Russian Federation, Denmark and Spain.[70]

[64] This target was set out in the Japan Revitalization Strategy 2013, and reaffirmed in the Japan Revitalization Strategy 2016. MOFA, *Invest Japan*. Viewed at: https://www.mofa.go.jp/policy/economy/japan/invest/index.html.

[65] The Council for Promotion of Foreign Direct Investment was established in 2014. It comprises several ministers who are advised by representatives from JETRO, universities, research institutes, corporations, and city mayors.

[66] Invest Japan, *Policy Package for Promoting Foreign Direct Investment into Japan to Make Japan a Global Hub*. Viewed at: http://www.invest-japan.go.jp/documents/pdf/policy_package_en.pdf.

[67] Invest Japan, *Support Programme for Regional Foreign Direct Investment in Japan*. Viewed at: http://www.invest-japan.go.jp/committee/support_program_en.pdf.

[68] Invest Japan. Viewed at: http://www.invest-japan.go.jp.

[69] UNCTAD, *Investment Policy Hub*. Viewed at: https://investmentpolicyhub.unctad.org/IIA/CountryBits/105#iiaInnerMenu.

[70] Ministry of Finance, *Japan's Tax Convention Network.* Viewed at: https://www.mof.go.jp/english/tax_policy/tax_conventions/international_182.htm. This includes details of jurisdictions with which Japan has: (i) tax conventions (mainly for the elimination of double taxation and the

2.42. From a domestic perspective, Japan considers that there is a strong need for tax and investment-related treaties to support and protect its increasing levels of investment abroad, and to encourage investment into Japan. Guided by the Action Plan Aiming to Facilitate an Investment Environment Through Promoting the Conclusion of Investment-Related Treaties, formulated in 2016, the Government plans to accelerate the conclusion of investment-related treaties and the revision of existing ones; its target is to have in force investment-related treaties with 100 countries and regions by 2020. It is also considering inclusion of trade in services and e-commerce in these agreements, to reflect economic and social developments.[71]

Box 2.1 Investment framework

RTAs in force with investment provisions
EU-Japan EPA (investment liberalization provisions only); CPTPP; Japan-Mongolia EPA; Australia-Japan EPA; Japan-Peru EPA; India-Japan EPA; Japan-Switzerland EPA; Japan-Philippines EPA; Indonesia-Japan EPA; Brunei Darussalam-Japan EPA; Japan-Thailand EPA; Chile-Japan EPA; Japan-Malaysia EPA; Japan-Mexico EPA; and Japan-Singapore EPA
Other agreements in force with investment provisions
China-Japan-Republic of Korea Trilateral Investment Agreement
BITs in force
Armenia; Bangladesh; Cambodia; China; Colombia; Egypt; Hong Kong, China; Iran, Islamic Rep. of; Iraq; Israel; Kazakhstan; Kenya; Korea, Rep. of; Kuwait, State of; Lao People's Democratic Republic; Mozambique; Myanmar; Oman; Pakistan; Papua New Guinea; Peru; Russian Federation; Saudi Arabia, Kingdom of; Sri Lanka; Turkey; Ukraine; Uruguay; Uzbekistan; and Viet Nam
Membership of investment-related intergovernmental agreements
Multilateral Investment Guarantee Agency Convention; International Centre for Settlement of Investment Disputes Convention; and New York Convention; OECD Invisible Operations; OECD Capital Movements; and the Energy Charter Treaty

Source: UNCTAD, *Investment Policy Hub*. Viewed at: https://investmentpolicyhub.unctad.org/IIA/CountryOtherIias/105#iiaInnerMenu.

2.4.2 Business environment

2.43. Japan is ranked in 39th place out of 190 economies in the World Bank's 2019 Doing Business report; it scores well in the areas of resolving insolvency, getting electricity, dealing with construction permits, and registering a property. Its poorest rankings are for: starting a business, getting credit, and protecting minority investors.[72] It ranks in 5th place in the World Economic Forum's (WEF) 2018 Global Competitiveness report, an improvement on the previous year. Its strongest rankings are in the areas of health, digital infrastructure, and physical infrastructure. Its weakest rankings are for: institutions (related to low levels of social capital); corporate governance; and skills. The WEF report further notes that, while Japan is an innovation hub, it needs to develop the "softer" drivers of innovation, such as risk aversion, creativity and critical thinking.[73] While Japan is well-ranked in indices relating to perceptions of corruption[74], it has been urged to take stronger measures against supply-side corruption by Japanese companies in their foreign business activities.[75]

2.44. Key measures being implemented to improve the business environment relate to: introducing labour force reforms (Section 1, and below); improving corporate governance (Section 3.3); and

prevention of tax evasion and avoidance; (ii) tax information exchange agreements; and (iii) conventions on mutual administrative assistance in tax matters.

[71] METI, *Investment-related treaties*. Viewed at: https://www.meti.go.jp/english/report/data/wp2018/pdf/3-1-2.pdf.

[72] World Bank, *Doing Business 2019 – Training for Reform.* Viewed at: http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf.

[73] WEF*, Global Competitiveness Report 2018.* Viewed at: http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf.

[74] In Transparency International's 2018 Corruption Perceptions Index, Japan is ranked in 18th place out of 180 economies. Viewed at: https://www.transparency.org/cpi2018.

[75] OECD, *Japan must make fighting international bribery a priority*. Viewed at: http://www.oecd.org/daf/anti-bribery/japan-must-make-fighting-international-bribery-a-priority.htm.

lowering corporate tax (Section 3.3.1.1). Given that SMEs and micro enterprises account for around 99.7% of all companies and 70% of all employees in Japan[76], the Government continues to implement various policy measures to assist them, namely: financing support, such as loans from public financial institutions; measures to realize wage increases; and productivity-improvement assistance.[77] In 2017, a crisis-related guarantee scheme for SMEs was established, through revisions to the SME Credit Insurance Law, to provide an additional safety net to these companies and to promote management and productivity improvements.[78] The authorities indicated that efforts are also being made by the SME Agency Japan to help these companies deal with structural transformation challenges, such as ageing business owners, labour shortages, natural disaster prevention, and mitigation measures. In July 2019, the Act on the Strengthening of the Management of SMEs was enacted; this aims to strengthen SME management, and support the continuation of their business activities, particularly in light of the ageing of business owners. In order to help SMEs prepare for natural disasters, the Government established a plan approval system for specific measures SMEs should take before natural disasters, and strengthened the support systems of the Society of Commerce and Industry and the Chamber of Commerce and Industry. Additionally, to cope with ageing of business owners, the Government expanded coverage of special arrangements under the Civil Code in terms of a statutory reserved portion to include individuals, to effectively carry out the Tax System for Individual Business Succession, established in 2019. In 2019, an innovation initiative was set up by a government council to assist start-ups become globally competitive; it is aimed at doubling the number of innovative start-ups by 2024.[79]

2.45. With respect to labour force reforms, one element is to promote women's participation in the work force through measures such as increased childcare capacity, increased child care leave benefits, training and education programmes, and more flexible working conditions[80]; according to official sources, the number of women joining the workforce increased by around 2.9 million between 2012 and 2018, with Japan's women's labour force participation rate being 74% in 2017.[81] However, it seems that Japan has large scope to make improvements in areas such as women's economic empowerment, increasing the number of women in management positions, and reducing the significant gender pay gap.[82] As explained by the authorities, Japan has positioned women's empowerment at the centre of its economic growth strategy, and promoted comprehensive and diverse policies, including: enactment of the Women's Empowerment Act; work-style reform; expanded childcare facilities; increased childcare leave benefits; and promoting the participation of men in housework and childcare. Another element of labour reform is to attract experienced overseas professionals. Steps taken were the establishment of the Japanese Green Card for Highly-Skilled Foreign Professionals.[83] Skilled non-Japanese workers may apply for permanent residency after

[76] Latest data provided by the authorities (June 2016).
[77] WTO document WT/TPR/M/351/Add.1, 27 April 2017.
[78] METI, An Act to Amend the Small and Medium-Sized Enterprise Credit Insurance Act (Act No. 56 of 2017). Viewed at: https://www.meti.go.jp/press/2017/10/20171020001/20171020001.html.
[79] Nippon, *Japan to Pick Base Cities to Create Globally Competitive Startups*. Viewed at: https://www.nippon.com/en/news/yjj2019061101169/japan-to-pick-base-cities-to-create-globally-competitive-startups.html.
[80] The New Economic Policy Package sets out various of these initiatives. Additionally, in June 2018, a work reform bill was passed by the Diet, which limits overtime hours (except for white-collar workers) to address traditionally long working hours and associated work stress. It also provides for "equal pay for equal work", to address wage gaps between regular and non-regular employees and promote flexible working. Nikkei Asian Review, *Five things to know about Japan's work reform law*. Viewed at: https://asia.nikkei.com/Economy/Five-things-to-know-about-Japan-s-work-reform-law. Since the OECD reports that more women than men are engaged in non-regular employment, this measure may benefit them more. OCED, *Japan Economic Snapshot*. Viewed at: http://www.oecd.org/economy/surveys/japan-economic-snapshot/. Government of Japan, *Women's Empowerment.* Viewed at: https://www.japan.go.jp/diversity/women.
[81] Government of Japan, *Women's Empowerment*. Viewed at: https://www.japan.go.jp/diversity/women/.
[82] As reported by the OECD, the gender pay gap in Japan is the third highest among OECD Members. OECD, *Japan Economic Snapshot*. Viewed at: http://www.oecd.org/economy/surveys/japan-economic-snapshot/. In the WEF *Global Gender Gap Report 2017*, Japan was ranked in 114th place out of 144 economies. Its rankings for the component pillars were: 114th place for economic participation and opportunity; 74th place for educational attainment; 1st place for health and survival; and 123rd place for political empowerment. Viewed at: http://www3.weforum.org/docs/WEF_GGGR_2017.pdf. As reported by the authorities, women in management positions in the private sector approached 10% by in 2018. Government of Japan, *Women's Empowerment*. Viewed at: https://www.japan.go.jp/diversity/women.
[83] METI, *Working in Japan – Open for Professionals, March 2018*. Viewed at: https://www.meti.go.jp/english/policy/external_economy/professionals/pdf/recruitment201803.pdf.

three years (one year for professionals with particularly high skills), rather than five, as previously. The system is operational since April 2017. Furthermore, in 2018, a new residency status was approved for foreigners with skills to work in industries where manpower is lacking, including construction, agriculture, and long-term care.[84] As at end-June 2019, 20 foreign nationals had been admitted as residents under the specified skills workers programme; as indicated by the authorities, while there are no targets set, Japan expects to admit around 345,000 such workers over the next five years. As at June 2018, the number of recognized Green Cards was 815.

2.46. As reported in the previous Review, regulatory reform pilot schemes were launched under the National Strategic Special Zone initiative, established in 2013. Under this initiative, regulatory reforms proposed by the private sector, and agreed with local and central governments, are tested within a "sandbox" environment. The idea is that, if pilot reforms are successful, they will be implemented country-wide. Ten zones were designated, each of which is focused on encouraging specific activities in certain spheres (Box 2.2), through regulatory reform.[85] As at end-September 2019, 335 projects had been undertaken. Examples of successful achievements in the Zones include: an automated bus driving test conducted on a public road in Semboku City, and acceptance of non-Japanese workers who have certain skills to help turn agriculture into a growth industry in Kyoto Prefecture, Niigata City, Okinawa Prefecture and Aichi Prefecture.

Box 2.2 National Strategic Special Zones

Tokyo Zone	International business and innovation hub, and a multicultural city, and for the exhibition of near-future technologies
Kansai Zone	Innovation in medical care, and entrepreneurial support
Niigata City Zone	Agricultural reform in large-scale farming
Yabu City Zone	Agricultural reform in hilly and mountainous areas
Fukuoka City and Kitakyushu City Zone	Employment system reform to promote business creation, and actions to address the declining and ageing population
Okinawa Prefecture Zone	International tourism
Senboku City Zone	Reform in agriculture and forestry, and for international exchange in the medical field
Sendai City Zone	Promotion of active social participation of women and start-ups
Aichi Prefecture Zone	General reform of education, employment, and agriculture, and fostering of industry leaders
Hiroshima Prefecture and Imabari City Zone	International exchange and the utilization of big data

Source: WTO document WT/TPR/S/351/Rev.1, 20 June 2017.

[84] MOFA, *A New Status of Residence – "Specified Skilled Worker" – has been created*. Viewed at: https://www.mofa.go.jp/files/000459527.pdf; and Ministry of Justice, *Efforts for Acceptance of Foreign Nations and Harmonious Coexistence*. Viewed at: http://www.moj.go.jp/nyuukokukanri/kouhou/nyuukokukanri01_00127.html.

[85] Government of Japan, *Abenomics*. Viewed at: https://www.japan.go.jp/abenomics/_userdata/abenomics/pdf/1901_abenomics.pdf; and WTO document WT/TPR/S/351/Rev.1, 20 June 2017.

3 TRADE POLICIES AND PRACTICES BY MEASURE

3.1 Measures Directly Affecting Imports

3.1.1 Customs procedures, valuation, and requirements

3.1. Japan Customs, under the Ministry of Finance, continues to administer and enforce customs legislation. Customs and tariff policies are formulated by the Customs and Tariff Bureau of the Ministry. Japan has nine regional Customs offices.[1]

3.2. The Customs Act remains the principal piece of legislation covering customs procedures and documentation.[2] Over the review period, amendments to the Customs Act in 2017 and 2018, *inter alia*, integrated a new principle regarding reporting on matters related to cargoes in electromagnetic records, and strengthened penalties for failure to obtain export and import permissions when required. Other regulations governing customs procedures are: Cabinet Order No. 150 of 1954 (Order for Enforcement of the Customs Act) and the Ministry of Finance Ordinance for Enforcement of the Customs Act (No. 55 of 1966).

3.3. Japan deposited its instrument of acceptance of the Trade Facilitation Agreement (TFA) with the WTO in 2015. In the same year, it set up a national committee on trade facilitation (the Liaison Conference on Trade Facilitation), which is a forum for information-sharing, at the director-general level, among the relevant ministries and agencies. Japan maintains various enquiry points, as stipulated in Article 1.3 of the TFA.[3] Over the review period, Japan notified its assistance and support for capacity building for the years 2015, 2016 and 2017[4]; it also submitted a notification on publication and availability of information, on formalities connected with importation, exportation and transit, and on customs cooperation.[5]

3.4. There are no registration requirements for importers. A customs declaration is needed for importation, and must be accompanied by an invoice, bill of lading, insurance certificate, freight account, and packing list. Additional documents may be necessary, depending on the type of goods.[6] There are no fees required by Customs for an import declaration, although Customs charges fees for certain services, such as granting permits for goods examination (both imports and exports) outside of designated areas.[7] The authorities confirmed that Japan has no preshipment inspection (PSI) requirements in place.

3.5. Use of customs brokers is not mandatory. Online processing of procedures with customs and other related agencies is undertaken through the Nippon Automated Cargo and Port Consolidated System (NACCS), Japan's single electronic window. The NACCS Center collects usage fees. In 2018, around 99% of import/export declarations were processed through this System. According to the authorities, no consideration is currently being given to making submission of customs declarations through the NACCS compulsory. Importers can pay the assessed customs duty electronically through the NACCS, which is connected to a multi-payment network, which links teller institutions (government authorities) with private banks. The NACCS also provides various online logistics

[1] Hakodate, Kobe, Moji, Nagasaki, Nagoya, Okinawa, Osaka, Tokyo and Yokohama.

[2] *Customs Act*. Viewed at: http://www.kanzei.or.jp/kanzei_law/329AC0000000061.en.html#c1. Amendments to the Customs Act were viewed (in Japanese) at: http://hourei.ndl.go.jp/SearchSys/viewEnkaku.do?i=nH9Wu%2Ffb7G0ZmTuWwPe%2FQA%3D%3D.

[3] These enquiry points are listed in the Secretariat Report for Japan's previous Review. WTO document WT/TPR/S/351/Rev.1, 20 June 2017.

[4] Notification under Articles 22.1 and 22.2 of the TFA. WTO documents G/TFA/N/JPN/3, 10 September 2018; G/TFA/N/JPN/1/Rev.1, 27 June 2017; and G/TFA/N/JPN/4, 7 March 2019.

[5] Notification under Articles 1.4, 10.4.3, 10.6.2 and 12.2.2. WTO documents G/TFA/N/JPN/2, 10 August 2017; and G/TFA/N/JPN/2/Corr.1, 19 December 2018.

[6] These additional documents may include certificates of origin; statement on reduction of, or exemption from, customs duty and excise tax (when such reduction or exemption is applicable to the goods); and documents required under Japan's generalized system of preferences.

[7] Japan Customs' rates for the fees and permits it issues were viewed at: http://www.customs.go.jp/english/exp-imp/customsfee.htm.

services to the private sector, the scope of which were expanded through the programme development and modification of the NACCS in 2017.[8]

3.6. Importers may submit documents to Customs before their cargo's arrival in Japan, so that they can be notified in advance as to whether a customs inspection of the cargo will be required. A pre-arrival declaration form must be submitted to the customs office that controls the customs bonded (*hozei)* area where the cargo is expected to be brought in (although this requirement does now not apply to Authorized Economic Operators (AEOs) (see below)). Inspection of a shipment under pre-arrival is conducted before the cargo is transferred into a *hozei* area.

3.7. An AEO system remains in place which, *inter alia,* simplifies customs procedures for AEOs[9]; AEO importers and customs brokers may submit import and duty/tax payment declarations separately, allowing them to submit import declarations in advance of cargo arrivals and to have goods released before submitting the duty/tax payment declaration. A full description of the AEO scheme (including legal and institutional framework, eligibility criteria, and mutual recognition agreements (MRAs) with trading partners) is contained in the previous Review.[10] Since 2017, AEOs have been granted the flexibility to lodge their import/export declarations at any customs office, not just the one where the imported goods are stored. The purpose of this change is to enable greater efficiencies and cost reductions.[11] As at July 2019, there were 701 AEOs. In 2018, they accounted for about 13% of imports and about 53% of exports on a trade value basis. AEO customs brokers deal with about 80% of imports and around 85% of exports. Over the review period, Customs signed MRAs for AEO programmes with China (October 2018), and Australia (June 2019). Additionally, an MRA with Chinese Taipei is based on a private-sector arrangement. Consultations on MRAs regarding AEO schemes are being held with Switzerland and the United Kingdom. Under the MRAs, Japan Customs takes into account the status of the members of the other AEO programmes when conducting its own risk assessment.

3.8. Imports are held at *hozei* areas at the ports of entry. Once the necessary inspection takes place, and customs duties and taxes are paid, an electronic "Notice of Import Permit" is issued by Customs.

3.9. As indicated by the authorities, Japan Customs undertook its most recent time release study in March 2018. Customs clearance times (measured from the time when traders submit their declarations to Customs to when Customs permits the importation) were: 2.1 hours for sea cargo and 0.3 hours for air cargo. The World Bank's 2019 Doing Business report ranks Japan in 56th place out of 190 economies for ease of trading across borders; it indicates that the time to import averages 3.4 hours for documentary compliance and 39.6 hours for border compliance. The cost to import is reported as USD 107 for documentary compliance and USD 299.2 for border compliance.[12]

3.10. Data is not publicly released on the percentage of imported goods which are subject to the various types of inspection by Customs (i.e. physical inspection, or documentary inspection), nor is information available on the basis for which goods are physically inspected. Japan also uses post-clearance audit (PCA); over the period 1 July 2017 to 30 June 2018, Japan Customs conducted PCA for 4,266 importers.

[8] The NACCS is managed and run by a private company, the Nippon Automated Cargo and Port Consolidated System, Inc. (NACCS Center). The NACCS Center undertakes (i) online processing of procedures with customs and other relevant authorities; and (ii) private-sector services for arriving/departing ships and aircraft or import/export cargo. In 2010, the Sea-NACCS and the Air-NACCS were integrated into one integrated NACCS, along with the Port EDI System (integrated in 2008), and the METI's Japan Electronic Open Network Trade Control System (integrated in 2010). Its main features are: a system to complete administrative procedures; a database system for cargo and transport management; and a communication system among users. NACCS. Viewed at: https://www.naccs.jp; and UNESCAP, *Towards a Single Window Trading Environment – Japan's Development of a Single Window – Case of NACCS*. Viewed at: https://www.unescap.org/sites/default/files/brief6.pdf.

[9] Types of operators eligible to be AEOs are: importers, exporters, manufacturers, warehouse operators, customs brokers, and logistics operators.

[10] WTO document WT/TPR/S/351/Rev.1, 20 June 2017.

[11] The regulation implementing this change is Cabinet Order No. 133 of 2017. Viewed at: http://www.customs.go.jp/kaisei/seirei/H29seirei133/yoko.pdf.

[12] World Bank, *Doing Business 2019*. Viewed at: http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf.

3.11. As mentioned in the previous Review, advance rulings may be requested by importers or other interested parties on: tariff classification, customs valuation, the origin of goods, and duty relief/exemption for goods due for import. In principle, advance rulings are issued within 90 days of request for customs valuation, and within 30 days for other requests. Advance rulings are binding on Customs.

3.12. Complaints against Customs' decisions may be made to the Director-General of Customs or directly to the Minister of Finance within three months of the decision. Further appeals may be lodged with the Minister of Finance within one month of the decision by the Director-General of Customs. A lawsuit may be filed against the Minister's decision within six months of such a decision. Since 1 January 2017, 99 complaints, eight appeals and two lawsuits against Customs decisions were filed; of these, 56 complaints and two appeals were decided in favour of the complainant.

3.13. Japan has signed agreements and arrangements for the exchange of customs information with 35 countries and regions.[13] It became a signatory to the WCO's Revised Kyoto Convention in 2001, and makes use of international standards in customs and trade facilitation.

3.1.2 Customs valuation

3.14. Japan's rules on customs valuation are contained in the Customs Tariff Act[14]; they were not changed over the review period. Customs valuation is determined on the basis of the transaction value of the goods (c.i.f. value); should it not be possible to use this method, other methods used (in order) are: transaction value of identical or similar goods; computed value based on the domestic selling prices or the production costs of those goods; and values determined by other methods.[15] The authorities noted that data is not available on Japan's use of the various different means of determining customs value.

3.1.3 Rules of origin

3.15. Japan notified the WTO that is has non-preferential rules of origin (ROOs)[16]; these are to determine, *inter alia*, whether to apply most favoured nation (MFN) rates (as opposed to general rates (Section 3.1.4) to establish the country of origin for some trade remedy measures and import trade statistics. Non-preferential ROOs are detailed in Article 4-2 of the Cabinet Order for Enforcement of the Customs Law, and Articles 1-5 and 1-6 of the Ordinance for Enforcement of the Customs Law. MFN tariff rates are applicable to imports from eligible countries, where the country of origin is defined as the country in which the goods concerned have been wholly obtained or have undergone substantial transformation (change of tariff classification at the Harmonized System (HS) four-digit level).

3.16. Japan also applies preferential rules of origin under the Generalized System of Preferences (GSP) and its various RTAs (Section 2.3 and Section 3.1.4). To benefit from preferential duties, certificates of origin need to be provided by authorized institutions in the exporting country or by approved exporters (in the case of some RTAs). In order to prove the origin of the product being imported, it generally has to have been "wholly obtained" or "substantially transformed" (e.g. change of tariff classification at the HS four-digit level or 40% of value-added) in the exporting country. For goods not wholly obtained, specific criteria based on change of tariff classification rules, processing rules, and value-added rules are applied, on a product-by-product basis.

[13] Australia; Austria; Belgium; Brazil; Brunei Darussalam; Canada; Chile; China; Chinese Taipei; European Union; France; Germany; Hong Kong, China; India; Indonesia; Italy; Korea, Republic of; Macao, China; Malaysia; Mexico; Mongolia; Netherlands; New Zealand; Norway; Peru; Philippines; Russian Federation; Singapore; South Africa; Spain; Switzerland; Thailand; United Kingdom; United States; and Viet Nam. These agreements include customs cooperation provisions in EPAs with 12 countries and regions, and in the CPTPP.

[14] Customs Tariff Act. Viewed at: http://www.kanzei.or.jp/kanzei_law/143AC0000000054.en.html#a9_2.

[15] Japan Customs, *Rules of Origin*. Viewed at: http://www.customs.go.jp/roo/english/index.htm.

[16] WTO documents G/RO/N/1, 9 May 1995; and G/RO/N/1/Add.1, 22 June 1995.

3.17. Japan Customs maintains a webpage, in English, on its ROO framework (both preferential and non-preferential), which includes, *inter alia*, contact points, legal texts and a facility for searching for product-specific ROOs.[17]

3.1.4 Tariffs

3.18. The main laws governing the setting of tariffs are the Customs Tariff Act[18] (which, *inter alia,* provides for customs duty rates through the appended Tariff Schedule, customs duty reductions and exemptions, and the application of tariff rate quotas) and the Temporary Tariff Measures Act[19] (which provides for temporary exemptions to the Customs Act and the Customs Tariff Act to allow for customs duty adjustments, if needed, for the sound development of the national economy). Over the review period, the Customs Tariff Act was amended several times, *inter alia*, to extend the effective periods of temporary rates of customs duty and the related exemption system; review customs duties on individual items; extend special tariff measures in the Okinawa prefecture[20]; and apply duty-free rates to certain products (as a result of the revision of the preferential tariff system.[21]

3.19. In FY2019, customs duties amounted to 1.65% of central government tax revenue (Table 3.10).

3.1.4.1 MFN applied tariff

3.20. Since 2017, Japan has eliminated tariffs on: *p*-nitrochlorobenzene, *m*-aramid, synthetic filament tow, certain toys and sanitary articles (effective 1 April 2017)[22]; naphthols and their salts, vinylene carbonate, fluoroethylene carbonate, ethyl methyl carbonate, propylene carbonate and diethyl carbonate, hexamethylenediamine and its salts, crystal violet lactone, bio-polyethylene, and polytrimethylen terephtalate (effective 1 April 2019).[23] Additionally, import tariffs on seven lines at the six-digit level were reduced under the Expansion of the Information Technology Agreement.[24]

3.21. The Japanese tariff schedule has been based, since 2017, on the HS 2017, and contains 110 more tariff lines than its HS12 version. It has three distinct sets of rates: statutory rates (including both general and temporary rates); WTO bound rates; and preferential rates (under the GSP and RTAs). In the case of statutory rates, the "temporary" rate, which is reviewed annually, is normally used instead of the higher general rate; the lower of the statutory and WTO bound rates is applied to WTO Members on an MFN basis, except when preferential rates are applied. Where the temporary, general or preferential rate is above the WTO bound rate, the latter applies to WTO Members. As indicated by the authorities, general rates are set with a long-term perspective, based upon, *inter alia*, the conditions of domestic industries. Temporary rates are applicable only for a certain period of time, in order to modify general rates to meet policy needs or for other reasons.

3.22. The structure of Japan's MFN applied tariff remains complex, with a total of 272 tariff rates (same as in FY2016); there are 136 different *ad valorem* rates, 75 different specific rates, 29 different alternate rates, and 24 different compound rates, as well as 8 different other types of duty (6 differential duties and 4 sliding duties). In FY2019, Japan's tariff schedule comprised 9,181 lines, excluding in-quota rates (compared to 9,071 in FY2016) at the HS nine-digit level (Table 3.1).[25] Of all tariff lines, 92.9% involve *ad valorem* rates (including duty-free lines, which represent 40.5% of all lines). The remaining 7.1% (i.e. 648 lines) are non-*ad valorem* (Chart 3.1).

[17] Japan Customs, *Rules of Origin*. Viewed at: http://www.customs.go.jp/roo/english/index.htm.
[18] Custom Tariff Act (Act No. 54 of 1910), as amended. Viewed at: http://www.kanzei.or.jp/kanzei_law/143AC0000000054.en.html.
[19] Temporary Tariff Measures Act. Viewed at: http://www.kanzei.or.jp/kanzei_law/335AC0000000036.en.html#a1.
[20] The application period of the "Selective Taxation" system was extended for two years, and the application period of the "Specified Duty-Free Shop" system was extended for three years.
[21] Japan Customs, Customs Tariff Act revision (2/2017); Customs Tariff Act revision (2/2018); and Customs Tariff Act revision and Temporary Tariff Measures Act revision (2/2019). Viewed at: http://www.customs.go.jp/kaisei/horitsu.htm.
[22] HS 2904.99; 3908.90; 5501.10; 9503.00; 9619.00.
[23] HS 2907.15; 2920.90; 2921.22; 2932.20; 3901.10, 3901.20, 3901.40, 3901.90; 3907.99.
[24] HS 3215.11; 3215.19; 3506.91; 3907.99; 3506.91; 3923.10; 5911.90.
[25] Excluding in-quota lines.

Table 3.1 Structure of MFN tariffs FY2016 and FY2019

(%, unless otherwise indicated)

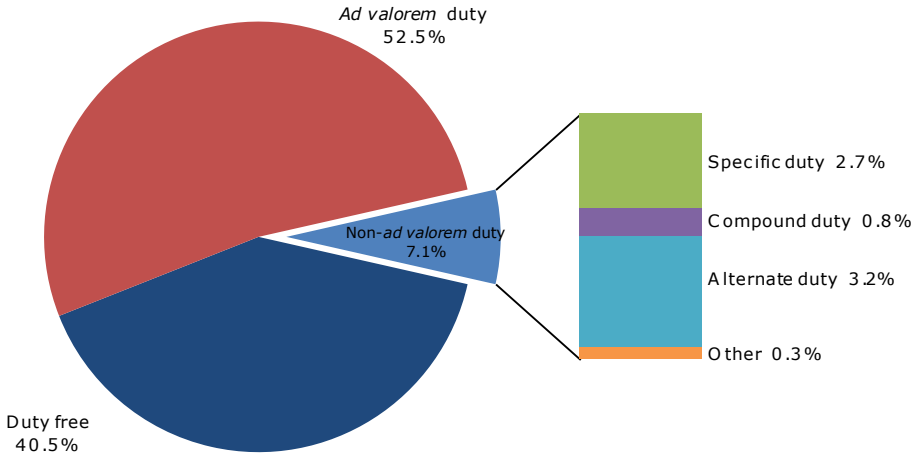
	MFN applied		Final
	FY2016	FY2019	bound[a]
Bound tariff lines (% of all tariff lines)	98.2	98.1	98.1
Simple average rate	6.1	6.3	6.4
WTO agricultural products	16.3	17.9	18.3
WTO non-agricultural products	3.6	3.5	3.5
HS 01-24	14.5	15.7	16.2
HS 25-97	3.5	3.3	3.4
Duty-free tariff lines (% of all tariff lines)	40.1	40.5	38.2
Simple average rate of dutiable lines only	10.2	10.6	10.6
Tariff quotas (% of all tariff lines)	1.7	2.0	2.0
Non-*ad valorem* tariffs (% of all tariff lines)	6.8	7.1	6.6
Non-*ad valorem* tariffs with no *ad valorem* equivalents (AVEs) (% of all tariff lines)	1.6	1.7	1.6
Domestic tariff "peaks" (% of all tariff lines)[b]	6.7	6.9	6.7
International tariff "peaks" (% of all tariff lines)[c]	7.6	7.9	8.0
Standard deviation	16.7	18.0	18.3
Nuisance applied rates (% of all tariff lines)[d]	1.5	1.6	1.5
Number of lines	9,071	9,181	9,006
Ad valorem rates	8,452	8,533	8,403
Duty-free lines	3,641	3,717	3,504
Non-*ad valorem* rates	619	648	603
Specific	242	247	240
Compound	57	75	76
Alternate	288	295	287
Other	32	31	0

a Final bound rates are based on the FY2019 tariff schedule. Calculations are based on 9,006 bound rates (including 19 partially-bound rates). Excluding 175 unbound rates.
b Domestic tariff peaks are defined as those exceeding three times the overall simple average applied rate.
c International tariff peaks are defined as those exceeding 15%.
d Nuisance rates are those greater than zero, but less than or equal to 2%.

Note: All tariff calculations exclude in-quota lines. Including AVEs, as available, provided by the authorities. In case of unavailability, the *ad valorem* part is used for compound and alternate rates. FY2016 and FY2019 are based on HS12 and HS17 nomenclature, respectively.

Source: WTO calculations, based on data provided by the authorities; and Japan Customs online information. Viewed at: https://www.customs.go.jp/english/tariff/.

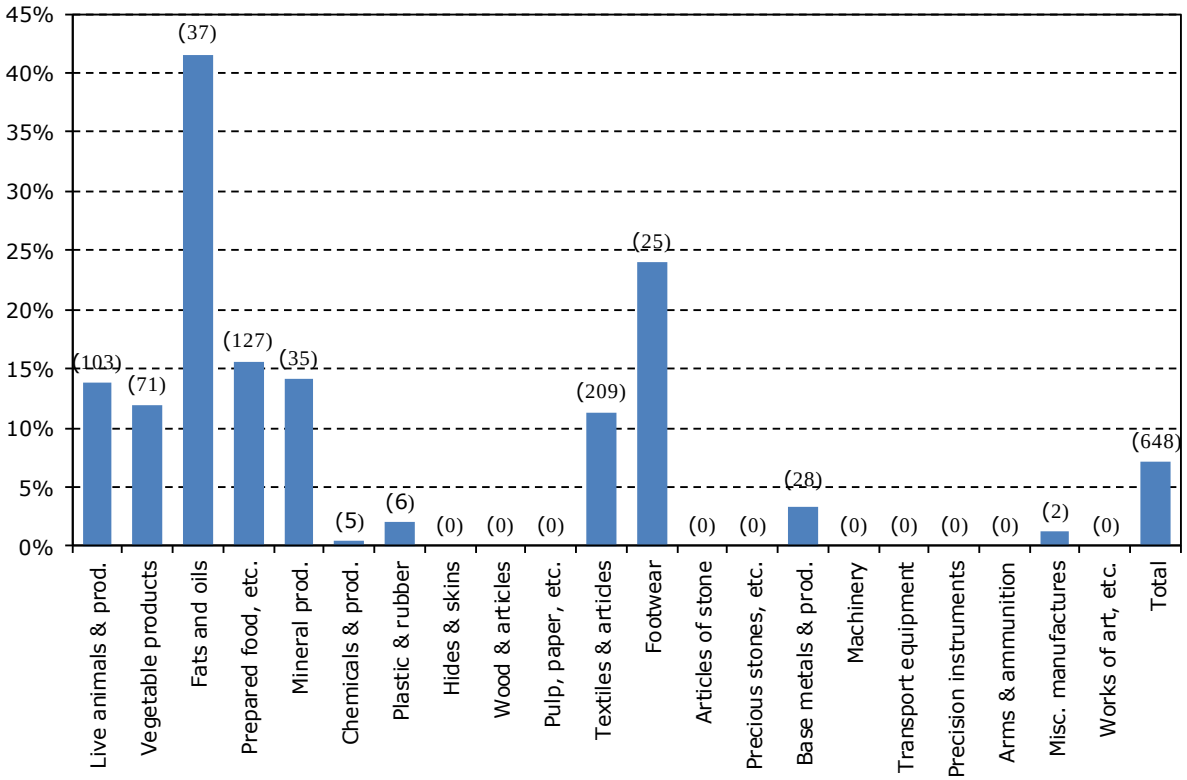
Chart 3.1 Tariff distribution by type of duty, FY2019



Source: WTO Secretariat calculations, based on Japan Customs online information. Viewed at: https://www.customs.go.jp/english/tariff/.

3.23. The non-*ad valorem* rates apply mainly to fats and oils, followed by footwear, prepared foods, mineral products, live animals and animal products, vegetables, and textiles and clothing (Chart 3.2).

Chart 3.2 Share of non-*ad valorem* duties, by HS section, FY2019



Note: Each bar depicts the percentage of tariff lines within each HS section that carry non-*ad valorem* duties; the figures in parentheses show the corresponding number of lines. In-quota rates are not included.

Source: WTO Secretariat estimates, based on Japan Customs online information. Viewed at: https://www.customs.go.jp/english/tariff/.

3.24. In FY2019, Japan's overall simple average applied MFN tariff rate was 6.3% (up from 6.1% in FY2016). This was mainly due to higher *ad valorem* equivalents (AVEs) and, to a much lesser extent, because of a HS nomenclature change. Import duties on agricultural products are higher than duties on non-agricultural products: the simple average for agriculture (WTO definition) is 17.9% (16.3% in FY2016), compared with 3.5% for non-agricultural products (3.6% in FY2016) (Table 3.2). The authorities provided data for 490 out of 648 AVEs based on import data as at 26 April 2019.[26] Consequently, the tariff analysis is based on 99.2% of the 9,181 tariff lines. The simple average for all the AVEs supplied is 37.3%, higher than at the time of Japan's previous Review (when it was 32.7%, based on 2014 import data). The highest rates, which are out-of-quota AVE rates, are 499.7% for certain broad and horse beans peas, followed by 389.8% for pegin beans, and for certain other beans. All the 100 highest tariffs had non-*ad valorem* rates.

[26] For 54 of the 295 alternate rates, and for 27 of the 75 compound rates, no AVEs were provided (the *ad valorem* parts were used). For 65 of the 247 specific rates and for 12 of the 31 "other" rates, no AVEs were provided.

Table 3.2 Tariff summary, FY2019

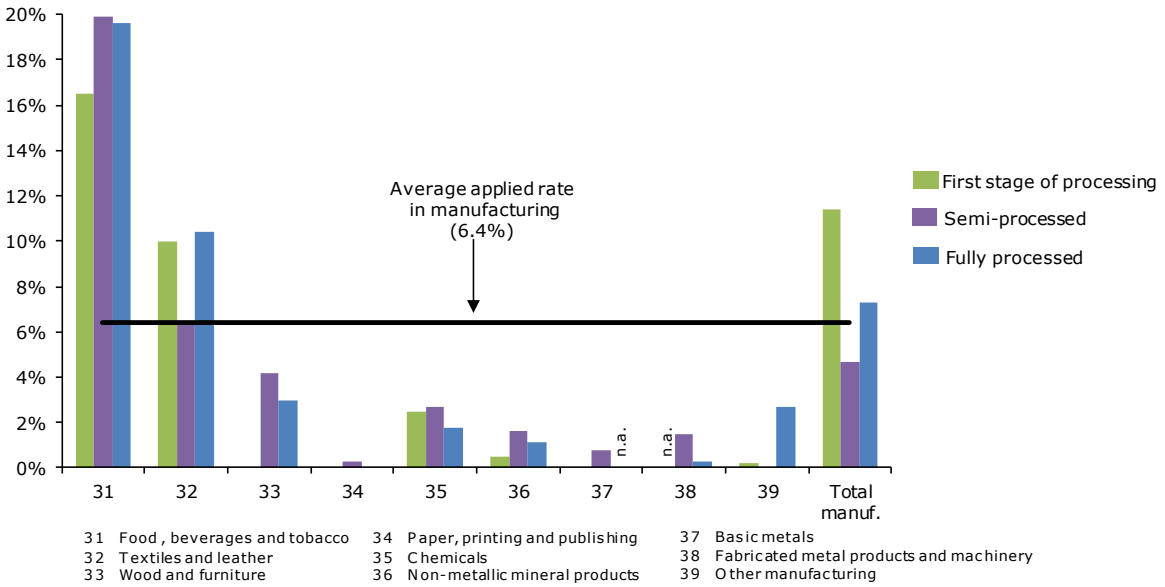
	Number of lines	Average (%)	Range (%)	Standard deviation	Duty free (%)	Non-*ad valorem* rates (%)
Total	**9,181**	**6.3**	**0-499.7**	**18.0**	**40.5**	**7.1**
HS 01-24	2,241	15.7	0-499.7	32.7	17.7	15.1
HS 25-97	6,940	3.3	0-219.4	7.2	47.8	4.5
By WTO category						
WTO agricultural products	1,836	17.9	0-499.7	36.2	24.5	18.8
Animals and products thereof	230	10.6	0-72.4	14.0	33.5	17.8
Dairy products	82	74.9	5-298.2	65.2	0.0	76.8
Fruit, vegetables, and plants	509	14.2	0-499.7	40.8	14.9	2.9
Coffee and tea	69	19.3	0-108.1	14.5	10.1	8.7
Cereals and preparations	343	27.0	0-251.3	36.5	9.6	29.2
Oil seeds, fats, oil and their products	130	5.2	0-267.2	23.8	41.5	30.8
Sugars and confectionary	49	37.0	0-166.2	34.2	6.1	59.2
Beverages, spirits and tobacco	146	17.9	0-70.4	12.9	17.1	25.3
Cotton	5	0.0	0-0	0.0	100.0	0.0
Other agricultural products, n.e.s.	273	5.2	0-279.2	21.3	61.9	5.1
WTO non-agricultural products	7,345	3.5	0-219.4	6.7	44.5	4.1
Fish and fishery products	528	6.1	0-15	3.6	4.7	0.2
Minerals and metals	1,253	0.9	0-10	1.6	72.2	2.4
Chemicals and photographic supplies	1,245	2.4	0-6.5	1.8	31.4	0.6
Wood, pulp, paper and furniture	508	1.9	0-10	2.7	63.8	0.0
Textiles	1,468	5.5	0-25	2.5	4.6	13.9
Clothing	400	9.0	0-13.4	2.1	1.0	0.0
Leather, rubber, footwear and travel goods	308	14.7	0-219.4	26.1	37.3	8.1
Non-electric machinery	607	0.0	0-0	0.0	100.0	0.0
Electric machinery	315	0.1	0-4.8	0.6	97.8	0.0
Transport equipment	151	0.0	0-0	0.0	100.0	0.0
Non-agricultural products, n.e.s.	472	1.3	0-8.4	2.3	72.5	0.4
Petroleum	90	1.6	0-7.9	1.9	32.2	36.7
By ISIC sector						
ISIC 1 - Agriculture, hunting and fishing	686	5.5	0-279.2	18.0	45.5	5.0
ISIC 2 - Mining	109	0.1	0-4.1	0.5	96.3	0.9
ISIC 3 - Manufacturing	8,386	6.4	0-499.7	18.2	39.4	7.3
Manufacturing, excluding food processing	6,731	3.4	0-219.4	7.3	46.4	4.6
By stage of processing						
First stage of processing	1,200	7.2	0-499.7	32.4	49.9	4.8
Semi-processed products	3,494	4.7	0-166.2	7.8	27.3	8.3
Fully processed products	4,487	7.3	0-298.2	18.3	48.2	6.7
By HS section						
01 Live animals and products	741	14.1	0-298.2	31.7	16.1	13.9
02 Vegetable products	596	15.8	0-499.7	47.9	30.7	11.9
03 Fats and oils	89	4.4	0-29.8	4.6	24.7	41.6
04 Prepared food, beverages and tobacco	815	18.3	0-201.3	18.6	9.0	15.6
05 Mineral products	249	0.7	0-7.9	1.4	67.5	14.1
06 Chemicals and products thereof	1,133	2.3	0-23.5	2.2	36.3	0.4
07 Plastics, rubber, and articles thereof	297	2.4	0-6.5	1.9	35.4	2.0
08 Raw hides and skins, leather, and its products	193	10.5	0-30	10.8	33.7	0.0
09 Wood and articles of wood	322	3.2	0-10	2.9	37.6	0.0
10 Pulp of wood, paper and paperboard	167	0.0	0-0	0.0	100.0	0.0
11 Textiles and textile articles	1,851	6.4	0-97.9	5.3	4.6	11.3
12 Footwear, headgear, etc.	104	27.3	0-219.4	39.3	4.8	24.0
13 Articles of stone, plaster, cement	164	1.2	0-8	1.7	60.4	0.0
14 Precious stones and metals, pearls	75	1.4	0-10	2.3	70.7	0.0
15 Base metals and articles thereof	846	0.9	0-7.5	1.6	72.0	3.3
16 Machinery, electrical equipment, etc.	924	0.0	0-4.8	0.3	99.2	0.0
17 Transport equipment	162	0.1	0-8.4	0.7	99.4	0.0
18 Precision equipment	258	0.2	0-16	1.5	96.5	0.0
19 Arms and ammunition	22	6.9	5.4-8.4	1.5	0.0	0.0
20 Miscellaneous manufactured articles	166	1.7	0-6.6	2.1	58.4	1.2
21 Works of art, etc.	7	0.0	0-0	0.0	100.0	0.0

Note: Excluding in-quota lines and including AVEs, as available, provided by the authorities. In case of unavailability, the *ad valorem* part is used for compound and alternate rates.

Source: WTO Secretariat calculations, based on data provided by the authorities; and Japan Customs online information. Viewed at: https://www.customs.go.jp/english/tariff/.

3.25. Overall tariff escalation is highest for the first stage of processing, and lowest for semi-processed products. However, this trend is not always reflected at the product level. For example, for food, beverages and tobacco, the semi-processed stage attracts the highest average tariffs (Chart 3.3).

Chart 3.3 Tariff escalation by 2-digit ISIC industry, FY2019



n.a. Not applicable.

Note: Calculations exclude in-quota rates and include AVEs, as available. In case of unavailability, the *ad valorem* part is used for compound and alternate rates.

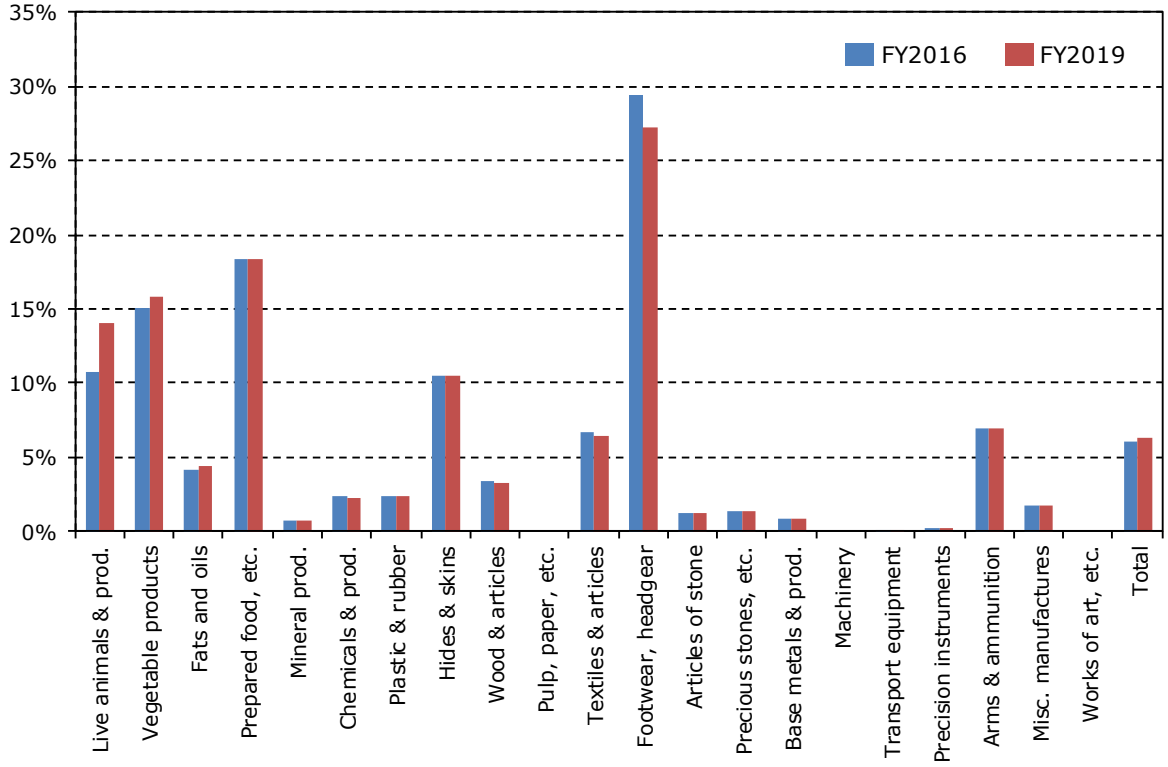
Source: WTO Secretariat calculations, based on data provided by the authorities; and Japan Customs online information. Viewed at: https://www.customs.go.jp/english/tariff/.

3.26. Simple average applied MFN tariffs are relatively high for footwear and headgear, prepared foods, vegetables, live animals, hides and skins, arms and ammunition, and textiles and clothing (Chart 3.4).

3.27. In FY2019, 181 tariff lines (127 agricultural tariff lines (WTO definition) and 54 non-agriculture tariff lines were subject to MFN tariff rates quotas, of which 11 are subject to state-trading operations[27] (Section 3.3.3). The out-of-quota rates for 38 tariff lines are *ad valorem,* while those for 143 tariff lines are non-*ad valorem*. The average rates differ considerably: in-quota rates average 18.4%, while out-of-quota rates average 81.7%. The quota allocation method and process are described in Section 4.1.

[27] In FY2016, there were 158 tariff lines with out-of-quota tariff rates. The increase is explained by the splitting of tariff lines under the HS subheading 0404 (whey).

Chart 3.4 Simple average applied MFN tariff rates, by HS section, FY2016 and FY2019



Note: Excluding in-quota rates. Including *AVEs* provided by the authorities, as available. The *ad valorem* part of compound and alternate rates are used where AVEs are not available.

Source: WTO Secretariat calculations, based on data provided by the authorities; and Japan Customs online information. Viewed at: https://www.customs.go.jp/english/tariff/.

3.28. Seasonal tariffs, which differ from MFN rates, apply to six tariff lines, relating to plantains, bananas, oranges, and grapes.[28]

3.1.4.2 Bound tariff

3.29. Japan has bound 91.8% of its tariff lines (including partially-bound lines). 175 lines are unbound[29]; these relate mainly to fisheries (fish, crustaceans, and seaweed), petroleum oils, and wood and articles thereof. There are no instances where MFN applied rates exceed bound rates. The overall gap between the simple averages of MFN applied and bound rates is low, at 0.05 percentage points (Table 3.1). The highest gap (40 percentage points) is applied for beef jerky in airtight containers, other than chilled or frozen.

3.1.4.3 Tariff reductions and exemptions

3.30. Customs duty reduction and exemptions are in place, *inter alia,* to develop domestic industries, to promote trade and science, to meet requirements associated with social welfare, and to eliminate double taxation. There are two types of customs duty exemptions: (i) a permanent

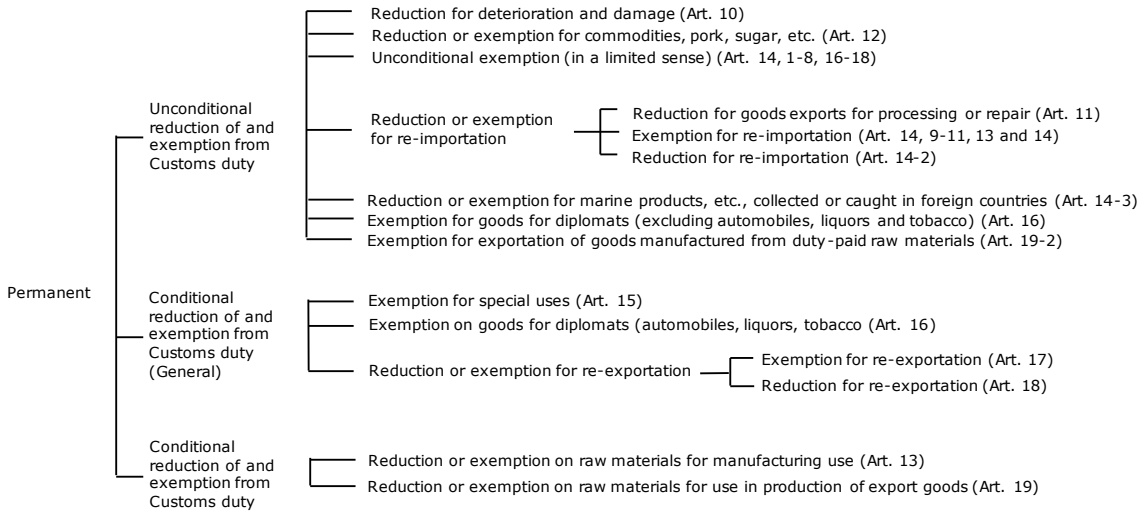
[28] The tariff lines for which seasonal tariffs are applied are: plantains, fresh (HS 0803.10.100); bananas, fresh (HS 0803.90.100); oranges, fresh or dried (HS 0805.10.000); grapes, fresh (HS 0806.10.000); bananas, provisionally preserved (HS 0812.90.100); and oranges, provisionally preserved (HS 0812.90.200). There are two tariff lines on grapefruit, on which seasonal tariffs are applied (grapefruit including pomelos, fresh or dried (HS 0805.40.000) and grapefruit including pomelos, provisionally preserved (HS 0812.90.300)). However, the MFN applied tariff and the seasonal tariff are the same (at 10%).

[29] The decrease in unbound tariff rates as compared with the situation in FY2016 is due to a nomenclature change.

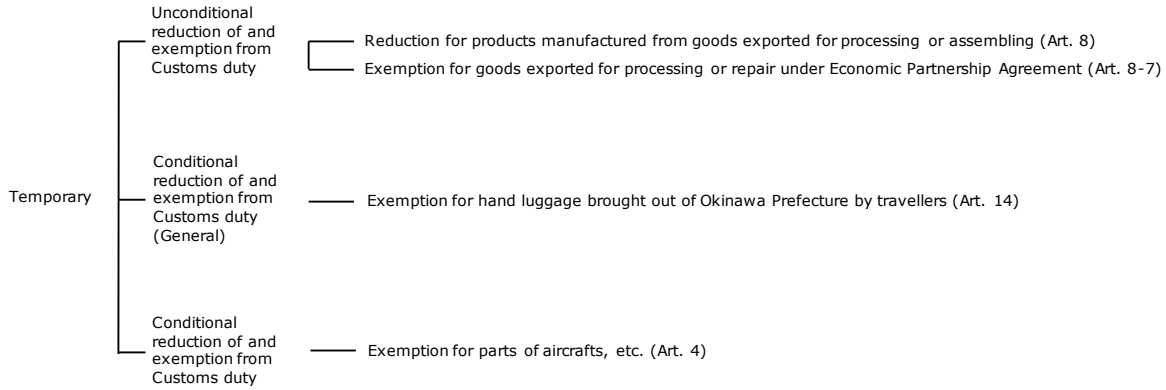
system, as set out in the Customs Tariff Law; and (ii) a temporary system, as set out in the Temporary Tariff Measures Law (Chart 3.5).[30]

Chart 3.5 Systems for reduction and exemption of customs duty

Customs Tariff Law (as at 1 April 2004):



Temporary Tariff measures Law:



Note: In addition to the above-mentioned system for reduction and exemption of Customs duty, there are systems for reduction and exemption of Customs duty under certain international conventions.

Source: Ministry of Foreign Affairs (MOFA), *Measures, Including Barriers, Affecting Trade and Investment*. Viewed at: https://www.mofa.go.jp/region/asia-paci/australia/study0504/chapter4-2.pdf.

3.31. Among these various provisions, Article 12 of the Customs Tariff Law provides for duty reductions/exemptions in cases where the prices of imported daily necessities have increased (to prevent price increases of daily necessities, such as food and clothing), to maintain stability in people's everyday lives. The merchandise goods currently subject to such duty reductions/exemptions are imported rice, hulled or unhulled; barley; wheat foodstuffs; apparel; and other goods which are closely related to people's daily lives.

3.32. Under Article 13 of the Customs Tariff Law, customs duties may be reduced or exempted on imported raw materials, to develop domestic industries manufacturing specific products, or to maintain stability in people's everyday lives ("end-use concessions"). The merchandise goods currently subject to such duty reductions/exemptions are: (i) mixed feeds: kaoliang and other grain sorghums; maize (corn); rye; powdered banana; sugar (with a specified sucrose content); molasses;

[30] Japan Customs, *Customs Tariff Law* and *Temporary Tariff Measures Law*. Viewed at: http://www.customs.go.jp/english/c-answer_e/imtsukan/1602_e.htm.

manioc or sliced and half-dried sweet potatoes (including powder or pellets of manioc and sliced and half-dried sweet potatoes); (ii) unmixed feeds: kaoliang and other grain sorghums and maize (corn); and (iii) groundnut oil and groundnut. End-use concessions are published in the Official Gazette.

3.33. In FY2017, foregone tax revenue relating to customs duty reductions and exemptions amounted to just over JPY 165 billion (around 16.1% of tariffs collected).[31]

3.1.4.4 Preferential tariff

3.34. Japan offers preferential tariff rates to 128 developing countries and 5 territories under the GSP; and 46 LDCs receive additional preferences. Japan also grants preferential access under its RTAs with ASEAN, Australia, Brunei Darussalam, Chile, CPTPP Member economies, the European Union, India, Indonesia, Malaysia, Mexico, Mongolia, Peru, Philippines, Singapore, Switzerland, Thailand and Viet Nam (Section 2.3).

3.35. Under Japan's RTAs, preferential tariffs significantly increased market access for these trading partners. While the percentage of duty-free rates under the MFN tariff was 40.3% in FY2019, it was around double under the respective RTAs (Table 3.3).

Table 3.3 Summary analysis of preferential tariffs, FY2019

	Total		WTO agriculture		WTO non-agriculture	
	Average (%)	Duty-free rates (%)	Average (%)	Duty-free rates (%)	Average (%)	Duty-free rates (%)
MFN	6.3	40.5	17.9	24.5	3.5	44.5
GSP	5.3	58.3	16.8	32.7	2.4	64.8
LDC	0.5	97.4	1.7	96.8	0.2	97.6
RTAs						
Singapore	3.6	84.3	14.0	54.1	1.0	91.8
Mexico	3.4	85.3	15.8	41.6	0.4	96.3
Malaysia	3.1	86.3	13.8	54.4	0.5	94.3
Chile	3.3	86.2	14.5	56.0	0.6	93.8
Thailand	3.1	87.2	13.8	56.3	0.5	94.9
Indonesia	3.3	85.9	14.6	54.7	0.5	93.8
Brunei Darussalam	3.7	84.5	14.7	54.5	1.0	91.8
ASEAN	3.2	85.8	14.3	54.5	0.5	93.6
Philippines	3.0	88.8	13.6	60.3	0.4	96.0
Switzerland	3.3	85.2	14.3	54.9	0.6	92.8
Viet Nam	3.2	86.5	14.3	55.3	0.5	94.3
India	3.5	78.4	15.0	39.7	0.7	88.1
Peru	3.3	83.8	14.6	46.7	0.5	93.1
Australia	3.2	83.9	14.4	48.6	0.5	92.7
Mongolia	3.9	78.5	15.8	39.6	1.1	88.2
TPP11	3.0	84.6	13.3	49.2	0.6	93.4
European Union	3.0	84.7	13.2	49.8	0.6	93.4
Memorandum						
Singapore[a]	2.6	87.9	11.8	56.9	0.4	95.7
Mexico[b]	2.7	88.1	12.6	55.0	0.3	96.3
Malaysia[a]	2.5	88.4	11.7	57.0	0.3	96.2
Chile[b]	2.7	88.5	12.2	58.2	0.3	96.1
Thailand[c]	3.1	87.2	13.8	56.5	0.5	94.9
Indonesia[c]	3.1	86.4	14.1	54.9	0.5	94.3
Brunei Darussalam[a]	2.6	87.9	12.1	57.0	0.4	95.7
Philippines[c]	3.0	88.9	13.6	60.4	0.4	96.0
Viet Nam[a]	2.6	88.2	12.0	57.4	0.3	95.9
Peru[b]	2.7	86.2	12.4	51.5	0.4	94.9
Australia[b]	2.8	85.6	12.5	50.7	0.4	94.3

a Based on the lowest rate applied from the country's EPA, the ASEAN EPA, and the TPP11.
b Based on the lowest rate applied from the country's EPA and the TPP11.
c Based on the lowest rate applied from the country's EPA and the ASEAN EPA.

Note: Calculations exclude in-quota lines. Including AVEs, as available, provided by the authorities. In case of unavailability, the *ad valorem* part is used for compound and alternate rates.

Source: WTO Secretariat calculations, based on information provided by the authorities; and Japan Customs online information. Viewed at: https://www.customs.go.jp/english/tariff/.

[31] In 2017, foregone tax revenue relating to customs duty reductions and exemptions was JPY 165.3 billion. The customs revenue account settlement for the year was JPY 1,024.1 billion.

3.1.4.5 Retaliatory tariff system

3.36. Under Article 6 of the Customs Tariff Act[32], Japan maintains a retaliatory tariff system, under which additional tariffs may be imposed in either of the following situations: (i) when there is a need for taxation to defend Japan's interests and accomplish the aim of a WTO agreement; or (ii) when a certain party or parties treat vessels, airplanes and cargoes from, or via, Japan with discrimination and inexpedience. The authorities noted that Japan currently does not impose this tariff.[33]

3.1.5 Other charges affecting imports

3.37. Japan levies a consumption tax of 10% (up from 8% in October 2019) on goods imported into, or manufactured in, Japan. With respect to imports, the tax is paid on the customs value of the goods, plus the customs duty and any other excise taxes payable.[34]

3.38. Details of excise rates applied are set out in Section 3.3.1.1.

3.1.6 Import prohibitions, licensing and quotas

3.1.6.1 Import prohibitions

3.39. Import prohibitions are contained in Article 69-11 of Japan's Customs Law.[35] There were no changes to these items over the review period. Import prohibitions include certain: drugs; arms; explosives; chemicals; pathogens; forged/altered money, bank notes, revenue stamps, and postal stamps; books, drawings, carvings, etc., detrimental to public security or corrupting public morals; child pornography; intellectual property (IP)-infringing goods; and goods produced using unlawfully obtained trade secrets (as stipulated in the Unfair Competition Prevention Act). Exceptions to some of these import prohibitions apply to persons authorized to import such items under domestic laws/regulations or international treaties.

3.1.6.2 Import licensing (approvals) and quotas

3.40. Article 52 of the Foreign Exchange and Foreign Trade Act provides the main legal basis for the imposition of import approvals, through a Cabinet Order.[36] The implementing regulation in this regard is the Import Trade Control Order (last amended in 2003), under which the Minister of Economy, Trade and Industry has the authority to (i) designate goods subject to import approval, based on places of origin or places of shipment of goods, and approve imports of these goods; and (ii) designate goods subject to import quotas, and approve imports of these goods.[37] In 2017, the Foreign Exchange and Foreign Trade Control Act was amended, *inter alia,* to strengthen penalties (both fines and administrative penalties) for violations of import and export control regulations.[38] Import licensing requirements are also maintained under the Ethanol Business Act for alcohol of 90% volume or over, from all trading partners.

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[32] Customs Tariff Act. Viewed at: http://www.kanzei.or.jp/kanzei_law/143AC0000000054.en.html#a6.

[33] According to the authorities, the most recent occasion when Japan applied a retaliatory tariff was with respect to certain goods originating in the United States, from September 2005 until August 2014. This was in relation to the Byrd Amendment. The authorities also indicated that Japan notified the WTO that it retains the right to impose this tariff.

[34] Japan Customs, *Outline of Tariff and Duty Rates System*. Viewed at: http://www.customs.go.jp/english/summary/tariff.htm.

[35] Customs Act. Viewed at: http://www.kanzei.or.jp/kanzei_law/329AC0000000061.en.html#c6s4ss2a69_11. The goods listed in the Customs Act reflect goods which are prohibited under other laws and regulations. Details of these laws/regulations are contained in Japan's most recent notification on quantitative restrictions. WTO document G/MA/QR/N/JPN/4, 16 October 2018.

[36] Foreign Exchange and Foreign Trade Act. Viewed at: http://www.japaneselawtranslation.go.jp/law/detail/?id=3267&vm=04&re=01.

[37] Import Trade Control Order, Cabinet Order No. 414 of 29 December 1949, as amended. Viewed at: http://www.japaneselawtranslation.go.jp/law/detail/?ft=1&re=2&dn=1&co=01&ia=03&x=37&y=17&ky=customs&page=37.

[38] Global Compliance News, *Japan implements amendment of the Foreign Exchange and Foreign Trade Act*. Viewed at: https://globalcompliancenews.com/japan-amendment-foreign-exchange-trade-20171018/.

3.41. Japan notified its replies to the WTO questionnaire on import licensing procedures for 2018 and 2017.[39] It also notified a new import licensing requirement for certain mercury and mercury-added products; this is to implement the Minamata Convention on Mercury (adopted in October 2013), which aims to protect human health and the environment from anthropogenic emissions and releases of mercury and mercury compounds.[40] No issues were raised about Japan's import licensing regime by Members in the WTO's Committee on Import Licensing over the review period.

3.42. Goods subject to import approvals under the Import Trade Control Order are set out in Table 3.4. When there are changes to the items on this list, they are published as an "import notice" in the Official Gazette. Import approvals are generally valid for six months. Over the review period, import licensing requirements were removed for: (i) whales and their preparations in July 2019, due to Japan's withdrawal from the International Whaling Commission (IWC); and (ii) weapons and other items from Eritrea because sanctions were lifted by a UN Security Council resolution and, hence, the restrictions were removed.

Table 3.4 Goods subject to import licensing under the Import Trade Control Order

Items	HS nos.	Application	Rationale[a]
Marine animals and their preparations; fish, crustaceans, other aquatics and their preparations; products of animal origin (marine animals, fish, crustaceans and molluscs); seaweeds and their preparations	01.06; 02.08; 02.10; 03.01-03.07; 05.04; 05.06-05.08; 05.11; 12.12; 15.04; 15.06; 15.21; 16.01; 16.02; 16.04; 16.05; 21.06; 23.01; 23.09	Products shipped from outside Japanese waters	Prevent adverse effects on fishing activities of Japanese fishermen
Salmon and (salmon) trout and their preparations	03.01; 03.02; 03.03; 03.04; 03.05; 16.04	China, Democratic People's Republic of Korea, Chinese Taipei	Compliance with UNCLOS provisions
Fresh and chilled Bluefin tuna farmed in the Atlantic Ocean and the Mediterranean	03.02; 03.04	Non-members of the ICCAT	Compliance with ICCAT resolution
Fresh and chilled Southern bluefin tuna	03.02; 03.04	Products from non-members of the CCSBT	Compliance with CCSBT resolution
Foot-and-mouth disease vaccine	Ex. 3002.30	All trading partners	Protection of animal life/health
Propellant powders	36.01; 36.02; ex 36.03	All trading partners	Security
Nuclear goods	26.12; ex 28.44; ex 81.09; 84.01; ex 90.30	All trading partners	Security
Weapons, ammunition, etc.	ex 84.11; ex 84.12; 87.10; ex 88.02; ex 89.06; 93.01-93.04; ex 93.05; 93.06; 93.07	All trading partners	Security
Wild animals and plants in Appendix I of the CITES	Not provided	All trading partners	Compliance with CITES
Wild animals and plants in CITES Appendices II and III	Not provided	CITES non-members	Compliance with CITES
Substances that deplete the ozone layer, specified hazardous wastes, and waste chemical weapons goods	Not provided	All trading partners, with certain exceptions[b]	Compliance with various national laws and international conventions/protocols
Foreign cultural property	Not provided	All trading partners	Compliance with the Hague Convention for the Protection of Cultural Property in the Event of Armed Conflict
Rough diamonds	71.02	All trading partners	Compliance with the Kimberly Process Certification Scheme and UN Security Council Resolution 1343
Cultural property illegally acquired in Iraq	97.01- 97.06	Iraq	Compliance with UN Security Council Resolution 1483

[39] WTO documents G/LIC/N/3/JPN/17, 9 October 2018; and G/LIC/N/3/JPN/16, 2 October 2017.
[40] WTO document G/LIC/N/2/JPN/4, 17 April 2018.

Items	HS nos.	Application	Rationale[a]
All goods from the Democratic People's Republic of Korea	All	Democratic People's Republic of Korea	To take the measures decided by the Government
Weapons and other items from Libyan Arab Jamahiriya	Not provided	Libyan Arab Jamahiriya	Compliance with UN Security Council Resolution 1970
Charcoal	44.02	Somalia	Compliance with UN Security Council Resolution 2036
Chemical weapons and other items related to chemical weapons programmes, and cultural property illegally removed from the Syrian Arab Republic	Includes: 97.01-97.06	Syrian Arab Republic	Compliance with UN Security Council Resolutions 2118 and 2199
Mercury	HS 2805.40	Non-parties to the Minamata Convention	Compliance with the Minamata Convention on Mercury
Mercury-added products	Not provided	All trading partners	Compliance with the Minamata Convention on Mercury

a Abbreviations used in this column are: the United Nations Convention on the Law of the SEA (UNCLOS); the International Commission for the Conservation of Atlantic Tunas (ICCAT); the Commission for the Conservation of Southern Bluefin Tuna (CCSBT); and the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).
b The approval requirements do not apply to members of the Montreal Protocol and to the Chemical Weapons Convention for the goods that they cover, respectively.

Source: WTO document G/LIC/N/3/JPN/17, 9 October 2018; Import Trade Control Order; and WTO document G/MA/QR/N/JPN/4, 16 October 2018.

3.43. Japan has "prior confirmation" and "customs clearance confirmation" systems in place to facilitate trade and, at the same time, ensure that imports of goods meet the standards of international treaties and agreements. Under these systems, if certificates or documents, such as export permits from the exporting country, are provided, then importers are not required to also obtain import approval. While the purpose of the systems is the same, the "prior confirmation" system requires confirmation from the Minister of Economy, Trade and Industry or other relevant minister, whereas under the "customs clearance confirmation" system, confirmation must be obtained during customs clearance.

3.44. Goods subject to import quotas are set out in the METI's Public Notice No. 170 of 1966, as last amended by Public Notice No. 106 of 2019.[41] Products subject to import quotas are: (i) certain marine products (see below); and (ii) controlled substances listed in Annex A, Group 1 of the Montreal Protocol on Substances that Deplete the Ozone Layer (excluding, *inter alia*, those imported by persons required to obtain import approval (see above)). With respect to the latter, the list of these controlled substances was adopted at the Montreal Protocol 28th Party Meeting held in October 2016. Hydrofluorocarbons, for which import restrictions came into effect from 1 January 2019, were added as controlled substances.

3.45. Import quotas for marine products are determined on an annual basis, taking into consideration the balance of domestic supply and demand.[42] The METI is responsible for determining quota volumes, based on consent from the Ministry of Agriculture, Forestry and Fisheries (MAFF), and for administering the import quota system. Announcements published (in Japanese) in the Official Gazette, the Official Bulletin of Economy, Trade and Industry, and the International Trade Bulletin specify quota volumes and application procedures. Quotas are allocated under the following categories[43]:

- new importers. Trading companies, on a first-come-first-served basis;

[41] METI, Public Notice No. 170 of 1966, as amended. Viewed (in Japanese) at: https://www.meti.go.jp/policy/external_economy/trade_control/01_seido/03_law/download_yunyu/kokuji_yunyukohyo.pdf.
[42] The amount of imports, domestic production, consumption, and prices in the previous year, as well as projections for the coming year, are taken into account.
[43] METI. Viewed at: https://www.meti.go.jp/policy/external_economy/trade_control/03_import/04_suisan/about/senchaku.html.

- trading companies. Two categories apply: (i) allocations on a performance basis (this is the allocation scheme for companies that have stably imported the items subject to import quota in the past); and (ii) newcomer-oriented performance basis (this is the scheme for companies that have imported a certain amount or more of the quota on a first-come-first served basis in the previous year);

- designated corporations. Quotas are allocated to corporations supplying raw materials to the fisheries processing association appointed by the Commissioner of the Fisheries Agency (this association then supplies raw materials to processing industries);

- fishery industries. Quotas are allocated to fisheries associations, approved by the Commissioner of the Fisheries Agency (the purpose is to import fish caught by Japanese vessels operating in foreign Exclusive Economic Zones); and

- foreign fishery development. Quotas are allocated to corporations designated by the fisheries associations or exporters associations which are approved by the foreign government that is developing the utilization of its fisheries resources based on effective and sustainable conservation and management measures.

3.46. Successful applicants are issued with a certificate of import quota, normally for six months, and a certificate of import approval, which must be provided to Customs. No licensing fees or administrative charges are levied; and no deposits or advance payments are required. Most import quotas are applied globally, with exceptions for some products, such as laver, where only specific exporting countries have an interest; in such cases, country-specific quotas are applied in addition to global quotas.[44] Importers are required to report to the METI on the actual volumes imported. Generally, unused allocations are not added to quotas for the following period.[45] The allocation of import quotas for FY2018 is set out in Table 3.5.

Table 3.5 Allocation of import quotas by item, FY2018

	Trading companies	Designated corporations	Foreign fishery development	Fishery industries	First-come-first-served basis	Total quota amount[a]	Unit[b]
Fish and shellfish (HS 0301.99.2; 03.02; 03.03; 03.04; 03.05; 03.07)	1.2	0.8	n.a.	0.2	0.3	2.6	USD million
Horse mackerel	79.6	30.3	n.a.	3.0	12.0	125.0	TMT
Mackerel	127.0	80.1	n.a.	5.0	15.0	227.0	TMT
Sardines	15.0	13.0	n.a.	18.0	5.1	50.8	TMT
Scallops	1.9	3.0	n.a.	0.08	0.6	5.7	TMT
Herring (except *Clupea pallasi*)	44.5	10.5	n.a.	n.a.	10.0	65.0	TMT
Herring (*Clupea pallasi*)	28.2	18.5	33.0	n.a.	12.2	92.0	TMT
Cod	16.4	2.8	32.0	19.6	2.0	72.7	TMT
Alaska pollock	111.8	52.1	700.0	160.0	3.0	1027.0	TMT
Squid and cuttlefish	26.8	24.1	n.a.	18.4	5.6	75.0	TMT
Dried squid	2.5	1.4	n.a.	n.a.	0.5	4.5	TMT
Cod and pollock roe	40.4	15.2	30.0	7.1	5.5	98.3	TMT
Dried laver	0.6	0.7	n.a.	n.a.	0.005	1.3	Million sheets

[44] WTO document WT/TPR/M/351/Add.1, 27 April 2017.

[45] According to Japan's notification, exceptionally, the quota of the succeeding period can be added to if an importer has no responsibility for the cause of unused allocations, or if unused allocations are due to a prohibition on the exporter's side.

	Trading companies	Designated corporations	Foreign fishery development	Fishery industries	First-come-first-served basis	Total quota amount[a]	Unit[b]
Dried seaweed (*Enteromopha* and *Monostroma* species)	n.a.	0.1	n.a.	n.a.	0.005	0.1	TMT
Kombu	n.a.	2.8	n.a.	n.a.	0.2	3.0	TMT

n.a. Not applicable.

a Figures have been rounded up/down; hence, in some cases, the total quota amount may not exactly reflect the sum of the individual import quotas.

b TMT = thousand tonnes.

Source: METI. Viewed at: https://www.meti.go.jp/policy/external_economy/trade_control/03_import/04_suisan/index.html.

3.47. Steps taken by the METI to ensure full use of import quotas are as follows: (i) if any of the quota amount remains unallocated, the METI re-allocates the unallocated portion to any applicant requesting additional import quotas; and (ii) the METI examines applicants' records in the previous year, so that, if a trading company fails to import more than 80% of the amount of its allocated import quota, without a rational reason, it will not receive an import quota for the following year. Quota volumes and actual imports over the period 2016-17 are set out in Table 3.6. In 2016 and 2017, import quotas were only fully filled for dried laver; fill rates for other products ranged from 2.7% to 91.3% in 2017 (Table 3.6). The authorities indicated that quotas are set based on an estimation of business needs; variations in fill rates relate to business demands. Japan indicated that its import quota administration system is consistent with the GATT (Articles XI 2(c) and XX(g)), and was notified to the WTO.[46]

Table 3.6 Import quotas on fisheries products 2016-17

Commodity	Unit	2016 quota	Actual imports	Fill rate (%)	2017 quota	Actual imports	Fill rate (%)
Squid and cuttlefish	TMT	131.95	129.05	97.8	86.95	59.14	68.0
Pacific herring	TMT	92.00	24.01	26.1	92.00	16.02	17.4
Dried seaweed	Million sheets	1,199.00	756.16	63.1	1274.00	885.17	69.5
Non-sugar seaweed	Million sheets	532.00	351.72	66.1	532.00	453.74	85.3
Seaweed preparations	Million sheets	747.00	272.95	36.5	918.00	294.33	32.1
Cod and pollock roe	TMT	98.33	37.25	37.9	98.33	36.43	37.0
Dried squid cuttlefish	TMT	4.50	4.27	94.9	4.50	4.11	91.3
Kombu preparations	TMT	0.60	0.47	78.3	0.60	0.33	55.0
Mackerel	TMT	227.00	127.06	56.0	227.00	124.88	55.0
Sardines	TMT	50.80	0.69	1.4	50.80	1.39	2.7
Atlantic herring	TMT	65.00	4.85	7.5	65.00	4.54	7.0
Fish and shellfish	USD million	45.00	27.49	61.1	45.00	20.68	46.0
Kombu	TMT	2.96	1.55	52.4	2.96	1.74	58.8
Dried laver	TMT	0.13	0.13	100.0	0.13	0.13	100.0
Horse mackerel	TMT	125.00	18.50	14.8	125.00	16.89	13.5
Callop	TMT	5.72	3.22	56.3	5.72	3.72	65.0
Yellowtail, saury, adductor muscle of shellfish and dried sardines	USD million	26.40	22.29	84.4	26.40	22.19	84.1

Note: TMT = thousand tonnes.

Source: Information provided by the authorities.

3.48. Japan's tariff rate quota regime is described in Section 4.1.

[46] WTO document WT/TPR/M/351/Add.1, 27 April 2017.

3.1.7 Anti-dumping, countervailing, and safeguard measures

3.1.7.1 Anti-dumping measures

3.49. Japan's legislative framework for anti-dumping duties is the Customs Tariff Act[47], the Cabinet Order Relating to Anti-Dumping Duties, and the Guidelines for Procedures Relating to Anti-Dumping Duty.[48] In 2017, the Cabinet Order and Guidelines were amended to change the definition of "interested parties for domestic industry", and reduce the burden for applicants requesting the imposition of an anti-dumping duty by easing the conditions for making such a request. With respect to the latter, before the amendment, it was not clear to what extent an applicant was required to substantiate the impact of the dumped product on domestic industry; the amendment specifies that such impact is to be indicated "by reasonably available information". Moreover, under the previous regime, the applicant was requested to show that the degree of support of the request for the imposition of an anti-dumping duty in the domestic industry satisfied the requirement; amendments authorize the minister in charge of the industry to confirm such degree of support. These amendments were notified to the WTO[49]; no questions related to these changes were raised in the WTO Committee on Anti-Dumping Practices.

3.50. Anti-dumping investigations may be initiated when the Government considers it necessary, when an application for investigation is submitted by a domestic industry to the Minister of Finance, or when there is enough evidence.[50] The decision is published as a public notice in the Official Gazette, by the Minister of Finance. Investigations are carried out by a team comprised of officials from the Ministry of Finance Office of Trade Remedy Affairs, the METI's Office for Trade Remedy Investigations, and the ministry in charge of the relevant industry. The final decision to impose an anti-dumping duty is issued as a Cabinet Order. Provisional measures may be applied no earlier than 60 days from the initiation of the investigation, if affirmative preliminary determinations are made. Provisional measures are, in principle, applied for up to four months, although a longer time-frame may apply upon request by exporters representing a significant percentage of the trade involved. Exporters may offer an undertaking to revise prices or cease exports, so that the injurious effect of the dumping on the domestic industry is eliminated. Anti-dumping duties can be imposed for a period not exceeding five years, and may be extended thereafter following a review. Each extension of the measure may not be longer than five years.[51]

3.51. As at end-October 2019, seven anti-dumping measures were in force, relating to four products and applying to two trading partners. Definitive duties were imposed for the first time during the review period on: polyethylene terephthalate from China; and carbon steel butt-welding fittings from China and the Republic of Korea (Table 3.7). Anti-dumping duties on electrolytic manganese dioxide from South Africa and Spain were removed in March 2019.[52]

Table 3.7 Anti-dumping measures in force, July 2019

Exporter affected	Products concerned	Status
China	Electrolytic manganese dioxide	Initiation of investigation on 27 April 2007 Provisional duties imposed on 14 June 2008 (34.3%-46.5% duty rate) Definitive duty imposed on 1 September 2008 (34.3%-46.5% duty rate) Sunset review on 30 October 2012 Extension of definitive duty on 6 March 2014 (34.3%-46.5% duty rate) Sunset review on 18 April 2018 Extension of definitive duty on 29 February 2024

[47] Customs Tariff Act. Viewed at: http://www.kanzei.or.jp/kanzei_law/143AC0000000054.en.html#a9_2.

[48] The Cabinet Order Relating to Anti-Dumping duties was viewed at: https://elaws.e-gov.go.jp/search/elawsSearch/elaws_search/lsg0500/detail?lawId=406CO0000000416&openerCode=1. The Guidelines for Procedures Relating to Anti-Dumping Duty were viewed at: http://www.customs.go.jp/tokusyu/ad_gl.htm and https://www.meti.go.jp/policy/external_economy/trade_control/boekikanri/trade-remedy/law/index.html.

[49] WTO documents G/ADP/N/1/JPN/2/Suppl.9, 25 June 2018; and G/ADP/N/1/JPN/2/Suppl.9, 25 June 2018.

[50] Article 8(5) of the Customs Tariff Act.

[51] A more detailed description of Japan's anti-dumping procedures and time-frames is contained in the Secretariat Report for its previous Review. WTO document WT/TPR/S/351/Rev.1, 27 April 2017.

[52] WTO document G/ADP/N/328/JPN, 22 October 2019.

Exporter affected	Products concerned	Status
	Toluenediis-ocyanate	Initiation of investigation on 14 February 2014 Provisional duties imposed on 25 December 2014 (69.4% duty rate) Definitive duty imposed on 25 April 2015 (69.4% duty rate)
	Potassium hydroxide	Initiation of investigation on 26 May 2015 Provisional duties imposed on 9 April 2016 (73.7% duty rate) Definitive duty imposed on 9 August 2016 (73.7% duty rate)
	Polyethylene terephthalate	Initiation of investigation on 30 September 2016 Provisional duties imposed on 2 September 2017 (39.8%-53.0% duty rate) Definitive duty imposed on 28 December 2017 (39.8%-53.0% duty rate)
	Carbon steel butt-welding fittings	Initiation of investigation on 31 March 2017 Provisional duties imposed on 28 December 2017 (57.3% duty rate) Definitive duty imposed on 31 March 2018 (57.3% duty rate)
Korea, Rep. of	Potassium hydroxide	Initiation of investigation on 26 May 2015 Provisional duties imposed on 09 April 2016 (49.5% duty rate) Definitive duty imposed on 09 August 2016 49.5%
	Carbon steel butt-welding fittings	Initiation of investigation on 31 March 2017 Provisional duties imposed on 28 December 2017 (41.8%-69.2% duty rates) Definitive duty imposed on 31 March 2018 (41.8%-69.2% duty rates)

Source: WTO documents G/ADP/N/322/JPN, 4 February 2019; G/ADP/N/314/JPN, 9 August 2018; G/ADP/N/308/JPN, 2 February 2018; G/ADP/N/300/JPN, 21 July 2017; G/ADP/N/294/JPN, 7 February 2017; and G/ADP/N/272/JPN, 23 July 2015; and information provided by the authorities.

3.1.7.2 Countervailing measures

3.52. The Customs Tariff Law, the Cabinet Order Relating to Countervailing Duties, and the Guidelines for Procedures relating to Countervailing Duty form the legal and regulatory framework for the application of countervailing duties.[53] In 2017, the Cabinet Order was amended to change the definition of "interested parties for domestic industry" in the same way, and for the same reasons, as for the above-mentioned Order Relating to Anti-Dumping Duties. Likewise, the Guidelines were also amended in the same way, and for the same reasons, as the Guidelines for Procedures Relating to Anti-Dumping Duty (see above). These amendments were notified to the WTO[54]; no questions related to these changes were raised in the WTO Committee on Subsidies and Countervailing Measures.

3.53. As described in the previous Review, under the Customs Tariff Law, investigations may be initiated when the Government considers it necessary, when an application is submitted by domestic industry, or when there is enough evidence with regard, *inter alia*, to the importation of the subsidized product and the material injury to the domestic industry caused by such importation.[55] The decision to initiate an investigation is published as a public notice in the Official Gazette, by the Ministry of Finance. The final decision to impose a countervailing duty must be made within approximately one year. Countervailing duties can be imposed for a period not exceeding five years, and each extension may not exceed five years.[56]

3.54. Japan did not apply any countervailing measures during the review period, nor did it initiate any countervailing investigations.

3.1.7.3 Safeguards

3.55. The Customs Tariff Law, the Cabinet Order Relating to Emergency Duties, the Import Trade Control Order, and the Regulations to Govern Emergency Measures comprise the legal framework

[53] Cabinet Order Relating to Countervailing Duties. Viewed at: https://elaws.e-gov.go.jp/search/elawsSearch/elaws_search/lsg0500/detail?lawId=406CO0000000415&openerCode=1. Guidelines for Procedures relating to Countervailing Duties. Viewed at: http://www.customs.go.jp/tokusyu/cvd_gl.htm and https://www.meti.go.jp/policy/external_economy/trade_control/boekikanri/trade-remedy/law/index.html.

[54] WTO document G/SCM/N/1/JPN/2/Suppl.9, 25 June 2018; and G/SCM/N/1/JPN/2/Suppl.9, 25 June 2018.

[55] As noted in the Secretariat Report for Japan's previous Review, the Minister of Finance, the minister in charge of the relevant industry and the Minister of Economy, Trade and Industry must jointly make a decision to initiate an investigation.

[56] A more detailed description of Japan's countervailing procedures and time-frames is contained in the Secretariat Report for its previous Review. WTO document WT/TPR/S/351/Rev.1, 20 June 2017.

for the application of safeguard measures in Japan.[57] These are supplemented by procedural guidelines.[58] There were no changes to these laws and regulations over the review period. A description of safeguard investigation procedures and time-frames is contained in the Secretariat Report for Japan's previous Review.[59] Japan did not apply any safeguard measures during the review period, nor did it initiate any safeguard investigations.

3.56. Japan reserved the right to use the special agricultural safeguard (SSG) on 147 tariff lines; details on its imposition of SSGs over the review period are contained in Section 4.1. All the RTAs to which Japan is signatory contain provisions on bilateral safeguards. The authorities confirmed that no bilateral safeguards investigations were undertaken over the review period, and no safeguard measures were imposed under any of Japan's EPAs.

3.2 Measures Directly Affecting Exports

3.2.1 Customs procedures and requirements

3.57. The Customs Law remains the principal piece of legislation covering customs procedures and documentation. Japan Customs remains responsible for implementing export procedures. Documentary requirements remain unchanged. These are: the export declaration form (Customs form C-5010), invoices, and other documents as required by specific laws and regulations. Some of the original documents must also be physically provided to customs during the customs clearance process. Japanese Customs does not levy fees for export declarations.

3.2.2 Taxes, charges, and levies

3.58. No export taxes, charges or levies are applied by the Government or other public authorities. Japan does not apply minimum export prices for any product.

3.2.3 Export prohibitions, restrictions, and licensing

Export prohibitions

3.59. Under the Customs Law, export prohibitions apply to a limited range of products, including: narcotics and certain other drugs; child pornography; articles which infringe intellectual property rights; and certain articles that constitute unfair competition under the Unfair Competition Prevention Act (essentially related to intellectual property rights). There were no changes to the list of export prohibitions over the review period.[60]

3.60. In 2019, Japan extended a prohibition on all exports to (and imports from) the Democratic People's Republic of Korea. This was implemented under the Foreign Exchange and Foreign Trade Act[61], which requires that exporters must obtain export approval from the Minister of Economic Trade and Industry[62]; and was effected through a change to the Supplementary Provisions of the Export Trade Control Order (see below). The authorities confirmed that there are no circumstances under which such export approval will be granted.

3.61. Export prohibitions in place for sanitary and phytosanitary purposes are available on the websites of the Animal Quarantine Service and the Plant Protection Station.

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[57] The Cabinet Order Relating to Emergency Duties and the Regulations to Govern Emergency Measures were viewed at: https://elaws.e-gov.go.jp/search/elawsSearch/elaws_search/lsg0500/detail?lawId=406CO0000000417&openerCode=1.

[58] The procedural guidelines were viewed at: https://www.meti.go.jp/policy/external_economy/trade_control/boekikanri/trade-remedy/law/index.html.

[59] WTO document WT/TPR/S/351/Rev.1, 20 June 2017.

[60] Export restrictions are set out in Article 69-2 of the Customs Act. Viewed at: http://www.kanzei.or.jp/kanzei_law/329AC0000000061.en.html#c6s4ss1a69_2.

[61] An English translation of the Foreign Exchange and Foreign Trade Act was viewed at: http://www.japaneselawtranslation.go.jp/law/detail/?ft=1&re=02&dn=1&co=01&ia=03&x=39&y=14&ky=export+trade+control+order&page=5.

[62] METI, *Extension of Ban on Imports from and Exports to North Korea, Pursuant to the Foreign Exchange and Foreign Trade Act*. Viewed at: https://www.meti.go.jp/english/press/2019/0409_004.html.

Export control measures

3.62. The Trade and Economic Cooperation Bureau in the METI is responsible for export control policy and legislation, and participates in international export control discussions and negotiations.

3.63. The Foreign Exchange and Foreign Trade Act (FEFTA) provides the legal basis for applying various export licensing requirements.[63] Product lists and detailed operational guidelines are found in secondary legislation, including Cabinet Orders and Ministerial Orders. The main Orders under the Act are the Export Trade Control Order of 1949 (last amended in 2019) and the Foreign Exchange Order of 1980 (last amended in 2019). In 2017, the FEFTA was amended, *inter alia*, to deter business actions designed to avoid administrative sanctions under the export (and import) prohibition order by using distinct companies.[64]

3.64. Normally, each export consignment falling under the scope of the Export Trade Control Order or the Foreign Exchange Order requires an individual export licence. However, there are five different kinds of bulk export licences, which are described in the Secretariat Report of Japan's previous Review.[65] Changes were introduced in July 2019 to the licensing system, with the result that the relevant bulk licences for exports of three items (fluorinated polyimide, resist and hydrogen fluoride, and their relevant technologies) to the Republic of Korea are no longer applicable.[66] According to the Japanese authorities, so far, these changes have had no impact on actual production or the global supply chain.

Export Control Order

3.65. The Export Trade Control Order sets out the goods and their destinations for which METI approval is required.[67] In a few cases, prior approval of the Ministry of Agriculture, Forestry and Fisheries (MAFF) is also required, or permission must be obtained under other laws/regulations.[68] Several controlled products/destinations relate to Japan's international commitments or non-binding arrangements.[69] The specific goods/destinations subject to export approval are listed in several tables appended to the Order. Over the review period, there were various changes to the goods subject to export approval contained in Appended Tables I and II (Box 3.1). The list of luxury goods subject to export approval to the Democratic People's Republic of Korea was extended to include tapestry and porcelain tableware (Appended Table II-2 to the Export Trade Control Order). With respect to countries/areas listed as subject to strict export control, South Sudan was added to, and Eritrea removed from, the list in 2019 and 2018, respectively, to implement UN Security Council

[63] An English translation of the FEFTA was viewed at: http://www.japaneselawtranslation.go.jp/law/detail/?ft=1&re=02&dn=1&co=01&ia=03&x=39&y=14&ky=export+trade+control+order&page=5.

[64] The Revised Act introduces a new system under which Japan can issue a prohibition order on board members or employees of a company on which an import/export prohibition order has been imposed, preventing them from taking board member or other positions in charge of import/export operations in another company. METI online information. Viewed at: https://www.meti.go.jp/english/press/2017/0714_003.html.

[65] WTO document WT/TPR/S/351/Rev.1, 20 June 2017.

[66] METI, Promulgation of the Cabinet and Ministerial Orders and the Public Notices for the Enforcement of the Revised Foreign Exchange and Foreign Trade Act. Viewed at: https://www.meti.go.jp/english/press/2019/0701_001.html.

[67] An English translation of the Export Trade Control Order containing latest amendments from the Extra Cabinet Order No. 19 of 2018 was viewed at: http://www.japaneselawtranslation.go.jp/law/detail/?ft=1&re=02&dn=1&co=01&ia=03&x=39&y=14&ky=export+trade+control+order&page=58. More recent amendments to the Export Trade Control Order were viewed at: https://www.meti.go.jp/english/policy/external_economy/trade_control/index.html.

[68] Export Trade Control Order, Article 2.

[69] These international commitments and non-binding arrangements are: the CITES Convention; the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal; the Convention on the Prohibition of the Development, Manufacture, Stockpiling and Use of Chemical Weapons and on their Destruction; the Convention on the Means of Prohibiting and Preventing the Illicit Import, Export and Transfer of Ownership of Cultural Property; the Convention on the Safety of the Management of Spent Fuels and Radioactive Wastes; the Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade; the Minamata Convention on Mercury; the Wassenaar Arrangement on transfers of conventional arms and dual-use goods and technologies; the Missile Technology Control Regime; the Treaty on the Non-Proliferation of Nuclear Weapons; the Nuclear Suppliers Group; and the Australia Group.

resolutions.[70] Recent changes to the system resulted in the Republic of Korea now being listed under "Group B" countries and regions.[71]

Box 3.1 Changes to goods listed in Appended Tables I and II of the Export Trade Control Order, 2017-19

Goods removed from lists: semi-finished or primary ceramic products; thermoplastic copolymers; robots capable, in real time, of three-dimensional image processing; high-speed cinema recording cameras, mechanical cameras, streak cameras, electronic cameras or related components; and some blood products.
Goods added to the lists: parts of plasma-melting furnaces and electron-beam melting furnaces; components designed for encoders; specified hazardous wastes and other goods subject to special provisions for temporary landed goods; parts of devices used for the manufacture of tritium; assemblies or parts thereof used for the repair of reactor vessels or reactors and storage tanks, containers or receivers; devices for the synthesis of nucleic acids or binding between nucleic acids; electro-optic modulators; substrates used for the manufacture of masks; and polycrystal substrates.

Source: Information provided by the authorities; and METI, *Cabinet Decision on the Bill for the Cabinet Order for Partial Revision of the Foreign Exchange Order and the Export Trade Control Order*. Viewed at: https://www.meti.go.jp/english/press/2018/1106_001.html; and *Cabinet Decision on the Bill of the Cabinet Order for Partial Revision of the Export Trade Control Order.* Viewed at: https://www.meti.go.jp/english/press/2017/1117_005.html.

3.66. To obtain an export licence, the exporter must apply to the METI, using the relevant application form and supporting documents, including an end-use certificate for the end-user. In practice, licences are refused for military weapons and certain materials which can be used in developing weapons of mass destruction. Japan permits arms exports to partner countries for joint development, provided the government of the country-of-destination obtained consent from Japan before any item exported from Japan was transferred from a third country. For dual-use items, licence approval depends on the METI's risk assessment, which is based on the destination and the end-user.[72]

Foreign Exchange Order

3.67. The Foreign Exchange Order sets out the technologies and destinations for which permission from the METI is required for transfer outside Japan[73]; amendments to the Order entered into force in 2019 to comply with a change in applicable goods subject to export control.[74]

Export quotas

3.68. Japan does not maintain any export quotas.

[70] METI, *New Listing of South Sudan in Appended Table 3-2 of the Export Trade Control Order*. Viewed at: https://www.meti.go.jp/english/press/2019/0409_003.html; and *Cabinet Decision on the Cabinet Order to Partially Amend the Export Trade Control Order.* Viewed at: https://www.meti.go.jp/english/press/2018/1214_003.html. Appended Table III-2 and Appended Table IV of the Export Control Order list the areas subject to strict export control ("Group D" countries and regions). Trading partners listed in Appended Table III-2 are Afghanistan, Central African Republic, Democratic Republic of the Congo, Iraq, Lebanon, Libya, the Democratic People's Republic of Korea, Somalia, Sudan and South Sudan. Trading partners listed in Appended Table IV are: Iran, Iraq and the Democratic People's Republic of Korea.

[71] METI, *The Cabinet Approved Partial Amendment to the Export Trade Control Order*. Viewed at: https://www.meti.go.jp/english/press/2019/0802_001.html.

[72] WTO document WT/TPR/S/351/Rev.1, 20 June 2017.

[73] An English translation of the Foreign Exchange Order was viewed at: http://www.japaneselawtranslation.go.jp/law/detail/?ft=1&re=02&dn=1&co=01&ia=03&x=39&y=14&ky=export+trade+control+order&page=6.

[74] Technologies involving design, manufacture, or use of assemblies or parts thereof used for the repair of reactor vessels or reactors and storage tanks, containers or receivers were added. METI, *Cabinet Decision on the Bill for the Cabinet Order for Partial Revision of the Foreign Exchange Order and the Export Trade Control Order*. Viewed at: https://www.meti.go.jp/english/press/2018/1106_001.html.

3.2.4 Export support and promotion

3.2.4.1 Export subsidies

3.69. According to the authorities, Japan has no export subsidy programmes in place; over the review period, it notified the WTO Committee on Agriculture that it had not provided export subsidies for the fiscal years 2016 and 2017 (Table 2.2).

3.2.4.2 Taxation and special customs procedures

3.70. Japan's Bonded Area System allows for the storage, processing, manufacturing or display of foreign goods at designated locations or facilities (i.e. goods that have arrived in Japan from overseas but that have not received an import permit from the Director-General of Customs, hence duties and taxes would not have been paid). There are various types of bonded areas (Table 3.8).

Table 3.8 Bonded areas, features

Types	Principal features	Length of storage	Number (2019)
Designated bonded areas	Loading/unloading, transport and temporary storage of foreign goods	1 month	89
Customs warehouses	Loading/unloading, transport and long-term storage of foreign goods	2 years (may be extended)	4,724
Customs factories	Processing and manufacturing using foreign goods as material	2 years (may be extended)	249
Customs display areas	Display and use of foreign goods	Decided by the Director-General of Customs	n.a.
Integrated bonded areas	Loading/unloading, transport long-term storage, processing and manufacturing, and display of foreign goods	2 years (may be extended)	4

n.a. Not available.

Source: Japan Customs. Viewed at: https://www.customs.go.jp/english/c-answer_e/sonota/9203_e.htm.

3.71. Japan's Customs Transportation System allows for foreign goods to be transported between bonded areas, ports and airports. The approval of the Director-General of Customs is required.[75]

3.72. Under the Customs Tariff Law, customs duties are, either conditionally or unconditionally: (i) reduced for goods exported for processing or repair (Article 11); (ii) exempt for exportation of goods manufactured from duty-paid raw materials (Article 19-2); (iii) reduced or exempt for re-exportation (Article 17 and 18); (iv) reduced or exempt for raw materials used in the production of export goods (Article 19); (v) refunded on raw materials for manufacturing export goods (Article 19); (vi) refunded on the export of products manufactured with duty-paid materials (Article 19-2); and (vii) refunded on the export of goods whose nature and form are unchanged from the time of their importation (Article 19-3).[76]

3.2.4.3 Free zones and free ports

3.73. Japan operates International Logistics Hub Industry Development Zones (ILHIDZs) in Naha District (former a Free Trade Zone) and Uruma/Okinawa District. The ILHIDZs are special economic zones based on the Act on Special Measures for the Promotion and Development of Okinawa. Incentives offered to domestic and foreign companies include: a 40% deduction from corporation income tax for a ten-year period following the establishment of the business (domestic companies only); an investment tax credit; and a special depreciation system. With respect to customs duties, a selective system applies[77], and the customs bond permission fee is halved for customs warehouses

[75] Japan Customs, *Outline of the Customs Bonded System*. Viewed at: http://www.customs.go.jp/english/c-answer_e/sonota/9203_e.htm.

[76] Japan Customs, Systems for Reduction, Exemption, Refund and Repayment of Customs Duty Except Exemptions under International Conventions and Agreements. Viewed at: http://www.customs.go.jp/english/summary/refunds_system.pdf.

[77] With respect to products accepted into Japan which are processed or manufactured in a bonded factory using foreign cargo, the choice is available to choose between a tax system whereby tax is paid either

and customs factories, customs display areas, and integrated bonded areas. Various local tax incentives are also offered. Subsidies of up to 25% are available for land and building expenses, and of up to 50% for transportation expenses related to the domestic transportation to and from Okinawa prefecture of materials (targeted at manufacturing companies).[78] Additionally, low-interest, long-term loans are offered to companies establishing in the ILHIDZs by the Okinawa Development Finance Corporation.[79]

3.2.4.4 Export promotion

3.74. The Japan External Trade Organization (JETRO) remains the official agency responsible for promoting exports through information, research, support for, and participation in international trade fairs, and other activities to promote exports from, and investment in, Japan; it has 74 overseas offices in 54 countries.[80] Since 2016, JETRO has been providing export-related services under the Consortium for the New Export Nation; these include advice to Japanese SMEs on their exports and overseas investment, for example, in terms of foreign country regulations and contract-drafting in English. In 2017, JETRO established the Japan Agricultural and Foodstuff Exports as a new service in its Trade Tie-up Promotion Programme; this provides an Internet matching services for Japanese agricultural and food products.[81] In the same year, it also established the Japan Food Product Overseas Promotion Center, in order to promote branding and marketing of Japanese agricultural, forestry, fishery and food products in overseas markets. Since 2019, JETRO has strengthened its support to promote innovation, expansion of Japanese start-ups overseas, and inward FDI in Japan, corresponding to global acceleration of cutting-edge technologies and the digital economy.

3.2.5 Export finance, insurance, and guarantees

3.75. The Nippon Export and Investment Insurance (NEXI) and the Japan Bank for International Cooperation (JBIC) remain the official export credit agencies. As noted in previous Reviews, in providing financial services, Japan follows the terms and conditions of the OECD Arrangement on Officially Supported Export Credits.

3.76. In April 2017, NEXI was transformed, under the Act on General Rules for Incorporated Administrative Agencies, and the Trade and Investment Insurance Act, from an incorporated administrative agency into a special stock company wholly owned by the Government of Japan. It continues to be regulated by the METI. The stated rationale for this change was to strengthen NEXI's ties with the Government, to improve business management, and to better reflect the intentions of government policies in NEXI's business (these include support for: the expansion of SMEs in the agricultural, forestry and fisheries industries; the aircraft and ship sectors; overseas infrastructure development opportunities; and securing a stable supply of natural resources and energy). Also, in 2017, the Government's Special Account for Trade Reinsurance was abolished, and the assets and liabilities of the account were absorbed by NEXI. Following this development, NEXI began to cede reinsurance to private-sector reinsurance companies. In October 2017, NEXI established a dollar-based loan insurance policy, so that it can provide consistently dollar-based supports for Japanese companies.[82] Other developments in terms of insurance products offered are: the relaunch of the underwriting of Export Credit Insurance for projects with long-term deferred payment; the expansion of the scope of investment and loan insurance for natural resources and energy (aimed at securing natural resources and supporting relevant businesses); and the establishment of loan insurance for green innovation (aimed at supporting environment protection-related businesses).

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on the materials or on the products. Prefecture of Okinawa, *Industrial Site Guide, 2019-2020*. Viewed at: https://www.pref.okinawa.jp/site/shoko/kigyoritchi/documents/eng1.pdf.

[78] Prefecture of Okinawa, *Industrial Site Guide, 2019-2020*. Viewed at: https://www.pref.okinawa.jp/site/shoko/kigyoritchi/documents/eng1.pdf; Invest Okinawa, *Special Economic Zone & Promotional video*. Viewed at: http://invest-okinawa.biz/en/charm/.

[79] The Economist, *Free ports, zones*. Viewed at: http://country.eiu.com/article.aspx?articleid=1857197369&Country=Japan&topic=Regulation&subtopic=Trade+policy&subsubtopic=Free+ports%2c+zones&oid=1767197360&aid=1.

[80] JETRO is an incorporated administrative agency under the Japan External Trade Organization Incorporated Administrative Agency Act of 2002.

[81] JETRO, *Establishment of Japan Agricultural & Foodstuff Exports (JAFEX)*. Viewed at: https://www.jetro.go.jp/en/news/releases/2017/a3e08559704012dd.html.

[82] Information provided by the authorities.

3.77. In conducting its business, NEXI provides trade and investment insurance, with the objective of breaking even, financially. If NEXI faces funding difficulties, the Government may step in to ensure insurance claims are paid[83]; over the review period, no such governmental countermeasures were required. NEXI offers several insurance products, and covers both political and commercial risks. Insurance products related to trade, and most recent data on premium income and claims paid, is set out in Table 3.9.[84] A description of NEXI's insurance products for investment and financing (which account for the larger share of NEXI's premium income) are described in NEXI's 2017 Annual Report; these include buyer's credit insurance, which covers the risks of non-repayment of loans made by Japanese commercial banks to foreign companies for the purchase of goods exported from Japan.

Table 3.9 NEXI trade insurance products, 2018

(JPY million)

Insurance type	Description	Premium income 2018	Claims paid 2018	Under-written amount
Export credit insurance	Insurance for export, intermediary trade and technical cooperation: coverage of risks such as pre-shipment risks or non-payment risks pertaining to export, intermediary trade and technical cooperation conducted by Japanese exporters Insurance for licence export: coverage of the non-payment risks that affect Japanese companies, related to licence fees (i.e. royalties on patents, know-how, copyright, etc.)	12,032	18,082	5,030,034
Trade insurance for standing orders from specific buyers	Coverage of risks such as pre-shipment risks or non-payment risks that affect Japanese companies who continually export or conduct intermediary trade with specific buyers	259	0	7,443
Comprehensive export insurance with simplified procedure	Coverage of risks such as pre-shipment risks or non-payment risks that affect Japanese companies who continually and repeatedly export or conduct intermediary trade with numerous buyers	127	0	58,024
Export credit insurance for SMEs and the agriculture forestry and fishery sector	Coverage of non-payment risks pertaining to exports conducted by Japanese SMEs and organizations related to the agriculture forestry and fishery sector	84	78	9,812
Export bill insurance	Coverage of non-payment of documentary bills or exchange purchased by Japanese commercial banks	130	10	13,023
Prepayment import insurance	Coverage of risks that affect Japanese importers who are unable to receive the refund of their payment made on advanced payment terms in the event the shipment does not arrive	3	0	214

Source: NEXI, *Annual Report 2018*. Viewed at: https://www.nexi.go.jp/corporate/booklet/pdf/annual2018-e.pdf; and information provided by the authorities.

3.78. The JBIC was established under the Japan Bank for International Cooperation Act of 2011, and is wholly government-owned. It provides loans and guarantees, and engages in equity participation, with a view to: promoting the overseas development and securing resources which are important for Japan; maintaining and improving the international competitiveness of Japanese industries; promoting overseas business having the purpose of preserving the global environment; and preventing disruptions to the international financial order or taking appropriate measures with

[83] These governmental countermeasures are prescribed in the Trade and Investment Insurance Act.

[84] Both trade and investment insurance products are described in more detail in NEXI's 2017 Annual Report. Viewed at: https://www.nexi.go.jp/corporate/booklet/pdf/annual2017-e.pdf.

respect to damages caused by such disruptions.[85] Only a small share of its total lending and investments is geared towards providing export loans, largely bank-to-bank loans and buyer's credits (some JPY 102.8 billion in FY2018, representing 6% of all actual lending and investments in that year). According to the authorities, export loans are provided based on the conditions of the OECD Arrangement on Officially Supported Export Credits; export loans are also available from the private sector. Most of the JBIC's lending/investment activity is not trade-related: overseas investment loans accounted for 69% of lending commitments in FY2018; untied loans, 2%; guarantees, 20%; and equity participations, 3%.

3.79. JBIC funding comes from different sources, mostly government accounts or with government guarantees, including Government-Guaranteed Foreign Bonds, and borrowing from the Fiscal Investment and Loan Program and the Foreign Exchange Fund Special Account.[86]

3.3 Measures Directly Affecting Production and Trade

3.3.1 Incentives

3.80. Total central government tax revenue in Japan in FY2019 was JPY 62,495 billion, with the biggest contributions from: income tax, the consumption tax, and corporation tax. Revenue from customs duties accounted for 1.65% of the total in the same year (Table 3.10). Various local government taxes are levied at both the prefectural and local levels. Taxation rates at central and local government levels for FY2019 are set out in Table A3.1.

Table 3.10 Tax revenue, FY2015-19

	FY2015	FY2016	FY2017	FY2018	FY2019
Total for general account (JPY million)	56,285.4	55,468.6	58,787.5	59,928.0	62,495.0
			(% of total)		
Direct tax	54.4	54.2	56.4	56.8	56.0
Income tax	31.6	31.7	32.1	32.5	31.9
Corporation tax	19.2	18.6	20.4	20.5	20.6
Inheritance tax	3.5	3.8	3.9	3.7	3.6
Indirect tax	45.6	45.8	43.6	43.2	44.0
Consumption tax	31.0	31.1	29.8	29.7	31.0
Gasoline tax	4.4	4.4	4.1	3.9	3.7
Liquor tax	2.4	2.4	2.2	2.2	2.0
Stamp revenue	1.9	1.9	1.8	1.8	1.7
Customs duty	1.9	1.7	1.7	1.7	1.7
Tobacco tax	1.7	1.6	1.5	1.5	1.4
Petroleum and coal tax	1.1	1.3	1.2	1.2	1.1
Motor vehicle tonnage tax	0.7	0.7	0.6	0.7	0.6
Promotion of power resources development tax	0.6	0.6	0.6	0.5	0.5
Aviation fuel tax	0.1	0.1	0.1	0.1	0.1
International tourist tax[a]	n.a.	n.a.	n.a.	0.01	0.1
Tonnage tax	0.02	0.02	0.02	0.02	0.02
Liquefied petroleum gas tax	0.02	0.02	0.01	0.01	0.01

n.a. Not applicable.

a Imposed on travellers departing Japan since 7 January 2019.

Note: FY2015-17 settled amount; FY2018 budgeted amount revised; FY2019 budgeted amount.

Source: Ministry of Finance, *Tax and Stamp Revenues*. Viewed at: https://www.mof.go.jp/english/tax_policy/taxes_and_stamp_revenues/index.htm.

3.81. Direct taxes include individual income tax and corporation tax. Over the review period, the corporation tax rate (both national and local) was reduced from 29.97% to 29.74% in 2018 (the national corporation tax rate was reduced from 23.4% to 23.2%) The highest individual income tax rate (including local taxes) is 55%. Some reforms to the individual income tax were also introduced

[85] JBIC Annual Report 2018. Viewed at: https://www.jbic.go.jp/en/information/annual-report/pdf/2018E_01.pdf.

[86] Ministry of Finance, *Fiscal Investment and Loan Program Report 2018*. Viewed at: https://www.mof.go.jp/english/filp/filp_report/zaito2018/pdf/filp2018_eng.pdf.

in 2018 with respect to allowable deductions[87]; and, in 2019, with respect to tax credits, exemptions, donations, and environmental taxes.[88] All income earned in Japan is taxable, both for residents and non-residents, and the corporation tax rate is the same for foreign and domestic corporations.

3.82. Indirect taxes, including consumption tax (VAT) and excise taxes (applied, *inter alia*, to liquor, tobacco, gasoline, and automobiles), account for most of the remainder of total tax revenue. Recent tax reforms are detailed in Section 1.2.4.1. These include a consumption tax increase in October 2019; and amendments to the tobacco tax in FY2018. The consumption tax was increased from 8% to 10%. Reduced consumption tax rates (of 8%) apply to food and beverages (except liquors and eating out), and subscribed newspapers issued twice or more per week; there are no exempt or zero-rated items.

3.83. Besides being subject to a motor vehicle tonnage tax, passenger cars are also subject to the automobile tax, an annual tax which is commensurate to the volume of the engine size of the vehicle. Rates did not change over the review period. A passenger car with a cylinder volume of between 660 and 1,000 cc is subject to a tax of JPY 29,500 per year. Mini vehicles (Kei cars) which are no larger than 11.2 ft by 4.9 ft and with an engine below 660 cc are subject to a Kei car tax of JPY 10,800. Tax reforms introduced in the 2019 Budget are to: reduce the automobile tax for those who purchased automobiles after the consumption tax rate hike; revise the eco-car tax deduction under the motor vehicle tonnage tax; ensure that the local tax revenue loss will be fully supplemented by national taxes (i.e. through an increase in the compensation rate for the motor vehicle tonnage tax and the gasoline tax); and reduce the tax rate on acquisitions of automobiles (a newly-introduced environmental performance excise) by 1%, as a one-year temporary measure from October 2019.[89]

3.84. The Aviation Fuel Tax is imposed on the quantity of aviation fuel loaded on an aircraft in the territory of Japan. Rates did not change over the review period. Aviation fuel for international airlines is exempt. Revenue from the tax is transferred to a special account for airport construction, and is also partly transferred to local public authorities to prevent obstacles such as aircraft noise.[90]

3.85. Under the Liquor Tax Act, alcoholic beverages are classified into several categories based on their basic ingredients, manufacturing process, and characteristics. Rates did not change over the review period. Tax rates, applied to domestic and imported products, are stipulated for each category, considering factors such as how items are produced and consumed.[91]

3.86. National and local taxes on tobacco are being raised by JPY 3 per cigarette in a three-phased period (JPY 1 per cigarette in each phase) which started in 1 October 2018. A new tax category was created for heat-not-burn tobacco products, and the taxation system will be revised in consideration of the products' characteristics.[92] The phase-out of the preferential tax treatment for Japanese-produced "third class cigarettes" was completed in 2019[93]; all cigarettes are now taxed at the same rates.

3.3.1.1 Taxation

3.87. As indicated by an external source, foreign investors generally have the same access to incentives offered by central and local governments; these include grants and loan assistance (see below) and tax incentives which generally favour SMEs.[94] Central government tax incentives are

[87] MOF, *FY 2018 Tax Reform (Main Points).* Viewed at: https://www.mof.go.jp/english/tax_policy/tax_reform/fy2018/tax2018a.pdf.

[88] MOF, *FY 2019 Tax Reform (Main Points)*. Viewed at: http://www.mof.go.jp/english/tax_policy/tax_reform/fy2019/tax2019.pdf.

[89] MOF, *FY 2019 Tax Reform (Main Points)*. Viewed at: http://www.mof.go.jp/english/tax_policy/tax_reform/fy2019/tax2019.pdf

[90] WTO document WT/TPR/M/351/Add.1, 27 April 2017.

[91] WTO document WT/TPR/M/351/Add.1, 27 April 2017.

[92] Tobacco Tax Law. Viewed (in Japanese) at: https://elaws.e-gov.go.jp/search/elawsSearch/elaws_search/lsg0500/detail?lawId=359AC0000000072; and Local tobacco tax law. Viewed (in Japanese) at: https://elaws.e-gov.go.jp/search/elawsSearch/elaws_search/lsg0500/detail?lawId=325AC0000000226.

[93] WTO document WT/TPR/M/351/Add.1, 27 April 2017.

[94] The Economist, *Japan, General incentives*. Viewed at: http://country.eiu.com/article.aspx?articleid=1077197291&Country=Japan&topic=Regulation&subtopic=National+incentives&subsubtopic=General+incentives&aid=1&oid=1077197291. The authorities indicated that the

contained in Table 3.11. These are aimed, *inter alia*, at: promoting employment, regional revitalization, improving productivity, and encouraging research and investment. Tax incentives are also in place to promote the installation of energy-saving facilities.[95]

3.88. Over the review period, new or revised tax incentives for companies were, *inter alia*, designed to: promote business investment by local SMEs, promote business succession of SMEs, and spur wage hikes and productivity, including through revisions to the tax system for R&D (Table A3.2*).*[96] According to the authorities, no studies were undertaken over the review period on the effectiveness of tax (and non-tax) incentives.

Table 3.11 Central government tax incentives, 2019

Title	Overview
Tax incentives for strengthening local business facilities	
Employment promotion taxation	- Establishment/expansion of headquarters functions within eligible areas (incl. FDI in Japan): tax credit of up to JPY 600,000 per new employee. - Relocation of headquarters functions to within eligible areas from the 23 wards of Tokyo: tax credit of up to JPY 900,000 per new employee.
Corporate income tax incentives for capital investment (tax cut for offices)	- Establishment/expansion of headquarters functions within eligible areas (incl. FDI in Japan): a special initial depreciation of 15% of the standard acquisition cost, or 4% tax credit on the acquisition value of specified business facilities. - Relocation of headquarters functions to within eligible areas of the 23 wards of Tokyo: a special initial depreciation of 25% of the standard acquisition cost, or a 7% tax credit on the acquisition value of specified business facilities.
Incentives regarding Special Zones	
National Strategic Special Zone	Special regulatory measures, tax treatment (for corporate income tax), and financial/monetary support are available for companies with business plans in National Strategic Special Zones.
Comprehensive Special Zones	Special regulatory measures, tax credit (for corporate income tax), and fiscal/financial support are available for companies with business plans in designated Comprehensive Special Zones.
Special Zones for Reconstruction	Special measures, such as deregulation, tax incentives, etc., are available in disaster-afflicted areas where local governments made designated plans.
Incentives based on the Act on Special Measures for Productivity Improvement	
Connected Industries Taxation System	Tax measures supporting the introduction of systems, sensors, robots, etc. necessary in efforts to boost productivity, through collaboration and utilization of data, and for which certain cybersecurity measures are taken. Tax measures: 30% special depreciation or a 3% tax deduction. The tax credit rate is 5% in the case of wage increases in which the rate of increased pay and allowance for employees is over 3% from the previous year.
Tax incentives based on the Regional Future Investment Promotion Act (Tax Credit for Regional Future Investment Promotion)	
Tax incentives for capital investment	- Machinery, appliances and fixtures: a special initial depreciation of 40% of the standard acquisition cost, or a 4% tax credit (if certain requirements are met: 50% special initial depreciation, or 5% tax credit) - Buildings, attached facilities and structures of specific business facilities: a special initial depreciation of 20% of the standard acquisition cost, or a 2% tax credit. Maximum amount of tax deduction: 20% of the amount of corporate or income tax in the period concerned. Companies must prepare a business project and obtain the required prefectural and ministerial approvals.
Tax exemption or unequal taxation of local taxes	Confirmed companies may be able to receive exemptions or reductions on property acquisition taxes and property taxes by local authorities.

Subsidy Programme for Projects Promoting Foreign Direct Investment, Site Location and Regional Development ended in March 2017.

[95] Corporations that install energy-saving facilities can apply 30% special depreciation of the price of those facilities. SMEs can alternatively apply a 7% tax credit for the purchase of these facilities. WTO document WT/TPR/M/351/Add.1, 27 April 2017.

[96] MOF, *FY 2019 Tax Reform (Main points)*. Viewed at: https://www.mof.go.jp/english/tax_policy/tax_reform/fy2019/tax2019.pdf; *FY 2018 Tax Reform (Main points)*. Viewed at: https://www.mof.go.jp/english/tax_policy/tax_reform/fy2018/tax2018a.pdf; and *FY 2017 Tax Reform (Main points)*. Viewed at: https://www.mof.go.jp/english/tax_policy/tax_reform/fy2017/tax2017a.pdf.

Title	Overview
Tax incentives for R&D	
R&D Tax Credit System	Table A3.2
Promotion of Open Innovation	Tax credit for the total amount of expenses for joint or contract research with universities, national research institutes, etc. Tax credit = total amount of special R&D expenses times 20%, 25% or 30%. Maximum amount of tax credit: 10% of the amount of corporate or income tax in the period concerned
Tax incentive for wage and productivity improvement	
Tax deduction system for wage and productivity improvement	Tax incentives for companies which carry out: wage hikes (+3% year-on-year for large firms; 1.5% year-on-year for SMEs); and investment and employee training: maximum 20% tax credit (25% for SMEs). Maximum amount of tax credit: 20% of the amount of corporate or income tax in the period concerned.
Preferential tax treatment for Special Zones	
Special Zone for promoting investment in reconstruction of industry in Fukushima	Companies who contribute to maintaining employment opportunities in reconstruction industry accumulation areas are eligible to apply for a special tax measure when they make capital investments or employ disaster victims

Source: JETRO, *Incentive Programs*. Viewed at: https://www.jetro.go.jp/en/invest/incentive_programs.html; and information provided by the authorities.

3.3.1.2 Subsidies and other assistance programmes

3.89. In its latest notification to the Committee on Subsidies and Countervailing Measures under Article XVI:1 of GATT 1994 and Article 25 of the Agreement on Subsidies, Japan listed 51 subsidy schemes provided by central or local governments, largely for fiscal years 2016 and 2017; support was mainly targeted at the following activities/sectors: crafts; mining and energy; beverages (sake and shochu); agriculture; fisheries; leather; and R&D for next-generation technology. In most cases, subsidies took the form of grants. Interest subsidies and loans were also used to subsidize some economic activities. The most significant subsidy programmes in value terms were (i) loans for purchasing petroleum and liquefied petroleum gas for stockpiling by private companies (JPY 517.9 billion in FY2016 and JPY 335.2 billion in FY2017); and (ii) grants for rice production, which have since been abolished (subsidy of JPY 98.7 billion in FY 2015 and JPY 70.8 billion in FY 2016). No new subsidy programmes were introduced over the reporting period covered by Japan's notification, but several were terminated (Table 3.12).

Table 3.12 Subsidy and other assistance schemes terminated, 2017-19

Scheme	Date of termination
Subsidy for the tortoiseshell and ivory crafts industries	3/2017
Subsidy for supporting action to improve energy efficiency by private enterprises	3/2017
Subsidy for developing the local energy supply basis	3/2019
Geothermal energy programme	3/2017
Subsidy for R&D for the practical application of advanced ultra-supercritical technology for a thermal power plant	3/2017
Grant for the technical development of a full-MOX ABWR plant system	3/2017
Subsidy for R&D for care robot equipment	3/2018
Measures for rice	2018
Local subsidies for promoting the manufacture of traditional craft products (3 Prefectures)	End-FY2017; FY2018
Local measures for eggs (1 Prefecture)	End-FY2016
Local subsidy measures for vegetables (4 Prefectures)	End-FYs 2016, 2017 and 2018
Local subsidy measures for fruit (1 Prefecture)	End-FY2018
Subsidy for inland water aquaculture	End-FY2018

Source: WTO documents G/SCM/N/315/JPN, 9 June 2017; and G/SCM/N/343/JPN, 19 July 2019.

3.90. Subsidies are available for the purchase of clean energy vehicles sold by car makers, and for building hydrogen fueling stations.[97] The subsidy to promote clean energy vehicle purchases applies to the purchase of electric battery vehicles, plug-in hybrid electric vehicles, fuel-cell energy vehicles,

[97] The Economist, *Japan, Industry-specific incentives*. Viewed at: http://country.eiu.com/article.aspx?articleid=1097197293&Country=Japan&topic=Regulation&subtopic=National+incentives&subsubtopic=Industry-specific+incentives&aid=1&oid=1077197291.

and clean diesel vehicles (Table 3.13). The subsidy amount is calculated based on the grade of the clean energy vehicle, and is paid within the limits set per vehicle grade (it is not paid if the calculated amount is under JPY 15,000). The budgetary allocation for this subsidy scheme was JPY 16 million in 2019. The upper limit of the subsidy scheme for building hydrogen stations is from JPY 180 million to JPY 390 million. The upper limit on the subsidy for the operation of hydrogen stations is from JPY16 million to JPY 26 million. These limits depend on the type of machines involved.

Table 3.13 Subsidy to promote clean energy vehicle purchases

Vehicle type	Subsidy amount
Electric battery vehicles	Subsidy is calculated on the driving range per charge. Maximum subsidy of JPY 400,000
Plug-in hybrid vehicles	Subsidy of JPY 200,000 for all vehicles (limited to electric vehicles with calculated driving range of over 40 km)
Fuel-cell energy vehicles Clean diesel vehicles	Subsidy amount is calculated based on the price difference between the clean energy vehicle and the gasoline-powered vehicle of the same model/grade. Maximum subsidy amount for fuel-cell vehicles is JPY 2,250,000. Maximum subsidy amount for car-derived vans is JPY 150,000

Source: Information provided by the authorities.

3.91. Various subsidies to encourage the establishment of foreign-affiliated businesses are also provided at the local level.[98] These subsidies, *inter alia*, relate to rent costs; expenses; depreciable assets; investments; employment; and research costs.

3.92. Since 2016, new subsidy programmes were introduced in the following areas: subsidies for manufacturing, information and communications technology introduction, and sustainability support for SMEs (FY2019 budget, allocation of JPY 110.0 billion); and group subsidies (FY2018 supplementary budget, allocation of JPY 31.4 billion).[99]

3.93. Various new support programmes were introduced for the agriculture and fisheries sectors (Section 4.1).

3.94. The Development Bank of Japan Inc. (DBJ), which is wholly owned by the Government, offers various financial services, including long-term loans and investment in both local and foreign projects involving natural resources and energy; technology development; marine transport; urban renewal; and antipollution technology.[100] According to the authorities, interest rates are market-based but the DBJ may offer longer-term loans than those available through commercial banks. Priorities for the DBJ are in the areas of crisis response operations (i.e. supply growth capital from the perspective of promoting the competitiveness of Japanese enterprises along with regional revitalization). The DBJ's capital, funded by the Government, was JPY 1,000.4 billion as at 31 March 2019. As at the same date, the Bank had total assets of JPY 16,827 billion and loans of JPY 13,063 billion.[101]

3.95. As set out in government budgets over the period FY2017-19, various new support programmes were introduced, namely: support for SME business succession; establishment of bases for revitalizing local economies; transition to the production phase towards post-"K-computer"; promotion of capital investment by local core companies; expansion of measures to assist business succession; support to information technology innovation and artificial intelligence system co-development; support for introducing leading-edge energy-saving equipment; grants to advance regional reinvigoration; and development and demonstration of smart agriculture technology. The authorities indicated that, while the type of support is mainly subsidies, these do not constitute "subsidies" and are not "specific" under the WTO Subsidies and Countervailing Measures Agreement.

[98] JETRO, *Incentive Programs*. Viewed at: https://www.jetro.go.jp/en/invest/incentive_programs.html.

[99] As explained by the authorities, the group subsidy is a special measure, based on the fact that physical damage, such as damage to facilities and equipment, is widespread, and the supply chain is damaged, resulting in a stagnation of the economy. Measures were taken in 2011, 2016 and 2018. In order to support the restoration of facilities and equipment affected by the disaster, the Government supports some expenses, such as the restoration of facilities based on the SME group's reconstruction project plan.

[100] The Economist, *Japan, Industry-specific incentives*. Viewed at: http://country.eiu.com/article.aspx?articleid=1097197293&Country=Japan&topic=Regulation&subtopic=National+incentives&subsubtopic=Industry-specific+incentives&aid=1&oid=1077197291.

[101] DBJ, *About DBF/Timeline*. Viewed at: https://www.dbj.jp/en/co/info/outline.html.

3.3.2 Standards and other technical requirements

3.96. The Ministry of Foreign Affairs (the International Trade Division, within the Economic Affairs Bureau) remains Japan's Notification Authority under the Agreement on Technical Barriers to Trade (TBT Agreement). Over the review period, no specific trade concerns on Japan's measures were raised by other WTO Members in the TBT Committee. The WTO was notified that the Japan Standards Association and the Optoelectronics Industry and Technology Development Association accepted the Code of Good Practice for the Preparation, Adoption and Application of Standards (Annex 3 to the WTO TBT Agreement).[102]

3.97. Between January 2017 and early September 2019, Japan submitted 93 regular notifications to the WTO Committee on Technical Barriers to Trade; the 60-day period for comments was observed for 77 regular notifications. The type of measures notified to the WTO included 69 technical regulations (Article 2.9) and 1 conformity assessment procedure (Article 5.6). Japan notified 13 urgent technical regulations (Article 2.10), mainly related to consumer and human health protection.

3.98. Japan is a member of the International Organization for Standardization (ISO), the International Telecommunication Union, the International Electrotechnical Commission (IEC), the International Accreditation Forum, the *Bureau international des poids et mesures*, the *Organisation internationale de métrologie légale*, and the International Laboratory Accreditation Cooperation, as well as several regional standards and accreditation bodies.

3.99. Japan has MRAs concerning standards, technical regulations and conformity assessment procedures in force with the European Communities, Singapore, the Philippines, Thailand, the United States, and Chinese Taipei.

3.3.2.1 Legal and institutional framework

3.100. There were no changes to the agencies in charge of TBT issues over the review period. These remain the METI; the Ministry of Internal Affairs and Communications (for communications equipment); the MAFF (for foodstuffs, agricultural, forestry and fisheries products); the Ministry of Health, Labour and Welfare (for drugs and medical devices); the Consumer Affairs Agency (for labelling) and the Ministry of Environment (for environment).[103]

3.101. The main laws on standards and technical regulations in Japan, together with the agency responsible, are described in Table 3.14.

Table 3.14 Main laws on standards and technical regulations

Legislation/agency	Purpose
Industrial Standardization Act, 1949 /METI	Applies to: all products except medicines, agriculture and fertilizer chemicals, silk yarn, foodstuffs, agricultural and forestry products; data; services; and management systems. The Act establishes the Japanese Industrial Standards (JIS) Committee and the JIS Mark Scheme, and provides the legal basis for standards, certification, and accreditation of certification bodies and laboratories.
Consumer Product Safety Act, 1973 /METI	Sets out requirements for: (i) a narrow range of specified products which must comply with technical requirements; and (ii) specified maintenance products (some types of domestic water heaters and electric appliances) which must be provided with information on maintenance. It also provides the legal basis for reporting product accident information for consumer products.
Act on Securing Quality, Efficacy and Safety of Products including Pharmaceuticals and Medical Devices, 1960 /Ministry of Health, Labour and Welfare	Regulates the manufacture, import and sale of pharmaceuticals, medical devices, regenerative and cellular therapy products, gene therapy products, and cosmetics.

[102] WTO documents G/TBT/CS/N/189, 20 April 2017; and G/TBT/CS/N/195, 21 November 2017.
[103] A fuller description of the sub-entities responsible for TBT issues is contained in WTO document WT/TPR/S/351/Rev.1, 20 June 2017 (Box 3.2).

Legislation/agency	Purpose
Act on Japanese Agricultural Standards, 1950/MAFF	Applies to foods, drinks, oils, and fats, and agricultural, forestry, livestock and fishery products and products made from them, except liquors, drugs, cosmetics and regenerative medical products. It provides the legal basis for the Japanese Agricultural Standards, and criteria for adopting standards, quality grading, certification, and accreditation of certifying bodies, laboratories and inspectors.
Building Standard Law, 1950 /Ministry of Land, Infrastructure, Transport and Tourism	Applies to buildings and construction thereof. It provides for the establishment of standards for the construction of buildings, including fireproofing and procedures for inspection, certification of buildings, and type approval.
Electrical Appliances and Materials Safety Act, 1961/METI	Applies to electrical appliances and materials. The Act regulates the manufacture and sale of electrical appliances, and requires manufacturers and importers of these appliances to register with the METI and ensure conformity with technical requirements.
Measurement Act, 1992/METI	Establishes the units of the International System of Units (ISU) as the measurement units in Japan, and provides the legal basis to apply and verify them and certify devices for their measurement.
Food Labelling Act, 2013/Consumer Affairs Agency	Ensures a unified food-labelling system, by establishing standards and specifying other necessary information regarding the labelling of food that is intended for sale (see below).

Source: Information provided by the authorities.

3.102. Over the review period, amendments were made to some of these laws.

3.103. Amendments to the Industrial Standardization Act, effective 1 July 2019, were to: expand the scope of standardization to: services; programmes and other electronic records and business management systems; simplify the process for establishing JISs (see below); strengthen penalties to ensure the reliability of the JIS mark[104]; and promote public and private standardization activities.[105]

3.104. In 2017, the Law Concerning Standardization of Agricultural and Forestry Products was amended, and was renamed the Act on Japanese Agricultural Standards. The overall aim of the amendments was to expand a standardization framework for contributing to the sound development of industries related to agriculture, forestry and fishery, and to help protect the interests of general consumers. Under the previous Law, the scope of Japanese Agricultural Standards (JASs) was limited to the "quality" of covered goods, and amendments expanded the potential scope of JASs to include production processes; handling methods (related to services), and testing methods. Additionally, the JAS accreditation framework was expanded, and a laboratory and inspector accreditation system was established (see below).[106] In tandem with the aforementioned amendments, the Act on the Food and Agricultural Materials Inspection Center Incorporated Administrative Agency was amended to enable domestic operators to rapidly obtain certification if international standards are based on JASs.[107] The authorities confirmed that, presently, no international standards are based on JASs.

3.105. The Building Standard Law was amended in 2018 (Act No. 67 of 2018) to improve building safety, particularly considering recent large-scale fires and technological developments relating to fire prevention. Main changes related to: ensuring the safety of buildings and urban areas; utilizing existing building stock; and promoting the maintenance of wooden buildings.[108]

[104] Any juridical person who violates the Act, i.e. entities which indicate JIS marks on their products without a valid certificate, or which do not obey an order by a competent minister, will be fined up to JPY 100 million (it was JPY 1 million before the amendment). The maximum fine for individuals remains unchanged, at JPY 1 million.

[105] Industrial Standardization Act. Viewed at (in Japanese): https://www.meti.go.jp/policy/economy/hyojun-kijun/jisho/jis.html.

[106] MAFF, *About the new JAS system*. Viewed at: http://www.maff.go.jp/j/jas/h29_jashou_kaisei.html.

[107] Business rules were established so that the FAMIC can certify international standards certification bodies. MAFF, *About the new JAS system*. Viewed at: http://www.maff.go.jp/j/jas/h29_jashou_kaisei.html.

[108] Ministry of Land, Infrastructure, Transport and Tourism, *About law (2018 law 67th) which revises a part of Building Standard Law*. Viewed at: http://www.mlit.go.jp/jutakukentiku/build/jutakukentiku_house_tk_000097.html.

3.3.2.2 Standards

3.106. There are two types of standards in Japan: the JIS and the JAS.

3.107. JISs are drafted by interested parties or by industrial associations entrusted by the competent ministry. The draft is sent to the competent minister and, thereafter, the Japan Industrial Standards Committee undertakes its deliberation/consultation work, which includes a 60-day period for public comment. Once completed, the draft is reported to the competent minister, to be established or revised as a JIS and notified in the Official Gazette. To speed up the development of a JIS, amendments to the Industrial Standards Act in 2019 (see above) enabled JIS drafts to be proposed by private associations which are accredited by the competent minister as having expertise in developing JISs, thus skipping the Committee deliberation phase (the 60-day public comment period remains a requirement).[109] Each JIS is reviewed every five years, which can result in withdrawal of outdated standards.[110] As at end-March 2019, there were 10,773 JISs (Table 3.15). According to the authorities, the number of JISs with corresponding international standards was 6,062 (end-March 2019), and other JISs (4,711) have no corresponding international standards because the target products' features are exclusively for the domestic market. The proportion of those JISs which are harmonized with, or which modified, ISO or IEC international standards (according to the definition of ISO/IEC Guide 21-1), was 97%.

Table 3.15 JISs established, revised, and withdrawn, April 2018-March 2019

	Number of newly established JISs	Number of revised JISs	Number of JISs withdrawn	JISs in force at end-March 2019
Civil engineering and architecture	14	27	0	601
Mechanical engineering	46	38	8	1,778
Electronic and electrical engineering	35	90	43	1,731
Automotive engineering	9	12	4	367
Railway engineering	1	10	3	151
Shipbuilding	0	0	0	391
Ferrous materials and metallurgy	6	23	1	461
Non-ferrous materials and metallurgy	1	12	2	391
Chemical engineering	20	67	5	1,782
Textile engineering	6	2	0	237
Mining	5	4	2	170
Pulp and paper	1	1	0	80
Management systems	4	8	0	105
Ceramics	5	15	0	390
Domestic wares	3	4	0	201
Medical equipment and safety appliances	20	26	8	575
Aircraft and aviation	0	0	0	8
Information processing	7	6	5	468
Miscellaneous packing, welding, radioactivity, etc.	13	18	9	886
Total	**196**	**363**	**90**	**10,773**

Source: Information provided by the authorities.

3.108. According to the authorities, approximately 7,522 domestic and 1,005 foreign factories in 24 countries and economies are certified to affix JIS marks (JIS Mark scheme). The authorities state that domestic and foreign factories are treated in the same manner regarding certification of the JIS marks, and the JIS Mark scheme is internationally harmonized, based on ISO/IEC 17065. As at March 2019, 24 organizations were accredited as JIS mark certification bodies.

3.109. JASs are proposed either by the MAFF or by the private sector, and are drafted by a project team. With respect to technical regulations, the JAS draft is notified to the WTO, giving a 60-day comment period. For non-compulsory JASs, a 30-day public comment period is provided for.[111] The

[109] Japanese Industrial Standards Committee, *Flowchart of JIS development*. Viewed at: https://www.jisc.go.jp/eng/jis-act/flow-dev.html.

[110] WTO document WT/TPR/M/351/Add.1, 27 April 2017.

[111] As indicated by the authorities, there was virtually no demand for public hearings; the most recent was held around 20 years ago.

draft is then submitted to the JAS Council for a final decision. JASs are issued as public notices, as specified in the Act on Japanese Agricultural Standards. As at March 2019**,** there were 73 JASs. During the period from April 2016 to March 2019, 12 new standards were established, 46 were revised, and 1 was abolished. At the time of the previous review, 78% of JASs were harmonized with international standards. Those not in harmony include canned asparagus and fruit juices. Except for the JAS for Organic Plants, the JAS for Organic Processed Foods, and the JAS for Organic Livestock and Organic Livestock Products (see below), JASs are voluntary. The JAS Law allows third-party organizations to certify operators (i.e. manufacturers) to allow them to affix JAS marks. In 2017, the JAS certification framework was expanded, and a registered testing company system was established under which the MAFF registers testing organizations that meet international standards.[112] The Minister of Agriculture, Forestry and Fisheries, registered certifying bodies (RCBs) and registered overseas certifying bodies (ROCBs) are responsible for monitoring and managing JAS marks.[113] Foreign producers or manufacturers that are certified by RCBs and ROCBs may conduct their own grading and affix the JAS marks to their products. The authorities indicated that, as at March 2019, there were 22 ROCBs and 79 domestic RCBs. There are around 3,000 foreign certified operators and around 8,000 domestic certified operators.

3.3.2.3 Technical regulations

3.110. With respect to the drafting of technical regulations and mandatory JASs, the development/consultation process is generally as follows: the agency responsible hears opinions from stakeholders, and prepares the draft of a technical regulation. The agency submits the draft to its relevant advisory council, which is generally composed of representatives from industry, academics, and consumer groups, for deliberation. The advisory council then deliberates the draft, and prepares its proposal; comments submitted from all stakeholders (including foreign businesses) are taken into consideration (a 60-day period is provided for comments). A report is made of the result, and is sent to the competent minister. Finally, a public announcement of the technical regulation is published in the Official Gazette.[114] The procedure for revising and withdrawing technical regulations is basically the same as the procedure for preparing, adopting and applying them. As indicated by the authorities, no data is available on the number of technical regulations in force.

3.111. As reported by the authorities, regarding regulations on vehicle safety and environmental protection, Japan has taken measures such as the introduction of international regulations into its national regulations with respect to International Whole Vehicle Type Approval under the UN/ECE World Form for Harmonization of Vehicle Regulations. The authorities indicated that Japan adopted 16 UN/ECE World Forum technical regulations out of the existing 20.

3.112. There are three mandatory JASs: the JAS for Organic Plants (which was revised in 2017), the JAS for Organic Processed Foods (revised in 2017 and 2018), and the JAS for Organic Livestock and Organic Livestock Products. The latter used to be a standard but was made a technical regulation in 2018.[115]

3.3.2.4 Conformity assessment and inspection

3.113. Overseas manufacturers of electrical and consumer products may undergo conformity assessment and certification conducted in foreign countries by foreign-registered conformity assessment bodies, in accordance with relevant laws (e.g. the Electrical Appliances and Materials Safety Act and the Consumer Product Safety Act). Regarding the Consumer Product Safety Act, there are one foreign-registered and six domestically registered conformity assessment bodies. Regarding the Electrical Appliances and Materials Safety Act, there are seven foreign-registered and seven domestically registered conformity assessment bodies.[116]

[112] MAFF, *About the new JAS system*. Viewed at: http://www.maff.go.jp/j/jas/h29_jashou_kaisei.html.
[113] WTO document WT/TPR/S/243/Rev.1, 2 May 2011.
[114] WTO document WT/TPR/M/351/Add.1, 27 April 2017.
[115] WTO documents G/TBT/N/JPN/580, 10 January 2018 (with addendum); G/TBT/N/JPN/581, 10 January 2018 (with addendum); and G/TBT/N/JPN/603, 5 July 2018.
[116] At the time of the previous Review, a list of registered conformity assessment bodies was provided. WTO document WT/TPR/M/351/Add.1, 27 April 2017.

3.114. Japan accepts test data on chemical products developed in other countries, based on OECD Test Guidelines, OECD Good Laboratory Practice principles, and the Decision of the OECD Council Concerning the Mutual Acceptance of Data in the Assessment of Chemicals.[117]

3.115. The METI has designated 24 inspection bodies, of which 7 are foreign. They include: 7 bodies under the Consumer Product Safety Act, 14 under the Electrical Appliances and Materials Safety Act, 2 under the Act on the Securing of Safety and the Optimization of Transaction of Liquefied Petroleum Gas, and 1 under the Gas Business Act.

3.3.2.5 Labelling requirements

3.116. Labelling requirements are contained in various laws: the Food Labelling Act; the Consumer Product Safety Law; the Household Goods Quality Labelling Act; the Electrical Appliances and Materials Safety Act; the Industrial Safety and Health Act; the Act Concerning Business Associations and Measures for Securing Revenue from the Liquor Tax; and the Fertilizer Regulation Act. Over the review period, "labelling standards for manufacturing process and quality of wine"[118], established by the National Tax Agency, entered into force in 2018.

3.117. The 2013 Food Labelling Act, which entered into force in 2015, sets out nutritional labelling requirements and the inclusion of allergen information on imported and domestically produced pre-packaged processed food products.[119] The Act was amended in 2018 (Act No. 97 of 2018) to increase the transparency of food-related business operators and to improve food safety for consumers. Amendments included requirements for food-related business operators to notify government agencies when they recall foods that are not labelled according to food-labelling standards, and the application of fines for non- or false reporting.[120] The implementing regulation for the Food Labelling Act is the Food Labelling Standard (Ordinance of the Cabinet Office No. 10 of 2015, as amended). At the time of the previous Review, Members raised the issue of the Act's labelling requirements for plant products containing chemical substances applied post-harvest, a requirement that is not required for such substances applied pre-harvest. As explained by the authorities, this relates to whether such substances are considered as pesticides (if applied pre-harvest) or food additives (if applied post-harvest); some Members noted that this labelling requirement places more burden on trading partners than on Japanese producers.[121]

3.118. The Food Labelling Standard covers all food and drink sold in Japan. Importers are responsible for ensuring that their products are properly labelled (standard-compliant product labelling is not required at the time of customs clearance).[122] An amendment to the Food Labelling Standard in September 2017 (Cabinet Office Ordinance No. 43 of 2017) introduced the requirement to indicate on the label the place of origin of the heaviest ingredient of those contained in the final product; this applies to all processed foods domestically produced and sold[123], with the exception of

[117] As reported at the time of the previous Review, a trading partner that wants its data to be accepted under the scheme of OECD Mutual Acceptance of Data must be an OECD member, with a recognized national compliance programme, or a full adherent to the Council Acts related to the Mutual Acceptance of Data in the Assessment of Chemicals. WTO document WT/TPR/M/351/Add.1, 27 April 2017 (pg. 209).

[118] National Tax Agency, *About the "Product Quality Labeling Standard for Fruit Sake"*. Viewed at: https://www.nta.go.jp/taxes/sake/hyoji/kajitsushu/index.htm.

[119] Food Labelling Act. Viewed at: https://www.caa.go.jp/policies/policy/food_labeling/food_labeling_act/#laws.

[120] CAA (in Japanese). Viewed at: https://www.caa.go.jp/policies/policy/food_labeling/food_labeling_act/amendment_001/pdf/amendment_001_190122_0001.pdf.

[121] USTR, *Foreign Trade Barriers*. Viewed at: https://ustr.gov/sites/default/files/files/Press/Reports/2018%20National%20Trade%20Estimate%20Report.pdf.

[122] USDA, *GAIN Report*. Viewed at: https://gain.fas.usda.gov/Recent%20GAIN%20Publications/An%20Overview%20of%20the%20Food%20Labeling%20Standard_Tokyo_Japan_5-26-2017.pdf.

[123] Japan's notifications to the WTO regarding this amendment are: G/TBT/N/JPN/551, 27 March 2017; G/TBT/N/JPN/551/Add.1, 21 July 2017; G/TBT/N/JPN/551/Add.2, 4 October 2017; and G/TBT/N/JPN/551/Add.3, 17 November 2017. The Add.1 and Add.2 documents contain explanatory materials on the new labelling system. The Add.3 document contains a link to an English translation of a comparison of provisions prior to and after the amendment.

a few items, for which separate standards apply.[124] There is a transition period for compliance, which ends in 2022. Previously, the requirement was for specified processed foods to be labelled with the place of origin of the heaviest ingredient, provided it was over 50% of the product's weight.[125] For imported processed foods, the country of origin of the product must be labelled (labelling the place of origin of ingredients is not required). In May 2018, a further amendment to the Standard introduced a new labelling method for aseptic filling tofu; introduced labelling requirements for fungicides used for food; expanded the foods for which fungicides (fludioxonil) can be used; and provided for "Mortadella Bologna" to be labelled as "Bologna sausage" as the generic term of the product.[126]

3.119. The Food Labelling Standard provides the legal basis for GM labelling requirements. Presently, the list of GM products that need to be labelled comprises eight crops (soybeans, corn, rapeseed, potatoes, cottonseed, alfalfa, papaya, and sugar beet) and 33 kinds of designated processed food, mainly made of soybeans or corn; papaya; and processed foods containing papaya as a main ingredient.[127] In March 2018, the report of an expert panel on GM labelling was compiled; it led to an amendment to the Food Labelling Standard, to ensure that "non-GM" labels may only be used if it is confirmed that the product is not comingled with GM products at all (previously the label could still be used with 5% GM comingling of soybean and corn).[128]

3.120. Other developments over the review period were: (i) the introduction of new labelling requirements for pressure cookers and autoclaves for home use, as well as lighters (through revisions to the Ministerial Ordinance of the Consumer Product Safety Law)[129]; (ii) "hats" were added to the Textile Goods Quality Labelling Regulation, and "thermos bottles made of stainless steel for table use" were added to the Miscellaneous Manufactured Goods Quality Labelling Regulation (these Regulations fall under the Household Goods Quality Labelling Act); and (iii) fertilizer labelling requirements were simplified.[130]

3.3.3 Sanitary and phytosanitary (SPS) requirements

3.3.3.1 SPS measures

3.121. The Standards Information Service, within the International Trade Division of the MOFA's Economic Affairs Bureau, remains Japan's enquiry point and national notification authority under the SPS Agreement. Over the review period, Brazil raised a specific trade concern regarding Japan's restrictions on avocados.[131] Japan is a member of the Codex Alimentarius Commission and the World Organization for Animal Health (OIE), and is a contracting party to the International Plant Protection Convention.

3.122. The key agencies responsible for SPS measures are contained in Box 3.2; there were no major changes to this institutional framework over the review period.

3.123. Between January 2017 and early September 2019, Japan submitted 187 regular notifications to the WTO Committee on Sanitary and Phytosanitary Measures. Three were emergency notifications. [132] All notified measures related to international standards, guidelines or recommendations.

[124] The following items have separate standards, which set out the ingredients that are subject to mandatory country of origin labelling: (i) pickled agricultural products (top 4 or 3 agricultural ingredients which constitute 5% or more); (ii) frozen vegetable products (top 3 predominant ingredients, which constitute 5% or more); (iii) processed eel products and eel; (iv) dried bonito flakes and dried bonito; and (v) rice balls.
[125] WTO. Viewed at: https://members.wto.org/crnattachments/2017/TBT/JPN/17_5119_00_e.pdf.
[126] WTO document G/TBT/N/JPN/598, 7 June 2018.
[127] WTO document WT/TPR/S/351/Rev.1, 20 June 2017.
[128] WTO document G/TBT/N/JPN/608, 10 October 2018.
[129] WTO document G/TBT/N/JPN/596, 1 May 2018.
[130] WTO documents G/TBT/N/JPN/590, 15 March 2018; and G/TBT/N/JPN/591, 15 March 2018.
[131] WTO. Viewed at: https://www.wto.org/english/news_e/news19_e/sps_22jul19_e.htm.
[132] WTO SPS IMS. Viewed at: http://spsims.wto.org/.

Box 3.2 Key agencies responsible for SPS measures

MAFF **Food Safety and Consumer Affairs Bureau** Responsible for SPS measures relating to animal feed, animals, plants, veterinary drugs, etc.
Ministry of Health, Labour and Welfare (MHLW) **Pharmaceutical Safety and Environmental Health Bureau** Responsible for the administration of food safety, including specifications and standards for food, food additives, pesticide residues, animal drug residues, radioactive materials, GM foods, food containers, inspection, and safety measures for food.
Cabinet Office – Food Safety Commission Conducting risk assessment on food, and making recommendations to relevant ministries Implementing risk communication among stakeholders, e.g. consumers and business operators Responding to food-borne accidents and emergencies.
Ministry of the Environment Responsible for managing risks to the environment from imports, including from invasive alien species.
MAFF and MHLW Responsible for SPS measures relating to fish and fishery products (the MAFF is responsible for animal (including aquatic) health. The MHLW is responsible for food safety (including the establishment of criteria or standards for food and monitoring, and guidance of food distributed in Japan, including imported food)).

Source: WTO document WT/TPR/S/351/Rev.1, 20 June 2017.

3.124. As reported by the authorities during its last Review, SPS measures in Japan are in general based on relevant international standards or, where its measures do not conform to those, on scientific risk assessment.[133] Risk assessments undertaken by the Food Safety Commission of Japan (FSCJ) are available on its website.[134] Likewise, risk analyses for phytosanitary measures undertaken by the Risk Analysis Division of the Plant Protection Station are published online.[135] However, during Japan's previous Review, various Members raised the issue of Japan's alignment with international Codex standards with respect to maximum residue limits (MRLs) and additives standards, and with OIE rules with respect to import restrictions on beef, poultry and other animal products. Japan responded to these questions at the time of its previous Review.[136] As indicated by the authorities, since its last Review, Japan has allowed beef imports from Austria and the United Kingdom, and lifted age restrictions to beef imported from Canada, Ireland and the United States. It has also started reviewing the portions of commodities to which MRLs apply, with a view to harmonizing them with Codex standards.

3.125. Regarding food safety of imported foods, Japan accepts the results of inspections by inspection agencies that foreign governments recognize as having certain control by foreign government agencies and that have internationally valid inspection accuracy. Items for which the sanitary conditions are liable to change during transport by ship or air (for example, bacteria and mycotoxin) are excluded.[137]

3.3.3.2 Legislative framework

3.3.3.2.1 The Food Safety Basic Act

3.126. The Food Safety Basic Act falls under the responsibility of the Food Safety Commission of Japan (FSCJ) and the Consumer Affairs Agency.[138] It aims to comprehensively promote policies to ensure food safety by: establishing basic policy principles; clarifying the responsibilities of national and local governments and food-related business operators, and the roles of consumers; establishing

[133] WTO document WT/TPR/M/351/Add.1, 27 April 2017
[134] FSCJ risk assessments are available (in Japanese) at: http://www.fsc.go.jp/hyouka/index.html.
[135] MAFF, Phytosanitary risk analyses (in Japanese) are available at: http://www.maff.go.jp/j/syouan/keneki/kikaku/pra.html; and http://www.maff.go.jp/j/syouan/keneki/kikaku/prareport.html.
[136] WTO document WT/TPR/M/351/Add.1, 27 April 2017.
[137] MHLW, *List of Foreign Official Laboratories.* Viewed at: https://www.mhlw.go.jp/english/topics/importedfoods/1-10.html.
[138] FSCJ, Food Safety Basic Act (in Japanese). Viewed at: http://www.fsc.go.jp/hourei/index.data/kihonhou_20180615.pdf.

a basic direction for policy formulation; and setting out the mandate of the FSCJ. There were minor amendments to the Act in 2018, to reflect amendments to other laws.

3.3.3.2.2 The Food Sanitation Act

3.127. The Food Sanitation Act, which falls under the responsibility of the MHLW, aims to prevent eating- and drinking-related sanitation hazards, through measures to ensure food safety.[139] The Act applies to food and drink. Its implementing regulations are the Order for Enforcement of the Food Sanitation Act (Cabinet Order No. 229, 1953), last amended in 2017, and the Ordinance for Enforcement of the Food Sanitation Act (Ordinance of the MHLW No 23, 1948), last amended in 2018.

3.128. Over the review period, amendments were made to the Act (in 2018) to reflect changing dietary patterns and the environment surrounding food in Japan, as well as to increase hygiene controls to be compatible with international standards and prevent interregional food poisoning cases.[140] New provisions directly related to imports and exports are: (i) meat and poultry meat, which are foods where control processes are particularly important to prevent the occurrence of health effects, may not be imported into Japan unless they are manufactured at facilities where the competent authorities of the exporting country confirm that food hygiene controls based on hazard analysis and critical control points (HACCP) principles are in place; and (ii) a requirement to attach a health certificate, which describes the status of hygiene control issued by the exporting country, regarding the import of food whose risk increases depending on hygiene practices (namely: milk, milk products, oysters to be eaten raw, and puffer fish). Other amendments include: strengthened cooperation between national and local governments with respect to interregional food poisoning cases; institutionalized food hygiene controls for food business operators based on HACCP principles; tightened sanitary regulations for utensils, containers and packaging for food and food additives; revision of the licensing system for food businesses and the establishment of a notification system for the same; and the establishment of a reporting system for food recalls.[141]

3.129. Under the Act, the MHLW is responsible for establishing MRLs for agricultural chemicals (pesticides, feed additives and veterinary drugs). Foreign countries may apply to the MHLW to establish or revise MRLs for newly approved agricultural chemicals used in/on foods exported to Japan. In this regard, an application must be made to the MHLW, and risk assessments are undertaken by the FSCJ.[142] Some concerns were expressed about the length of the review process for the registration of new pesticides and the establishment of MRLs.[143] In this connection, Japan indicated that it has decided to streamline an approval process for pesticides and food additives by utilizing a unified application and deliberation process. Notifications on standard processing periods are published online.[144] For items where no MRLs have been established, Japan maintains a positive list system for agricultural chemicals, so as to generally prohibit the distribution of foods that contain agricultural chemicals above a certain level. As indicated by the authorities, when violations of MRL standards are found in imported foods, Japan clarifies the increased surveillance measures for the targeted food and the requirements for lifting them. In so doing, it takes in consideration the test results and the status of control for pesticide residues in the exporting country; measures are based on the relevant Codex guidelines, and try to minimize the burden on the exporting country. Since Japan's previous Review, the following standards of pesticide residues and additives in food have been established, revised or revoked: colistin sulfate and virginiamycin; salinomycin; L-carnitine; alkaline protease; chlorpropham; and guanidinoacetic acid.[145]

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[139] MHLW, Food Sanitation Act (in Japanese). Viewed at: https://www.mhlw.go.jp/content/11131500/000345801.pdf.

[140] WTO, . G/SPS/N/JPN/552, 17 January 2018 and its related link. Viewed at: https://members.wto.org/crnattachments/2018/SPS/JPN/18_0425_00_e.pdf.

[141] MHLW, *Amendment of the Food Sanitation Act*. Viewed at: https://www.mhlw.go.jp/stf/seisakunitsuite/bunya/kenkou_iryou/shokuhin/yunyu_kanshi/index_00016.html.

[142] Risk assessments are undertaken under the provisions of the Food Safety Basic Act.

[143] USTR, *Foreign Trade Barriers*. Viewed at: https://ustr.gov/sites/default/files/files/Press/Reports/2018%20National%20Trade%20Estimate%20Report.pdf.

[144] Standard processing period notifications are available online at: https://www.mhlw.go.jp.

[145] These were notified to the WTO in documents: G/SPS/N/JPN/523, 523/Corr.1, 24 July 2017 /28 July 2017; G/SPS/N/JPN/524, 25 July 2017; G/SPS/N/JPN/564, 20 February 2018; G/SPS/N/JPN/580, 21 June 2018; G/SPS/N/JPN/604, 22 November 2018; and G/SPS/N/JPN/619, 13 February 2019.

3.130. As set out in the Act, when food and related products are imported into Japan, an import notification must be submitted to the Quarantine Station, containing information such as food ingredients, processing method and food additives. The MHLW's food sanitation inspectors undertake a documentary check to ensure compliance with standards set in the Food Sanitation Act; import inspections are undertaken if deemed necessary. An inspection order lists the various foods from all or specified trading partners which are subject to mandatory inspection.[146] As noted in the previous Review, imported food may be exempt from inspection if a cargo is inspected by an official inspection organization in the exporting country which is registered with the Government of Japan and bears the result of the inspection; exclusions apply to items whose characteristics may change during transportation. As at April 2019, 4,085 foreign testing laboratories were so registered in Japan.

3.3.3.2.3 The Plant Protection Act

3.131. The Plant Protection Act, which falls under the responsibility of the MAFF, provides the legal basis for regulations on plant protection, including quarantine for local, imported and exported plants.[147] There were no changes to the Act over the review period. The Act's main implementing regulation is the Ordinance for Enforcement of the Plant Protection Act.[148] As notified by Japan to the WTO, revisions of the Ordinance's annex tables (relating to: quarantine pests; plants subject to field inspection in exporting countries; import prohibited plants; and plants subject to specific phytosanitary measures to be carried out in exporting countries) will enter into force in January 2020.[149]

3.132. All non-prohibited plants and plant products are subject to quarantine inspection. Importers must submit an "application for import plant inspection" to the Plant Protection Station at the point of entry, together with the phytosanitary certificate issued by the national plant protection organization of the exporting country.[150] Import inspections are conducted upon the goods' arrival.

3.133. Over the review period, Japan notified the WTO of new measures to reduce the risk of the introduction of *Candidatus Liberibacter solanacearum* through the import of carrots (seeds and seedlings) and celery (seedlings)[151] and of *Xylella fastidiosa* through the importation of host plants for planting (excluding seeds and fruit).[152]

3.3.3.2.4 Act on Livestock Infectious Diseases Control

3.134. The Act on Livestock Infectious Diseases Control falls under the MAFF's responsibility.[153] It aims to protect and promote the livestock industry, by preventing the outbreak and spread of infectious diseases in livestock. Over the review period, there were minor amendments to the Act in order to reflect amendments to other laws.

3.135. Under the Act (Chapter IV), a certificate of quarantine inspection issued by the governmental authority in the exporting country is required for: (i) animals, their carcasses or bones, meat, eggs, skin and hide, hair, and their containers and packing; (ii) straw from grain (with some exceptions) and forage for feed; and (iii) bedding material. Imports must arrive at designated locations. Inspections are undertaken by the Animal Quarantine Service.

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[146] MHLW. This inspection order was viewed at: https://www.mhlw.go.jp/english/topics/importedfoods/16/schedule01.html.

[147] Plant Protection Act. Viewed at: http://www.japaneselawtranslation.go.jp/law/detail/?ft=1&re=2&dn=1&x=0&y=0&co=01&ia=03&ky=plant+protection+act&page=22.

[148] Ordinance for Enforcement of the Plant Protection Act. Viewed (in Japanese) at: http://www.maff.go.jp/pps/j/law/houki/shorei/shorei_12_html_12.html.

[149] Japan notified the WTO of proposed changes to these lists in 2019. WTO document G/SPS/N/JPN/620, 4 March 2019; and of the revision itself in WTO document G/SPS/N/JPN/620/Add.1, 7 August 2019.

[150] Plant Protection Station, *Import and Export Plant Quarantine – FAQ*. Viewed at: http://www.pps.go.jp/english/faq/index.html.

[151] WTO document G/SPS/N/JPN/383/Add.1,11 January 2017.

[152] WTO document G/SPS/N/JPN/405/Add.2, 11 January 2017.

[153] The Act on Livestock Infectious Diseases Control. Viewed at: https://elaws.e-gov.go.jp/search/elawsSearch/elaws_search/lsg0500/detail?lawId=326AC1000000166.

3.136. Japan's Third Free Countries List catalogues the countries/areas considered to be free from various livestock diseases and are, hence, eligible to export to Japan. There are four sub-lists: (i) cloven-hoofed animals and meat; (ii) cervid animals or deer meat, etc; (iii) pigs and pig meat, etc.; and (iv) poultry and poultry meat, etc.[154] Imports from all other countries/regions are prohibited.

3.137. In November 2017, Japan introduced new animal quarantine regulations for raw milk and/or milk products[155]; imports must be accompanied by an inspection certificate issued by the competent authority of the exporting country, and dairy imports (and exports) are subject to inspection by the Animal Quarantine Service at designated entry points.[156]

3.3.3.2.5 Agricultural Chemicals Control Act

3.138. The Agricultural Chemicals Control Act falls under the responsibility of the MAFF and the Ministry of Environment.[157] It was amended in 2018 (Act No. 53 of 2018) in order to improve pesticide safety and contribute to more efficient agriculture. Amendments include: (i) the introduction of a re-evaluation system; and (ii) the revision of evaluation for registration.[158] From April 2020, risk assessment for pesticide operators and honeybees is to be introduced, and target species of animals and plants are to be added for ecological risk assessment.[159]

3.3.3.2.6 Other

3.139. As indicated by the authorities, from a food safety perspective, there are no hormone-specific regulations in Japan; they are subject to the same regulations as other veterinary drugs. With respect to hormone-fed animals (no products), there are no restrictions on imports. In this regard, the authorities indicated that if "hormones" means Zeranol, r-BST or Ractopamine for growth promotion, they are not allowed to be used on animals, since they are not approved as veterinary drugs nor designated as feed additives.

3.140. The MHLW ensures the safety of GM foods through safety assessments by the Food Safety Commission, which are based on scientific data. Without passing the safety assessment, GM foods and foods using them as raw materials, cannot be produced, imported or marketed.

3.141. In March 2011, soon after the accident at the Tokyo Electric Power Co. (TEPCO) Fukushima Daiichi Nuclear Power Station, Japan started decontamination of crop land and fruit trees and introduced controls over feeds and agricultural inputs. It also introduced a risk-based food monitoring scheme which is based on Codex standards for radioactive caesium in food but, apparently in practice, is even more stringently applied. Enforced by the national laws, food products that exceed this stringent maximum level are recalled and disposed of. As reported by the authorities, due to these measures, food products exceeding the Japanese maximum level drastically decreased after the accident, and detection rates have remained low and stable for many years. They further indicated that the purpose of sampling is to detect contamination or to remove restrictions; most detections were limited to the wild harvest monitored at areas where distribution is already restricted. The authorities reported that, since early 2013 (the last case in April), none of the farm products and fishery harvests have exceeded the Codex guideline level defined as safe for human consumption, and even the wild edible fungi, fern sprout and leaf buds have not exceeded the level for food for small-scale consumption. The only harvests which still exceed the level are certain game meat, although the detection rate is very low, and those detected are neither distributed nor exported.

[154] MAFF, *The Third Free Countries List*. Viewed at: http://www.maff.go.jp/aqs/english/news/third-free.html.
[155] Previously, only raw milk fell within the scope of animal quarantine in terms of milk and dairy products.
[156] MAFF, *Animal quarantine inspection for dairy products*. Viewed at: http://www.maff.go.jp/aqs/topix/dairy_products_en.html.
[157] Agricultural Chemicals Control Act. Viewed (in Japanese) at: https://elaws.e-gov.go.jp/search/elawsSearch/elaws_search/lsg0500/detail?lawId=323AC0000000082.
[158] WTO document G/SPS/N/JPN/593, 1 August 2018; and MAFF (in Japanese). Viewed at: http://www.maff.go.jp/j/nouyaku/n_kaisei/h300615/attach/pdf/index-18.pdf.
[159] WTO document G/SPS/N/JPN/624, 20 March 2019.

3.3.4 Competition policy and price controls

3.3.4.1 Competition policy

3.142. Competition policy continues to be governed by the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade of 1947 (the Anti-Monopoly Act, or AMA) (last amended in 2019, see below), which aims to promote, *inter alia*, fair and free competition, stimulate the creative initiative of entrepreneurs, and encourage business activities for enhanced economic development and consumer welfare.[160] The Japan Fair Trade Commission (JFTC) is the agency responsible for implementing the AMA. To ensure further transparency of law enforcement and to improve predictability for business operators, the JFTC issued guidelines on various monopoly or unfair trade issues under the AMA, and detailed rules on investigation. All the legislation and implementing rules are published on the JFTC's official website.[161]

3.143. During the review period, the main prohibitions under the AMA remained unchanged. They cover unreasonable restraint of trade, exclusionary private monopolization, unfair trade practices, and business combination. Under exclusionary private monopolization, four typical conducts, consisting of "below-cost pricing", "exclusive dealing", "tying" and "refusal to support and discriminatory treatment", are considered most likely to fall into the prohibited conducts category. According to the authorities, there are not many private monopolization cases in Japan. Regarding mergers and acquisitions, the JFTC maintains guidelines (issued on 31 May 2004 (last updated on 14 June 2011)), through which it clarifies the principles underlying the determination of whether a merger or acquisition would restrain competition. In FY2017 and FY2018, the JFTC received 206 and 321 notifications of business combination plans, respectively. The rule-of-reason approach is generally used by the JFTC in investigations.

3.144. During the review period, the main regulatory change in this area was the AMA amendment introducing the Commitment Procedures under the CPTPP (Section 2.3.2.1.1, and below). The amended AMA came into force on 30 December 2018, the same date as the CPTPP.[162] The purpose of the Commitment Procedures is to establish a scheme to resolve suspected AMA violations by consent between the JFTC and the enterprise concerned; as at end-October 2019, there were no progress and plans for the establishment of the scheme. According to the Procedures, where there is a suspicion of violation other than hardcore cartel such as price-cartel or bid-rigging cases, the JFTC and the enterprise can consult with each other and work out sufficient remedies to eliminate the violation. If such remedies are approved by the JFTC and are well-implemented, no orders will be issued by the JFTC. It is believed that the Commitment Procedures would facilitate early resolution of competition concerns, and contribute to the effective and efficient enforcement of the AMA through cooperation between the JFTC and alleged violators. To ensure the transparency and predictability of enforcement, the JFTC also established rules and policies, such as the "Rules on Commitment Procedures by the Fair Trade Commission" in 2017 and the "Policies Concerning Commitment Procedures" in 2018.[163]

3.145. On 19 June 2019, the Antimonopoly Act (AMA) Amendment Bill was approved in the 198th ordinary session of the Diet, and the enacted Act was promulgated on 26 June 2019. The purpose of the amended Act is to deter "unreasonable restraint of trade effectively, invigorate the economy, and enhance consumer interests by fair and free competition, through increasing incentives for enterprises to cooperate in the JFTC's investigations and imposing an appropriate amount of surcharges according to the nature and extent of the violation. The enacted Act shall come into effect on the date specified in the Cabinet Order, within one year and six months from 26 June 2019.

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[160] JFTC, *The Antimonopoly Act (AMA)*. Viewed at: https://www.jftc.go.jp/en/legislation_gls/amended_ama09/index.html.

[161] Relevant legislation can be viewed at: https://www.jftc.go.jp/en/legislation_gls/imonopoly_guidelines.html.

[162] *Enactment of the Act for Partial Amendment of the Act on the Development of Related Legislation Following the Conclusion of the Trans-Pacific Partnership Agreement*. Viewed at: https://www.jftc.go.jp/en/pressreleases/yearly-2018/June/180629_file/180629_1.pdf.

[163] Rules on Commitment Procedures by the Fair Trade Commission. Viewed at: https://www.jftc.go.jp/en/legislation_gls/antimonopoly_rules_files/rules_on_commitment_procedures_by_the_fair_trade_commission.pdf; and *Policies Concerning Commitment Procedures*. Viewed at: https://www.jftc.go.jp/en/legislation_gls/antimonopoly_rules_files/policies_concerning_commitment_procedures.pdf.

3.146. Several activities or business practices remain exempt from the scope of the AMA. Competition in these areas may be covered by other legislation and different institutions (Table 3.16). No other exemptions were introduced since 2017. To ensure the smooth and appropriate pass-on of consumption tax when its rate is raised, the "Act Concerning Special Measures for Correcting Practices Impeding Consumption Tax Pass-on, etc. with the Aim to Ensure Smooth and Proper Pass-on of Consumption Tax" was passed and promulgated in June 2013. The Act, which was valid until 31 March 2017, came into effect on 1 October 2013. In November 2016, the Act was amended to be valid until 31 March 2021, due to the postponement of the scheduled tax rate increase (Sections 1.1 and 1.2). The Act prohibits conduct including: refusal to shift consumption taxes by price reduction or slashing; and request to purchase goods, use of service, or provision of economic benefits in return for the acceptance of shifting of consumption taxes. It exempts pass-on cartels and representation cartels by firms or trade associations from application of the AMA if the following requirements are met: prior notification submitted to the JFTC; with respect to pass-on cartels, two thirds or more of the participating firms must be small and medium-sized businesses; "decisions on agreement on prices" shall not be exempted; and, with respect to representation cartels, only the concerted practice in relation to decisions on representation methods concerning consumption taxes is exempt.

Table 3.16 Exemptions from the Anti-Monopoly Act (AMA), 2019

Relevant ministries and agencies	Legislation	System
1. Exemptions under the AMA (1 law, 3 systems)		
JFTC	Section 21	Acts under intellectual property rights
	Section 22	Acts of cooperatives
	Section 23	Resale price-maintenance contracts concerning published works
2. Exemptions under various individual laws (16 laws, 21 systems)		
JFTC	Act Concerning Special Measures for Correcting Practices Impeding Consumption Tax Pass-on, etc. with the Aim to Ensure Smooth and Proper Pass-on of Consumption Tax	Pass-on cartels Representation cartels
Financial Services Agency	Insurance Business Act	Insurance cartels
	Act on Non-Life Insurance Rating Organization of Japan	Certain conduct by non-life insurance rating bodies
Ministry of Justice	Corporate Reorganization Act	Reorganization company's acquisition of its shares
Ministry of Finance	Act Concerning Liquor Business Associations and Measures for Securing Revenue from Liquor Tax	Rationalization of cartels
Ministry of Education, Culture, Sports, Science and Technology	Copyright Act	Cartels on fees for secondary use of commercial phonograms
MHLW	Act on Coordination and Improvement of Environmental Health Industry	Cartels to prevent excessive competition
MAFF	Agricultural Cooperative Act	Certain conduct by agricultural cooperatives, federations of agricultural cooperatives, central unions of agricultural cooperatives, and agricultural producers' cooperative corporations
METI	Export and Import Transaction Act	Cartels on export
	Act on the Organization of Small and Medium-Sized Enterprise Association	Joint business activities
	Small and Medium-Sized Enterprise Cooperatives Act	Certain conduct by federations of small business associations
Ministry of Land, Infrastructure, Transport and Tourism	Marine Transportation Act	Maritime transportation cartels (international); and maritime transportation cartels (coastal service)
	Road Transportation Act	Transportation cartels
	Civil Aeronautics Act	Aviation cartels (international); and aviation cartels (domestic)

Relevant ministries and agencies	Legislation	System
	Coastal Shipping Association Act	Maritime transportation cartels (coastal service); and joint shipping businesses
	Act Concerning Special Measures for Regulation and Vitalization of Public Motor Vehicle Transportation Services in Specified Area and Quasi-specified Area	Cartels to reduce supplied transportation capacity

Source: Information provided by the authorities.

International arrangements and agreements

3.147. The JFTC remains actively involved in competition policy activities at multilateral frameworks, such as the International Competition Network, and those under the OECD, the APEC, and the United Nations Conference on Trade and Development (UNCTAD). It also cooperates closely with foreign competition authorities through different types of agreements, including inter-agency memoranda of understanding (MoUs) and administrative agreements to conduct joint enforcement activities.[164] During the review period, new agreements included the inter-agency cooperation MoUs with Canada (MoU, May 2017), China (MoU, May 2019), Mongolia (MoU, March 2017) and Singapore (MoU, June 2017).[165]

3.148. Most of Japan's RTAs contain a competition-related chapter (Section 2.3.2.1).[166] In general, while respecting each party's domestic laws and regulations in controlling anti-competitive activities, focus is usually on the general principles that should be followed in competition enforcement, and the necessity to enhance cooperation, coordination and technical assistance.

3.149. During the review period, the Japan-EU EPA (February 2019) and the CPTPP (December 2018) also included competition chapters.[167] In the Japan-EU EPA, the two parties also emphasize the importance of non-discrimination, procedural fairness and transparency in competition enforcement, and the independence of competition agencies. They also agree to promote cooperation and coordination between the competition authorities within the framework of the 2003 Agreement between the EC and Japan concerning cooperation on anti-competitive activities.[168] In the CPTPP, Japan, together with other parties, focuses on the basic requirements on procedural fairness and transparency, cooperation and technical cooperation. They also touch upon the private rights of action and consumer protection.[169]

Enforcement

3.150. Japan maintains both a criminal enforcement system and a civil administrative enforcement route. The JFTC has the exclusive authority to impose administrative orders. With respect to criminal sanctions, the JFTC only has the authority to file criminal accusations with the Public Prosecutor's Office. An investigation on possible violations of the AMA may be initiated as a result of: a report from the general public, detection by the JFTC itself, notification by the Small and Medium Enterprise Agency, or a report by leniency applicants. In addition, private damage actions may be brought by those affected by specific violations.

3.151. Japan maintains a 2005 leniency programme, under which, since 2009, a total of five violators and two or more violators belonging to the same company group are permitted to jointly file the application for surcharge reduction or immunity. In March 2019, the bill to amend the AMA was submitted to the Diet, to reform the leniency programme. The amendment allows the JFTC to reduce the amount of surcharges when enterprises submit information which contributes to the fact finding. It also abolishes the current limit on the number of leniency applicants. The bill was enacted

[164] Table 3.13 in WTO document WT/TPR/S/351/Rev.1, 20 June 2017.
[165] JFTC, *International Agreements*. Viewed at: https://www.jftc.go.jp/en/int_relations/agreements.html.
[166] Table 3.14 in WTO document WT/TPR/S/351/Rev.1, 20 June 2017.
[167] JFTC, *Implementing Agreement between the Government of Japan and the Government of Mongolia Pursuant to Article 1.12 of the Agreement between Japan and Mongolia for an Economic Partnership*. Viewed at: https://www.jftc.go.jp/en/int_relations/agreements_files/EN_JMEPA_IA.pdf.
[168] Competition Policy. Viewed at: https://www.jftc.go.jp/en/int_relations/agreements_files/nichieuepaen.pdf.
[169] Competition Policy. Viewed at: https://www.jftc.go.jp/en/int_relations/agreements_files/TPP.pdf.

and promulgated in June 2019. The amendment shall come into effect on the date specified by the Cabinet Order, and by no later than 25 December 2020.

3.152. Following an AMA amendment enacted on 26 June 2019, the calculation period of the surcharge was increased from a maximum of three years to up to ten years before the start of an investigation. Criminal accusations may result in a fine of up to JPY 500 million for firms, or imprisonment of up to five years and a fine of up to JPY 5 million for individuals. For many years now, civil administrative processes have largely remained the main method used for enforcement. During the review period, the number of investigated and processed cases, as well as the surcharge payment amounts, are described in Table 3.17.

Table 3.17 Enforcement of competition policy, 2012-18

Details	Fiscal year						
	2012	2013	2014	2015	2016	2017	2018
(A) Cease-and-desist orders							
Number of cases	20	18	10	9	11	13	8
Private monopolization	0	0	1	0	0	0	0
Cartels	20	17	7	7	9	11	7
Price-fixing cartels	1	8	5	2	1	1	1
Bid-rigging	19	9	2	5	8	10	6
Unfair trade practices	0	1	2	0	2	1	1
Commenced hearings	22	12	72	1	-	-	-
(B) Surcharge payment orders							
Number of addressees	108	176	128	31	32	32	18
Surcharge amount (JPY billion)	25.07	30.24	17.14	8.51	9.14	1.89	0.26
Commenced hearings	25	13	70	0	-	-	-
(C) Recently processed investigation cases							
Cases investigated							
Carry-overs from the previous fiscal year	9	13	10	11	15	21	25
New cases begun during the current fiscal year	266	137	118	127	134	122	118
Total	**275**	**150**	**128**	**138**	**149**	**143**	**143**
Cases processed							
Legal measures							
Cease-and-desist orders	20	18	10	9	11	13	8
Surcharge payment orders[a]	0	0	0	0	0	0	0
Sub-total	20	18	10	9	11	13	8
Others							
Warnings	6	1	1	6	10	3	3
Cautions	208	114	102	106	84	88	95
Discontinued cases[b]	28	7	4	2	22	13	14
Subtotal[c]	242	122	107	114	117	105	112
Total	**262**	**140**	**117**	**123**	**128**	**118**	**120**
Carry-overs to the next fiscal year	13	10	11	15	21	25	23
Criminal accusations	1	1	0	1	0	1	0

a Surcharge payment orders were made without a cease-and-desist order.
b Discontinued due to lack of evidence of wrong-doing or a self-reported remedy by a business operator to be enough to remove competition concerns.
c This subtotal includes the cases which the JFTC found to be in violation of the AMA but decided to close the investigation because the relevant violation had already ceased to exist.

Source: Information provided by the authorities.

3.3.4.2 Price controls

3.153. According to the authorities, there are no controls on the prices that can be charged for goods and services in Japan.

3.154. Japan maintains a price survey scheme on certain pharmaceutical products, based on a drug price standard. The reimbursement price of medicines used/dispensed under the National Health Insurance is defined by the MHLW since 1950s. The actual purchase prices paid by medical institutions and pharmacies (prevailing market price) are surveyed (drug price survey), and the prices specified in the drug price standard are revised periodically based on the results of the

survey.[170] All medicines covered by the National Health Insurance (approximately 20,000) are subject to the price survey. To control healthcare costs (Section 3.3.7), the Government has been revising drug prices biennially, based on the actual purchasing price, leading to annual price cuts of 5% to 7% since 2017.[171] The latest pricing reform in April 2018 added pressure; for example, the scope of the price-maintenance premium (PMP), introduced in 2010 to delay biennial price cuts, was narrowed to drugs deemed truly innovative, which numbered 560 in 2018 as opposed to 823 in 2016.[172] From 2021, annual price revisions will begin for drugs with a large *yakkasa* (dispenser margin). However, the 2018 *honebuto*, or Basic Policy on Economic and Fiscal Management and Reform, called for price revisions of all products in 2019, the year of the consumption tax rate hike (Sections 1.1 and 1.2), that would bring forward the *de facto* shift to annual revision that is planned as from the year 2021.[173]

3.3.4.3 Corporate governance

3.155. According to the OECD, better corporate governance has the potential to improve the allocation of capital and the monitoring of firm performance, leading to better use of Japan's high level of business R&D and human capital.[174] It could also facilitate the downsizing or closing of low-productivity activities and the shift of resources to high-productivity activities.

3.156. In line with the 2017 New Economic Policy Package's call for improving corporate governance, the main regulatory framework in this area was amended.[175] The 2015 Corporate Governance Code, and the Corporate Governance System Guideline were revised in 2018. In the Code, companies are now required to annually assess whether to maintain each individual cross-shareholding and disclose the results of the assessment; this is expected to reduce cross-shareholdings, which have been found to have a negative impact on productivity. The diversity of corporate boards is to be improved, as the revised Guideline includes principles on the qualifications of outside directors, and states that the chair of the board should be a non-executive director. Boards should appoint CEOs through objective, timely and transparent procedures. The establishment of independent advisory committees, such as those for nominations and remuneration, was stated in the Code.[176] All listed companies are expected to comply with the Code or explain reasons for not applying it; as at December 2018, out of 3,621 (3,533 in 2017) companies, 2,621 (2,540 in 2017) listed on the First and Second Sections of the Tokyo Stock Exchange complied with, or provided explanation for not complying with, all 78 principles of the Code (73 prior to the 2018 Code amendment), whereas another 1,000 (993 in 2017) complied with or provided explanation for the

[170] MHLW, *Update of Drug Pricing System in Japan*. Viewed at: https://www.mhlw.go.jp/content/11123000/000335166.pdf.

[171] McKinsey & Company, *Change in the Japanese pharmaceutical market: Cradle of innovation or grave of corporate profits?*. Viewed at: https://www.mckinsey.com/industries/pharmaceuticals-and-medical-products/our-insights/change-in-the-japanese-pharmaceutical-market-cradle-of-innovation-or-grave-of-corporate-profits and https://www.reuters.com/article/us-japan-drugs/as-medical-costs-mount-japan-to-weigh-cost-effectiveness-in-setting-drug-prices-idUSKCN1Q71ZG.

[172] The PMP, which rewards innovation and allows for pricing stability throughout the patent life of a medicine, significantly reduced the drug lag and accelerated patient access to innovative pharmaceutical products. However, in 2018, Japan made changes to its reimbursement system that may reverse this trend. The number of products that can qualify for the PMP was reduced, and fewer companies received the full benefit of the PMP due to newly established requirements. Several factors taken into consideration in PMP calculations, such as the number of local clinical trials and product launches, appear to make it easier for Japanese companies to qualify for the premium. The authorities indicated that local and foreign companies are treated equally under the PMP. Reflecting the criticism that products which are not innovative were given the PMP, in 2018, the eligibility criteria was revised to focus on the innovation and superiority of the efficacy. USTR, *2019 National Trade Estimate Report on Foreign Trade Barriers*. Viewed at: https://ustr.gov/sites/default/files/2019_National_Trade_Estimate_Report.pdf.

[173] Reportedly, Japan's plan to move from the biennial price revision to an annual price revision, and its implementation of a new Health Technology Assessment may seemingly create uncertainty about prices for advanced medical devices and innovative pharmaceuticals, undermining investment planning for capital-intensive product developments in the country. USTR, *2019 National Trade Estimate Report on Foreign Trade Barriers*. Viewed at: https://ustr.gov/sites/default/files/2019_National_Trade_Estimate_Report.pdf.

[174] OECD, *OECD Economic Surveys: Japan 2019*. Viewed at: https://doi.org/10.1787/fd63f374-en.

[175] OECD, *OECD Economic Surveys: Japan 2019*. Viewed at: https://doi.org/10.1787/fd63f374-en.

[176] Since 2002, listed Japanese companies have been permitted to have three board committees — audit, compensation and nominating. However, according to an analysis of 3,803 such companies, only 22% had an audit committee and less than 1% had all three committees. Harvard Business Review, *Carlos Ghosn, Nissan, and the Need for Stronger Corporate Governance in Japan*. Viewed at: https://hbr.org/2018/12/ghosn-nissan-and-the-need-for-stronger-corporate-governance-in-japan.

five General Principles only.[177] As at December 2018, 18% of companies had complied with all principles in the Code, while another 67% complied with more than 90%. The share of companies with nomination committees increased from 32% in 2017 to 50% in 2019, while the share with remuneration committees rose from 35% to 52%.

3.157. The 2014 Stewardship Code, aimed at encouraging "institutional investors to fulfil stewardship responsibilities by improving and fostering their investee companies' corporate value and sustainable growth through constructive engagement", was revised in 2017 to require asset managers to resolve conflicts of interest and to promote effective monitoring of asset managers by asset owners (e.g. corporate pension funds). Institutional investors and asset owners are expected to assume a higher level of fiduciary responsibility, with the aim of enhancing their investee companies' return on equity (ROE); the authorities indicated that the Code does not directly stipulate fiduciary duty, and changing investees' ROE is not an ultimate goal of the Code. In 2018, Japanese companies' ROE seemed to be at around 9%, lagging behind that of the United States.[178] As at August 2019, 256 institutional investors had adopted the Code, of which nearly half were foreign. While almost all major asset managers and public pension funds have signed up, only 21 of the more than 10,000 corporate pension funds had joined, reflecting their lack of human resources for stewardship activities. By end-2016 (latest available data), the implementation rate of each of the Code's seven principles was more than 90%.

3.158. According to the OECD, while Japan has established a corporate governance system in line with best practices, its full impact will only be seen gradually.[179] According to Wellington Management, corporate governance continues to improve slowly but steadily, as evidenced by rising shareholder returns, unwinding of cross-shareholdings, and increasing numbers of independent board members.[180] According to the IMF, deeper corporate governance reform, including further strengthening across the banking and insurance sectors, could help deploy cash reserves, and boost investment and productivity, including via more ambitious requirements for outside directors, explicit limits on cross-shareholdings, and enhanced transparency of beneficial ownership.[181]

3.3.5 State trading, state-owned enterprises (SOEs), and privatization

3.159. During the review period, state involvement in the economy remained relatively unchanged. State trading entities continued to engage in leaf tobacco, opium, rice, wheat, barley and milk products. Major commercial SOEs include those operating in energy, financial services, telecommunications and some transport-related activities. The State continues to wholly or partially own several companies, including large ones (Table 3.18), in the delivery of goods and services that the authorities believe would not be adequately provided by the private sector alone. Ownership is maintained either directly or via Incorporated Administrative Agencies (IAAs), which are public-sector corporations with a separate legal personality; as at 1 April 2019, there were 87 IAAs (88 in 2017).[182] As at 31 December 2016 (latest data available), there was a total of 228 (234 in 2015) entities with government capitalization; the total amount of capitalization stood at JPY 76.0 trillion

[177] Tokyo Stock Exchange Inc. (2019), Status of Response to Revision of the Corporate Governance Code Flash Report (as at 31 December 2018), 21 February; and OECD, *OECD Economic Surveys: Japan 2019*. Viewed at: https://doi.org/10.1787/fd63f374-en.

[178] Nikko am, *Where Are We With Corporate Governance In Japan?* Viewed at: https://en.nikkoam.com/articles/2018/06/where-are-we-with-corporate-governance-in-japan.

[179] OECD, *OECD Economic Surveys: Japan 2019*. Viewed at: https://doi.org/10.1787/fd63f374-en.

[180] Wellington Management. Viewed at: https://www.wellington.com/en/insights/japans-corporate-governance-reforms-progress-report/?_c=fw3i0sx.

[181] IMF, *Japan: 2018 Article IV Consultation — Press Release; Staff Report; and Statement by the Executive Director for Japan*. Viewed at: https://www.imf.org/en/Publications/CR/Issues/2018/11/27/Japan-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-46394.

[182] They include: the Research Institute of Economy, Trade and Industry; the National Center for Industrial Property Information and Training; NEXI; the National Institute of Advanced Industrial Science and Technology; the National Institute of Technology and Evaluation; the New Energy and Industrial Technology Development Organization; JETRO; the Institute of Developing Economies, JETRO (IDE-JETRO); the Information-technology Promotion Agency, Japan; the Japan Oil, Gas and Metals National Corporation; the Organization for Small & Medium Enterprises and Regional Innovation, Japan; Japan International Cooperation Agency; the Japan Aerospace Exploration Agency; the Japan Water Agency; the Environmental Restoration and Conservation Agency of Japan; the Japan Atomic Energy Agency; and the Japan Agency for Medical Research and Development. The authorities indicated that they do not keep track of company shareholdings owned by the IAAs. METI, *Incorporated Administrative Agencies*. Viewed at: https://www.meti.go.jp/english/network/incorporatedad.html.

(JPY 80.1 trillion as at 31 March 2015).[183] Based on the OECD definition of SOEs, Japan identified 1 majority-owned listed enterprise (Japan Post Holdings Co., Ltd, 218,312 employees, valued at USD 55.8 billion), 7 majority-owned non-listed enterprises (37,953 employees, valued at USD 26.5 billion), 2 minority SOEs (Japan Tobacco Inc.,63,968 employees (as at 31 December 2018) and Nippon Telegraph and Telephone Corporation, 303,350 employees (as at 31 March 2019)) and no statutory corporations or quasi-corporations.[184] In 2014, based on the OECD definition of SOEs, Japan had identified 26 SOEs: 2 minority-owned listed enterprises, 8 majority-owned non-listed enterprises, and 16 statutory corporations or quasi-corporations.[185] Market monopolies continue to be retained in domestic manufacturing of tobacco and the importation of leaf tobacco.

Table 3.18 Large state enterprises, FY2017[a]

Name/operation	Total asset value (JPY billion)	Total operating revenue (JPY billion)	Total operating profit before/after tax (JPY billion)	State/public authority shareholding
New Kansai International Airport Company Ltd Established in 2012 for the operation of Kansai International Airport and Itami Airport	1,881	62	..	100%
Narita International Airport Corporation Ltd Established in 2004 for the operation of Narita International Airport	810	231	52/35	100%
East Nippon Expressway Company Limited	1,851	1,056	-0.2	100%
Central Nippon Expressway Company Limited	1,532	972	7	100%
West Nippon Expressway Company Limited	1,171	1,621	5	100%
Honshu-Shikoku Bridge Expressway Company Limited	61	79	1	66.63%
Nippon Automated Cargo and Port Consolidated System, Inc.	20	n/a	1	50.01%
Yokohama-Kawasaki International Port Corporation	8	8	0.04	50%
Tokyo Metro Co. Ltd. Established in 2004 for the operation and management of railway business in the Tokyo area	1,550	426	88/60	53.41% Government of Japan; and 46.6% Tokyo Metropolitan Government
Japan Overseas Infrastructure Investment Corporation for Transport & Urban Development	41	0.07	n/a	87.2%
Japan Environmental Storage & Safety Corporation	111	75	26	100%
Nippon Telegraph and Telephone Corporation (NTT) Owns all the shares issued by NTT East and NTT West. Required to ensure proper and stable provision of telecommunications services by these companies throughout Japan, including remote rural areas, as well as to conduct research relating to telecommunications technologies	6,710	663	725/724	33.3%
Japan Post Holdings Co. Ltd Owns all the shares issued by Japan Post Co. Ltd	290,640	..	709/512	56.87%
Fund Corporation for the Overseas Development of Japan's ICT and Postal Services Inc.	6	0.1	-1	73.37%
Development Bank of Japan	16,740	267	120	100%
Japan Bank for International Cooperation	15,992	n/a	n/a	100%
Nippon Export and Investment Insurance	1,709	n/a	61	100%
Japan Finance Corporation	21,603	606	117 (excluded from tax)	100%

[183] WTO document WT/TPR/S/351/Rev.1, 20 June 2017.

[184] The authorities did not consider the listed Tokyo Electric Power Company (TEPCO) an SOE for the purpose of the OECD exercise. Over 50% of TEPCO's shares are held by the Nuclear Damage Compensation and Decommissioning Facilitation Corporation, whose ownership is shared between the Government and a number of energy companies. Furthermore, the 14 statutory and quasi-corporations previously included in the OECD dataset were excluded because they do not engage in economic activities. Two majority-owned non-listed entities in the "other activities" category were excluded for the same reason (Japan Energy Service Corporation and the Nippon Automated Cargo and Port Consolidated System). OECD, *The Size and Sectoral Distribution of State-Owned Enterprises*. Viewed at: http://dx.doi.org/10.1787/9789264280663-en.

[185] WTO document WT/TPR/S/310/Rev.1, 6 May 2015.

Name/operation	Total asset value (JPY billion)	Total operating revenue (JPY billion)	Total operating profit before/after tax (JPY billion)	State/public authority shareholding
Private Finance Initiative Promotion Corporation of Japan	39	0.9	0.5	50%
Cool Japan Fund Inc.	52	0.8	-8	84.55%
Innovation Network Corporation of Japan	771	22	-55	95.33%
Japan Tobacco Inc. Mainly engaged in the manufacture and sale of tobacco products, prescription drugs and processed foods	556	168	215	33.4%
Agriculture, Forestry and Fisheries Fund Corporation for Innovation, Value-chain and Expansion Japan	26	0.4	-2	94.03%

n/a Not applicable.

.. Not available.

a Although not listed as "large" entities, companies such as Tokyo Metro Co. Ltd, Japan Petroleum Exploration Co. Ltd, INPEX Corporation (oil and gas exploration), and Japan Railway Construction, Transport and Technology Agency have operating revenues exceeding JPY 100 billion.

Source: Information provided by the authorities; and WTO document WT/TPR/S/351/Rev.1, 20 June 2017.

3.160. According to Japan's latest WTO notification pursuant to the provisions of Article XVII: 4(a) of the GATT 1994 and paragraph 1 of the understanding on the interpretation of Article XVII and covering the period 2015-17, four state-trading enterprises remained operational (Table 3.19).

Table 3.19 State-trading enterprises notified to the WTO under Article XVII, 2018

Agency	Nature of exclusive rights	Features
Japan Tobacco Inc. (JT)	JT has a monopoly on domestic manufacturing of tobacco. Therefore, the importation of leaf tobacco for the manufacture of tobacco in Japan is dependent on purchases by JT.	JT purchases all the leaf tobacco produced by domestic tobacco cultivators who enter into a contracted purchase agreement with it. JT imports and exports on the basis of commercial consideration.
MHLW	The MHLW has an exclusive right to import and export opium. It determines the price for the purchase of the opium from opium poppy cultivators, after consulting with the Ministry of Finance, on the basis of factors such as the condition of production by opium poppy cultivators, the import price of opium, and other economic conditions. The MHLW also purchases all opium gathered by opium poppy cultivators or research cultivators.	The MHLW supplies opium for medical and scientific purposes, and to conduct necessary control over the cultivation of the opium poppy, and the transfer, receipt, possession, and other relevant activities of opium and poppy straw. The MHLW stopped importing opium in January 2018. No opium exports are undertaken by the MHLW.
MAFF	The MAFF can import rice, wheat and barley, and can export rice when a particular necessity exists, based on the Law for Stabilization of Supply-Demand and Price of Staple Food. The Law does not restrict the importation or exportation of rice, wheat or barley by the private sector.	Mark-ups on imported rice, wheat and barley are used for their management costs, such as storage, buying and selling costs. Almost all imports of rice, wheat, and barley continued to be carried out by the MAFF (except for barley imports in FY2016 and FY2017, representing about 30% of its total imports). The MAFF does not conduct any commercial export of rice, wheat, or barley. Most of the wheat and barley consumed in Japan is imported.

Agency	Nature of exclusive rights	Features
Agriculture and Livestock Industries Corporation (ALIC)	The ALIC is authorized to take measures to stabilize supply/demand and prices for milk products (e.g. milk/buttermilk powder, condensed milk, whey and butter). Private traders can freely import these products by paying the out-of-quota tariff rate.	The ALIC collects mark-ups of designated dairy products within Japan's scheduled rate; its resale prices are determined by a tender. In the period FY2015-17, average domestic sales prices were up to more than three times above the import price. During the same period, the ALIC ensured an average of about 82% of skimmed milk powder and skimmed milk solids imports, 95% of butter and butter oil imports, and around 32% of whey and modified whey imports. It did not export or purchase any domestic produce.

Source: WTO documents G/STR/N/17/JPN, 11 October 2018; and WT/TPR/S/351/Rev.1, 20 June 2017.

3.161. During the review period, there was virtually a standstill in the privatization process; some airport operation concessions were granted, and a reduction of the government shareholding in Japan Post Holdings was underway during the review period (Sections 4.4.1.1 and 4.4.3).

3.3.6 Government procurement

3.162. Japan's government procurement market is estimated to more than USD 610 billion (Euros 550 billion) annually.[186] According to OECD data, it represented 16.1% of GDP in 2017 (same as in 2015), well above the OECD average (12.8%).[187] In 2017 procurement spending was mainly allocated to healthcare (44.6%), economic affairs (14.3%) and social protection (13.8%), virtually unchanged compared to 2015 levels.[188] According to the statistics notified to the WTO in 2017, the central Government awarded 7,407 procurement contracts, with a total value of SDR 11.1 billion, which Japan had the obligation to open to international competition (see below).[189] The Ministry of Land, Infrastructure, Transport and Tourism, the Ministry of Justice, the Ministry of Environment, and the MHLW were the four entities that had the largest procurement value. Local government entities awarded 7,787 contracts worth JPY 1.62 trillion, virtually the same amount awarded by the central Government.

3.163. During the review period, the basic rules on government procurement remained virtually unchanged. With regard to the procurement procedures, the central Government, local governments and public corporations follow their respective procedures established by different laws and regulations due to their autonomous status. For the central Government, the main laws and regulations include: the Accounts Law of 1947 (last amended in 2017, to align some wordings in accordance with the revised Civil Code); the Cabinet Order Concerning the Budget, Auditing and Accounting of 1947 (amended to change some article numbers in 2017 in accordance with the revision of the Gas Business Act, and in 2018 in accordance with the revision of the Civil Code); the Special Provisions for the Cabinet Order concerning the Budget, Auditing and Accounting of 1946; and the Regulations on the Management of Contract Administration (Ministry of Finance Ordinance No. 52 of 1962). The legal framework for local entities includes: the Local Autonomy Law of 1947; and the Ordinance for Enforcement of the Local Autonomy Law of 1947. Procurement procedures followed by public corporations are set out in their accounting or internal statutes. Ministers who oversee public corporations are responsible for ensuring the consistency of their procurement activities with the rules. According to the authorities, there are no differences among the procedures applying to different categories of entities.

3.164. As a party to the WTO Agreement on Government Procurement (GPA), Japan implements the GPA rules and other international agreements through: the Cabinet Order Stipulating Procedures for Government Procurement of Products or Specified Services; the Cabinet Order Stipulating Procedures for Government Procurement of Products or Specified Services in Local Governments

[186] Online data (https://www.eu-japan.eu/government-procurement).

[187] The authorities indicated that they do not have official data on government procurement. WTO document WT/TPR/S/351/Rev.1, 20 June 2017; OECD data (https://stats.oecd.org/); OECD, *Government at a Glance 2017 – Country Fact Sheet: Japan.* Viewed at: http://www.oecd.org/gov/gov-at-a-glance-2017-japan.pdf; OECD, *Government at a Glance 2019 – Country Fact Sheet: Japan*. Viewed at: www.oecd.org/gov/gov-at-a-glance-2019-japan.pdf.

[188] OECD (2019), *Government at a Glance 2019*, OECD Publishing, Paris, Viewed at: https://doi.org/10.1787/8ccf5c38-en.

[189] WTO document GPA/STAT(17)/JPN/1, 5 April 2019.

Entities; and the Ministerial Ordinance Stipulating Special Procedures for Government Procurement of Products or Specified Services. To implement the Japan-EU EPA (Section 2.3.2 and below), the Cabinet Order Stipulating Procedures for Government Procurement of Products or Specified Services was revised on 19 December 2018 (Cabinet Order No. 340 of 2018) and the Cabinet Order Stipulating Procedures for Government Procurement of Products or Specified Services in Local Governments Entities on 21 and 27 December 2018 (Cabinet Order No.347 and No.353 of 2018). On 6 November 2016, with the agreement of other parties to the GPA, Japan withdrew the Kyushu Railway Company from its GPA schedule as the result of the privatization of the company.[190]

3.165. Many of the EPAs signed between Japan and its trade partners contain chapters on government procurement (Section 2.3.2).[191] During the review period, two more agreements with government procurement chapters were signed and subsequently came into force, namely the CPTPP (or TPP11) and the Japan-EU EPA. Japan's government procurement commitments under the CPTPP are roughly the same as its GPA commitments.[192] While its undertakings under the Japan-EU EPA are built on its GPA commitments, the coverage of local government entities under this EPA is further expanded to local independent administrative agencies.[193]

3.166. In addition to the market access commitments undertaken under the GPA and various EPAs, Japan maintains various "voluntary measures", the outcome of bilateral negotiations with the United States in the past, to facilitate foreign suppliers' opportunities to access its government procurement markets. These access opportunities are applied at multilateral level. They included the lowering of the thresholds of contract value above which the procurement would be open to international competition, the extension of the period for tenderers to submit their tenders, and an increase in the number of procuring entities whose procurements are open to international competition. However, due to the fact that the 2014 revised GPA has "caught up" with voluntary measures as compared to the GPA 1994, the benefits that can be drawn from these voluntary measures have become marginal. Details on the remaining value added of these voluntary measures is essentially of a procedural nature as indicated in the previous TPR Report of Japan.[194]

3.167. Open tendering, selective tendering and single tendering remain the main procurement methods, and follow the GPA thresholds for contracts under its coverage. The conditions and thresholds for selective tendering and single tendering in the central Government outside of the coverage of GPA is stipulated in Cabinet Order on Budgets, the Settlement of Accounts, and Accounting.[195] The conditions and thresholds for single tendering for local government procurement outside of the coverage of GPA is stipulated in the Ordinance for Enforcement of the Local Autonomy

[190] WTO document WT/Let/1210, 22 November 2016.
[191] WTO document WT/TPR/S/351/Rev.1, 20 June 2017.
[192] MFAT. The government procurement commitment of Japan under the CPTPP is available at: https://mfat.govt.nz/assets/Trans-Pacific-Partnership/Annexes/15-A.-Japan-Government-Procurement-Annex.pdf.
[193] MOFA. The government procurement chapter of the Japan-EU EPA is available at: https://www.mofa.go.jp/files/000382132.pdf.
[194] WTO document WT/TPR/S/351/Rev.1, 20 June 2017, Tables 3.23 and 3.24.
[195] Chapter VII (Contracts) Section3 (Contracts Under Selective Tender) Article 94 of the Cabinet Order stipulates the following thresholds: when having construction or manufacturing done at a target price that does not exceed JPY 5 million; when purchasing assets at a target price that does not exceed JPY 3 million; when borrowing an object at an annual or total target lease charge that does not exceed JPY 1.6 million; when selling off assets at a target price that does not exceed JPY 1 million; when lending out an object at an annual or total target lease charge that does not exceed JPY 500,000; and when the target price of a contract other than a work contract for construction or manufacturing, a sale and purchase contract for assets, or a contract to lend or borrow an object does not exceed JPY 2 million. Regarding single tendering, Chapter VII (Contracts) Section4 (Discretionary Contracts) Article 99 of the Cabinet Order stipulates the following thresholds: when having construction or manufacturing done at a target price that does not exceed JPY 2.5 million; when purchasing assets at a target price that does not exceed JPY 1.6 million; when borrowing an object at an annual or total target lease charge that does not exceed JPY 800,000; when selling off assets at a target price that does not exceed JPY 500,000; when lending out an object at an annual or total lease charge that does not exceed JPY 300,000; and when the target price of a contract other than a work contract for construction or manufacturing, a sale and purchase contract for assets, or a contract to lend or borrow an object does not exceed JPY 1 million. Cabinet Order on Budgets, the Settlement of Accounts, and Accounting (unofficial translation). Viewed at: http://www.japaneselawtranslation.go.jp/law/detail/?re=01&kn%5b%5d=%E3%82%88&ky=%E6%A0%AA%E5%BC%8F&page=2.

Law of 1947.[196] During the review period, the threshold values for each method remained unchanged. Among the different procurement methods, open tendering is the basic procedure, and represents most of the central government procurement contracts and value (Table 3.20). Under open tendering, qualified suppliers are invited, through tender notices published in the official gazette "*Kanpo*", to participate in the tendering procedures. Under selective tendering, permanent lists of qualified suppliers are established by procuring entities. The procuring entity invites, from among the qualified suppliers, those considered capable of implementing the contract to participate in the tendering procedures. Interested suppliers need to apply to the procuring entity concerned for qualification. Efforts to achieve unified qualification across different central government entities have been made since 2001. In order to increase opportunities to participate in tender, suppliers are advised by the relevant authority to apply for qualification in advance.[197] The single tendering corresponds to "limited tendering" in the GPA, and constitutes the second most important procurement method in terms of number of contracts and procurement value (Table 3.20). In 2017, 1,103 GPA-covered contracts, representing a value of more than SDR 2 billion, were awarded through single tendering, accounting for about one seventh of the contracts, or 18% of the total procurement value.[198] The breakdown of contracts by procuring method at the central government and IAA (Section 3.3.5) level are contained in Table 3.20. Japan maintains special procurement procedures for individual sectors, such as supercomputers (since 16 July 1987), non-R&D satellites (since 14 June 1990), computer products and services (since 20 January 1992), telecommunications products and services and medical technology products and services (since 28 March 1994). The procedures are considered as voluntary measures to promote procurement based on non-discriminatory, transparent, fair and open competition. The use of overall-greatest-value method in tender evaluation is encouraged or obligatory under these measures. The measures are contained in the Operational Guideline on Procedures for Government Procurement etc. (Understanding among related ministries and agencies concerned in procurement, 31 March 2014).[199]

Table 3.20 Use of different procurement methods by the central Government and IAA entities, 2017

	Number of contracts	Percentage of the total value
All procurements	14,710	100.0
Open tendering procedures	11,461	72.5%
Selective tendering procedures	62	0.3%
Single tendering procedures	3,187	27.2%

Note: The authorities indicated that the data of "voluntary measures" (see above and below) differ from those under the GPA coverage (i.e. excluding construction services, local government procurement and procurement under GPA Annex 2).

Source: *Chapter II, Products and Services Covered by the Government Procurement Survey.* Viewed at: http://japan.kantei.go.jp/procurement/2018/2FY2018ch2.pdf.

3.168. Japan has no restrictions on the place of origin of products or the nationality of suppliers in government procurement. The principle of non-discrimination is pursued in all procurement activities. However, there has been concern over the apparently low share of foreign companies in public procurement; it seems that this is partly due to non-regulatory barriers, the geographical distance from certain overseas markets, and a lack of knowledge of the local market.[200] Foreign participation in government procurement is described in Tables 3.21 and 3.22.

[196] If they stipulate a threshold, its value should not exceed the following levels: contract for construction or manufacturing either (i) JPY 2.5 million or (ii) JPY 1.3 million; purchase of assets either (i) JPY 1.6 million or (ii) JPY 800,000; borrowing an object either (i) JPY 800,000 or (ii) JPY 400,000; selling off assets either (i) JPY 500,000 or (ii) JPY 300,000; lending out an object JPY 300,000; and Other contracts either (i) JPY 1 million or (ii) JPY 500,000. (i) refers all prefectural governments entitled "To", "Do", "Fu" and "Ken", and all designated cities entitled "Shiteitoshi", while (ii) refers to cities other than those under (i).

[197] MOFA, *Suggestions for Accessing the Government Procurement Market of Japan*. Viewed at: https://www.mofa.go.jp/files/000037391.pdf.

[198] WTO document GPA/STAT(17)/JPN/1, 5 April 2019.

[199] Prime Minister of Japan and His Cabinet, *Japan's Government Procurement: Policy and Achievements Annual Report (FY2018 version) - Toward Government Procurement Open to the World*. Viewed at: http://japan.kantei.go.jp/98_abe/documents/2019/_00002.html.

[200] EU-Japan Centre for Industrial Cooperation, *Public Procurement in Japan: An Outline*. Viewed at: https://www.eu-japan.eu/government-procurement/public-procurement-japan-outline.

Table 3.21 Foreign participation in central government and IAA entity procurement

(%)

Year	Relative foreign share of procurement value	Relative foreign share of number of contracts awarded
2015	2.2%	3.2%
2016	2.7%	2.1%
2017	4.4%	2.8%

Note: The authorities indicated that the data of "voluntary measures" (see above and below) differ from those under the GPA coverage (i.e. excluding construction services, local government procurement and procurement under GPA Annex 2).

Source: *Chapter II, Products and Services Covered by the Government Procurement Survey.* Viewed at: http://japan.kantei.go.jp/procurement/2018/2FY2018ch2.pdf.

Table 3.22 Awards to foreign suppliers by origin, 2017

	Number of contracts	Value (JPY billion)
United States	132	43
European Union	157	52
Others	126	5
Total	**415**	**100**

Note: The authorities indicated that the data of "voluntary measures" (see above and below) differ from those under the GPA coverage (i.e. excluding construction services, local government procurement and procurement under GPA Annex 2).

Source: *Chapter II, Products and Services Covered by the Government Procurement Survey.* Viewed at: http://japan.kantei.go.jp/procurement/2018/2FY2018ch2.pdf.

3.169. Tables 3.23 and 3.24 detail foreign participation in Japan's government procurement, in value terms, by type of product and service, in 2015 and 2016 (the latest year for which data were available). Foreign participation shares were relatively high only in certain categories of goods, including medical, dental, surgical and veterinary equipment, aircraft and associated equipment, scientific and controlling instruments and apparatus, minerals, and non-ferrous metals and articles thereof.

Table 3.23 Central government and IAA entity procurement, by product and by origin, 2016 and 2017

No.	Products	2016		2017	
		Total value (JPY 100 million)	Foreign share (%)	Total value (JPY 100 million)	Foreign share (%)
1	Products from agriculture, and from agricultural and food processing	26.6	35.0	21.4	14.8
2	Mineral products	4,441.2	10.7	264.2	16.8
3	Products of the chemical and allied industries	31.8	5.8	33.8	3.1
4	Medicinal and pharmaceutical products	674.3	14.2	1,209.6	7.0
5	Artificial resins; rubber, raw hides and skins; leather; and articles thereof	15.4	0	7.5	0
6	Wood and articles of wood; paper-making material; paper and paperboard, and articles thereof	150.5	0	264.5	0
7	Textiles and textile articles; thread for spinning and weaving; and articles thereof	77.7	2.9	94.5	1.4
8	Articles of stone, of cement and of similar materials; ceramic products; glass and glassware; and articles thereof	4.2	0	15.5	0
9	Iron and steel, and articles thereof	18.2	0	94.6	4.6
10	Non-ferrous metals, and articles thereof	33.7	6.4	52.6	16.9
11	Power-generating machinery and equipment	71.0	6.2	151.2	1.6
12	Machinery specialized for particular industries	300.7	0	199.2	0
13	General industrial machinery and equipment	70.5	3.1	107.7	1.0
14	Office machines and automatic data processing equipment	1,769.4	6.9	2,173.7	8.5
15	Telecommunications and sound recording and reproducing apparatus and equipment	540.5	0.9	688.4	3.1

No.	Products	2016		2017	
		Total value (JPY 100 million)	Foreign share (%)	Total value (JPY 100 million)	Foreign share (%)
16	Electrical machinery, apparatus and appliances, and electrical parts thereof	867.2	2.3	304.5	3.1
17	Road vehicles	362.9	2.6	440.9	2.2
18	Railway vehicles and associated equipment	3.3	0	50.3	0.4
19	Aircraft and associated equipment	64.9	27.0	77.6	20.2
20	Ships, boats and floating structures	76.9	0	101.4	0
21	Sanitary, plumbing, and heating equipment	5.2	0	7.1	0
22	Medical, dental, surgical and veterinary equipment	724.8	17.5	641.2	34.4
23	Furniture and parts thereof	27.1	0	45.7	0
24	Scientific and controlling instruments and apparatus	484.3	22.6	628.4	26.9
25	Photographic apparatus and equipment, optical goods, and clocks	32.1	12.5	32.8	3.6
26	Miscellaneous articles	2,180.8	2	1,957.3	4.1
	Total	**9,055.1**	**6.9**	**9,665.8**	**8.9**

Note: The authorities indicated that the data of "voluntary measures" (see above and below) differ from those under the GPA coverage (i.e. excluding construction services, local government procurement and procurement under GPA Annex 2).

Source: *Chapter II, Products and Services Covered by the Government Procurement Survey.* Viewed at: (2017) http://japan.kantei.go.jp/procurement/2018/2FY2018ch2.pdf; and (2016) https://www.kantei.go.jp/jp/kanbou/29tyoutatu/dai2/dai2honbun.pdf.

Table 3.24 Central government and IAA entity procurement, by type of service, 2016 and 2017

Type of service	2016		2017	
	Total value (JPY 100 million)	Foreign share (%)	Total value (JPY 100 million)	Foreign share (%)
Total	**9,374,1**	**3.6**	**12,981.9**	**5.7**
Maintenance and repair of motor vehicles	25.8	0	20.7	0
Maintenance and repair of motorcycles and snowmobiles	0	0	0	0
Other land transport services (except mail transportation)	104.8	0	103.8	0
Rental services of sea-going vessels with operator	8.0	0	7.9	0
Rental services of non-sea-going vessels with operator	1.7	0	1.6	0
Air transport (except mail transportation)	36.5	7.6	67.2	5.0
Freight transport agencies	23.9	0	44.0	0
Courier services	3.8	0	2.4	0
Telecommunication services	128.9	5.5	180.1	9.5
Computer and related services	6,359.2	3.7	8,360.9	8.6
Market research and public opinion polling	47.1	3.4	34.3	4.4
Advertising services	662.4	0	614.0	0
Armoured car services	92.5	0	4.4	0
Building cleaning services	347.7	0	772.0	0.2
Publishing and printing services	188.1	0.2	180.9	0.1
Repair services incidental to metal products, machinery and equipment	107.5	1.2	120.9	3.9
Sewage and refuse disposal, sanitation and other environmental protection	1,016.9	0	2,348.5	0
Repair services of personal and household goods	0	0	0	0
Food serving services	0.6	0	1.1	0
Beverage serving services	0	0	0	0
Leasing or rental services concerning agricultural machinery and equipment without operator	0	0	0	0

Type of service	2016		2017	
	Total value (JPY 100 million)	Foreign share (%)	Total value (JPY 100 million)	Foreign share (%)
Leasing or rental services concerning furniture and other household appliances	0.2	0	0	0
Leasing or rental services concerning pleasure and leisure equipment	0	0	0.1	0
Leasing or rental services concerning other personal or household goods	0.2	0	0	0
Management consulting services	0.5	0	0	0
Services related to management consulting (except 86602 Arbitration and conciliation services)	0	0	0	0
Packaging services	5.4	0	5.9	0
Services incidental to forestry and logging, including forest management, and publishing and printing services	0	0	4.8	0
Primary education services	0	0	0	0
Secondary education services	0	0	0	0
Higher education services	0.3	0	0.3	100
Adult education services	3.4	0	2.3	0
Motion picture and video tape production and distribution services	1.7	0	0.3	0
Other	206.9	44.0	103.3	0.4

Note: The authorities indicated that the data of "voluntary measures" (see above and below) differ from those under the GPA coverage (i.e. excluding construction services, local government procurement and procurement under GPA Annex 2).

Source: *Chapter II, Products and Services Covered by the Government Procurement Survey.* Viewed at: (2017) http://japan.kantei.go.jp/procurement/2018/2FY2018ch2.pdf; and (2016) https://www.kantei.go.jp/jp/kanbou/29tyoutatu/dai2/dai2honbun.pdf.

3.170. Japan maintains a government procurement policy to promote environmental protection. The relevant legislation includes the Act on Promotion of Procurement of Eco-Friendly Goods and Services by the State and Other Entities (Act No.100 of 2000), the Act on Promoting Green Procurement, and the Act on Promotion of Contracts of the State and Other Entities, Which Show Consideration for Reduction of Emissions of Greenhouse Gases, etc. (Act No. 56 of 2007, "Green Contract Act").[201]

3.171. Government procurement based on the Act on Promoting Green Procurement is implemented through the Basic Policy for Promotion of Procurement of Eco-Friendly Goods and Services, decided by the Cabinet in February 2001; the Policy was last revised in February 2019.[202] It designates goods and services, including those related to public construction works, which should be purchased and utilized by government entities and IAAs, etc. It also sets out evaluation criteria that procuring entities should use in bid assessment for purchasing designated products. The Policy provides that green procurement should not be an unnecessary impediment to international trade, and should comply with the GPA rules. It is revised as necessary. Since 2016, three revisions were made to it. These changes were notified to the WTO Committee on Government Procurement.[203] After years of addition and adjustment, the current number of designated products has grown to 21 fields covering 276 items, from stationery to electronic appliances and vehicles, and from building materials to transportation and building cleaning services.

3.172. The government implementation rules of the Green Contract Act, namely the "Basic Policy for the Promotion of Contracts Considering Reduction of Emissions of Greenhouse Gases and Others by government entities and independent administrative agencies, etc.", was decided by the Cabinet

[201] The Act on Promoting Green Procurement is available at: http://www.japaneselawtranslation.go.jp/law/detail/?ft=2&re=01&dn=1&yo=&ia=03&kn[]=%E3%81%8F&_x=17&_y=13&ky=&page=2; and the Green Contract Act is available at: http://www.japaneselawtranslation.go.jp/law/detail/?ft=1&re=01&dn=1&co=02&ia=03&x=14&y=7&ky=%E5%9B%BD%E7%AD%89%E3%81%AB%E3%81%8A%E3%81%91%E3%82%8B&page=2.

[202] The latest version of the Basic Policy is available at: http://www.env.go.jp/en/laws/policy/green/h31bp_en.pdf.

[203] WTO documents GPA/37/Add.14, 3 April 2017; GPA/37/Add.15, 3 April 2018; and GPA/LEGIS/JPN/1, 18 April 2019.

in December 2007, and was subsequently revised to add contract categories, etc. During the review period, three additional revisions were made to this Policy.[204] Currently, it covers contracts related to the supply of electricity, the purchase and lease of vehicles, the procurement of ships, industrial waste disposal, energy conservation improvement projects, and building design and operation maintenance.[205] The Policy requires that the reduction of emissions of greenhouse and other gases should be taken into account when relevant procurement entities conclude contracts.

3.173. The implementation of these two policies is mandatory for government entities and IAAs, etc. They should be implemented in a manner that is compliant with the GPA, and should not impede international trade.

3.174. Japan also maintains policies to promote the participation of SMEs in government procurement. The relevant guiding legislation is Act No.97 on Ensuring the Receipt of Orders from the Government and Other Public Agencies by Small and Medium Sized Enterprise Operators of 1966, that remained unchanged during the review period.[206] According to this Act, the central Government, IAAs and national university corporations set their own procurement target value from SMEs every fiscal year. The target amount for micro, small and medium-sized enterprises (MSMEs), set at 55.1% of the total budget of "public demand", stood at JPY 3.8 trillion in 2017 and JPY 4.0 trillion in 2018. Local governments follow the policies of the central Government on an "endeavour basis".

3.175. Japan's Government Procurement Review Board (GPRB) continued to review complaints filed by suppliers. For government procurement of goods and services valued at not less than SDR 100,000 and that of construction services not less than SDR 4.5 million, a supplier may file a complaint if he suspects a breach of any provision of the GPA, or other applicable measures designated by the Head of the Council of Government Procurement Review (CGPR). Between 2017 and September 2019, a single complaint against the consistency of the tendering process of the National University Corporation Akita University under Article 15 Paragraph 5 (b) of the revised Agreement was filed on 27 March 2018.

3.3.7 Intellectual property rights (IPRs)

3.3.7.1 Features and IP strategy

3.176. IP is of vital importance to the economy. The Japan Patent Office (JPO) found a correlation between patent rights and operating profits on sales for SMEs, which account for more than 99% of all businesses in Japan.[207] Over the five-year period ending in December 2017, revenue from IP increased by over 74%, and exceeded JPY 50,000 billion in 2018.[208] Chart 3.6 depicts the growth in IP revenue since1996.

[204] WTO documents GPA/37/Add.14, 3 April 2017; GPA/37/Add.15, 3 April 2018; GPA/LEGIS/JPN/1, 8 April 2019; GPA/99/Add.5, 3 April 2017; GPA/99/Add.6, 3 April 2018; and GPA/LEGIS/JPN/2, 8 April 2019.

[205] The latest version of this Basic Policy is available at: http://www.env.go.jp/en/laws/policy/green/20190208contract.pdf.

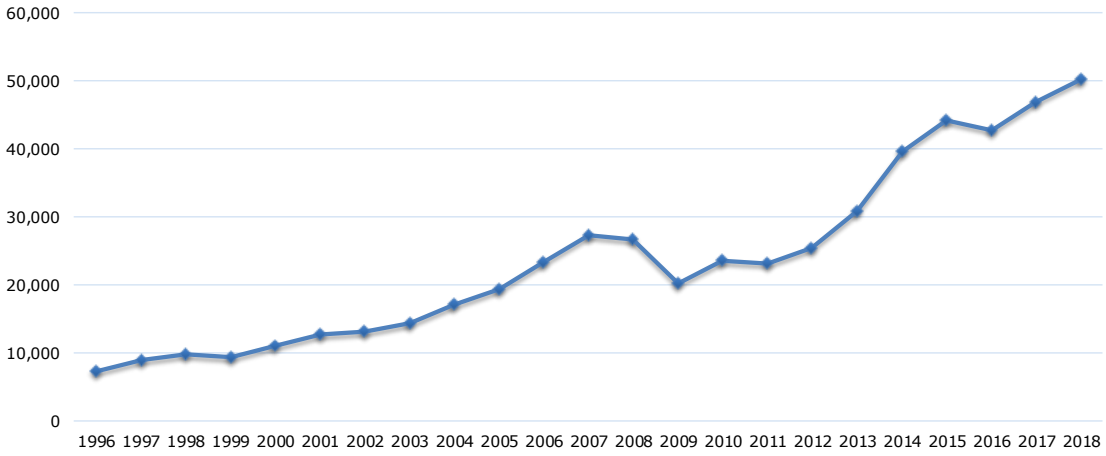
[206] The English translation of the Act is available at: http://www.japaneselawtranslation.go.jp/law/detail/?printID=&re=02&id=862&lvm=01&vm=02.

[207] JPO, *2017 Basic Survey on IP Activities by Small and Medium Enterprises in Japan*; intervention by Japan, Meeting of the Council for TRIPS of 19 October 2017.

[208] Information provided by the authorities; and Cislo, C., *Japan's Intellectual Property Revenue is Soaring*, Bloomberg Businessweek, 16 January 2018.

Chart 3.6 IP revenue, 1996-2018

JPY billion



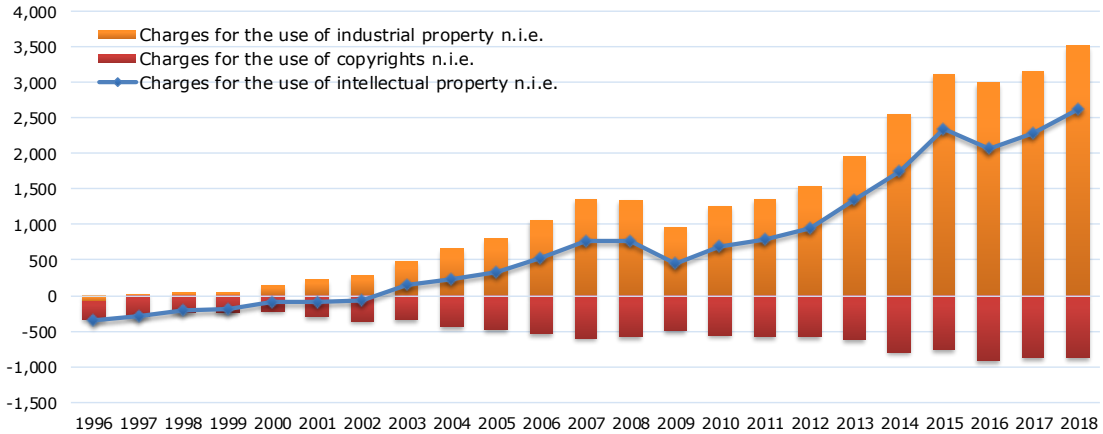
Source: Bank of Japan. Viewed at: http://www.stat-search.boj.or.jp/index_en.html.

3.177. According to OECD international trade statistics, Japan ranks third, behind the United States and the European Union, regarding charges for the use of IP (i.e. royalties and licensing revenue). These charges constituted 22% of Japan's services exports in 2017. According to the Bank of Japan, Japan generated a trade surplus of JPY 2.6 trillion in charges for the use of IP in 2018.

3.178. Chart 3.7 presents the growth in charges for the use of IP since 1996. Although Japan does not parse its IP export statistics by sector, in 2017, motor vehicles and pharmaceuticals generated the largest amount of technology exports, with growth anticipated in robotics and medical care. The surplus was reportedly influenced by the flow of funds among subsidiaries partnerships with foreign corporations, and shifts in production abroad.[209]

Chart 3.7 Charges for the use of IP, n.i.e., 1996-2018

JPY billion



Source: Bank of Japan. Viewed at: http://www.stat-search.boj.or.jp/index_en.html.

3.179. Developing earnings from IP has been a key element of the Government's long-term growth strategy. "To secure our nation's position and enable it to take the lead in international competition,

[209] OECD, *Quarterly International Trade Statistics, Vol. 2018, Issue 3.* Viewed at: https://doi.org/10.1787/int_trade-v2018-3-table95-en; OECD, Figure 6: Composition of Japan's exports by destination and product category in 2017, in OECD Economic Surveys: Japan 2019, 15 April 2009, Version 2; JPO, *Annual Report 2019* (in Japanese). Viewed at: https://www.jpo.go.jp/resources/report/nenji/2019/index.html#0100; Nikkei Asian Review, *Japan's intellectual property generating revenue at record pace*, 16 January 2018; and Nikkei Asian Review, *Japan enjoys 30% jump in intellectual property trade surplus*, 21 August 2018.

it is necessary to revamp systems for creating IP and for creating value from IP to make them faster and more flexible through a pro-innovation approach to IP strategy …".[210] On 12 June 2018, the Intellectual Property Strategy Headquarters issued its fourth Intellectual Property Strategy Vision (2018 IP Strategy Vision), a policy document issued every five years to offer a medium- to long-term perspective on the evolution of society and the IP system. The 2018 IP Strategy Vision foresees Japan in 2025-30 as a "value design society", where innovation is driven by latent needs and wants rather than technology or markets. It identified the following steps towards achieving this goal: (i) fostering and accumulating human resources and organizations that generate values through innovation; (ii) establishing mechanisms that encourage the exchange and sharing of intellectual assets and expand values; and (iii) producing, disseminating, and developing values that will be shared globally.[211]

3.180. The IP Strategy Headquarters issues an annual strategic programme to realize the IP Strategy Vision. It establishes the Government's IP strategy for the year, across all relevant agencies and ministries. The 2018 IP Strategy Vision prioritized (i) cultivating human resources and business to meet future needs; (ii) encouraging ambitious and creative activities; and (iii) designing structures for new fields. Included within these key priorities were (i) accelerating open innovation; (ii) supporting regional companies, SMEs and venture companies; (iii) establishing a sustainable content creation ecosystem; (iv) strengthening IP strategy relating to data, artificial intelligence, and other new data-related assets; and (v) encouraging innovation and branding through design management.[212]

3.181. There is a clear link between the 2018 IP Strategic Programme and the modifications that were made to Japan's IP laws during the review period, including expansions in the scope and breadth of protection for designs, new data protections, new flexible copyright restrictions that account for the rise of digitization and networking, and modifications to litigation procedures and damages calculations intended to facilitate the enforcement of IPRs. Japan's IP regime was also influenced by international commitments, particularly the entry into force of the CPTPP and the EU-Japan EPA. These agreements prompted some significant amendments, including an extension of the copyright term of protection from 50 to 70 years, and high-level protection for more than 200 European geographical indications (GIs).

3.3.7.2 Policies on promotion and commercialization of innovation

3.182. Japan seeks to be "the most innovation-friendly country in the world".[213] The WEF's 2018 Global Competitiveness Report ranked it sixth in innovation capability, boosted by its R&D score, which was, in turn, influenced by its status as the country with the most patent families per capita filed in at least two of the five largest IP offices in the world (IP5).[214] The Global Innovation Index ranked Japan 15th overall, but third for innovation quality.[215]

3.183. Japan's total R&D expenditure is the third highest in the world, after the United States and China. Its gross expenditure on R&D reached its highest level ever in FY2017, at JPY 19.05 trillion, a 3.4% increase over FY2016 but similar to expenditures in FY2014 and FY2015. As a percentage of GDP, Japan's gross domestic expenditure on R&D drifted between 3.14% and 3.4% from 2012 to 2017, and stood most recently at 3.2% in 2017. Government-financed R&D as a percentage of GDP declined somewhat since 2013, and was 0.48% in 2017. Nearly 50% of government R&D funding is directed to public organizations, and 43% is allocated to universities and colleges. Government-financed expenditures have historically represented a lower percentage of Japan's total R&D than in other comparison countries (the European Union, the United States, the Russian Federation, China, India, and the Republic of Korea).

[210] IP Strategy Headquarters, Intellectual Property Strategic Programme 2018, 12 June 2018, p. 4. (2018 IP Strategic Programme).
[211] IP Strategy Headquarters, Intellectual Property Strategy Vision – Towards a "Value Design Society", 12 June 2018, pp. 49-60. (2018 IP Strategy Vision).
[212] 2018 IP Strategic Programme, pp. 8, 10-13, 18-22, and 29-31.
[213] Council for Science, Technology and Innovation, *Integrated Innovation Strategy,* 2018. Viewed at: https://www8.cao.go.jp/cstp/english/doc/integrated_main.pdf.
[214] WEF, *The Global Competitiveness Report 2018: Competitiveness Rankings*. Viewed at: http://reports.weforum.org/global-competitiveness-report-2018/competitiveness-rankings/.
[215] Dutta, S., Lanvin, B. and Wunsch Vincent, S. eds., Global Innovation Index 2019: *Creating Healthy Lives – The Future of Medical Innovation*, 12th ed., Cornell University, INSEAD; and WIPO, 2019.

3.184. Japan has the third highest number of researchers in the world, again behind the United States and China. The number of new master's and doctoral degree recipients per million people, however, declined in Japan, while it has increased in all other comparison countries.[216] The 2018 IP Strategy Vision expressed concern that scientific research capacity to create new technologies is showing signs of decay[217], and the Government noted decreases in basic research capacity.[218]

3.185. Compared with the United States, Japan has only recently initiated a legal framework for promoting the commercialization of government-financed innovations and public-private collaboration. In 1998, Japan introduced technology licensing organizations (TLOs) at universities, to promote the transfer of technology to industry, followed one year later by the Act on Special Measures Concerning Revitalization of Industry and Innovation in Industrial Activities (Japan's analogue to the 1980 US Bayh-Dole Act), which transferred rights associated with government-funded research results from the Government to individual researchers. Then, in 2004, following the privatization of national universities, universities gained the right to own and license patents associated with the results of research generated by their professors.[219]

3.186. The University Network for Innovation and Technology Transfer (UNITT) monitors the technology transfer system, and promotes partnerships between academia and industry. Its most recent annual survey of universities and TLOs reveals that total licensing revenue exceeded JPY 3 billion in FY2016, triple the amount generated in FY2005, but significantly less than the USD 3.14 billion in revenue reported in 2017 by analogue institutions in the United States. Universities and public research institutions in Japan have historically collaborated closely with large corporations, who jointly own inventions and may license them royalty-free. This may influence not only revenue, but also the frequency with which such innovations spur the creation of new businesses.[220] The percentage of surveyed institutions which launched a start-up in FY2016 was 26.5%, compared to 79.6% in the United States.[221]

3.187. The JPO, in collaboration with other agencies and the National Center for Industrial Property Information and Training (INPIT), launched new support programmes specifically designed to address the needs of universities, SMEs and start-ups. In 2017, the JPO and the INPIT opened a new INPIT-KANSAI office in Osaka, to provide improved support for universities, SMEs, and start-ups located in the region. They can also benefit from reduced patent fees, as described in Section 3.3.7.4, face-to-face consultations with patent examiners, and accelerated examination in certain circumstances. SMEs and start-ups may take advantage of a JETRO Innovation Programme, which supports participation in overseas trade shows and business matching programmes.

3.188. SMEs may also avail themselves of comprehensive IP Support Service Counters in all 47 prefectures, which provide free-of-charge assistance from experts on legal matters, branding, business development, agriculture, and GIs. An IP Finance Portal Site helps SMEs to evaluate the business potential of their IP, along with financing and management support from financial institutions. The Global IP Producers programme offers support for establishing and protecting IPRs

[216] Ministry of Education, Culture, Sports, Science and Technology (MEXT), *Digest of Japanese Science and Technology Indicators 2018*, pp. 1-2, 6, and 10. Viewed at: https://www.nistep.go.jp/wp/wp-content/uploads/NISTEP-RM274-SummaryE.pdf; OECD, Table 2 – Gross domestic expenditure on R&D as a percentage of GDP and Table 12 – Government-financed GERD as a percentage of GDP, in *Main Science and Technology Indicators, Vol. 2018, Issue 2*, https://doi.org/10.1787/7ec29b83-en; Statistics Bureau of Japan, *Summary of Results (2018)*. Viewed at: https://www.stat.go.jp/english/data/kagaku/1545.html; and MEXT, *Current status of S&T in Japan and other selected countries, R&D expenditures*, 2016, pg. 8. Viewed at: http://www.mext.go.jp/component/b_menu/other/__icsFiles/afieldfile/2016/09/28/1377328_03.pdf.

[217] 2018 IP Strategy Vision, pg. 7.

[218] Council for Science, Technology and Innovation, *The 5th Science and Technology Basic Plan*, 22 January 2016. Viewed at: https://www8.cao.go.jp/cstp/english/basic/5thbasicplan.pdf.

[219] JPO, *Looking Back on Japan's Industry-Academia Collaboration and Support on Startups*. Viewed at: https://www.wipo.int/edocs/mdocs/aspac/en/wipo_ip_oka_18/wipo_ip_oka_18_p15.pdf.

[220] Tantiyaswasdikul, K., *Technology Transfer for Commercialization in Japanese University: A Review of the Literature*. Viewed at: http://www.asia.tu.ac.th/journal/J_Studies30_1/70-85.pdf.

[221] UNITT, *Outline of University Technology Transfer Survey*, *2017 Edition*. Viewed at: https://unitt.jp/en/survey/patent/; and AUTM, *2017 Licensing Activity Survey*. Viewed at: https://autm.net/AUTM/media/SurveyReportsPDF/AUTM_2017_US_Licensing_Survey_no_appendix.pdf.

overseas[222], and JPO offers SMEs an insurance scheme, for which it pays half of the premium, which covers the cost of overseas IP litigation.[223]

3.189. In 2018, the JPO established the "IP acceleration programme for start-ups", which dispatches expert teams of venture capitalists, business consultants, and attorneys to provide hands-on support in the early stages of development to selected start-ups.[224] The JPO also offers "super-accelerated examination" to start-ups, so they can obtain patent rights within one month for inventions that are already being worked.[225] Most recently, the JPO launched IP Base, an online community providing essential information on IP strategies, JPO support, event information, and access to IP experts for start-ups.[226] Start-ups can also expect to benefit from government procurement programmes, set forth in the 2018 IP Strategy Vision, to promote partnerships between start-ups and existing businesses.[227]

3.190. Japan is adapting its IP regime and associated processes to the development of Big Data, artificial intelligence (AI) technologies, and the Internet of Things (IoT). Standard essential patents (SEPs), which are essential to implement standards in fields such as wireless communications, have become critical to the development and implementation of new technologies, and licences are increasingly sought by companies in previously distinct industries with diverse sets of technical knowledge and corporate cultures. In response to increasing disputes over SEPs, Japan launched several initiatives during the review period.

3.191. First, the JPO published a non-binding Guide to Licensing Negotiations Involving Standard Essential Patents, in order to enhance transparency and predictability, facilitate negotiations, and help prevent or quickly resolve disputes. The Guide draws upon relevant court decisions in various countries, and thus attempts to articulate global norms.[228] Second, the JPO expanded its "Hantei" advisory opinion service on whether a patent claim reads on a product, to offer opinions on standard essentiality in April 2018. Although the opinions are non-binding, they are influential in licensing negotiations, and facilitate dispute resolution.[229] Third, a new specialized IP International Arbitration Centre opened in Tokyo in 2018. Although it can handle a range of matters, it claims to be uniquely capable of resolving complex disputes involving SEPs.[230]

3.192. The JPO also established an IoT Committee and an IoT Examination Team to ensure high-quality IoT patents. New case examples, including trained AI models, 3D printing, data structures, and others, were added to its Examination Handbook for Patents and Utility Models, in order to assist inventors with obtaining rights in these rapidly developing areas.[231] The JPO also established new use-specific sub-classifications for IoT technologies, and proposed their adoption as international patent classifications.[232]

3.193. Japan's national scheme for scientific research and technology development is governed by the Science and Technology Basic Plan (Basic Plan), formulated by the Cabinet Office's Council for Science, Technology and Innovation every five years. Using the Basic Plan as a general guideline, comprehensive strategy plans are formulated annually, and are executed by various ministries and agencies, most notably the Ministry of Education, Culture, Sports, Science and Technology (MEXT) and the METI. The Basic Plan for 2016-20 (Fifth Basic Plan) aims to, *inter alia*, increase R&D investments to 4% of GDP (with government-financed R&D reaching 1% of GDP), foster the

[222] JPO Status Report 2019, pp. 102-104; and JPO Status Report 2018, pp. 80-82.
[223] The Economist Intelligence Unit, Japan: Export insurance and credit, 1 September 2018.
[224] METI, *Ten Startups Selected as the First Recipients of Support Measures under IPAS*. Viewed at: https://www.meti.go.jp/english/press/2018/0830_003.html.
[225] JPO Status Report 2019, pg. 102.
[226] METI, *JPO Opens Member Registration for "IP Base" Website*. Viewed at: https://www.meti.go.jp/english/press/2019/0308_004.html.
[227] 2018 IP Strategy Vision, pp. 51-52.
[228] JPO, *Announcement for release of "Guide to Licensing Negotiations involving Standard Essential Patents"*. Viewed at: https://www.jpo.go.jp/e/system/laws/rule/guideline/patent/seps-tebiki.html.
[229] JPO, *Manual of "Hantei" (Advisory Opinion) for Essentiality Check (Revised Version) and New Operation based on the Manual of "Hantei" (Advisory Opinion) for Essentiality Check (Revised Version)*. Viewed at: https://www.jpo.go.jp/e/system/trial_appeal/hantei_hyojun.html.
[230] International Arbitration Center in Tokyo, *IACT's Advantages*. Viewed at: https://www.iactokyo.com/.
[231] five IP offices, *IP5 Statistics Report, 2017 Edition*. Viewed at: https://www.fiveipoffices.org/wcm/connect/fiveipoffices/a622e09a-c52d-4ec1-894f-1a215342a28c/IP5SR%2B2017%2Bfull.pdf?MOD=AJPERES&CVID.
[232] JPO Status Report 2018.

sustainable creation of IP, promote the strategic use of IP by SMEs and universities, develop innovation systems that contribute to regional revitalization and the creation of SMEs and start-ups, and institute reforms to promote academic and basic research in tandem with reforms of research funding.[233]

3.194. In 2018, the Cabinet adopted an Integrated Innovation Strategy, and established an Integrated Innovation Strategy Promotion Council. University reforms, technologically disruptive R&D programmes, supportive start-up ecosystems, and the promotion of science and technology for the achievement of SDGs are among the hallmarks of the Strategy, which is to be implemented horizontally across ministries and agencies.[234]

3.195. The Integrated Innovation Strategy prioritizes the following five fields for development: AI technology, biotechnology, environment and energy, safety and security, and agriculture.[235] Statistics regarding R&D expenditures by private enterprises reflect Japan's traditional areas of economic and competitive strength, with most spent on transportation equipment (22.2%), followed by medicines (10.6%) and information and communication electronics equipment (9.7%).[236] Among private researchers, over half specialize in either (i) mechanical engineering, shipbuilding and aeronautical engineering; or (ii) electronical engineering and telecommunications engineering.[237] Patent applications originating from Japan reflect somewhat overlapping technological foci, with the greatest proportion falling into the category of "electrical machinery, apparatus, energy" (10.7%), followed by "optics" (6.4%), "computer technology" (6.3%), "semiconductors" (6.0%), and "transport" (5.6%).[238]

3.196. Japan has also sought to improve the commercialization of privately-held patents. The JPO estimated that just over half of Japanese corporations' patents are dormant[239], which may reflect the relatively narrow scope of patent claims in Japan, a past emphasis on patent quantity over quality, defensive use of patents to prevent the use of the technology by competitors, a lack of interest in the patented technology, and/or a lack of awareness of its value. Japan launched programmes to assist enterprises with assessing the business value of their IP, and promoted open innovation through intermediary patent platforms, among other initiatives.[240]

3.3.7.3 International cooperation and harmonization

3.197. Japan pursues enhanced standards of IP protection with its trading partners in various bilateral, regional, and multilateral fora, such as WIPO, UPOV[241], the G20, APEC, and the OECD, in addition to the WTO.[242] At WIPO, Japan financed and supported IP development activities in the Asia-Pacific region, Africa, and LDCs, through annual voluntary contributions exceeding CHF 5 million

[233] Council for Science, Technology and Innovation, *The 5th Science and Technology Basic Plan*. Viewed at: https://www8.cao.go.jp/cstp/english/basic/5thbasicplan.pdf.

[234] Council for Science, Technology and Innovation, *Integrated Innovation Strategy*, 2018. Viewed at: https://www8.cao.go.jp/cstp/english/doc/integrated_main.pdf.

[235] Council for Science, Technology and Innovation, *Integrated Innovation Strategy*, 2018. Viewed at: https://www8.cao.go.jp/cstp/english/doc/integrated_main.pdf.

[236] MEXT, *Digest of Japanese Science and Technology Indicators 2018*, pp. 1-2. Viewed at: https://www.nistep.go.jp/wp/wp-content/uploads/NISTEP-RM274-SummaryE.pdf; OECD, Table 2 – Gross domestic expenditure on R&D as a percentage of GDP and Table 12 – Government-financed GERD as a percentage of GDP, in *Main Science and Technology Indicators, Vol. 2018, Issue 2* (2019), https://doi.org/10.1787/7ec29b83-en; Statistics Bureau of Japan, *Summary of Results (2018)*. Viewed at: https://www.stat.go.jp/english/data/kagaku/1545.html; and MEXT, *Current status of S&T in Japan and other selected countries, R&D expenditures,* 2016, pg. 8. Viewed at: http://www.mext.go.jp/component/b_menu/other/__icsFiles/afieldfile/2016/09/28/1377328_03.pdf.

[237] MEXT, *Digest of Japanese Science and Technology Indicators 2018*, pp. 6 and 10.

[238] WIPO, *World Intellectual Property Indicators 2018*, p. 56. Viewed at: https://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2018-chapter2.pdf.

[239] JPO, *Annual Report 2019* (in Japanese). Viewed at: https://www.jpo.go.jp/resources/report/nenji/2019/index.html#0100.

[240] 2018 IP Strategic Programme, pp. 9-10; and Swedish Agency for Growth Analysis, *Japan's governmental intermediary patent platforms for open innovation*. Viewed at: https://www.tillvaxtanalys.se/download/18.a70b1491500264a2b244323/1443423745819/Japan%27s+governmental+patent+platforms+for+open+innovation.pdf.

[241] International Union for the Protection of New Varieties of Plants.

[242] MOFA IP Affairs Division, *MOFA's Initiatives to Promote Protection of Intellectual Property Rights*. Viewed at: https://www.mofa.go.jp/files/000228532.pdf.

to two Japan Funds-in-Trust programmes.[243] It also facilitated the establishment and implementation of plant variety protection systems in Asia through UPOV.[244] At the WTO, it is a dynamic participant in the TRIPS Council, where it has actively engaged in topics including IP and innovation, IP and the public interest, technology transfer to LDCs, and access to medicines. It also adhered to the review function of the TRIPS Council by systematically notifying changes to its patent, design, trademark, GI, unfair competition, and copyright laws, as mandated by TRIPS Article 63.2[245], and reporting on its implementation of Article 66.2 and technical and financial cooperation activities.

3.198. Japan identified a pressing need for emerging economies, such as those of ASEAN, with which it conducts 15% of its trade, to improve and strengthen their IP systems.[246] The ASEAN-Japan EPA currently in force commits the parties to "explore and undertake economic cooperation activities" with respect to IP (among other fields).[247] Reports suggest that Japan seeks higher levels of IP protection in the Regional Comprehensive Economic Partnership RTA, under negotiation with the ASEAN countries (as well as Australia, China, India, New Zealand, and the Republic of Korea).[248] Japan is also negotiating separate agreements with other trading partners, including India, China, and the Republic of Korea, that may address IP. It also promotes IP harmonization and efforts to facilitate the establishment and protection of rights through high-level dialogues, partnerships, and consultations at bilateral, regional, and organizational levels.[249] For example, an MoU with China provides for a Japan-China IP Working Group to hold annual meetings to discuss a range of IP issues, including enforcement, online infringement, counterfeit products, legal systems, trends, and future strategies.[250]

3.199. The JPO seeks to harmonize IP systems and their operation through various collaborative efforts with like-minded foreign counterparts, including: the IP5[251] and its sister fora, the ID5 (designs) and TM5 (trademarks); the Patent Prosecution Highway (PPH)[252]; a US-Japan Collaborative Search Pilot Programme wherein examiners of each office share independently conducted prior art searches when a patent has been applied for in both countries; and an initiative with the USPTO on industrial design protection involving, *inter alia*, the creation of a US-Japan Common Classification System for industrial designs.[253]

3.200. The JPO also supports the development of IPRs and systems in emerging and developing countries in Asia, the Pacific, Africa, and the Middle East, by collaborating with ASEAN, the African

[243] WIPO, *Japan Funds-In-Trust for Industrial Property – Asia-Pacific*. Viewed at: https://www.wipo.int/cooperation/en/funds_in_trust/japan_fitip_aspac/; and *Japan Funds-In-Trust for Industrial Property – Africa & LDCs.* Viewed at: https://www.wipo.int/cooperation/en/funds_in_trust/japan_fitip/.

[244] WTO document IP/C/W/632, 14 September 2017.

[245] WTO documents IP/N/1/JPN/30-IP/N/1/JPN/P/13, 6 August 2018; IP/N/1/JPN/34-IP/N/1/JPN/P/14, 12 February 2019; IP/N/1/JPN/39-IP/N/1/JPN/P/15, 24 May 2019; IP/N/1/JPN/40-IP/N/1/JPN/P/16, 24 May 2019; IP/N/1/JPN/32-IP/N/1/JPN/D/8, 6 August 2018; IP/N/1/JPN/31-IP/N/1/JPN/T/8, 6 August 2018; IP/N/1/JPN/33- IP/N/1/JPN/T/9, 12 February 2019; IP/N/1/JPN/38-IP/N/1/JPN/T/10, 10 April 2019; IP/N/1/JPN/29-IP/N/1/JPN/G/3, 17 February 2017; IP/N/1/JPN/37-IP/N/1/JPN/G/4, 5 April 2019; IP/N/1/JPN/35-IP/N/1/JPN/U/2, 12 February 2019; and IP/N/1/JPN/36-IP/N/1/JPN/C/6, 7 March 2019.

[246] JPO Status Report 2019, pg. 84.

[247] ASEAN-Japan EPA, Article 53. Viewed at: https://www.mofa.go.jp/policy/economy/fta/asean/agreement.pdf.

[248] Yu, P.K., *The RCEP and Intellectual Property Norm-setting in the Asia-Pacific,* Texas A&M School of Law Legal Studies Research Paper Series No. 18-20 (9 August 2018). Viewed at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2810579.

[249] Information provided by the authorities.

[250] METI, *Summary of the 2017 Annual Report from the Office of Intellectual Property Protection*, 23 June 2017.

[251] The IP5 is a forum of the five largest IP offices in the world, and is comprised of the European Patent Office, the JPO, the Korean Intellectual Property Office, the National Intellectual Property Administration of the People's Republic of China, and the US Patent and Trademark Office (USPTO).

[252] The PPH allows an application that is determined to be patentable by the office of first filing to undergo accelerated examination and simplified procedures with the office of second filing. The JPO had established PPH relationships with 42 fellow IP offices as at December 2018. New arrangements were put in place with Turkey, Brazil, Argentina, New Zealand, Chile, and Peru during the review period, with a pilot PPH planned with India for 2019. JPO Status Report 2019, pg. 90; and METI, *The JPO and the DIPP, MCI, India Agree in Principle to Start a Bilateral PPH*. Viewed at: https://www.meti.go.jp/english/press/2018/0920_001.html.

[253] METI, *The JPO Strengthens Its Cooperative Relationship with the USPTO on Industrial Designs*. Viewed at: https://www.meti.go.jp/english/press/2018/0615_003.html.

Regional Intellectual Property Organization (ARIPO)[254], the Gulf Cooperation Council (GCC)[255], and member country IP offices both bilaterally and multilaterally. Its initiatives include providing training on examination practices, accepting trainees from other countries, supporting efforts to accede to international application systems (e.g. Madrid Protocol and Hague Agreement) and regional IP systems (e.g. ARIPO and African Intellectual Property Organization (OAPI)[256]), cooperating in the revision and preparation of patent examination manuals and guidelines, and promoting the commercialization and awareness of IP and counterfeit products. The JPO coordinates particularly closely with ASEAN IP Offices, with which it executed a Memorandum of Cooperation in 2012.[257]

3.201. Similarly, the Japan Copyright Office supported overseas copyright systems and anti-piracy efforts through bilateral consultations, training programmes for government officials, copyright awareness campaigns, seminars and symposia.[258] Japan also undertakes IP training initiatives in cooperation with WIPO and the Japan International Cooperation Agency, an incorporated administrative agency.[259]

3.202. The Office of Intellectual Property Protection, a cross-governmental consultation office organized under the METI and established in 2004, coordinates the efforts of relevant ministries and agencies to protect Japanese IP. Companies and other entities experiencing infringement abroad may request consultation services and information, and may petition the Government to conduct an investigation.[260] The number of consultation cases has been growing, and reached a record high in 2017.[261]

3.203. Japanese companies and citizens overseas may request assistance from JETRO overseas offices and the MOFA's IP Officers, who have been appointed in each of the MOFA's diplomatic establishments since 2005 to serve as a central contact point on IP infringement matters.[262]

3.3.7.4 General regulatory framework

3.204. Japan participates in many international conventions and treaties relating to IP, including 21 treaties administered by WIPO.[263] During the review period, it acceded to the WIPO Marrakesh Treaty to Facilitate Access to Published Works for Persons Who Are Blind, Visually Impaired or Otherwise Print Disabled (Marrakesh Treaty), which entered into force for Japan on 1 January 2019.[264] Since Japan had already accepted the Protocol Amending the TRIPS Agreement in 2007, its entry into force on 23 January 2017 applied to Japan, whereupon it took direct effect domestically, pursuant to the Japanese Constitution.

[254] The ARIPO is an intergovernmental organization that facilitates cooperation in IP matters among its 19 mostly English-speaking member States.

[255] The GCC Patent Office grants patents under a unitary system that are valid in all member States (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates).

[256] The OAPI is an intergovernmental organization that facilitates cooperation in IP matters among its 17 mostly French-speaking member States.

[257] JPO, *Status Report 2019*, pg. 78. Viewed at: https://www.jpo.go.jp/e/resources/report/statusreport/2019/document/index/all.pdf; METI, *Japan-ASEAN IP Cooperation Programs Enhanced*. Viewed at: https://www.meti.go.jp/english/press/2019/0807_001.html; WTO document IP/C/W/632, 14 September 2017; and Intellectual Property Watch, *ARIPO, Japan Government to Train 1,000 People in IP Systems in Africa*. Viewed at: https://www.ip-watch.org/2017/09/29/aripo-japan-government-train-1000-people-ip-systems-africa/.

[258] ACA, *Policy of Cultural Affairs in Japan, Fiscal Year 2017*, pg. 56; ACA, *Policy of Cultural Affairs in Japan, Fiscal Year 2018*, pg. 64. Viewed at: http://www.bunka.go.jp/english/report/annual/pdf/r1394357_01.pdf.

[259] WTO document IP/C/W/632, 14 September 2017.

[260] METI, *Summary of the 2017 Annual Report from the Office of Intellectual Property Protection*. Viewed at: https://www.meti.go.jp/english/press/2017/pdf/0623_001a.pdf.

[261] METI, *Release of Annual Report on the Office of Intellectual Property Protection (2018)*. Viewed at: https://www.meti.go.jp/english/press/2018/0629_001.html.

[262] MOFA IP Affairs Division, *MOFA's Initiatives to Promote Protection of Intellectual Property Rights*. Viewed at: https://www.mofa.go.jp/files/000228532.pdf.

[263] WIPO, *WIPO-Administered Treaties*. Viewed at: https://www.wipo.int/treaties/en/ShowResults.jsp?country_id=87C.

[264] WIPO, *WIPO-Administered Treaties*. Viewed at: https://www.wipo.int/treaties/en/ShowResults.jsp?lang=en&treaty_id=843.

3.205. Japan has entered into a range of bilateral, regional, and multilateral instruments, including RTAs, investment treaties, framework agreements, MoUs and memoranda of cooperation that address IP. All Japan's 17 RTAs in force (Table 2.3) contain IP provisions, and the majority contain high levels of IP content.[265] Japan's RTAs with developed economies tend to include detailed mandates for IP protection. The EU-Japan EPA and the CPTPP, which entered into force during the review period, both contain lengthy IP chapters and high levels of protection (notable IP provisions of each are set out in Table A3.3).

3.206. The institutional framework of the IP regime did not change during the review period. The 2002 Basic Law on Intellectual Property (Basic Law) defines the role of each institution. It established the Intellectual Property Headquarters, comprising the Prime Minister, Cabinet members, and key figures from the private sector. It develops measures to fulfil the mandates and coordinate the work of various governmental authorities responsible for the administration and enforcement of IPRs.[266] Table A3.4 summarizes the substantive laws addressing each main type of IPR. Several IP laws were modified during the review period (discussed in the relevant sections below). Japan notified certain amendments to the TRIPS Council as pertaining to the CPTPP[267], although some related to CPTPP provisions that were suspended following the US withdrawal from the agreement, e.g. patent term extensions in the event of registration delays, and the extended copyright term.

3.3.7.5 Patents

3.207. Several amendments were made to the Patent Act during the review period. The "grace period" for exceptions to the novelty requirement was extended from six months to one year[268], to address the increased risk of involuntary disclosure associated with joint research and university-industry collaboration through open innovation.[269] Another revision provided for patent term extensions in the event of delays in registration beyond five years after filing or three years after examination of requests, for applications filed after 10 March 2020.[270] Finally, annual patent fees, examination fees, and fees for PCT international applications were cut by 50%-75% for SMEs, R&D organizations (including universities, TLOs, and R&D IAAs) and start-ups. Basic examination fees were increased by JPY 20,000 to make up revenue loss.[271]

3.208. These amendments were included in revised patent examination guidelines.[272] Patent procedures remain otherwise unchanged since the previous Review.[273] Japan does not provide for provisional patent applications, but an initial application need only satisfy formalities, such as the existence of a claim, and applications are not substantively reviewed until the request for examination, which must be filed within three years of the filing date. Subsequent applications may add embodiments, drawings, and claims, and claim domestic priority within one year from the filing date of the first application.

3.209. The JPO aims to provide the "world's fastest and utmost quality patent examinations", to respond to the accelerated cycle of creating, establishing, and utilizing IPRs and to facilitate acquisition and protection of rights abroad. The JPO seeks to reduce the average period from filing a request for examination to the establishment of right (total pendency) to 14 months or less, and the average period from filing a request for examination to issuing a first action (FA pendency) to 10 months or less, by 2023.[274] It already partly met this goal in FY2017, with total and FA pendency

[265] See Valdés, R. and McCann, M., *Intellectual Property Provisions in Regional Trade Agreements: Revision and Update*, WTO Staff Working Paper ERSD-2014-14, 23 September 2014.

[266] WTO document WT/TPR/S/351/Rev.1, 20 June 2017, Chart. 3.4 Structure of IPR administration and enforcement.

[267] WTO documents IP/N/1/JPN/36-IP/N/1/JPN/C/6, 7 March 2019; IP/N/1/JPN/33-IP/N/1/JPN/T/9, 12 February 2019; IP/N/1/JPN/34-IP/N/1/JPN/P/14, 12 February 2019; IP/C/M/91/Add.1, 2 April 2019, paras. 3-4; and IP/C/M/92/Add.1, 22 July 2019, para. 5.

[268] WTO document IP/N/1/JPN/30-IP/N/1/JPN/P/13, 6 August 2018.

[269] JPO Status Report 2019, pg. 60.

[270] WTO document IP/N/1/JPN/34-IP/N/1/JPN/P/14, 12 February 2019.

[271] WTO documents IP/N/1/JPN/39-IP/N/1/JPN/P/15, 24 May 2019; and IP/N/1/JPN/40-IP/N/1/JPN/P/16, 24 May 2019.

[272] JPO, *Examination Guidelines for Patent and Utility Model in Japan*. Viewed at: https://www.jpo.go.jp/e/system/laws/rule/guideline/patent/tukujitu_kijun/index.html.

[273] For a visual depiction of the examination, appeals, trials, and opposition process for patents, see *JPO Status Report 2019*, pg. 118. Viewed at: https://www.jpo.go.jp/e/resources/report/statusreport/2019/.

[274] Intellectual Property Strategy Headquarters, *Intellectual Property Strategic Programme 2017*, pg. 26. Viewed at: https://www.kantei.go.jp/jp/singi/titeki2/kettei/chizaikeikaku20170516_e.pdf.

averaging 14.1 and 9.3 months, respectively[275], now claimed as the "world's fastest patent examination".[276]

3.210. Accelerated and super-accelerated examination programmes reduced average FA pendency to 2.3 months and 0.7 months, respectively, for qualifying applications in 2018. Accelerated examination is available upon request for applications made by SMEs, applications that have been filed in more than one country, and applications for inventions that have already been put into practice. Accelerated examination for inventions involving environment-related technologies is under trial.[277] A pilot super-accelerated examination may be requested for "highly important" applications, including inventions already put into practice by either a start-up or an applicant who has filed for patent protection abroad.[278] The JPO outsources prior art searches[279], plans to employ AI technology to improve speed and quality, and has introduced design-driven management principles to improve the quality of its services to users.[280]

3.211. During the review period, the number of patent applications filed annually worldwide continued to grow. Although the third highest in the world, the annual number of patent applications received by the JPO has continued a pattern of either negligible growth or decline since 2005. According to the authorities, this reflects a shift in application strategy, from quantity to quality. Compared with most other top global IP offices, the proportion of domestic filings is high in Japan[281], although the percentage of foreign filings has gradually increased, with 19.1% of applications originating from abroad in 2018, compared to 15.3% in 2009 (Table 3.25). Most foreign applicants originate from the United States, the European Union, China, and the Republic of Korea, with applications from China overtaking those from the Republic of Korea for the first time during the review period.[282]

Table 3.25 Patent applications and patents granted, 2009-18

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Patent applications to JPO by origin										
Japan	295,315	290,081	287,580	287,013	271,731	265,959	258,839	260,244	260,292	253,630
Other	53,281	54,517	55,030	55,783	56,705	60,030	59,882	58,137	58,189	59,937
Total	348,596	344,598	342,610	342,796	328,436	325,989	318,721	318,381	318,481	313,567
% Other	15.3%	15.8%	16.1%	16.3%	17.3%	18.4%	18.8%	18.3%	18.3%	19.1%
Patents granted by JPO by origin										
Japan	164,459	187,237	197,594	224,917	225,571	177,750	146,749	160,643	156,844	152,440
Other	28,890	35,456	40,729	49,874	51,508	49,392	42,609	42,444	42,733	42,085
Total	193,349	222,693	238,323	274,791	277,079	227,142	189,358	203,087	199,577	194,525
% Other	14.9%	15.9%	17.1%	18.2%	18.6%	21.7%	22.5%	20.9%	21.4%	21.6%
Patent applications originating from Japan to all patent offices										
Total applications of Japanese origin	462,666	467,249	473,715	487,360	470,615	464,274	456,305	454,973	459,406	..

.. Not available.

Source: Information provided by the authorities.

3.212. Although domestic patent applications have declined overall since 2007, applications in the fields of business methods, biotechnology, mechanical parts, and control/robotics experienced growth from 2013 to 2014 (latest available data).[283] A 2019 JPO study also found that, although small in absolute terms, the number of domestic patent applications filed annually for AI-related inventions is growing rapidly, with a 65% increase between 2016 and 2017 alone.[284]

[275] *JPO Status Report 2019*, pg. 56.
[276] *2018 IP Strategic Programme*, pg. 1.
[277] *JPO Status Report 2018*, pg. 39.
[278] *JPO Status Report 2019*, pg. 58.
[279] *JPO Status Report 2019*, pg. 56.
[280] *JPO Status Report 2019*, pg. 114; and WIPO document WIPO/IP/ITAI/GE/18/P9. Viewed at: https://www.wipo.int/edocs/mdocs/globalinfra/en/wipo_ip_itai_ge_18/wipo_ip_itai_ge_18_p9.pdf.
[281] WIPO, *World Intellectual Property Indicators 2018*, pg. 8.
[282] *JPO Status Report 2019*, pp. 18-19; *JPO Status Report 2016*, pp. 11 and 13.
[283] JPO, *Annual Report 2019* (in Japanese), pg. 62. Viewed at: https://www.jpo.go.jp/resources/report/nenji/2019/index.html#0100.
[284] METI, *Recent Trends in AI-related Inventions*. Viewed at: https://www.meti.go.jp/english/press/2019/0701_002.html.

3.213. The top five fields of technology for patent applications filed with the JPO, as at 2016, were: "electronical machinery, electrical energy"; "furniture, games"[285]; "computer technology"; "optics"; and "transport". Table 3.26 provides details regarding applications in each of these subject areas, from 2009 to 2016. Applications declined overall in all five fields, except for "furniture, games". The share of applications from non-residents in each of these fields also declined, although the share of total applications from non-residents increased, indicating a divergence among the top fields in which domestic and non-resident inventors seek to obtain Japanese patents.

Table 3.26 Patent applications to the JPO, by field of technology and origin, top five fields of technology in 2016

	2009	2010	2011	2012	2013	2014	2015	2016
Electrical machinery, electrical energy								
Japan	32,843	34,153	35,643	34,900	33,031	32,035	29,692	26,647
Other	6,944	7,184	7,733	7,453	7,474	7,113	5,466	2,151
Total	39,787	41,337	43,376	42,353	40,505	39,148	35,158	28,798
% Other	17.5%	17.4%	17.8%	17.6%	18.5%	18.2%	15.5%	7.5%
Furniture, games								
Japan	13,510	12,731	12,324	13,372	13,136	13,503	14,918	19,897
Other	1,445	1,483	1,454	1,458	1,499	1,514	1,169	413
Total	14,955	14,214	13,778	14,830	14,635	15,017	16,087	20,310
% Other	9.7%	10.4%	10.6%	9.8%	10.2%	10.1%	7.3%	2.0%
Computer technology								
Japan	27,059	26,080	24,404	23,796	22,159	21,729	20,167	18,247
Other	7,646	7,681	8,198	8,104	8,309	8,022	5,999	1,978
Total	34,705	33,761	32,602	31,900	30,468	29,751	26,166	20,225
% Other	22.0%	22.8%	25.1%	25.4%	27.3%	27.0%	22.9%	9.8%
Optics								
Japan	30,171	27,953	26,552	24,254	22,825	21,387	20,987	18,849
Other	3,574	3,565	3,399	3,398	3,628	3,519	2,916	916
Total	33,745	31,518	29,951	27,652	26,453	24,906	23,903	19,765
% Other	10.6%	11.3%	11.3%	12.3%	13.7%	14.1%	12.2%	4.6%
Transport								
Japan	17,917	17,694	18,659	18,820	18,906	18,559	18,117	18,057
Other	3,131	3,439	3,966	3,875	3,709	3,776	3,017	1,279
Total	21,048	21,133	22,625	22,695	22,615	22,335	21,134	19,336
% Other	14.9%	16.3%	17.5%	17.1%	16.4%	16.9%	14.3%	6.6%

Note: Figures are tentative.

Source: Information provided by the authorities.

3.214. Japan's grant rate continued to increase during the review period, and is considered high among top global IP offices.[286] Patents were most frequently granted in the same five fields in which applications were most commonly received. Patent grants in the fields of semiconductors and optics declined, while those in the transport field grew. As shown in Table 3.25, the proportion of patents granted to applicants of foreign origin seemingly peaked in 2015, at 22.5%, and stood at 21.6% in 2018. Most patents granted to non-residents during the review period fell into the fields of "medical technology", "computer technology", "electronic machinery, apparatus, energy", "pharmaceuticals", and "digital communication".[287]

3.215. Japan also ranks third in the number of applications filed globally, by origin. Among patent applications originating from Japan, 43.5% are filed abroad, a figure that has remained stable over the past five years and reflects both the globalization of IP protection and a desire among Japanese right holders to commercialize technology abroad. Applicants from Japan account for over a third of non-resident applications filed in Germany, Indonesia, the Republic of Korea, and Thailand, and helped to drive record numbers of PCT international patent application filings in 2017.[288] See Section 3.3.7.2 for the most popular fields of technology among Japanese patent applicants.

3.216. Japan's approach to parallel imports and compulsory licensing did not change during the review period.[289] Japan maintains that parallel imports promote price competition, and submits that

[285] Games includes computer games.
[286] WIPO, *World Intellectual Property Indicators 2018*, pp. 32-33; *JPO Status Report 2019*, pg. 18.
[287] WIPO, *IP Statistics Data Center*, December 2018. Viewed at: https://www3.wipo.int/ipstats/index.htm.
[288] WIPO, *World Intellectual Property Indicators 2018*, pp. 8, 27-28, and 32-33.
[289] WTO document WT/TPR/S/351/Rev.1, 6 August 2018, para. 3.185.

the Anti-monopoly Act prohibits their obstruction in certain circumstances.[290] Section 92 of the Patent Act can permit compulsory licenses for the improvement of inventions, but its application has been limited by a bilateral agreement with the United States, in effect since 1995.[291] No legislative or regulatory action was taken on the proposal in the Intellectual Property Strategic Programme 2017 for an alternative dispute resolution system for SEPs, which some viewed as introducing compulsory licences.[292]

3.217. The Intellectual Property High Court (IP High Court) and Supreme Court issued significant decisions in the "Maxacalcitol" patent case in 2016 and 2017, finding infringement of a process patent for the manufacture of a pharmaceutical based upon the doctrine of equivalents; in so doing, it clarified certain criteria for infringement, and clarified that this doctrine may be applied to equivalent materials and arts in existence at the filing date of the patent at issue.[293]

3.3.7.6 Utility models (UMs)

3.218. Except for an adjustment to the calculation of infringement damages, discussed in Section 3.3.7.12, there were no significant amendments to the Utility Model Act or the process for registering a UM, during the review period. Applications and registrations of UMs continued their decades-long decline. Almost all applications lead to grant (Table 3.27), and are registered faster than patents since there is no substantive examination.

Table 3.27 UM applications and registrations, 2009-18

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
UM applications to JPO, by origin										
Japan	7,799	6,889	6,305	6,292	5,965	5,429	5,213	4,928	4,578	3,810
Other	1,708	1,790	1,679	1,820	1,657	1,666	1,647	1,552	1,528	1,578
UM registrations granted by JPO, by origin										
Japan	7,361	6,756	5,998	6,221	5,738	5,322	5,098	4,756	4,526	3,796
Other	1,658	1,816	1,597	1,833	1,625	1,695	1,597	1,541	1,498	1,507

Source: Information provided by the authorities.

3.3.7.7 Designs

3.219. With the goals of protecting design innovations that use emerging technologies, and of expanding opportunities for brand development, significant revisions to the Design Act were submitted to the Diet in March 2019, and were promulgated in May 2019. The scope of protected designs will be expanded to include graphic images that are not recorded or displayed on articles (e.g. images displayed through the Internet or projected onto walls). The revised Act will also newly protect spatial designs, such as interior and exterior building designs.

3.220. The term of protection for all design rights will be extended from 20 years from the registration date to 25 years from the filing date. Protection from "indirect infringement" will be expanded to include manufacturing or importing products which have been broken up into parts for the purpose of circumventing IPRs on designs. In 2018, the grace period was extended to one year[294], in parallel with a similar revision for patents (Section 3.3.7.5).

3.221. The JPO took steps during the review period to improve the speed and quality of examination, including setting quantitative goals. In 2017, 2018 and 2019, the Examination Guidelines for Design were revised to simplify and clarify procedures for applicants. Accelerated examinations are available on request in certain situations, including when counterfeit products are

[290] Information provided by the authorities.
[291] Bharadwaj, A. and Yoshioka-Kobayashi, T., *Regulating Standard Essential Patents in Implementer-Oriented Countries: Insights from India and Japan* (2018), pg. 196. Viewed at: https://link.springer.com/content/pdf/10.1007%2F978-981-13-1232-8_10.pdf.
[292] Intellectual Property Strategy Headquarters, *Intellectual Property Strategic Programme 2017*, pp. 28-29. Viewed at: https://www.kantei.go.jp/jp/singi/titeki2/kettei/chizaikeikaku20170516_e.pdf.
[293] IP Court. Viewed at: http://www.ip.courts.go.jp/app/files/hanrei_en/003/002003.pdf; and Supreme Court. Viewed at: http://www.courts.go.jp/app/hanrei_en/detail?id=1516.
[294] WTO document IP/N/1/JPN/32-IP/N/1/JPN/D/8, 6 August 2018.

on the market. Pendency periods declined slightly during the review period, to 6.2 months (FA pendency) and 7.0 months (total pendency) in FY2018.[295]

3.222. In recent years, the total number of design applications and registrations stabilized somewhat, with applications from abroad accounting for a growing share (Table 3.28). This increase in foreign applications may be associated with Japan's 2015 accession to the Hague Agreement, which permits an applicant to simultaneously file for design rights in multiple jurisdictions.

Table 3.28 Design applications and registrations, 2009-18

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Design applications to JPO, by origin										
Japan	27,674	28,083	26,658	27,934	26,407	24,868	24,804	24,543	24,432	23,453
Other	3,201	3,673	4,147	4,457	4,718	4,870	5,099	6,336	7,529	7,953
Design registrations granted by JPO, by origin										
Japan	25,819	24,458	23,042	24,610	24,272	23,092	21,950	21,206	21,480	21,339
Other	2,993	2,980	3,232	3,739	4,016	4,214	4,347	4,138	5,855	6,279

Source: Information provided by the authorities.

3.3.7.8 Trademarks

3.223. The Trademark Act governs the registration and protection of trademarks. The Unfair Competition Prevention Act offers additional protection against unauthorized use of well-known marks, and imitation of the non-functional configuration of a good.

3.224. The Act was revised during the review period to limit claims of priority for divisional applications to those with paid parent application filing fees.[296] Presumed statutory damages for trademark infringement were revised to include the cost of obtaining and maintaining the trademark, a revision prompted by the CPTPP.[297] Modifications to Japan's GI regime (see Section 3.3.7.9) also led to consequential amendments to the Act.[298] A 2019 amendment permitted the owner of a famous mark representing the nation, a local government or agency, or a public interest non-profit to grant non-exclusive licences. The revision was intended to facilitate the use of such marks by industries and businesses in collaboration with public or non-profit entities, such as universities.

3.225. The examination, appeal, trial, grant and opposition processes for a trademark did not change during the review period.[299] The 2017 revision of the Examination Guidelines for Trademarks sought to enhance predictability and clarity for applicants, considering changes in the commercial environment, trends in user needs, and recent judicial precedents, among others.[300]

3.226. Although the number of trademark applications submitted to the JPO decreased slightly in 2018, the number of applications had been growing at annual rates from 6%-18% since 2014 (Table 3.29). Non-traditional trademarks, including motions, holograms, colours, sounds, and positions, have been registrable in Japan since 2015. As at December 2018, 433 non-traditional trademarks had been registered, from 1,746 applications (mostly combinations of colours and devices/words).[301]

3.227. Trademark applications originating from outside of Japan continue to represent 18%-21% of all applications, with most coming from the European Union, the United States, China, and the Republic of Korea. Applications from China, which accounted for 9% of foreign applications in 2013, represented 28% of foreign applications in 2017.[302]

[295] *JPO Status Report 2019*, pg. 64; *JPO Status Report 2018*, pg. 47.
[296] WTO document IP/N/1/JPN/31-IP/N/1/JPN/T/8, 6 August 2018.
[297] WTO document IP/N/1/JPN/33- IP/N/1/JPN/T/9, 12 February 2019.
[298] WTO document IP/N/1/JPN/38-IP/N/1/JPN/T/10, 10 April 2019.
[299] For a visual depiction of the examination, appeals, trials, and opposition process for trademarks, see JPO, *Trademark Updates in Japan, 2019*. Viewed at: https://www.jpo.go.jp/e/system/trademark/gaiyo/document/index/panhu29.pdf.
[300] *JPO Status Report 2018*, pg. 51.
[301] *JPO Status Report 2019*, pg. 72.
[302] JPO, *Trademark Updates in Japan, 2019*. Viewed at: https://www.jpo.go.jp/e/system/trademark/gaiyo/document/index/panhu29.pdf.

Table 3.29 Trademark applications and registrations, 2009-18

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Trademark applications, by origin										
Japan	90,474	92,163	84,673	95,548	92,496	100,053	117,960	133,337	154,780	145,274
Other	20,367	21,356	23,387	23,462	25,179	24,389	29,323	28,522	36,159	39,209
Trademark registrations, by origin										
Japan	88,449	79,338	70,800	77,129	82,736	79,562	75,965	81,838	84,960	89,108
Other	20,268	18,442	18,479	19,231	20,663	20,334	22,120	23,369	26,220	27,439

Source: Information provided by the authorities.

3.228. As the number of trademark applications grew, so did examination pendency periods. The average FA pendency and total pendency were 7.9 and 9.3 months, respectively, in FY2018, compared to 4.3 and 5.8 months in FY2015. The 2018 IP Strategic Programme expressly aimed to prevent longer examination periods.[303] Accordingly, the JPO outsourced and computerized examination processes, and increased the number of assistants for examiners.[304] It also launched a pilot "Fast Track examination" in October 2018, which aims to shorten FA pendency by two months for applications for traditional trademarks that (i) only designate goods and services listed in the Nice Classification, the Examination Guidelines for Similar Goods and Services, or the Enforcement Regulation of the Trademark Act; and (ii) were not amended prior to examination. This initiative adds to the existing system of accelerated examination, which saw greater demand during the review period, with requests growing by 53% in 2018 alone. FA pendency for accelerated examination averaged 1.7 months in 2018.[305]

3.229. Japan's Regional Collective Trademark System (RCT), introduced in 2006 and managed by the JPO, co-exists with the *sui generis* system of GI protection introduced in 2015 under the authority of the MAFF (Section 3.3.7.9).[306] The JPO promotes the RCT through seminars, brochures, an annual Regional Collective Trademark System Guidebook, and a new RCT symbol mark which may be used by both the JPO and right holders. 645 regional collective trademarks from 1,224 applications had been registered by the end of 2018.[307]

3.230. Japanese courts issued several noteworthy decisions regarding trademarks, during the review period. The Supreme Court held, in 2017, that abuse of rights could be used as a defence to an infringement suit, even after the expiration of the invalidation period of the registered trademark, so long as the infringer's mark is sufficiently well-known to invalidate the registered mark.[308] Concerning distinctiveness, the IP High Court allowed an appeal against the JPO's refusal to register plaintiff Daimler AG's "EQ" designation for "automobiles", and revoked the JPO trial decision. The IP Court determined that, while the trademark consisted solely of a very simple and common mark, it was used for a concentrated advertisement in order to give the impression to consumers interested in automobiles, including those who paid attention to an electric car released by the plaintiff and its brand name, that it is the plaintiff's new brand for an electric car. Moreover, the trademark was well-known as the plaintiff's brand for an electric car among consumers who recognize a relationship between the trademark and the plaintiff, even though the length of the advertisement was relatively short and the number of automobiles sold using the trademark as part of the product name was not high.[309]

3.231. Two other IP High Court decisions addressed confusion in connection with the goods or services pertaining to a business of another person. A 2017 ruling in the "Runbird" took into account actual trading practices in connection with the designated good at issue in the course of finding a likelihood of confusion between the plaintiff's and the defendant's marks. A 2018 ruling found that the trademark "Guzzilla", designated for mining and construction machines and apparatuses, created the likelihood of confusion with the mark "Godzilla", which has been well-known since before the

[303] *2018 IP Strategic Programme*, pg. 27.
[304] JPO, *Trademark Updates in Japan, 2019*. Viewed at: https://www.jpo.go.jp/e/system/trademark/gaiyo/document/index/panhu29.pdf.
[305] *JPO Status Report 2019*, pp. 68-70.
[306] WTO document WT/TPR/S/351/Rev.1, 20 June 2017, Table 3.37 Major distinctions between MAFF's GI system and the JPO's Collective Trademark System.
[307] *JPO Status Report 2019*, pg. 72; *JPO Status Report 2018*, pg. 52.
[308] Japan IP Court. Viewed at: http://www.ip.courts.go.jp/app/files/hanrei_en/205/002205.pdf.
[309] Japan IP Court. Viewed at: http://www.ip.courts.go.jp/app/files/hanrei_jp/770/088770_hanrei.pdf.

filing of the trademark registration as applied to toys, stationery, clothing, food, general merchandise, etc. associated with the popular film.

3.3.7.9 Geographical indications

3.232. The 2014 Act on Protection of the Names of Specific Agricultural, Forestry and Fishery Products and Foodstuffs introduced a *sui generis* system of protection for GIs of foods, beverages, and agricultural and marine products. It prohibits direct or indirect use of a GI on a non-originating product, and applies the level of protection required by Article 23 of the TRIPS Agreement to all registered GIs (not only wine and spirits). The Act was amended in 2016 and 2018 to conform with Japan's international commitments.

3.233. The 2016 amendments provide for reciprocal GI protection for designated GIs of foreign States which offer equivalent GI protection for designated Japanese GIs. Designation, and therefore protection, is prohibited for names that (i) consist, in whole or in part, of a protected GI; (ii) are generic terms; or (iii) are identical or similar to certain registered trademarks.[310]

3.234. The 2018 amendments were enacted in response to the EU-Japan EPA that entered into force on 1 February 2019. The amendments provide for a transition period, during which prior good-faith use of an identical or similar GI may be continued for up to seven years following the registration or designation of a GI. The amendments also provide for the co-existence of trademarks registered in good faith, prior to the date of registration or designation of a GI, as well as for homonymous GIs. Finally, the amendments expand the regulatory scope beyond products and packages, to include advertisements, price lists, and transaction documents.[311]

3.235. Applications for all GIs except those applied to alcoholic beverages are handled by the MAFF.[312] Applications for GIs for alcoholic beverages are submitted to the Commissioner of the National Tax Agency, and designated in accordance with the Indicating Standards Concerning Geographical Indications for Liquor.[313] As at September 2019, Japan had registered 86 GIs for agricultural products and 10 GIs for liquor.[314] It also directly protects 211 European GIs through the EU-Japan EPA.[315]

3.3.7.10 Undisclosed information and trade secrets

3.236. The Unfair Competition Prevention Act (UCPA) protects trade secrets and prohibits unfair competition. A METI study group, tasked with identifying an IP system that is responsive and supportive of the Fourth Industrial Revolution, reported, in 2017, that then-existing measures were insufficient to prevent the unfair use of data.[316] Accordingly, 2018 amendments to the UCPA, which took effect on 1 July 2019, establish civil remedies for the wrongful acquisition, disclosure, and use of "data for limited provision" – information that is valuable to business and society but does not qualify as a trade secret or for copyright protection. This includes technical or business information accumulated in a reasonable amount, managed by electronic or magnetic means, and regularly provided to specific persons.[317] The law is reportedly the first in the world to attempt to protect Big

[310] WTO document IP/N/1/JPN/29-IP/N/1/JPN/G/3, 17 February 2017.
[311] WTO document IP/N/1/JPN/37-IP/N/1/JPN/G/4, 5 April 2019.
[312] For a visual depiction of the application, opposition, and registration process for GIs, see MAFF, *Geographical Indication (GI) Protection System in Japan, "How to Register"*. Viewed at: http://www.maff.go.jp/e/japan_food/gi_act/pdf/gi_pamph.pdf.
[313] National Tax Agency, *Notice on Establishing Indication Standards Concerning Geographical Indications for Liquor (National Tax Agency Notice No. 19)*. Viewed at: https://www.nta.go.jp/english/taxes/liquor_administration/geographical/01.htm.
[314] MAFF, *Information on Registered GIs*. Viewed at: http://www.maff.go.jp/e/policies/intel/gi_act/register.html; and National Tax Agency, *Information on GIs protected in Japan*. Viewed at: https://www.nta.go.jp/english/taxes/liquor_administration/geographical/02.htm.
[315] European Commission, *EU-Japan EPA*, Annex 14-B. Viewed at: http://trade.ec.europa.eu/doclib/press/index.cfm?id=1684.
[316] METI, *The Intellectual Property System for the Fourth Industrial Revolution: Outline of the Study Group's Report*, 19 April 2017, pg. 3. Viewed at: https://www.meti.go.jp/english/press/2017/pdf/0419_001b.pdf.
[317] WTO document IP/N/1/JPN/42-IP/N/1/JPN/U/3, 20 September 2019.

Data. The METI published new Guidelines on Protected Data on 23 January 2019, which offer practical guidance on the amendments, including examples of targeted behaviours.[318]

3.237. The 2018 amendments also clarify protections for technological access restrictions that are designed to prevent unauthorized use or copying. They specify that providing codes and services that interfere with such restrictions constitute acts of unfair competition and are subject to civil and criminal penalties. These amendments took effect on 29 November 2018.[319]

3.3.7.11 Copyright

3.238. The Copyright Law underwent significant revisions in 2016 and 2018, that took effect on 30 December 2018 and 1 January 2019, respectively. The first amendments were enacted in order to comply with Japan's obligations under the CPTPP, and the second were made to conform to the Marrakesh Treaty.[320]

3.239. The Copyright Act enumerates an exclusive list of circumstances in which unauthorized use is permissible (rights restrictions provisions). New flexible limitations were introduced, to respond to digitization and networking. The provisions aim to promote information technology innovation and the development of AI technologies by permitting, *inter alia*, certain unauthorized uses that either do not impair or cause only minor harm to the copyright owner's interest and further a service or other function that uses Big Data. More specifically, the amendments permit the free use of a copyrighted work when necessary to (i) test technology for the use of the copyright work; (ii) analyse information; or (iii) process information using a computer without human recognition. Unauthorized use is also now permitted, as required, to ensure the smooth or efficient use of a copyrighted work in a computer. Minor use as part of a computer's information processing and provision of corresponding results also does not require authorization.

3.240. The revision also facilitates the use of copyrighted materials in computerized education, promotes the use of copyrighted works in archives, and enhances opportunities for persons with disabilities to access information.[321] Copyright term was extended from 50 years to 70 years after the author's death.

3.241. The Basic Act on the Promotion of Culture and the Arts was revised, and renamed the Basic Act on Culture and the Arts, in June 2017. Its revisions included supporting cooperation for overseas copyright systems, developing an environment for the appropriate distribution of copyrighted works, and promoting anti-piracy.[322] As mandated by the Basic Act on Culture and the Arts, a Basic Plan on the Promotion of Culture and the Arts was adopted by the Cabinet in March 2018, and sets forth the Agency for Cultural Affairs' vision and strategy for FY2018-22.[323]

3.242. In 2017, the Japanese Society for Rights of Authors, Composers and Publishers (JASRAC) tried to revise royalty rules for the collection of usage fees for music performed in music classes. The arbitration by the Agency for Cultural Affairs (ACA) was initiated following a request from the representative of users, the result of which was a revision to the royalty rules, enforced from 2018. However, based on administrative advice from the ACA, the JASRAC collected the fees only from music classes that accepted the new royalty rules.

3.243. In FY2016, following a large number of requests by the National Diet Library, the ACA granted 47,699 compulsory licences for the legal use of works where the author is unknown; as explained by the authorities, the reason for this high number is that mass applications are made in batches every few years. The ACA granted an additional 5,183 requests in FY2017. The 2018 IP

[318] METI, *Unfair Competition Prevention Act*. Viewed at: https://www.meti.go.jp/english/policy/economy/chizai/chiteki/.
[319] WTO document IP/N/1/JPN/35-IP/N/1/JPN/U/2, 12 February 2019.
[320] WTO document IP/N/1/JPN/36-IP/N/1/JPN/C/6, 7 March 2019.
[321] ACA, Policy of Cultural Affairs in Japan, Fiscal Year 2018, pg. 61.
[322] ACA, Policy of Cultural Affairs in Japan, Fiscal Year 2018, pg. 5.
[323] ACA, *Basic Plan on the Promotion of Culture and the Arts*. Viewed at: http://www.bunka.go.jp/english/policy/foundations/basic_policy.html; and Basic Plan on the Promotion of Culture and the Arts (in Japanese). Viewed at: http://www.bunka.go.jp/seisaku/bunka_gyosei/hoshin/pdf/r1389480_01.pdf.

Strategic Programme suggested facilitating the use of the compulsory licensing system for orphaned works[324] and, as at April 2018, the fee was reduced by nearly half.[325]

3.3.7.12 Enforcement

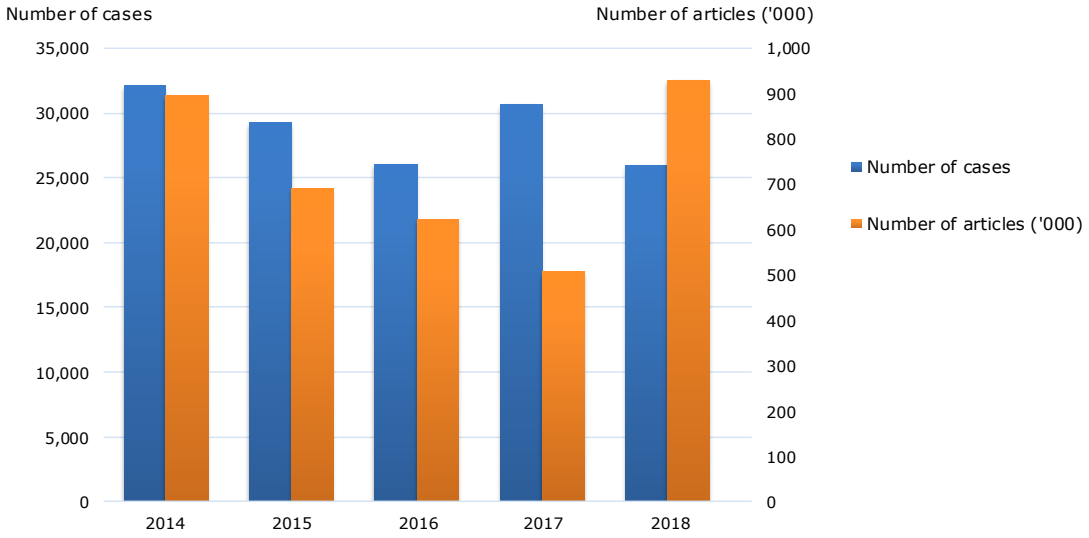
3.244. Counterfeiting and piracy continue to cause meaningful losses to the Japanese economy. A 2018 fiscal year report commissioned by the JPO estimates JPY 111 billion as the total profit lost by all industrial property right holders, based upon survey data.[326] The METI reports recent signs of improvement. During the review period, the JPO continued to conduct annual surveys on losses suffered by Japanese enterprises caused by counterfeiting and piracy. 24.1% of respondents reported losses in the 2018 report, an increase of 1.7% over the prior year.[327] Online piracy, in particular, has been referred to as a "rampant problem" that could significantly impair the rights of copyright holders.[328] The Content Overseas Distribution Association estimates that piracy costs Japanese publishers JPY 400 billion per year.[329]

3.245. Japan Customs is responsible for enforcing IPRs at the border, and seizes infringing goods. The majority of suspension cases are brought by right holders, although Japan Customs is empowered to act *ex officio* when it suspects infringing goods. There were no changes to the Customs Law during the review period that materially impact the process, availability, or protections associated with IPR enforcement at the border.

3.246. With respect to import seizures, Japan Customs statistics do not distinguish between seizures undertaken following complaint and *ex officio*. The number of total annual cases fluctuated in recent years. The number of articles seized annually had also been declining since 2014, before nearly doubling in 2018, following the seizure of a large shipment of pharmaceuticals (Chart 3.8*).* Most cases and articles relate to trademark infringement, although the numbers related to patents and designs grew during the review period. Bags, apparel, and footwear accounted for more than half of import seizure cases, but pharmaceuticals, housewares, and appliances were seized in the greatest quantities. More than 80% of the cases and articles were traced to China. Advances in cross-border e-commerce increased the rate of infringing goods imported by post.

[324] *2018 IP Strategic Programme*, pg. 32.
[325] ACA, *Policy of Cultural Affairs in Japan, Fiscal Year 2018*, pg. 63.
[326] The report is a questionnaire survey for a random sample of 4,663 Japanese companies out of 165,627 companies who registered with JPO as industrial property right holders in FY2017. 2,370 companies responded. The report estimate total profit loss, based on the profit loss of 37 companies who reported their profit loss in the survey. JPO (in Japanese). Viewed at: https//www.jpo.go.jp/resources/statistics/mohou_higai/index.html.
[327] METI, *Annual Report on the Office of Intellectual Property Protection 2018*, Appendix (in Japanese). Viewed at: https://www.meti.go.jp/press/2018/06/20180629002/20180629002-2.pdf.
[328] *2018 IP Strategic Programme*, pg. 23.
[329] Nikkei Asian Review, Kawa Saki, W. and Iwa Sawa, A., *Pirate manga link site given harsh sentence in Japan*, 18 January 2019.

Chart 3.8 Import seizure, 2014-18



Source: Japan Customs, *2018 Seizure Statistics of IPR Border Enforcement*. Viewed at: www.customs.go.jp/mizugiwa/chiteki/pages/statistics/statistics2018.pdf.

3.247. Seizures of exports remained marginal during the review period, with no cases in 2017. However, over 11,000 articles destined for China were seized in 2016, and 15 cases were brought in 2018 – both anomalous figures among statistics dating from 2011.[330] Low rates of seizure at the border of infringing goods destined for export have been attributed to strong domestic enforcement. Statistics from the National Police Agency in Table 3.30 show the volume of confiscated IPR-infringing goods from 2013 to 2018, with few discernible trends.

Table 3.30 Confiscated IPR-infringing goods, 2013-18

Type	2013	2014	2015	2016	2017	2018
Fake brand-name products	104,776	118,464	84,411	385,273	58,459	129,248
Videos/DVDs	576,075	290,659	82,770	8,561	199,333	596,346
Computer software	3,278	1,592	448	27,209	125	1,473
Music CDs/ tapes	5,837	16,127	181	88	1,203	1,412
Products featuring characters	13,482	3,092	7,678	10,585	6,632	2,360
Total	**703,448**	**429,934**	**175,488**	**431,716**	**265,752**	**730,839**

Source: National Police Agency (in Japanese). Viewed at: https://www.npa.go.jp/bureau/safetylife/keizai/niseburanndohinkaizokubannnokonnzetu.pdf.

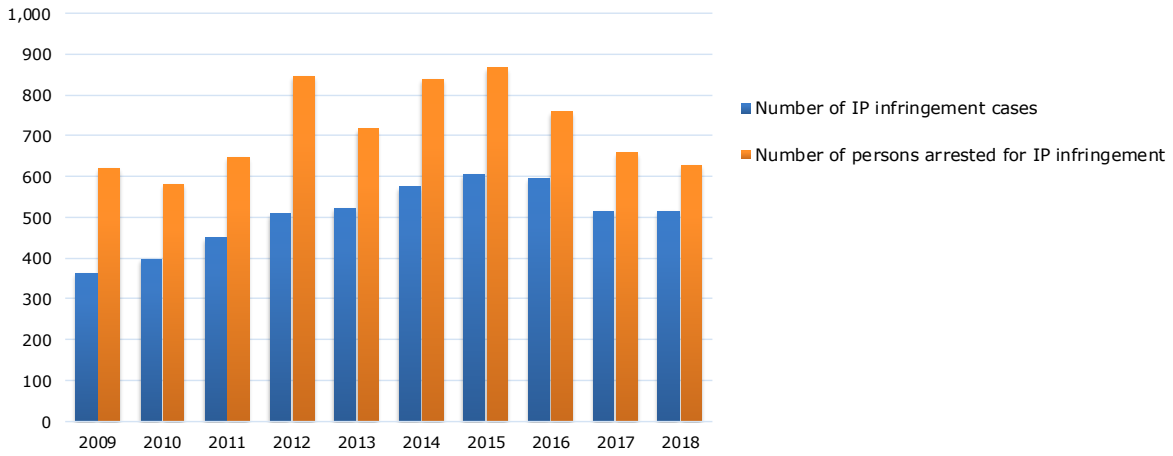
3.248. The legal framework surrounding the judicial enforcement of IPRs remained stable during the review period. District courts continue to exercise jurisdiction over civil IP infringement disputes in the first instance, with Osaka District Court and Tokyo District Court retaining exclusive authority over patent-related disputes. District court decisions may be appealed to the IP Court, which also hears in the first instance suits against JPO appeal/trial decisions. Judgements of the IP Court may be appealed to the Supreme Court, which has final jurisdiction and limits its review to the legal, rather than factual, findings of the IP Court.

3.249. The number of IP cases handled by domestic courts, and the number of individuals arrested for IP infringement declined during the review period, ending an upward trend that dated to 2009-10 (Chart 3.9). In 2018, 514 IP disputes were handled in the courts, compared to 606 in 2015, and 626 individuals were arrested for IP-related offenses, compared to 868 in 2015. This amounts to a decline of 15% in the number of court cases, and of 28% in arrests. The authorities reported that fewer instances of copyright infringement over the Internet were detected in recent years, which reduced the total number of IP cases and arrests. The number of individuals arrested for trademark

[330] Japan Customs, *2018 Seizure Statistics of IPR Border Enforcement*. Viewed at: http://www.customs.go.jp/mizugiwa/chiteki/pages/statistics/statistics2018.pdf.

infringement also declined, although the number of cases involving trademark violations remained stable.

Chart 3.9 IP cases handled by courts, and individuals arrested for IP infringement, 2009-18



Source: National Policy Agency (in Japanese). Viewed at: http://www.npa.go.jp/bureau/safetylife/keizai/niseburanndohinkaizokubannnokonnzetu.pdf.

3.250. Japan has historically been a comparatively challenging litigation venue for enforcing patent rights, with patentees winning infringement suits at a 42.4% rate in Osaka and Tokyo District Courts, compared to 70% in US trial courts.[331] Japan has been considering how to improve IP litigation procedures, to facilitate the exercise of IPRs and deter infringement. A joint JPO/METI Industrial Structure Council report in February 2019 proposed improved evidence collection procedures, damages calculations, court procedures, and litigation costs.[332] Since then, "in-camera" rules for the examination of evidence by the courts have been clarified, and now include protections for trade secrets.[333] A bill submitted to the Diet on 1 March 2019 aims to address some of these concerns in two ways. First, the bill allows courts handling patent infringement disputes to engage neutral technological experts who could conduct and report upon on-site inspections of domestic plants and other suspected infringement sites, when necessary, considering the probability of infringement, the need for sufficient evidence, and the proportionality of the burden on the accused. Second, the bill allows patent, UM, design, and trademark right holders to claim damages based on the total number of infringing products sold, regardless of the production capacity of the right holder, using a hypothetical licence issued to the infringer.[334]

3.251. The Government is also reportedly considering establishing an international division within the IP Court where cases could be heard in English, in order to make the country a more attractive venue for multinational IP disputes. In FY2016, 166 patent-related cases were heard in Japan, compared to 5,080 in the United States. It is believed that this measure may help Japanese businesses protect their IPRs more effectively, save time and costs on litigation abroad, and boost patent filings by foreign companies.[335]

3.252. Implementation of the CPTPP led to new provisions for copyright enforcement, including measures to prevent the circumvention of access controls; *ex officio* prosecution of certain criminal

[331] Tessensohn, J.A., *Japan Patent Disputes: Patent Litigation and Settlement Trends*, Managing Intellectual Property, September 2016, pp. 9-12.
[332] METI, Industrial Structure Council, Patent System Subcommittee, *Designing an Intellectual Property Dispute Settlement System for Effective Rights Protection*, February 2019, pg. 5. Viewed at: https://www.jpo.go.jp/e/resources/shingikai/document/190215_tokkyo_houkoku/english.pdf.
[333] WTO documents IP/N/1/JPN/41-IP/N/1/JPN/P/17, 19 September 2019; IP/N/1/JPN/43-IP/N/1/JPN/D/9, 20 September 2019; IP/N/1/JPN/44-IP/N/1/JPN/T/11, 26 September 2019; and IP/N/1/JPN/44-IP/N/1/JPN/T/11, 26 September 2019.
[334] METI, *Cabinet Decision on the Bill for the Act of Partial Revision of the Patent Act*. Viewed at: https://www.meti.go.jp/english/press/2019/0301_003.html.
[335] Nikkei Asian Review, Eto, T., *Japan considers allowing patent litigation in English*.

infringements; a royalty right for secondary use of sound recordings distributed over the Internet; and the addition of a new method using a collective management organization royalty rule to calculate compensatory damages.[336]

3.253. In February 2019, the Copyright Subdivision of the Council for Cultural Affairs reported on societal issues requiring a re-examination of the copyright system, such as "leech" sites, which provide links to infringing content and thereby facilitate and foster piracy, and the need for the creators of works to receive appropriate returns.[337] It is not clear whether linking to pirated content or operating a leech site violates the existing Copyright Law. However, certain leech site operators were arrested on suspicion of copyright violations[338], and were criminally prosecuted during the review period. In 2018, the Government called for temporary "emergency measures", encouraging Internet service providers to voluntarily block infringing sites and considered, but ultimately postponed, legislation to legalize such blocking.[339] In 2019, an ACA expert panel report proposed criminalizing operating leech sites and knowingly providing links to pirated materials, as well as expanding the scope of illegal downloads, currently limited to music and videos, to include all copyrighted materials, including manga, computer games, books and other writings.[340] A planned amendment to the Copyright Law implementing the recommendations was, however, also postponed.[341]

[336] Information provided by the authorities.
[337] ACA, *Policy of Cultural Affairs in Japan, Fiscal Year 2017*, pp. 54-55.
[338] The Japan Times, Murai, S., *Internet piracy taking major bite out of Japan's famed manga culture*. Viewed at: https://www.japantimes.co.jp/news/2018/04/10/reference/internet-piracy-taking-major-bite-japans-famed-manga-culture/#.XUat7x0zbIV; and Kyodo, *Japanese man wanted for running illegal manga site detained in Philippines*. Viewed at: https://www.japantimes.co.jp/news/2019/07/09/national/japanese-man-wanted-running-illegal-manga-site-detained-philippines/#.XUa4_B0zbIU.
[339] Nikkei Asian Review, Kawa Saki, W. and Iwa Sawa, A., *Pirate manga link site given harsh sentence in Japan*. Viewed at: https://asia.nikkei.com/Politics/Pirate-manga-link-site-given-harsh-sentence-in-Japan.
[340] The Japan Times, Kyodo, *Japan to make unauthorized downloads of all copyrighted work illegal*. Viewed at: https://www.japantimes.co.jp/news/2019/02/14/national/japan-make-unauthorized-downloads-copyrighted-work-illegal/#.XUWbtOQ7buh.
[341] The Japan Times, Kyodo, *Japan shelves bill on stricter copyright control after academics, manga artists and fans air concerns*. Viewed at: https://www.japantimes.co.jp/news/2019/03/13/national/japan-shelves-bill-stricter-copyright-control-academics-manga-artists-fans-air-concerns/#.XUW0dh0zbIU.

4 TRADE POLICIES BY SECTOR

4.1 Agriculture, Forestry, and Fisheries

4.1.1 Agriculture

4.1. Agriculture In 2017 (latest year of available data), agriculture, forestry and fishing contributed around 1.2% to GDP, and 3.8% to total employment (Section 1, Table 1.2). Although agriculture remains a relatively small part of the economy and employment, it continues to be considered important for food security as well as for historical and cultural reasons.

4.2. In 2018, there were nearly 1.2 million commercial farm households (defined as farms of at least 0.3 ha or with annual sales of at least JPY 500,000). Commercial farm households may be classified as: either part-time or full-time; or as a business, semi-business, or side-business (Table 4.1). Even commercial farm households are usually small in size; in 2018, the average size was 2.46 ha, compared with an average of 2.2 ha in 2015. Nearly half of commercial farm households are mainly engaged in rice production, and well over half of cultivated land is under rice production. According to the OECD, impediments to consolidating farmland include the difficulty of locating landowners, and the high costs of leasing farmlands to full-time farmers.[1]

Table 4.1 Farm households and average farm size, 2015-18

	Unit	2015	2016	2017	2018
Farm households	'000	2,155	..	..	..
Of which					
Commercial farm households	'000	1,330	1,263	1,200	1,164
Of which					
Full-time	'000	443	395	381	375
Part-time	'000	887	867	819	789
Commercial farm households	'000	1,330	1,263	1,200	1,164
Of which					
Business farms	'000	294	285	268	252
Semi-business	'000	257	237	206	188
Side-business	'000	779	741	727	725
Ha cultivated land/household					
Commercial farm households	Ha	2.20	2.35	2.41	2.46
Business farm households	Ha	5.57	5.93	6.16	6.45

.. Not available (data on farm households are available only every five years).

Note: Definitions:
Farm household: a farm with cultivated land under management of at least 10 ares (0.1 hectares) or with sales of agricultural products of at least JPY 150,000 in the previous year.
Commercial farm household: a farm with cultivated land under management of at least 30 ares or with sales of agricultural products of at least JPY 500,000 in the previous year.
Full-time farm household: a commercial farm household with no household members engaged in jobs other than farming.
Part-time farm household: a commercial farm household with at least one household member engaged in a job other than farming.
Business farm household: a commercial farm household for which agricultural income exceeds 50% of the household income and has at least one household member (under 65 years old) engaged in own farming for at least 60 days per year.
Semi-business farm household: a commercial farm household for which non-agricultural income exceeds 50% of the household income, and with at least one household member (under 65 years old) engaged in own farming for at least 60 days per year.
Side-business farm household: a commercial farm household with no members (under 65 years old) engaged in own farming for more than 60 days per year.

Source: Information provided by the authorities.

4.3. Total agricultural output (the sum of the value of crops, livestock and processed agricultural products) has been on a growing trend since 2014. Rice remains the most important single item, but its total output remains less than that of vegetables or livestock (Table 4.2).

[1] OECD Economic Survey Japan, April 2019. Viewed at: https://www.oecdilibrary.org/docserver/fd63f374en.pdf?expires=1569408615&id=id&accname=oci195767&checksum=81B51161847459D7F5629BAD30843747.

Table 4.2 Total agricultural production and production of selected products, 2014-18

	Total agricultural output	Crops	Rice		Vegetables		Wheat		Soya beans	
	JPY bn		JPY bn	'000 tonnes	JPY bn	'000 tonnes	JPY bn	'000 tonnes	JPY bn	'000 tonnes
2014	8,364	5,363	1,434	8,439	2,242	13,764	..	852	..	232
2015	8,798	5,625	1,499	7,989	2,392	13,654	..	1,004	..	243
2016	9,203	5,980	1,655	8,044	2,557	13,180	..	791	..	238
2017	9,274	5,961	1,736	7,824	2,451	13,344	..	907	..	253
2018	..	..	..	7,782	..	..	..	765	..	211
	Livestock and its products		Beef cattle	Beef	Raw milk		Pigs	Pig meat	Hen eggs	
	JPY bn		JYP bn	'000 tonnes	JPY bn	'000 tonnes	JPY bn	'000 tonnes	JPY bn	'000 tonnes
2014	2,945		594	502	697	7,334	633	1,264	511	2,502
2015	3,118		689	481	731	7,379	621	1,254	547	2,521
2016	3,163		739	464	739	7,394	612	1,279	515	2,562
2017	3,252		731	469	740	7,277	649	1,272	528	2,601
2018	..		..	475	..	7,289	..	1,284	..	2,628

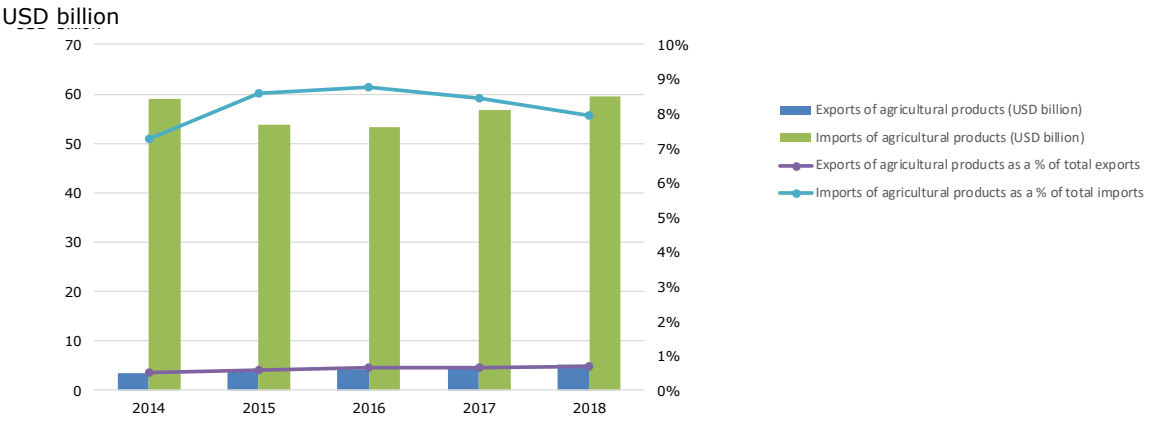
.. Not available.

Source: Information provided by the authorities.

4.1.1.1 Trade

4.4. Japan has a deficit in trade in agricultural goods, with imports of over USD 59.9 billion and exports of USD 5.2 billion in 2018.[2] While exports of agricultural products gradually increased over the period 2014-18, imports fluctuated (Chart 4.1).

Chart 4.1 Trade in agriculture, 2014-18



Note: Data is based on WTO agriculture definition.

Source: WTO calculations, based on data taken from the UNSD Comtrade database.

4.5. Imports of agricultural products are widely spread across many different tariff lines, with the top ten products representing 41% of total agricultural imports (Table 4.3).

Table 4.3 Imports of agricultural products, 2014-18

HS subheading - description		2014	2015	2016	2017	2018
Total agricultural imports	**USD million**	**58,952.7**	**53,674.3**	**53,317.7**	**56,729.1**	**59,563.7**
0203 - Meat of swine, fresh, chilled or frozen	'000 tonnes	829.4	790.6	861.2	932.1	925.0
	USD million	4,314.6	3,513.2	4,166.2	4,378.5	4,404.9
1005 - Maize	'000 tonnes	15,034.8	14,708.2	15,341.8	..	..
	USD million	3,861.9	3,236.5	3,066.8	3,083.6	3,370.7
	'000 tonnes	620.4	604.7	619.3	700.5	741.2

[2] For the purposes of this Section of the Trade Policy Review report, the definition of agricultural products used is that set out in Annex 1 of the Agreement on Agriculture, where fish and fish products are taken to include HS2017 Headings 020840, 03, 051191, 1504, 1603, 1604, 1605, and 230120.

HS subheading - description		2014	2015	2016	2017	2018
1602 - Other prepared or preserved meat, meat offal or blood	USD million	2,823.8	2,628.8	2,620.8	3,001.5	3,216.8
2403 - Other manufactured tobacco and manufactured tobacco substitutes	'000 tonnes	8.3	7.9	12.6	25.7	33.7
	USD million	40.6	54.0	495.2	1,805.3	2,659.5
2402 - Cigars, cheroots, cigarillos and cigarettes	'000 tonnes	73.5	75.5	..	60.2	53.3
	USD million	3,364.3	3,078.1	3,249.7	2,634.9	2,456.4
0201 - Meat of bovine animals, fresh or chilled	'000 tonnes	219.3	204.7	229.1	265.8	278.8
	USD million	1,596.7	1,506.9	1,656.3	1,927.3	2,103.5
2204 - Wine of fresh grapes	'000 tonnes	279.4	289.1	276.4	283.9	266.8
	USD million	1,641.6	1,490.2	1,500.0	1,616.2	1,688.9
1001 - Wheat and meslin	'000 tonnes	5,759.5	5,530.7	5,446.6	7,507.0	7,494.0
	USD million	1,971.1	1,652.5	1,361.7	1,528.9	1,638.7
1201 - Soya beans	'000 tonnes	2,827.7	3,242.6	3,131.6	3,320.9	3,051.6
	USD million	1,832.8	1,704.2	1,527.7	1,546.3	1,538.9
0202 - Meat of bovine animals, frozen	'000 tonnes	299.5	289.3	274.1	307.1	328.6
	USD million	1,295.5	1,277.0	993.4	1,191.5	1,370.5

.. Not available.

Source: WTO calculations, based on data taken from the UNSD Comtrade database.

4.6. Agricultural exports tend to be processed products; in almost all top ten export categories, there was a steady increase in both volume and value terms over the period 2014-18, with the notable exception of cigars, cheroots, cigarillos and cigarettes, which saw a marked decline (Table 4.4).

Table 4.4 Exports of agricultural products, 2014-18

HS subheading - description		2014	2015	2016	2017	2018
Total agricultural exports	USD million	3,414.4	3,706.3	4,285.7	4,497.2	5,179.4
2106 - Food preparations, n.e.s.	'000 tonnes	25.7	28.9	29.1	31.4	34.5
	USD million	346.1	418.7	486.0	522.8	741.9
2103 - Sauces and preparations	'000 tonnes	82.2	91.6	101.0	110.0	118.2
	USD million	290.3	293.1	341.8	358.0	397.5
1905 - Bread, pastry, other bakers' wares	'000 tonnes	26.1	30.4	31.4	30.2	31.4
	USD million	251.6	280.7	330.2	313.0	333.1
2202 - Waters with added sugar	'000 tonnes	72.1	81.4	86.9	105.0	109.6
	USD million	150.5	163.1	178.9	218.5	255.2
2208 - Alcohol of strength less than 80% vol.	'000 tonnes	13.1	14.5	17.6	22.2	27.2
	USD million	100.9	130.1	157.9	192.1	231.4
2206 - Other fermented beverages	'000 tonnes	17.7	20.1	22.5	29.4	31.3
	USD million	112.7	120.2	149.0	174.7	209.6
2402 - Cigars, cheroots, cigarillos and cigarettes	'000 tonnes	10.0	11.3	8.7	3.3	3.5
	USD million	181.5	193.6	192.1	118.0	145.0
0902 – Tea	'000 tonnes	3.6	4.3	4.3	4.7	5.2
	USD million	75.2	85.9	108.9	129.9	142.4
1902 - Pasta, noodles, lasagne, etc.	'000 tonnes	28.2	31.9	36.5	39.3	42.6
	USD million	90.7	94.8	122.1	129.7	141.3
1901 - Food preparations of flours, malt extract, etc.	'000 tonnes	16.0	15.4	17.2	18.1	20.0
	USD million	88.0	89.0	117.0	122.0	136.6

Source: WTO calculations, based on data taken from the UNSD Comtrade database.

4.1.1.2 Agricultural policy

4.7. The overall goal for the sector is to make agriculture a growth industry, with greater private-sector participation.[3] The agricultural policy is set out in the Food, Agriculture and Rural Areas Basic Plan, which is reviewed roughly every five years. The current Plan, adopted in March 2015, sets out

[3] OECD Economic Survey Japan, April 2019. Viewed at: https://www.oecdlibrary.org/docserver/fd63f374en.pdf?expires=1569408615&id=id&accname=ocid195767&checksum=81B51161847459D7F5629BAD30843747.

the objectives of doubling incomes in agriculture and rural areas over the next ten years, by increasing domestic and export demand, improving value chains, reducing costs, promoting structural reform, and improving productivity.[4] In September 2019, the Ministry of Agriculture, Forestry and Fisheries (MAFF) launched the process of developing the next five-year plan, to be released in 2020.[5] Agricultural policy continues to emphasize self-sufficiency, and the Plan sets self-sufficiency targets for FY2025 of 45% on a calorie basis and 73% on a production value basis, as well as a self-sufficiency target for feeds of 40% for FY2025. In 2017, self-sufficiency on a calorie basis was as 37%, under target due to climate change affecting the production of main crops such as wheat and soybeans.[6] Self-sufficiency rates for individual products vary year-on-year but are consistently high (at 70% and above) for: unshu, rice; eggs; sweet potato; fungi; vegetables and tubers (Table A4.1). Agricultural policies are reviewed annually in the MAFF's Annual Report/White Papers on Food, Agriculture and Rural Areas in Japan.[7]

4.8. As reported in Japan's previous Review, in May 2016, the MAFF developed the Strategy to Promote Exports of Agriculture, Forestry, Fisheries Products and Foods, under which governmental support includes: information to farmers on market trends; matching of producers and exporters; and participation in food fairs. In June 2016, the Cabinet adopted the Japan Revitalization Strategy 2016 (Section 2), which sets the export target for major agriculture, forestry, and fisheries products and foods at more than JPY 1 trillion by 2019[8]; according to the authorities, by end-2018, the value of exports of these products reached JPY 906.8 billion.

4.9. In 2017, Japan released a Policy Package for Enhancing the Competitiveness of Japan's Agriculture. It aims to increase farmer's competitiveness through 13 actions, namely: reducing the price of farming inputs; structural reform of distribution and processing; manpower development; the development of a strategic export system; the indication of country of origin of ingredients; a study of the introduction of checkoff programmes[9]; the introduction of a revenue insurance system; a revision of the land improvement system; improvements to employment structures in farm villages; the promotion of feed rice; the reinforcement of the production structure for beef cattle and dairy farming; ensuring steady management of the compound feed price stabilization system; and the reform of the raw milk distribution system.[10]

4.10. A Food Industry Strategy was issued in April 2018, which was developed by the Government and various agricultural stakeholders. It identifies the challenges and issues/changing trends facing the food industry along the food chain, as well as its potential strengths. It incorporates proposals and an Action Plan.[11]

4.11. Key policy developments over the review period were the abolition of the Direct Payment for Rice and of the administrative allocation of rice production volume targets; the introduction of a new Revenue Insurance programme, applicable to almost all farm products; a review of the Agricultural Mutual Aid System; the abolition of administered prices for beef and pig meat; and increased support for domestic beef and pork producers (see below). In 2018, a new residency status was approved by the Diet, to grant a new type of residency status to foreigners into sectors that need more

[4] The 2015 Basic Plan and related documents were viewed at: http://www.maff.go.jp/j/keikaku/k_aratana/h27_keikaku.html.

[5] MAFF, *Basic Plan for Food, Agriculture and Rural Areas*. Viewed at: http://www.maff.go.jp/j/keikaku/k_aratana/index.html.

[6] Self-sufficiency data on a product-by-product basis may be viewed (in Japanese) at: http://www.maff.go.jp/j/zyukyu/zikyu_ritu/attach/pdf/012-14.pdf.

[7] The Annual Reports/White Papers covering the period under review were viewed at: http://www.maff.go.jp/j/wpaper/index.html.

[8] Cabinet of Japan. Viewed at: http://www.kantei.go.jp/jp/singi/keizaisaisei/pdf/2016saikou_torikumi.pdf; the target year was changed from 2020 to 2019.

[9] As indicated by the authorities, checkoff programmes include promotion activities based on producers' contributions.

[10] MAFF, The Policy Package for Enhancing Competitiveness of Japan's Agriculture (Outline). Viewed at: http://www.maff.go.jp/e/policies/law_plan/attach/pdf/index-4.pdf.

[11] MAFF. Viewed (in Japanese) at: http://www.maff.go.jp/j/press/shokusan/seizo/attach/pdf/180406-2.pdf.

workers, the agricultural sector being one of these (Section 2.4.2); this policy was implemented in April 2019.[12]

4.1.1.3 Institutional and legal framework

4.12. The MAFF is responsible for agricultural policy. There were no changes to its responsibilities over the review period. It has several divisions which deal with all aspects of agriculture (as well as forestry and fishing), including trade policy and trade negotiations relating to agricultural products, administering tariff quotas, statistics, domestic market supervision, agricultural insurance, SPS and TBT measures relating to agriculture, and overseeing and promoting R&D undertaken under the Agriculture, Forestry and Fisheries Research Council.[13] The MAFF also has under its responsibility a public-private investment fund (A-FIVE) which invests in the agricultural sector.

4.13. The Prime Minister chairs the Headquarters on Creating Dynamism through Agriculture, Forestry and Fishery Industries and Local Communities; established in 2013, this brings together various government ministers. In 2019, a revised Plan for Creating Dynamism in Agriculture, Forestry and Fishery Industries and Local Communities was approved. This includes export opportunities; technology/smart agriculture; and farmland use.

4.14. The main general law governing the agricultural sector is the Basic Law on Food, Agriculture and Rural Areas (last amended in 1999), which obliges the Government to establish a basic plan for food, agriculture and rural areas, setting out national policies and objectives.

4.15. The Act on the Support for Strengthening Agricultural Competitiveness entered into force in 2017.[14] Its stated purpose is to promote structural reforms and business entry to the agricultural production-related industries in Japan, so as to ensure the sustainable development of agricultural and agricultural production-related industries. Actions/policies to be taken by the Government are:

- policies to realize the supply of high-quality and affordable agricultural materials, including: (i) a review of regulations on agricultural materials to make them, where relevant, reasonable based on the latest scientific knowledge; (ii) the setting of development targets for agricultural machines and other agricultural materials, as well as the promotion of collaboration among R&D agencies, universities and private businesses; (iii) the promotion of aggregation of brands of agricultural materials where the proliferation of small brands accounts for low productivity; (iv) the promotion of technological development and production or supply of seeds and seedlings by private businesses, as well as the provision of knowledge of their production held by R&D agencies or prefectures; (v) the promotion of business restructuring/entry into the agricultural material business; and (vi) the provision of information to farmers to assist in their procurement of agricultural materials;

- policies to rationalize agricultural product distribution, including: (i) reviewing regulations on agricultural product distribution; (ii) promoting business restructuring/entry for agricultural product wholesale and retail businesses and manufacturing and processing businesses; (iii) promoting direct sales from farmers/farmers bodies to consumers; (iv) providing information for shipment of agricultural products to farmers; and (v) ensuring the quality, production or distribution methods, or any other characteristics of agricultural products are properly evaluated; and

- measures to promote business restructuring or business entry, including the development of a framework through which enterprises wishing to restructure/enter the market may submit their business plans to the competent minister to be certified. The Act provides for financial support to successfully certified enterprises through: the Organization for Small and Medium Enterprises and Regional Innovation, Japan; the Japan Finance Corporation; and the Agriculture, Forestry and Fisheries Fund Corporation for Innovation, Value-chain and

[12] OECD, *Economic Survey Japan 2019*. Viewed at: https://www.oecd-ilibrary.org/docserver/fd63f374-en.pdf?expires=1569408615&id=id&accname=ocid195767&checksum=81B51161847459D7F5629BAD30843747.

[13] WTO document WT/TPR/S/351/Rev.1, 20 June 2017.

[14] The Agricultural Competitiveness Enhancement Support Act. Viewed at: http://www.japaneselawtranslation.go.jp/law/detail/?ft=1&re=02&dn=1&x=55&y=8&co=01&ia=03&ja=04&ky=support+for+strengthening+agricultural+competitiveness&page=7.

Expansion Japan (A-FIVE). Based on the Act on Special Measures Concerning Taxation, special provisions for depreciation, the registration and licence tax, and refunds by carry-back of loss are applied to certified enterprises carrying out business restructuring.

4.16. The Act on the Support for Strengthening Agricultural Competitiveness requires the Government to undertake a survey, approximately every five years, of the supply of agricultural materials and agricultural product distribution, both in Japan and abroad; examine its policies; and establish implementing guidelines to promote business restructuring/business entry. Since implementation of the Act, 21 business restructuring plans and 1 business entry plan have been certified.

4.17. Over the review period, the Agricultural Management Framework Reinforcement Act was amended in order to promote the utilization of farmland with unidentified owners, and thereby enable restructuring. Additionally, the Urban Farmland Lease Facilitation Act was amended in order to assist farmers who want to produce in an urban farmland.

4.1.1.4 Trade policies and border measures

4.18. In 2017, the Japan Food Product Overseas Promotion Center was established within the Japan External Trade Organization (JETRO); it aims to raise awareness of Japanese products globally, establish the "Japan brand", and seek further export opportunities for Japanese food products[15] (Section 3.2.4.4).

4.19. Export insurance from Nippon Export and Investment Insurance is available for agricultural products in the same way as for exports of other goods (Section 3.2.5).

4.20. The simple average tariff on agricultural products (WTO definition) increased to 17.9% in FY2019 from 16.3% in FY2016, due to changes in the unit prices leading to increases in *ad valorem* equivalents (AVEs) of non-*ad valorem* tariffs. In general, tariffs on agricultural products (17.9%) are higher than tariffs on non-agricultural products, with an average of 3.5%. Tariffs vary considerably among agricultural products, with just below one quarter duty-free, and a maximum tariff (AVE, out-of-quota) of 499.7%. 17.5% of agricultural tariff lines are non-*ad valorem*.

4.21. The Government considers that, as a result of full implementation of the two new RTAs that entered into force over the review period (the CPTPP and the Japan-EU EPA (Section 2), there will be price declines for certain agricultural, forestry and fisheries products. It estimates a total loss of JPY 112.5 billion for these products under the Japan-EU EPA, and of JPY 145.9 billion under the CPTPP. The agricultural products projected to be hardest hit are beef and dairy products under the Japan-EU EPA, and beef, dairy products and pig meat under the CPTPP. However, the Government is of the view that, despite this, domestic production volumes and farmer's incomes will be maintained through government measures.[16]

4.22. Japan reserved the right to use special agricultural safeguards (SSGs) on 147 tariff lines based on the Consolidated Tariff Schedule (CTS) in HS2002.[17] During FY2018 and FY2019, Japan applied either the volume- or price-based SSGs several times to out-of-quota imports of a variety of products (Table 4.5).

[15] MAFF, *FY2018 Annual Report on Food, Agriculture and Rural Areas in Japan*. Viewed at: http://www.maff.go.jp/j/wpaper/index.html.

[16] Official documents on the impact of the CPTPP and the Japan-EU EPA on food, agriculture and rural areas are available (in Japanese) at: http://www.maff.go.jp/j/kanbo/tpp/.

[17] WTO document TN/AG/S/29/Rev.1, 11 January 2017. As reported in previous Reviews, Japan had the right to use the SSG on 121 tariff lines, as the CTS in this case was based on HS1996 (WTO document TN/AG/S/12, 20 December 2004). The number of lines increased to 147, due to the CTS now being based on HS2002.

Table 4.5 SSGs, FY2017/18

HS	Description	Type of SSG	Date or period of application
FY2017			
040120190	Milk and cream, not concentrated or containing added sugar or other sweetening matter. - Of a fat content, by weight, exceeding 1% but not exceeding 6%: sterilized, frozen or preserved	Volume	01/06/2017 to 31/03/2018
040210129,040210212, 040210217,040210229, 040221119,040229119, 040221129,040229129, 040221212,040221217, 040221229,040229291	Milk and cream, concentrated or containing added sugar or other sweetening matter: in powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5%: in powder, granules or other solid forms, of a fat content, by weight, exceeding 1.5% Not containing added sugar or other sweetening matter: Other:	Volume	01/02/2018 to 31/03/2018
040291129	Milk and cream, concentrated, not containing added sugar or other sweetening matter - of a fat content, by weight, exceeding 7.5%	Price	07/08/2017
040390113, 040390118, 040390123, 040390128, 040390133, 040390138	Buttermilk, curdled milk and cream, kephir and other fermented or acidified milk and cream, sterilized, frozen, preserved, concentrated or containing added sugar or other sweetening matter, flavouring, fruits or nuts	Volume	01/03/2018 to 31/03/2018
071335299	Cow peas (*Vigna unguiculata*)	Price	09/02/2018
071360299	Other pigeon peas (*Cajanus cajan*)	Price	20/12/2017
100630090	Rice (semi-milled or wholly milled rice, whether or not polished or glazed)	Price	27/06/2017
110819099	Other starches (excluding Sago starch)	Price	06/09/2017
110820090	Inulin	Price	20/06/2017, 22/06/2017, 30/08/2017, 25/09/2017, 13/11/2017
190190132	Food preparations of goods of heading 04.01 to 04.04, containing not less than 30% natural milk constituents, of the articles in dry weight, excluding whipped cream in pressurized containers - containing not more that 30% milk fat by weight	Price	26/06/2017, 22/12/2017
210690119	Food preparations containing by weight not less than 30% natural milk constituents on the dry matter - not more than 30% by weight of milk fat	Price	30/05/2017
210690129	Food preparations containing by weight not less than 30% natural milk constituents on the dry matter - not more than 30% by weight of milk fat	Price	18/04/2017
FY2018			
040120190	Milk and cream, not concentrated or containing added sugar or other sweetening matter - of a fat content, by weight, exceeding 1% but not exceeding 6%: sterilized, frozen or preserved	Volume	01/07/2018 to 31/03/2019
040390113, 040390118, 040390123, 040390128, 040390133, 040390138	Buttermilk, curdled milk and cream, kephir and other fermented or acidified milk and cream, sterilized, frozen, preserved, concentrated or containing added sugar or other sweetening matter, flavouring, fruits or nuts	Volume	01/06/2018 to 31/03/2019
071360299	Other pigeon peas (*Cajanus cajan*)	Price	18/05/2018, 23/07/2018, 16/11/2018
110100200	Wheat or meslin flour	Price	02/11/2018
110812099	Maize (corn) starch	Volume	01/02/2019 to 31/03/2019
110819099	Other starches (excluding Sago starch)	Price	10/10/2018

HS	Description	Type of SSG	Date or period of application
110820090	Inulin	Price	16/04/2018, 10/07/2018, 24/08/2018, 04/09/2018, 25/01/2019, 29/01/2019, 22/02/2019, 28/02/2019,
190120159, 190190179	Food preparations of flour, meal, or starch, which contain more than 85% by weight of flour, groats, meal and pellets of rice, wheat, triticale or barley, starch, or any combination thereof, excluding cake-mixes and the kind used as food suitable for infants or young children or for dietetic purposes - mostly containing starch (excluding wheat starch)	Volume	01/03/2019 to 31/03/2019

Source: WTO documents G/AG/N/JPN/239, 15 May 2019; and G/AG/N/JPN/226, 23 May 2018.

4.23. According to its most recent notification on imports under tariff quotas (for FY2017/18) to the WTO Committee on Agriculture, Japan applies 18 tariff rate quotas (TRQs) covering 101 tariff lines at the HS six-digit level.[18] Fill rates varied considerably from one quota to another, ranging from 23.4% to 305.6% (Table 4.6). The authorities indicated that low fill rates for some TRQ products were mainly to decrease domestic demand.

Table 4.6 TRQ fill ratio, FY2017/18

Description of products	No. of tariff lines	Tariff quota quantity (MT)	In-quota imports	Fill rate %
Skimmed milk powder (for school lunches)	040210, 040221	7,264	1,701	23.4
Skimmed milk powder (for other purposes)	040210, 040221, 040229	74,973	28,817	38.4
Evaporated milk	040291	1,500	1,445	96.3
Whey and modified whey (for feeding purposes)	040410	45,000	36,675	81.5
Prepared whey (for infant formula)	040410, 040490	25,000	7,507	30
Butter and butteroil	040510, 040590	581	191	32.9
Mineral concentrated whey	040410	14,000	10,104	72.2
Prepared edible fat	210690	18,977	16,946	89.3
Other dairy products for general use	040110, 040120, 040130, 040291, 040310, 040390, 040490, 180620, 180690, 190110, 190120, 190190, 210112, 210120, 210610, 210690	133,940	133,402	99.6
Designated dairy products for general use	040210, 040221, 040229, 040299, 040390, 040410, 040510, 040520, 040590	137,202	419,234	305.6
Dried leguminous vegetables	071310, 071332, 071333, 071339, 071350, 071390	120,000	73,605	61.3
Wheat, meslin, triticale and their processed products	100110, 100190, 100890, 110100, 110290, 110311, 110319, 110320, 110419, 110429, 110811, 190120, 190190, 190410, 190420, 190430, 190490, 210690	5,740,000	5,761,674	100.4
Barley and its processed products	100300, 110290, 110319, 110320, 110419, 110429, 190120, 190190, 190410, 190420, 190490, 210690	1,369,000	349,350	25.5

[18] WTO document G/AG/N/JPN/238, 15 May 2019.

Description of products	No. of tariff lines	Tariff quota quantity (MT)	In-quota imports	Fill rate %
Rice and its worked and/or prepared products	100610, 100620, 100630, 100640, 110230, 110319, 110320, 110419, 110429, 190120, 190190, 190410, 190420, 190490, 210690	682,200	676,997	99.2
Starches, inulin, and their preparations	110812, 110813, 110814, 110819, 110820, 190120, 190190	157,000	157,825	100.5
Ground-nuts	120210, 120220	75,000	36,946	49.3
Tubers of konnyaku	121299	267	68	25.5
Silk-worm cocoons and raw silk	500100, 500200	798	445	55.8

Note: Milk powder (tariff lines 040221 and 040299) was not included.

Source: WTO document G/AG/N/JPN/238, 15 May 2019.

4.24. The method of administering TRQs varies from one item to another, although the competent authority for administering for all but one quota is the MAFF (the exception being "designated dairy products for general use", where the competent authority is the Agriculture Livestock Industries Corporation, a state trading enterprise). One quota (prepared edible fat) is partially allocated to a supplying country. Under all methods, the applicant for an allocation must meet criteria, such as end-use requirements, record as an importer, or planned usage. There were no substantive changes to quota administration methods since 2009.[19] Tariff quotas are applied for various other products (Table 4.7).

Table 4.7 Other products for which tariff quotas are applied, 2019

Description	HS code	Out-of-quota rate	HS code	In-quota rate - %
Maize other than seed	100590099	50% or JPY 12/kg, whichever is the greater	100590091	0
			100590092	0
			100590095	0
			100590096	3
Malt	110710019	JPY 21.30/kg	110710011	0
Malt	110710029	JPY 21.30/kg	110710021	0
Malt	110720020	JPY 21.30/kg	110720010	0
Chocolate preparations	180620290	21.30%	180620210	0
Chocolate preparations	180620319	23.8% + JPY 679/kg	180620311	21
Chocolate preparations	180690319	23.8% + JPY 679/kg	180690311	21
Tomato puree	200290219	16%	200290211	0
Tomato puree	200290229	16%	200290221	0
Prepared pineapples	200820119	JPY 33/kg	200820111	0
Prepared pineapples	200820219	JPY 33/kg	200820211	0
Preparations with basis of coffee	210112232	29.8% + JPY 679/kg	210112231	25
Preparations with basis of coffee	210112237	29.8% + JPY 1,159/kg	210112236	25
Preparations with basis of tea or maté	210120232	29.8% + JPY 679/kg	210120231	25
Preparations with basis of tea or maté	210120237	29.8% + JPY 1,159/kg	210120236	25
Food preparation n.e.s	210610140	29.8% + JPY 1,155/kg	210610120	12.50
			210610130	25
Raw hides and skins	410120212	30%	410120211	12
Raw hides and skins	410150212	30%	410150211	12
Raw hides and skins	410190212	30%	410190211	12

Source: Data based on Japanese 2019/20 tariff schedule.

4.25. A simultaneous buy and sell (SBS) system for rice and wheat remains in place. Its purpose is to meet specific needs, such as imports of small quantities of rice (maximum 100,000 tonnes) and wheat. Under this system, an importer and a domestic user make a joint bid to the MAFF, submitting

[19] Footnote 11 of Section 4.1.2.2 of WTO document WT/TPR/S/310/Rev.1, 6 May 2015 lists the WTO notifications from Japan with respect to the administration of tariff quotas. The latest notification was in 2009.

the government purchase price from the importer and the government sale price on the domestic Japanese market. The MAFF collects the difference in the prices. Since the previous Review, there have been no changes in SBS system. The volume of imports for both products fluctuated (Table 4.8). The "ordinary tender system" is used for large-quantity imports.

Table 4.8 Imports under the SBS system, FY2013-17

('000 tonnes)

	2013	2014	2015	2016	2017
Rice	61	12	29	73	100
Wheat	1,087	684	682	531	649

Source: Data provided by the authorities.

4.26. Japan did not reserve the right to use export subsidies on any agricultural products and, during the review period, it notified the WTO Committee on Agriculture that it did not use any in FY2016/17, FY2017/18 or FY2018/19.[20]

4.27. Japan's food assistance is provided under non-emergency programmes. It responds to requests from recipient countries or international organizations. Cash is provided for the purchase of food from the open market.[21] Over the review period, Japan notified volumes exported for FY2013 to FY2016 (Table 4.9).

Table 4.9 Food assistance FY2013-FY2016

FY	Rice (tonnes)	Other agri-food products[a] (tonnes)	Oil (litres)
2013	72,501	48,989	0
2014	90,045	46,463	2,364,000
2015	89,157	31,587	967,773
2016	69,508	16,791	792,660

a Other agri-food products include processed food, maize, maize meal, sorghum/millet, pulses, wheat and wheat flour, depending on the year.

Source: WTO documents G/AG/N/JPN/230-233.

4.1.1.5 Domestic support

4.1.1.5.1 General support programmes

4.28. Domestic support programmes apply at both the general and product levels. At the general level, support is provided for, *inter alia*, infrastructure, through extension services, and for insurance/disaster relief programmes.

4.29. At the prefectural level, government-supported institutions are charged with promoting farmland consolidation. These prefectural institutions rent farmland, improve infrastructure (if necessary), and lease the land to core farmers. They had a total budget of JPY 22 billion in 2019. Farmers that increase farm size continue to be eligible to receive payments of up to JPY 10,000 for each additional 0.1 ha; payments of up to JPY 700,000 per household are available for the purpose of leasing land to farmers.[22]

4.30. The Agricultural Disaster Compensation Act used to serve as the legal basis for the Agricultural Mutual Aid System (AMAS) that provides compensation from losses caused by natural disasters (including from extreme weather), diseases, and other events. In 2018, the Act was revised, and renamed the Agricultural Insurance Act. It introduces procedural efficiencies as well as a Revenue Insurance Program (RIP). The RIP, effective from 2019, operates in addition to the AMAS, and is applicable to all farm products and certain livestock products. It is a voluntary insurance system, designed to compensate farmers in the event of revenue decreases; farmers taking out insurance policies are paid back for 90% of the loss when the loss is more than 10%, based on five-year

[20] WTO documents G/AG/N/JPN/215, 3 May 2017; G/AG/N/JPN/224, 15 May 2018; and G/AG/N/JPN/240, 15 May 2019.
[21] WTO document G/AG/W/196, 12 April 2019.
[22] WTO document WT/TPR/S/310/Rev.1, 6 May 2015.

average farming income. The Government contributes 75% of the reserve fund and about 50% of the premiums (the insurance premium rate is 1.08%).[23]

4.31. Three direct payments programmes fall under the Act on Multi-Functionality of Agriculture[24]: (i) the direct payments for environmentally friendly agriculture, under which a total area of 79,465 ha was estimated to receive an average payment of JPY 56,808 per ha in FY2019; (ii) the direct payments for farmers in hilly and mountainous areas, under which payment rates depend on the slope of the land and production factors, ranging from JPY 21,000 per 0.1 ha for paddy fields in high-inclination areas to JPY 300 per 0.1 ha for pasture on a mild slope. In FY2018, the scheme covered 664,315 ha and 604,920 participants, amounting to a total of JPY 53.1 billion; and (iii) direct payments to maintain and enhance multi-functionality, under which unit prices depend on the type of land use and activity, to conserve or improve local resources, including mowing of farmland slopes or simple repairing of channels. In FY2018, the scheme covered 2,292,522 ha and 28,348 organizations, amounting to a total of JPY 93.6 billion.

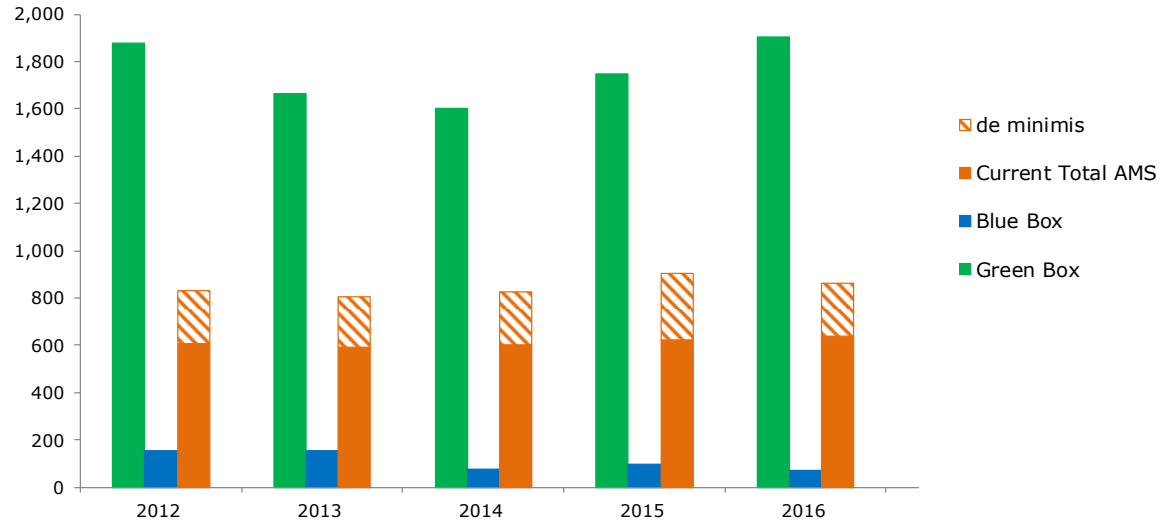
4.1.1.5.2 Support levels

4.1.1.5.2.1 WTO notifications

4.32. The most recent notification from Japan to the WTO Committee on Agriculture concerning domestic support covers FY2016.[25] According to the notification, about 67% of all support for agriculture (support notified under the Green Box, Blue Box and Amber Box (including *de minimis*)) is under the Green Box, and 30.5% under the Amber Box (including *de minimis*) (Chart 4.2)

Chart 4.2 Support notified to the WTO Committee on Agriculture, FY2012-16

JPY billion



Source: WTO documents G/AG/N/JPN/191, 31 March 2014; JPN/219, 3 July 2017; JPN/235, 19 February 2019; and JPN/236, 19 February 2019.

Green Box

4.33. Total support notified under the Green Box decreased over the period FY2012 (JPY 1,876.9 billion) to FY2014 (JPY 1,603.3 billion) and then steadily rose again, reaching JPY 1,904.5 billion in FY2016. The major items of spending were on infrastructural services;

[23] MAFF (in Japanese). Viewed at: http://www.maff.go.jp/j/keiei/nogyohoken/syu_kyosai.html; FFTC-AP online information; and Food and Fertilizer Technology Center for the Asian and Pacific Region, *Overview of Japan's Rice Policy for the Last 30 Years: from Price Support to Direct Payments.* Viewed at: http://ap.fftc.agnet.org/ap_db.php?id=911.

[24] There were no changes to the Act on Multi-Functionality of Agriculture over the review period. Further details on support provided under the Act are available (in Japanese) at: http://www.maff.go.jp/j/press/nousin/nihon/190628.html.

[25] WTO document G/AG/N/JPN/236, 19 February 2019.

payments for conversion from rice production; personnel expenses for government officials; farmers' pension programmes; and, in some years, disaster rehabilitation services and general services for the livestock industry, including extension and infrastructure.

Blue Box

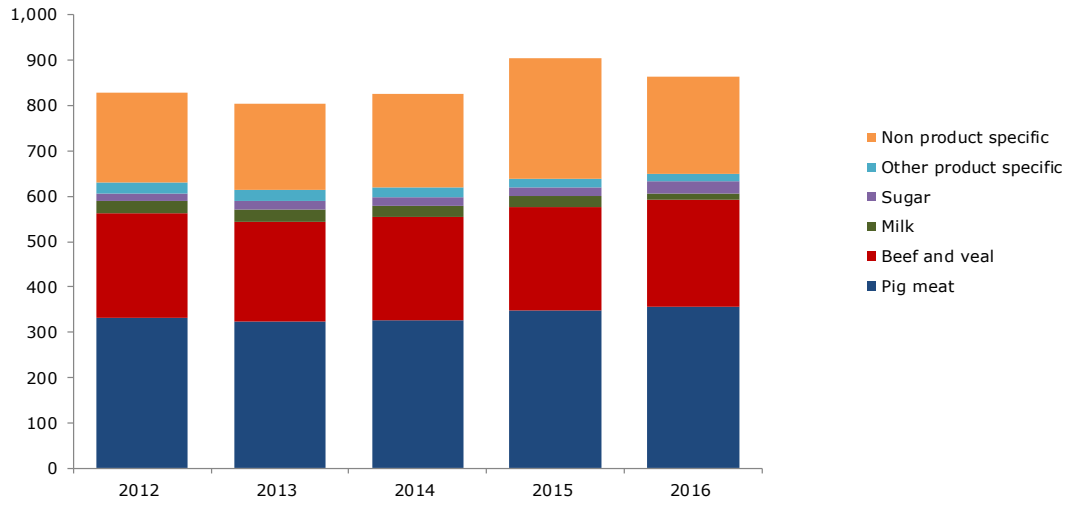
4.34. All spending notified under the Blue Box was for the rice income stabilization programme. Over the period FY2012-16, spending levels fluctuated, from a high of JPY 155.9 billion in 2013 to a low of JPY 70.8 billion in FY2016 (Chart 4.2).

Amber Box

4.35. Total support under the Amber Box since 2012 (including *de minimis*) fluctuated over the period FY2012-16, reaching a peak in FY2015 and dropping slightly in FY2016. The main products for which price support was provided were pig meat, and beef and veal; in both cases, support levels increased over the period 2014-16 (Chart 4.3).

Chart 4.3 Amber Box support, FY2012-16

JPY billion



Note: "Other product specific" includes eggs, fruit, starches and vegetables.

Source: WTO notifications.

4.1.1.5.2.2 OECD indicators

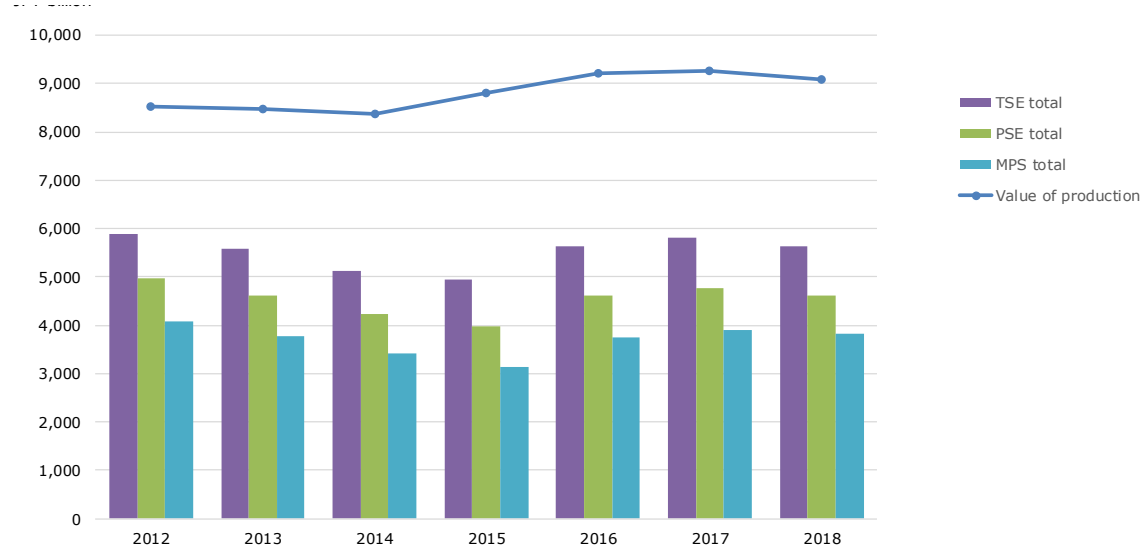
4.36. The OECD has been publishing reviews of agricultural policies in Japan, other OECD countries, and some other economies for several years. In these publications, the value of transfers to agricultural producers is measured using the Producer Support Estimate (PSE) and associated indicators. The methodology for calculating these indicators is different from that used to calculate the Aggregate Measure of Support, and the two sets of data are neither compatible nor comparable.[26]

[26] The total PSE is "the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm gate level, arising from policy measures that support agriculture, regardless of their nature, objectives or impacts on farm production or income. It includes market prices support, budgetary payments and budget revenue foregone, i.e. gross transfers from consumers and taxpayers to agricultural producers arising from policy measures based on: current output, input use, area planted/animal numbers/receipts/incomes (current, non-current), and non-commodity criteria". Thus, the PSE includes estimates for the value of transfers provided by market access measures, such as tariffs and tariff quotas, as well as input subsidies, direct payments to producers that are coupled to prices or production, and direct payments decoupled from prices and production. OECD, *The Size and Sectoral Distribution of SOEs in OECD and Partner Countries*, pg. 49. Viewed at: http://dx.doi.org/10.1787/9789264215610-en.

4.37. Over the period 2012-18, movements in the value of production were largely reflected in similar fluctuations in levels of support to agriculture (Chart 4.4). As reported by the OECD, support to producers remains high, at 2.5 times higher than the OECD average. According to OECD calculations, market price support remains the main element of producer support, and is mainly sustained by border measures, for rice, pork and milk. It further notes that the termination of rice farm support led to a decrease in direct payments since 2018, and that budgetary support to producers mostly focuses on area and income-based payments.[27]

Chart 4.4 Value of production and support to agriculture, 2012-18

JPY billion



Note: TSE = Total support estimate; PSE = Producer support estimate; MPS = Market price support

Source: OECD Stat. Viewed at: https://stats.oecd.org/Index.aspx.

4.38. As previously, single commodity transfers (SCTs) make up most of the support provided to agriculture; rates of support vary from one product to another but accounted for just under half of gross farm receipts in 2018 (which includes the value of farm production plus non-market-price support payments). For most commodities, the SCT fluctuated over the past seven years, showing no clear trends. The share of PSE in GDP fluctuated over the period 2012-18, from a low of 0.75% in 2015 to a high of 1.01% in 2012 (Table 4.10).

Table 4.10 Total PSE and SCT values for selected commodities, 2012-18

	2012	2013	2014	2015	2016	2017	2018
PSE							
JPY billion	4,975	4,619	4,223	3,989	4,614	4,754	4,618
% gross farm receipts	52.83	49.56	46.05	41.31	45.87	46.89	46.74
% of GDP	1.01	0.92	0.82	0.75	0.86	0.87	0.84
SCTss							
Total (JPY billion)	4,470	4,110	3,684	3,396	4,022	4,165	4,042
Rice							
SCT (JPY billion)	1,592	1,551	1,171	839	1,191	1,399	1,211
% of gross receipts	78	74	69	56	69	76	67
Wheat							
SCT (JPY billion)	37	37	38	39	34	32	35
% of gross receipts	44	49	49	46	46	43	48
Barley							
SCT (JPY billion)	16	16	14	16	15	15	15
% of gross receipts	70	66	63	68	72	68	69

[27] OECD, *OECD Agriculture Policy Monitoring and Evaluation 2019*. Viewed at: https://www.oecd.org/agriculture/oecd-ag-policy-monitoring-2019/.

	2012	2013	2014	2015	2016	2017	2018
Soybeans							
SCT (JPY billion)	24	23	24	24	23	23	25
% of gross receipts	50	52	38	38	40	41	56
Milk							
SCT (JPY billion)	454	397	456	428	350	306	439
% of gross receipts	64	45	50	59	63	54	61
Beef and veal							
SCT (JPY billion)	196	202	194	177	169	153	174
% of gross receipts	33	30	30	28	28	29	29
Pork							
SCT (JPY billion)	356	327	328	363	379	388	392
% of gross receipts	67	60	54	63	67	65	68
Poultry meat							
SCT (JPY billion)	19	24	25	23	13	10	15
% of gross receipts	7	8	8	7	4	3	5
Eggs							
SCT (JPY billion)	56	67	65	65	54	52	59
% of gross receipts	13	14	13	12	11	10	11
Refined sugar							
SCT (JPY billion)	42	43	42	45	46	44	46
% of gross receipts	56	58	57	57	58	56	59

Note: Figures on SCTs were rounded up/down.

Source: OECD Producer and Consumer Support Estimates Database. Viewed at: http://www.oecd.org/agriculture/topics/agricultural-policy-monitoring-and-evaluation/.

4.1.1.5.3 Specific products

4.1.1.5.3.1 Rice

4.39. Over the review period, Japan applied price-based SSGs on rice (Table 4.5). Fifteen tariff lines (at the HS six-digit level) relating to rice and its worked and/or prepared products are subject to TRQs (Table 4.6).

4.40. The Government's policy on rice evolved over the review period, with the abolition of the Direct Payment for Rice and the administrative allocation of rice production volume targets, in 2018. The payments made to rice farmers were linked to rice production volume targets assigned to each prefecture and each individual farmer based on MAFF estimates of supply and demand. As indicated by an external source, this policy change is expected to raise the competitiveness of the rice farm sector, by enabling farmers to plan their production, unrestricted by volume targets; the Government's role is now refocused on providing market information.[28]

4.41. The MAFF continues to provide direct payments to farmers who produce crops other than table rice in the paddy field, to optimize the use of paddy fields[29]; according to the authorities, this scheme aims to maintain the favourable environment of paddy fields, and thus prevent floods or soil erosion, to cultivate water resources, and to preserve the natural environment through effective use of paddy field. The budgetary cost of payments was JPY 320.0 billion in 2017 and JPY 305.9 billion in 2018.

4.42. In September 2017, the Government introduced the Rice Overseas Market Expansion Project, to mitigate the impact of decreasing domestic rice consumption on farmer's incomes. [30,] A JPY 60 billion target was set for exports of rice and rice products for calendar year 2019, to be achieved through enhanced links between three groups: (i) exporters working on the strategic expansion of rice exports ("strategic exporters"); (ii) businesses working on the stable production of rice for export, which include rice producers and collecting organizations/groups ("strategic production areas for export"); and (iii) strategic exporters' target export destinations (China; Chinese Taipei; Hong Kong, China; Macau, China; Singapore; Thailand; Viet Nam; Malaysia; Mongolia; the United States;

[28] OECD, *OECD Agricultural Policy Monitoring and Evaluation 2019*. Viewed at: https://www.oecd.org/agriculture/oecd-ag-policy-monitoring-2019/.

[29] This programme was introduced in 2010.

[30] According to official sources, Japan's rice consumption is decreasing by around 100,000 tonnes every year. MAFF (2019), *Annual Report on Food, Agriculture and Rural Areas in Japan*. Viewed at: http://www.maff.go.jp/j/wpaper/index.html.

Canada; the European Union; Switzerland; Australia; the Russian Federation; the Middle East; and India). [31] Government assistance includes support to attend some international exhibitions to promote Japanese rice products, and the organization of some matching events between producers and exporters.

4.1.1.5.3.2 Other cereals, sugar beet, starch potatoes, buckwheat, and rapeseed

4.43. Wheat, meslin, triticale, barley and their processed products are subject to TRQs (30 tariff lines at the HS six-digit level); fill rates are particularly low for barley (Table 4.6).

4.44. Under the Act on Farming Income Stabilization (Act No. 88, 2006)[32], core farmers producing wheat, barley, soya beans, sugar beet, starch potatoes, buckwheat, and rapeseed are eligible for payments based on area planted in the current year, and on the quantity and quality of annual output. Since the previous Review, payment rates have increased for all products, except for soy beans and starch potatoes (for which payment rates have decreased). Area-based payments remain unchanged (Table 4.11).[33]

Table 4.11 Payment rates for other cereals, sugar beet, starch potatoes, buckwheat, and rapeseed, 2016 and 2019

(JPY per unit)

Product	Payment rate 2019 *(payment rate in 2016)*	Per unit
Quantity-based payment		
Wheat	6,940 *(6,320)*	60 kg
Two-row barley	5,490 *(5,130)*	50 kg
Six-row barley	5,720 *(5,490)*	50 kg
Naked barley	8,230 *(7,380)*	60 kg
Soy beans	9,040 *(11,660)*	60 kg
Sugar beet	7,390 *(7,260)*	tonne
Starch potatoes	11,610 *(12,840)*	tonne
Buckwheat	16,840 *(13,030)*	45 kg
Rapeseed	9,920 *(9,640)*	60 kg
Area-based payment	20,000 *(20,000)*	10 acres

Note: The area-based payment rate for buckwheat is JPY 13,000 per 10 acres.

Source: Data provided by the authorities.

4.45. The Act on Price Adjustment of Sugar and Starch (Act No. 109, 1965), last amended in 2018, aims to ensure a stable supply of domestic sugar and domestic potato starch, *inter alia,* to provide a secure income for farmers of these products; to stabilize domestic production; and to help the sound development of other related industries. [34] The Agriculture and Livestock Industries Corporation (ALIC) purchases imports of sugar, starch and high-fructose corn syrup, which it sells to importers at a higher scheduled price. This levy (the difference between the import price and the scheduled price) is used to pay domestic producers. According to the authorities, the levy amounts to around JPY 60 billion per year.

4.1.1.5.3.3 Fruits and vegetables

4.46. The Basic Policy for Fruit Industry Promotion of 2010 was last revised in 2015. The next revision to it will be issued in 2020. The objectives of the Policy include an emphasis on increasing

[31] OECD, *Innovation, Agricultural Productivity and Sustainability in Japan*, OECD Food and Agricultural Reviews. Viewed at: http://www.oecd.org/publications/innovation-agricultural-productivity-and-sustainability-in-japan-92b8dff7-en.htm.

[32] Act on Farming Income Stabilization. Viewed (in Japanese) at: http://www.maff.go.jp/j/kobetu_ninaite/n_seido/seido_suikei/law/pdf/law.pdf. There were no amendments to this Act over the review period.

[33] They are also eligible for payments which compensate for up to 90% of any loss of income compared with the average annual income for the preceding five years, excluding the highest and lowest years. The income-related payments are provided from a fund to which the Government contributes 75%, and participating producers 25%.

[34] Act on Price Adjustment of Sugar and Starch. Viewed at: http://www.japaneselawtranslation.go.jp/law/detail/?ft=1&re=02&dn=1&co=01&ia=03&x=13&y=14&ky=farming+income+stabilization&page=2.

domestic production, consumption, and processing of domestically produced fruits.[35] Under the revised Policy, financial assistance is to be increased for converting production to more valuable fruits (defined as profitable fruits or highly valued varieties) and for on-farm improvements. The budget allocated to this assistance was JPY 5.6 billion in FY2019.[36] Assistance to farmers that convert their production to more valuable fruits (e.g. from less valuable oranges to more valuable peaches/oranges/mangoes) remains JPY 230,000 per 10 are, while assistance to farmers that convert their production to more valuable deciduous fruit tree (e.g. apples) is JPY 170,000 per 10 are. Under the Policy, payments are made to support the planned fruits production programme, and processing of fresh fruits if the market price declines or is foreseen to decline. For vegetables, farmer price support payments are made based on the quantity of production of specific vegetables under contract, calculated as the difference between 90% of the average of wholesale market price of the past six years and the average of wholesale market prices for each vegetable season. Since the last Review, there was no change in the price control support scheme.

4.47. Targeted farmers are listed in a Fruits Production Restructuring Plan for each production area, based on the Plan of Fruit Industry Promotion of each prefecture. These farmers are also eligible for assistance for a four-year period after replanting, when incomes decline while the new fruit plants mature. According to the authorities, there is no budget for this measure. Between 2014 and 2018, 5,799 ha under fruit production were converted to more valuable varieties, which is equivalent to 11% of the total area of fruit farms.

4.48. No new policies/measures to support the fruit and vegetables sectors were introduced over the review period.

4.1.1.5.3.4 Tobacco

4.49. The simple applied average tariff on tobacco was 7.2% in 2019. Tariffs range from zero to 29.8%, with the highest duty rate corresponding to pipe tobacco and water pipe tobacco. There were no changes to tariff rates over the review period. As mentioned above, exports of tobacco products declined significantly over the review period (Table 4.4).

4.50. The state trading enterprise, Japan Tobacco, which is part-owned by the Government (Section 3.3.5), continues to be required to enter into purchase contracts with tobacco growers under the Tobacco Business Act. It has a monopoly on the domestic manufacturing of tobacco and imports of leaf tobacco. Since the previous Review, there were no changes to the Tobacco Business Act.[37] Contracts specify the area to be planted, the specific varieties of leaf tobacco, and the price by variety and grade. For 2019, the total area is set at 6,886 ha (down 4.8% from 2018) and grower prices are set at JPY 1,912.3 per kg (up 1.3% from 2018).[38]

4.51. Importers, wholesalers, and retailers of cigarettes are required to register with the Minister of Finance, who must approve final retail prices. Lower excise tax rates applied to some third-grade cigarettes produced by Japan Tobacco were raised, and are now in line with rates applied to all other cigarettes (Section 3.3.1).

4.1.1.5.3.5 Livestock and livestock products

4.52. Under the Act on Dairy and Beef Cattle Production Promotion, the Minister of Agriculture, Forestry and Fisheries is charged with developing a plan to facilitate the modernization of dairy and beef cattle production. This plan is reviewed about every five years, indicating the policy direction for the substantial development of dairy and beef cattle production and the stable supply of milk, milk products and beef.

4.53. Administered prices continue to apply to calves, with the ALIC implementing a deficiency payment system. The ALIC pays calf producers the difference between the guaranteed price and the actual average price, unless the actual average price falls below a threshold level, which is called

[35] MAFF (in Japanese). Viewed at: http://www.maff.go.jp/j/seisan/ryutu/fruits/pdf/point.pdf.
[36] MAFF (in Japanese). Viewed at: http://www.maff.go.jp/j/seisan/ryutu/fruits/attach/pdf/index-61.pdf.
[37] Tobacco Business Act. Viewed at: https://elaws.e-gov.go.jp/search/elawsSearch/elaws_search/lsg0500/detail?lawId=359AC0000000068.
[38] Japan Tobacco Inc., *About report of the 53rd Board of Tobacco*. Viewed at: https://www.jti.co.jp/investors/library/press_releases/2018/1025_01.html.

the target rationalized price. When the actual average price falls below the threshold, in addition to the ALIC payment, 90% of the fall will be paid by a collective fund from the ALIC, prefectural governments, and producers. Administered prices for beef and pig meat were abolished in 2018

Table 4.12 Administered prices for calves, FY2019 (JPY)

Product	Guaranteed price	Target rationalization price
Japanese black calves	531,000 per calf	421,000
Japanese brown calves	489,000 per calf	388,000
Dairy breeds	161,000 per calf	108,000
Cross breeds	269,000 per calf	212,000

Source: Data provided by the authorities.

4.54. Coinciding with the entry into force of the CPTPP in 2018, Japan increased support for domestic pork producers by expanding the Hog Growers Business Stabilization Measure (also known as Marukin). The Marukin payment system for pork meat covers 90% of the cost gap. Pork producers pay 25% of the grant amount from the reserve fund (down from 50% prior to the expansion of the system).[39]

4.55. Under the Price Stabilization Fund for Eggs, payments are made to egg producers under contract, calculated as 90% of the difference between the baseline price (JPY 185/kg in FY2019) and the average trading price, multiplied by the quantity of eggs sold.[40] The Government and producers contribute to the fund. The budgetary cost for this measure was JPY 4.86 billion in 2017, 2018 and 2019.

4.56. The Feed Price Stabilization Programme operates to help to ease the influence of sudden surges in compound feed prices upon farmers. Farmers pay JPY 500 per tonne of compound feed into the fund operated by the compound feed industry. The fund is supplemented with the other funds provided by the Government and the compound feed industry. Grains imported as raw material for feedstuffs qualify for a reduced tariff, subject to measures to ensure they are not diverted for human consumption. These measures include approval by the Government for import by the processing plant, penalties for misuse of feed grains, and specified processing methods. The legislative basis for this measure is Article 13 of the Customs Tariff Law.

4.57. The MAFF purchases and sells imported feed (barley and wheat) to stabilize feed supply, demand and prices; this is done based on an annual Feed Supply and Demand Plan. This Plan is based on past records, supply and demand trends, trade perspectives, and other relevant factors. In 2019, it was used to purchase and sell 600,000 tonnes of feed barley and 480,000 tonnes of feed wheat. The private sector freely imports these products, regardless of the Plan.

4.1.1.5.3.6 Dairy

4.58. Dairy producers benefit from several support programmes, in addition to the administered prices for dairy calves destined for beef production (Table 4.12). Over the review period, various dairy products were the subject of SSGs (Table 4.5).

4.59. TRQs apply to various dairy products; fill rates in FY2017/18 were low for skimmed milk powder, prepared whey (for infant formula), and butter and butter oil (Table 4.6). Tariff quotas for designated dairy products for general use are allocated to the ALIC (the ALIC does not import any out-of-quota products).

4.60. Since 2018, a modified support system for milk entered into force.[41] Under this system, the MAFF decides the upper limit of the amount of raw milk for compensation payments; every producer of raw milk for processed products is eligible for this payment. To ensure the stable continuation of raw milk collection in disadvantaged areas, designated milk collection operators are eligible for

[39] MAFF. Viewed (in Japanese) at: http://www.maff.go.jp/j/kanbo/eu_epa/attach/pdf/index-11.pdf.
[40] Japan Poultry Association, *Monthly standard transaction price and compensation price*. Viewed at: http://www.jpa.or.jp/stability/monthly.html.
[41] For a description of the system previously in place, see WTO document WT/TPR/S/351/Rev.1, 20 June 2017

adjustment payments. The compensation payment uniform unit price was JPY 8.23 per kg of milk in FY2018. The adjustment payment for raw milk collection in the same year was JPY 2.43 per kg of milk. Under this scheme, JPY 33.6 billion was paid to dairy farmers in FY2018. Additionally, to cushion producers against sudden price fluctuations, producers and the Government contribute to the farm business stabilization fund (at rates which vary from one bloc to another but at a ratio of 1:3, respectively). The fund compensates producers of milk for processing whenever prices fall below the average for the previous three years.

4.61. In Japan, butter is imported by the ALIC and by private businesses. Private businesses can import butter subject to in-quota tariff rates, or by paying out-of-quota tariff rates. Imports by the ALIC accounted for 93% of the total amount of imports of butter and butter oil in FY2018.

4.1.2 Fisheries

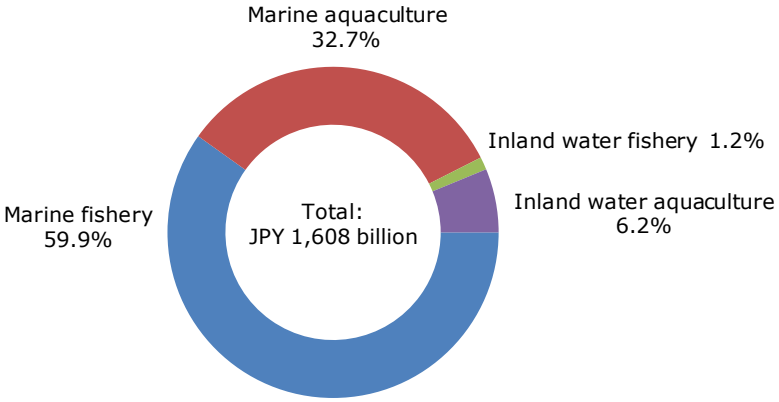
4.1.2.1 Features

4.62. According to the Food and Agriculture Organization (FAO)[42], Japan has a coastline of 29,751 km, territorial waters of 377,801 km^2, and an exclusive economic zone (200 nautical miles) of 3.64 million km^2, the sixth largest in the world. Fish is an essential part of the traditional diet, and an important economic sector for many coastal communities. In 2016, Japan was the seventh largest world producer of fish and fish products, and the second largest importer of these products. Its exports are of lesser importance.

4.63. Overall, the contribution of fisheries and aquaculture to GDP remained at less than 0.2%, and to total employment less than 0.3%, in 2017. During the period under review, fish production (capture + aquaculture) declined steadily, a trend that followed a peak of 11.2 million tonnes in 1989 to reach 3.9 million tonnes in 2016 and 3.8 million tonnes in 2017.[43] In 2017, capture fishing represented 76% of the production, and aquaculture, 24%.[44]

4.64. Chart 4.5 provides the value of production by category for FY2017. The decline in the quantity captured is not fully reflected in value terms, as there was an upward trend in prices during the period under review.[45]

Chart 4.5 Fisheries and aquaculture production, FY2017



Source: Data provided by the authorities.

[42] FAO, *Fishery and Aquaculture Country Profiles, Japan,* April 2019. Viewed at: http://www.fao.org/fishery/facp/JPN/en.

[43] USDA, Foreign Agricultural Service, *Gain Report No. JA9044, 4 September 2019*. Viewed at: https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Japan%20Revises%20Fisheries%20Act%20Seeking%20Global%20Competitiveness_Tokyo_Japan_4-9-2019.pdf.

[44] MAFF, *FY2017 Trends in Fisheries, FY2018 Fisheries Policy, White Paper on Fisheries: Summary.* Viewed at: http://www.maff.go.jp/e/data/publish/attach/pdf/index-94.pdf.

[45] MAFF, *FY2017 Trends in Fisheries, FY2018 Fisheries Policy, White Paper on Fisheries: Summary*, pg. 12. Viewed at: http://www.maff.go.jp/e/data/publish/attach/pdf/index-94.pdf.

4.65. Fish consumption followed a declining trend similar to that of production, falling from 40.2 kg per capita in 2004 to 27.3 kg in 2014 and to 24.6 kg[46] in 2016. Self-sufficiency ratios slightly improved from 2016 to 2018 for fish production as a whole (from 53% to 55%) and for fish production for human consumption (56% to 59%) but declined marginally for seaweed (from 69% to 68%) (Table A4.1).

4.66. The number of full-time fishermen also declined, from 166,610 in 2015 to 153,490 in 2017.[47] The average age increased, and about 60% of fishermen were 55 years old or older in 2017.[48]

4.67. Fishing vessels also aged during the period under review, with 59% of licensed vessels being older than 20 years in FY2017.[49]

4.68. Almost all fish processing companies are small and medium-sized businesses, with 300 employees or fewer. Their number decreased during the period under review.[50]

4.69. The value of aquaculture production reached JPY 603.7 billion in 2017, an increase of 6% compared to 2016. The main products of marine aquaculture (as opposed to inland aquaculture) are Japanese amberjack, Nori seaweed, scallops, and red seabream. These aquaculture products are the main contributors to Japanese exports of fish and fish products.

4.70. Foreign investment in the fishery sector in Japan is subject to a prior notification requirement (Section 2.4.1). Some locally fished and processed fish and fish products are protected by GIs.

4.71. Imports of fish and fish products are about five times greater than exports, as evidenced by Tables 4.13 and 4.14, which describe the value of imports and exports by main species, from 2014 to 2018. Both imports and exports of fish and fish products have grown every year in value terms since 2015.

4.72. Exports of fish and fish products constitute just 0.3 % (a figure that remained stable during the period under review) of total Japanese exports.

Table 4.13 Exports of fish and fish products, 2014-18

		2014	2015	2016	2017	2018
Exports[a]	USD million	1,875.6	1,905.0	2,031.5	2,040.5	2,327.1
% of total exports		0.3	0.3	0.3	0.3	0.3
Growth rate, %		-5.4	1.6	6.6	0.4	14.0
Top ten exports by HS 6-digit:						
030799 - Molluscs, n.e.s. in heading 0307, frozen, including flours, meals and pellets	'000 tonnes	54.5	78.3	61.1	39.6	65.0
	USD million	404.9	464.5	488.4	369.8	350.8
030354 - Mackerel frozen; excluding fillets, livers and roe	'000 tonnes	105.1	185.3	210.6	232.0	248.8
	USD million	107.7	147.2	165.5	194.8	240.7
160561 - Sea cucumbers, prepared or preserved	'000 tonnes	0.7	0.7	0.6	0.7	0.6
	USD million	196.0	179.3	167.4	184.9	190.9

[46] USDA, Foreign Agricultural Services, *Gain Report No. JA9044, 4 September 2019*. Viewed at: https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Japan%20Revises%20Fisheries%20Act%20Seeking%20Global%20Competitiveness_Tokyo_Japan_4-9-2019.pdf.

[47] USDA, Foreign Agricultural Services, *Gain Report No. JA9044, 4 September 2019*.

[48] USDA, Foreign Agricultural Services, *Gain Report No. JA9044, 4 September 2019*.

[49] MAFF, *FY2017 Trends in Fisheries, FY2018 Fisheries Policy, White Paper on Fisheries: Summary*, pg. 12. Viewed at: http://www.maff.go.jp/e/data/publish/attach/pdf/index-94.pdf.

[50] MAFF, *FY2017 Trends in Fisheries, FY2018 Fisheries Policy, White Paper on Fisheries: Summary*, pg. 15. Viewed at: http://www.maff.go.jp/e/data/publish/attach/pdf/index-94.pdf.

		2014	2015	2016	2017	2018
160559 - Mollusc preparations; n.e.s. in heading 1605.5, prepared or preserved	'000 tonnes	2.4	2.4	3.6	2.5	6.5
	USD million	30.4	31.0	84.8	77.1	125.3
030489 - Fish fillets; frozen, of fish n.e.s. in heading 0304.8	'000 tonnes	5.6	6.9	7.0	7.9	7.7
	USD million	78.4	97.7	106.8	118.7	121.6
160420 - Fish preparations; fish minced, n.e.s. in heading 1604, prepared or preserved	'000 tonnes	9.9	11.3	12.2	12.6	14.2
	USD million	81.7	85.3	106.0	105.3	119.4
030389 - Fish; frozen, n.e.s. in heading 0303, excluding fillets, livers, roe	'000 tonnes	61.0	66.0	46.5	59.0	63.7
	USD million	93.4	105.7	85.7	108.5	107.7
160552 - Scallops prepared or preserved	'000 tonnes	2.5	2.4	2.1	1.1	1.4
	USD million	123.5	130.4	118.3	83.9	86.9
030791 - Molluscs; n.e.s. in heading 0307; live, fresh or chilled; incl. flours, meals, pellets	'000 tonnes	8.3	9.6	7.5	7.9	19.5
	USD million	30.7	38.8	38.8	42.5	79.9
030353 - Sardines, sardinella, brisling or sprats; frozen; excl. fillets, livers and roe	'000 tonnes	13.8	33.9	39.1	61.9	99.3
	USD million	12.6	26.3	31.8	47.2	75.3

a Including HS codes 020840, 03, 051191, 1504, 1603, 1604, 1605, and 230120.

Note: The ranking of the top ten fishery products is based on the value of 2018 exports using the HS12 nomenclature.

Source: WTO calculations, based on the UNSD Comtrade database.

Table 4.14 Imports of fish and fish products, 2014-18

		2014	2015	2016	2017	2018
Imports[a]	USD million	14,981.5	13,524.6	13,965.0	15,079.6	15,455.3
% of total imports		1.8	2.2	2.3	2.2	2.1
Growth rate, %		-2.8	-9.7	3.3	8.0	2.5
Top ten imports by HS 6-digit:						
030617 - Shrimps, prawns, frozen	'000 tonnes	146.8	138.9	149.2	156.8	142.5
	USD million	1,833.3	1,466.9	1,560.6	1,679.2	1,503.7
030487 - Tuna, skipjack, stripe-bellied bonito, frozen fillets	'000 tonnes	36.5	41.4	41.8	47.4	52.5
	USD million	550.0	622.5	616.6	704.3	796.4
160521 - Shrimp, prawns, prepared or preserved	'000 tonnes	59.2	59.6	59.5	62.1	64.0
	USD million	719.9	643.8	628.9	658.3	679.5
030312 - Pacific salmon, frozen; excluding fillets, livers and roe	'000 tonnes	83.8	100.9	95.1	95.6	101.5
	USD million	511.8	477.9	475.1	605.1	647.9

		2014	2015	2016	2017	2018
030749 - Molluscs; cuttle fish and squid - frozen, dried, salted or smoked	'000 tonnes	26.8	23.9	22.2	125.3	102.7
	USD million	190.5	154.9	160.1	693.3	636.3
030390 - Fish; frozen, livers and roe	'000 tonnes	54.6	54.7	47.7	57.7	59.0
	USD million	435.4	361.6	402.8	585.8	599.5
030489 - Fish fillets; frozen, of fish n.e.s. in heading 0304.8	'000 tonnes	100.4	101.8	103.9	107.4	106.6
	USD million	545.4	494.2	512.0	530.9	551.8
030614 - Crustaceans; frozen, crabs, smoked, cooked or not before or during smoking	'000 tonnes	34.7	33.7	34.3	27.9	25.6
	USD million	500.4	487.3	569.1	500.9	530.7
030499 - Fish meat, excluding fillets; frozen, n.e.s. in heading 0304.9	'000 tonnes	148.7	145.7	139.2	131.9	132.9
	USD million	559.2	520.9	515.7	486.7	523.5
160419 - Fish preparations, n.e.s in heading 1604	'000 tonnes	90.7	90.3	88.0	87.6	93.0
	USD million	481.4	448.2	446.2	446.1	498.8

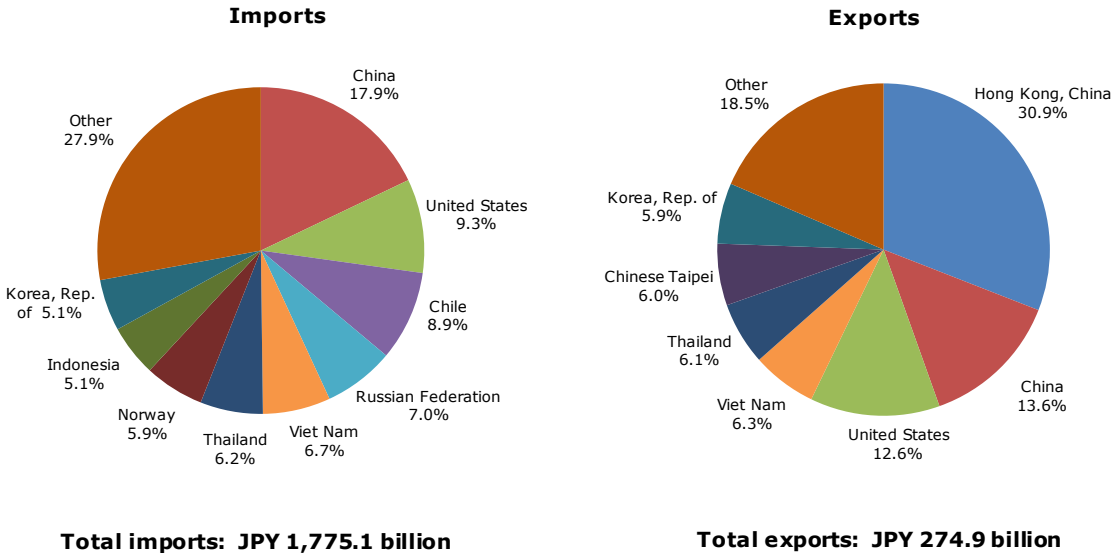
a Including HS codes 020840, 03, 051191, 1504, 1603, 1604, 1605, and 230120.

Note: The ranking of the top ten fishery products is based on the value of 2018 imports using the HS12 nomenclature.

Source: WTO calculations, based on the UNSD Comtrade database.

4.73. Chart 4.6 indicates the shares of the main partners for imports and exports for FY2017. China, the United States, Chile and the Russian Federation are the top partners for imports, while Hong Kong, China is by far the main partner for exports, with a share of more than 30%.

Chart 4.6 Trade of fish and fishery products, by main partners, 2017



Source: MAFF. Viewed at: http://www.maff.go.jp/e/data/publish/index.html#Annual.

4.1.2.2 Policy and institutional issues

4.74. Japan's latest overall strategy is defined by the New Basic Plan for Fisheries, which was formulated in 2017 and sets a self-sufficiency ratio for FY2017 of 70%. The aim of the strategy is to enhance fisheries' sustainable resource management, to make fisheries a growing industry through increased productivity, and to maintain fisheries communities and increase their revenues. Actions and programmes to that effect include export promotion initiatives to identify and help potential exporters; encouragement to local producers to make their own plans to find and exploit potentially available resources; incentives for resources management and sustainability; incentives for young fishermen; training and education programmes; research programmes; and relaxation of the conditions of employment of foreign workers in the sector.

4.75. Overall responsibility for national fisheries policies lies with the Fisheries Agency in the MAFF, while prefectural governments are responsible for local issues, such as management of local fisheries resources. Regarding important policy decision-making, the Fisheries Policy Council (at national level), the Regional Fisheries Coordination Committees (at regional level), and the Sea Area Coordination Committees (at prefectural level) are consulted for their opinions, depending on the nature of the issue.[51]

4.1.2.3 Regulatory developments

4.76. The main laws concerning the fisheries sector include: the Fisheries Act (last amended in 2018)[52] (Section 4.1.2.3.1; the Basic Law on the Fisheries Policy of 2001 (last amended in 2014); the Fisheries Cooperative Association Law (last amended in 2016); the Law to Ensure Sustainable Aquaculture Production of 1999 (last amended in 2014); the Act on the Exercise of the Sovereign Right for Fishery, etc. in the Exclusive Economic Zone of 1996 (last amended in 2014); the Act on Preservation and Control of Living Marine Resources of 1996 (last amended in 2007); the Act on the Protection of Fishery Resources of 1951 (last amended in 2015), the 2014 Inland Water Fishery Promotion Act, and the 8 December 2018 amendment of the 1949 Fisheries Act.

4.1.2.4 Stock management

4.77. On 8 December 2018, the Government promulgated the first substantial revision of the Fisheries Act since its inception in 1949. The revised Act will enter into force at the latest on 14 December 2020. The revision consists of three main elements:

- firstly, new firms, in particular private-sector firms, will be allowed to enter the fishing industry and to obtain fishing rights when fishing waters are not fully utilized. The allocation procedure consists of the following steps: first, the prefectural governor has the obligation, every five years, to consult and gather the opinions of all stakeholders, including potential new entrants, and to develop a new fishery rights plan if s/he considers it would increase the fishery production in the waters of the prefecture. The plan for the next five years is finalized and publicized after consultation with the Fisheries Adjustment Commission. The governor then grants a licence to qualified applicants, in order of priority and eligibility defined by the plan. All beneficiaries of fishing rights are associated with voluntary resource management plans. Previously, the prefectural governments prioritized local fisheries operators and cooperatives, when granting these fishing rights;

- secondly, a system of Individual Quotas (IQs) within the Total Allowable Catch (TAC) was introduced. Conceptually, in the absence of such IQs, fishers are implicitly encouraged to fish as much as they can, as quickly as they can, which may lead to an overfishing. The IQs are not transferable, except from one vessel to another belonging to the same owner. In addition, the TAC system, which applied to only seven species, was extended to blue fin tuna in 2018, to ensure compliance with the relevant conservation management measure taken by the *Western and Central Pacific Fisheries Commission*. The TAC system is expected to be extended to cover most catches; and

[51] Other relevant organizations include the Fisheries Cooperative Associations and the Fisheries Research Agency (WTO, 2015).

[52] For elements on the content of this latter amendment, see Section 4.1.4.1.

- finally, the revision tightens the control of poaching of marine resources, such as abalone, sea cucumbers and glass eel, by raising the maximum fine from JPY 2 million to JPY 30 million.

4.1.2.5 International agreements

4.78. Japan has bilateral agreements with Australia, Canada, China, Chinese Taipei, France, Kiribati, the Republic of Korea, Marshall Islands, Morocco, the Russian Federation, Solomon Islands, Senegal, and Tuvalu. The agreements with Australia, Canada, and France do not provide for access by Japanese fishing vessels, and the agreements with China, the Republic of Korea, and the Russian Federation are mutual access agreements allowing reciprocal access to each country's EEZs. Under the agreements with China and the Republic of Korea, the parties have not yet reached agreement about operational conditions for mutual fishing access.[53]

4.79. In addition, there are numerous private-sector-based agreements which provide for access to the waters of other countries and territories (Cabo Verde, Côte d'Ivoire, Equatorial Guinea, Fiji, Gabon, The Gambia, Guinea, Guinea-Bissau, Madagascar, Mauritania, Mauritius, Micronesia, Mozambique, Nauru, Palau, Papua New Guinea, Saõ Tome and Principe, Seychelles, Sierra Leone, St. Helena, and Tanzania).

4.80. Japan is a member of the following Regional Fisheries Management Organizations (RFMOs): Indian Ocean Tuna Commission; Western and Central Pacific Fisheries Commission; Inter-American Tropical Tuna Commission; International Commission for the Conservation of Atlantic Tuna; Commission for the Conservation of Southern Bluefin Tuna; General Fisheries Commission for the Mediterranean; South East Atlantic Fishery Organization; Convention on the Conservation and Management of Pollock Resources in the Central Bering Sea; North Pacific Anadromous Fish Commission; Commission for the Conservation of Antarctic Marine Living Resources; Northwest Atlantic Fisheries Organization; South Indian Ocean Fisheries Agreement; North Pacific Fisheries Commission; and Commission for the Conservation of Antarctic Marine Living Resources.

4.81. Japan is also a member of the following fisheries and fisheries-related agreements: Asia-Pacific Fishery Commission, Fishery Committee for the Eastern Central Atlantic, Southeast Asian Fisheries Development Centre, and North Pacific Marine Science Organization.

4.82. In December 2018, Japan announced its withdrawal from the International Convention for the Regulation of Whaling, and its intent to resume commercial whaling from July 2019. This withdrawal became effective on 30 June 2019.

4.83. In May 2017, Japan acceded to the Agreement on Port State Measures to Prevent, Deter and Eliminate Illegal, Unreported and Unregulated Fishing. Accordingly, it implements measures such as restricting port calls for fishing vessels listed in the RFMOs illegal, unreported and unregulated (IUU) vessel list and the prohibition of landing of fish harvested by IUU fishing.

4.1.2.6 Border and domestic support measures

4.84. During the review period, tariff protection to the fisheries sector remained virtually unchanged. In FY2019, the average MFN tariff rate on the 528 lines (493 in FY2016) (at HS nine-digit level) covering fish and fish products was 6.1% (6.2% in FY2016) and the range was between zero and 15% (same in FY2016). Of these lines, 4.7% (4.3% in FY2016) are duty-free, and 0.2% (same in FY2016) are subject to non-ad valorem rates (Section 3.1.4.1). 66 tariff lines are fully unbound, and 19 partially bound. This represents around 12.5% of fish and fishery products under the WTO definition. Japan applies import licensing procedures and quotas on certain species (Section 3.1.6.2).

4.85. Fish and fish products benefit from the Japanese systems of export support and promotion.

[53] MAFF, *2018 White Paper on Fisheries* (summary), pg. 19. Viewed at: http://www.maff.go.jp/e/data/publish/attach/pdf/index-94.pdf.

4.86. Japan reshuffled the presentation of its subsidy schemes in its notification. In its previous WTO notification in 2017[54] (covering FY2014 and 2015), it notified only two national programmes: the Fisheries Modernization Fund Interest Subsidy and the Fund for the Measure to Recovery Fishery Resources. Table 4.15 contains the support programmes for fisheries as notified by Japan to WTO in July 2019.[55] The total amount of subsidies rose significantly. It was JPY 73.2 billion for FY2016 and JPY 68.7 billion for FY2017, compared with JPY 1.7 billion for FY2014 and JPY 1.3 billion for FY2015. According to the authorities, this increase can be explained by the fact that, for the sake of transparency in the ongoing negotiations on fisheries subsidies, Japan notified programmes which, in its view, may not constitute subsidies under Article 1 of the SCM Agreement or may not be "specific" under Article 2 of the same Agreement.

Table 4.15 Fisheries subsidies notified in July 2019 for FY2016 and FY2017

Name of the programme	Level and form of the subsidy	Policy objective pursued	Beneficiaries	Duration and amount
Programmes for development and adaptation of new technologies and conservation of fishing grounds	- National - Grants, etc.	To support fishermen and other organizations to develop and adapt new technologies related to fisheries, such as information and communication technology, to mitigate or prevent damage by harmful marine species and red-tide, and to remove marine wastes	Fishermen and associations thereof	FY2016 (April 2016-March 2017): JPY 445 million; FY2017 (April 2017-March 2018): JPY 604 million
Support for establishment of environmentally and economically sustainable fisheries	- National - Grants and loans	To enable fishermen and other organizations to conduct sustainable fishing practices under the government's fisheries plans and resource management measures, thereby establishing environmentally and economically sustainable fisheries, and ensuring a stable supply of seafood to its nationals. Such supports include the mitigation of damages on fishermen by natural and economic disasters, and the promotion of structural reform of fisheries sectors	Fishermen and associations thereof	FY2016 (April 2016-March 2017): JPY 64.9 billion; FY2017 (April 2017-March 2018): JPY 580 billion
Promotion for regional development through fisheries	- National - Grants and funds	To promote regional development by supporting fishermen and other organizations to conduct on-site fisheries-related activities, such as clean-up and maintenance of the coastal marine ecosystem, national border surveillance, the revitalization of fishing communities in remote islands, and the recruitment and settlement of new fishermen	Fishermen and associations thereof	FY2016 (April 2016-March 2017): JPY 6.9 billion; FY2017 (April 2017-March 2018): JPY 9.0 billion
Support for aquaculture, inland fisheries,	- National - Grants, etc.	To support aquaculture and inland fisheries, and to promote fish stock enhancement	Fishermen and associations thereof	FY2016 (April 2016-March 2017): JPY 922 million;

[54] WTO document G/SCM/N/315/JPN, 9 June 2017.
[55] WTO document G/SCM/N/343/JPN, 19 July 2019.

Name of the programme	Level and form of the subsidy	Policy objective pursued	Beneficiaries	Duration and amount
and fish stock enhancement				FY2017 (April 2017-March 2018): JPY 972 million
Subsidy for inland water aquaculture	- Local (Miyazaki prefectural government)	Grant	Japan Caviar, Inc.	FY2016 (April 2016-March 2017): JPY 5.7 million; FY2017 (April2017-March 2018): JPY 4.5 million

Source: WTO document G/SCM/N/343/JPN, 19 July 2019.

4.2 Mining and Energy

4.2.1 Mining

4.87. Mining represented 0.1% of GDP in Japan in 2016 and in 2017. This is due to the fact that the country has few mineral resources, most of which are already depleted and/or have become economically uncompetitive (e.g. coal). Some mining activities remain for precious metals, and there could be some perspectives from rare earths that have not yet materialized. In 2017, the sector employed about 20,000 persons, i.e. 0.1% of total employment.

4.88. Table 4.16 provides an overview of the mining sector, in terms of number of establishments, number of persons employed, and value added by main type of products, for 2016, the last year for which this type of statistics were available. Table 4.17 describes the main mineral productions from 2015 to 2018, and the share of the mining sector in total GDP and total employment.

Table 4.16 Basic indicators on mining, 2016

	No. of establishments	No. of persons employed	Value of production (JPY billion)	Value added (JPY billion)
Total mining	**1,826**	**18,683**	**430.9**	**200.3**
Establishments engaged in administrative or ancillary economic activities	177	2,341		
Metal mining	6	213	35.7	30.7
Coal and lignite mining	17	581	20.3	..
Stone quarrying, sand and gravel pits	1,389	11,956	250.6	104.9
Ceramic mineral mining	194	3,265	120.2	52.8
Other	43	327	4.0	..

.. Not available.

Source: Statistics Bureau of Japan, *Statistical Yearbook 2019*. Viewed at:

https://www.stat.go.jp/english/data/nenkan/index.html.

Table 4.17 Mining production, 2015-18

	2015	2016	2017	2018
Gold (g)	7,698,924	6,455,414	6,369,413	6,453,023
Silver (kg)	4,616	5,076	3,408	3,596
Silica stone (t)	8,988,066	9,068,044	9,261,063	9,631,453
Lime stone (t)	142,916,418	139,331,640	141,633,594	142,211,511
Dolomite (t)	3,365,928	3,222,885	3,359,444	3,439,941
Silica sand (t)	2,834,790	2,762,208	2,694,788	2,524,141
Mining as % of GDP	0.1	0.1	0.1	..
Mining as % of total employment	0.1	0.1	0.1	..

.. Not available.

Source: Statistics Bureau of Japan, *Statistical Yearbook 2019*. Viewed at: https://www.stat.go.jp/english/data/nenkan/index.html.

4.89. Japanese imports of mineral products (except energy products) represented 6.5% of total Japanese imports in 2018 (Table 4.18*)*.

4.90. The average level of tariff protection for mining products (group ISIC 2) is 0.1%. All but four tariff lines[56] are duty-free.

Table 4.18 Major mining imports

Description	HS codes	Import value, USD million			Main origin[a]
		2016	2017	2018	
Copper ores and concentrates	2603	7,430.9	7,969.9	9,823.4	Chile (39.4%); Indonesia (16.0%); Australia (13.9%)
Iron ores and concentrates	2601.11; 2601.12	7,348.5	9,650.8	9,305.7	Australia (49.6%); Brazil (31.1%)
Aluminium and alloys, unwrought	7601.10; 7601.20	4,306.8	5,660.5	6,324.7	Russian Federation (18.9%); Australia (18.8%); United Arab Emirates (12.0%)

a Based on 2018 import figures.

Source: WTO calculations, based on the UNSD Comtrade database.

4.91. The State appears not to be involved in the ownership of mines, and does not provide specific subsidies or support to the mining sector. There are no programmes to help the reconversion of areas affected by the closure of mines.

4.2.1.1 Policy and institutional developments

4.92. Japan's policy objective is to secure a stable supply of natural resources. The law and regulations on mining are under the purview of the METI, which delegated this responsibility to the Agency for Natural Resources and Energy. Onshore permit requests must be made at local bureaux of the METI, while offshore permit requests must be made at the METI itself. The Japan Oil, Gas and Metals National Corp. (JOGMEC), which was formed in 2004 through the merger of the Japan National Oil Co. and the Metal Mining Agency of Japan, is charged with implementing the policies set by the METI. The JOGMEC, an incorporated administrative agency of the Government, contributes to a stable supply of metal resources which are indispensable for Japanese industry, is responsible for a wide range of fields, including surveying, exploration, development, production, stockpiling, recycling, and environmental protection.[57]

4.2.1.2 Regulatory and operational developments

4.93. The main legislation regarding mining remains the Mining Act (Law No. 289 of 20 December 1950), whose last significant amendments date back to 2012 and 2017. Prior approval from the Minister of Economy, Trade and Industry is required for seismic exploration, electromagnetic exploration, and intensive sampling exploration. Exploitation permits ("digging rights") are also subject to authorization by the METI.

4.94. To apply for an exploration permit or a digging right permit, individuals must be of Japanese nationality and companies must be constituted under Japanese law. However, these companies can be fully or majority foreign-owned.

4.95. Prior to the 2012 amendments to the Mining Act, applicants were granted mining rights on a first-come-first-served basis. The amendments defined two classes of minerals: specified minerals and non-specified minerals.

4.96. The specified minerals designated under the Mining Act are:

- oil and combustible natural gas;

[56] Namely, HS 271121 natural gas in gaseous state: 4.5%; HS250900 chalk: 1.4%; HS 2513190 emery; natural corundum, natural garnet and other natural abrasives: 1.1%; and HS250100 salt and pure sodium chlorite: JPY 0.5/kg.

[57] JOGMEC, *Metals.* Viewed at: http://www.jogmec.go.jp/english/metal/index.html.

- gold ore, silver ore, copper ore, lead ore, bismuth ore, tin ore, antimony ore, mercury ore, zinc ore, iron ore, iron sulfide ore, manganese ore, tungsten ore, molybdenum ore, nickel ore, cobalt ore, uranium ore, thorium ore and barites, which constitute hydrothermal deposits located subsea or beneath the sea;

- copper ore, lead ore, zinc ore, iron ore, manganese ore, tungsten ore, molybdenum ore, nickel ore and cobalt ore, which constitute sedimentary deposits located subsea or beneath the sea; and

- asphalt.

4.97. Areas either containing or likely to contain specified minerals can be deemed a "specified area" by the METI. The METI accepts applications from interested developers for specified areas for a period of no shorter than six months, after which time the METI selects what it deems to be the most suited developer for the area.

4.98. Non-specified minerals include all minerals not listed as a specified mineral. A first-come-first-served selection system still applies for them, provided the applicant can demonstrate financial solvency and the technical capability to carry out development of the site.

4.99. For both types of minerals, exploration must start within six months, and the holder of a prospecting right can extend his right by two years twice. For the production/exploitation/digging right, a separate application must be made. The applicant must submit, to this effect, an explanatory document outlining the location, depth, thickness and any other information regarding the mineral deposit discovered under the prospecting right. Criteria used by the METI to grant or refuse the right are similar to those for exploration. Work must start within six months, and the permit can be withdrawn if the operations are interrupted for more than one year.

4.100. To prevent environmental pollution caused by mining activities, support continues to be provided since 1973, with no expiry date, to cover a portion of the mine pollution control costs under a Loans for Mine Pollution Control scheme (FY2016 (settlement of accounts) JPY 189 million; FY2017 (settlement of accounts) JPY 807 million).[58]

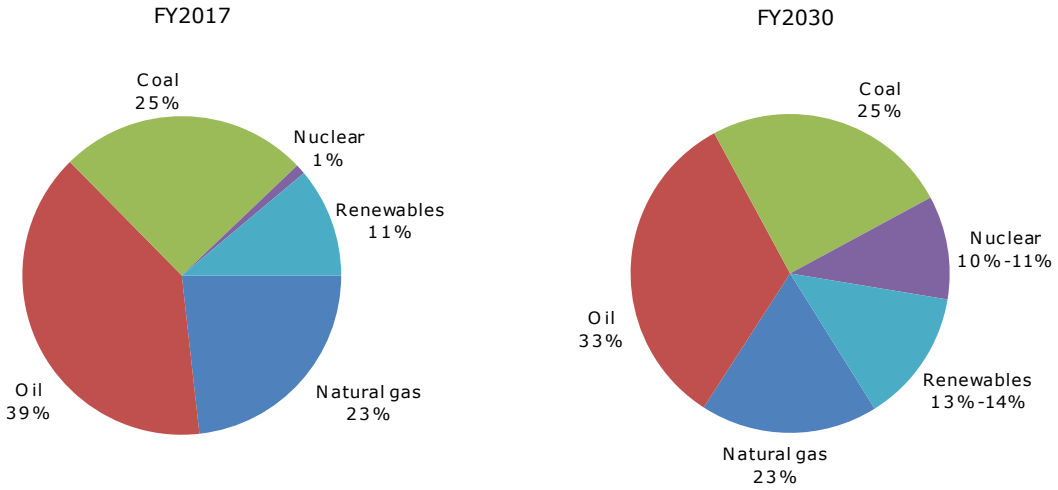
4.2.2 Energy

4.101. Japan has very few fossil fuel resources, and depends on imports for almost all its energy consumption except for nuclear-generated electricity and renewables energies. The energy self-sufficiency ratio was 20% in FY2010 before the Fukushima accident, but fell to 8% in FY2016. Partial restoration of the share of nuclear power, increased energy efficiency, and the development of renewable energies are the three avenues through which Japan plans to reduce its dependency on imported fossil fuels. The aim is to reach an energy self-sufficiency ratio of 24% by FY2030.

4.102. Chart 4.7 describes the energy mix of Japan in FY2017, and plans for FY2030.

[58] WTO document G/SCM/N/343/JPN, 19 July 2019.

Chart 4.7 Primary energy supply

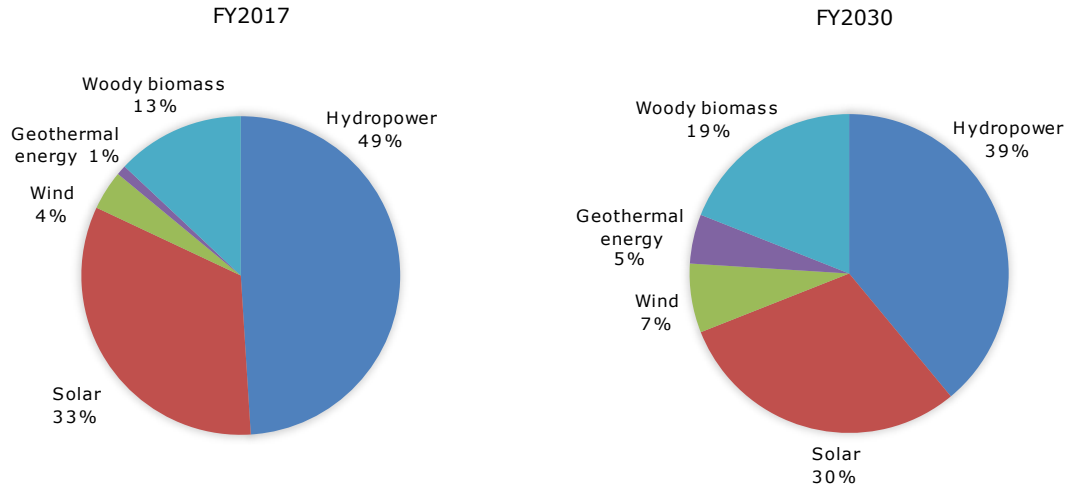


Source: Data provided by the authorities.

4.103. The 2030 energy mix factors in Japan's commitments (Nationally Determined Contribution) for the reduction of greenhouse gases submitted to the United Nations Framework Convention on Climate Change under the Paris Agreement; these include a reduction by FY2030 of 26% of emissions compared to FY2013. This 2030 planned energy mix also includes an energy-saving target, through additional energy-efficiency measures, of about 30 million kl crude oil equivalent by 2030, with 2013 as the benchmark, leading to a total consumption of 330 million kl, compared to 360 million kl in 2013 and 350 million kl in 2017.[59] It also plans a zero-emissions ratio target (the proportion of the electricity mix that does not emit greenhouse gases, i.e. renewables and nuclear) of 44% (renewable 22%-24%; nuclear 22%-20%), up from 12% in 2013 (renewable 11%, nuclear 1%), and from 19% in 2017 (renewable 16%, nuclear 3%).

4.104. As indicated above, the share of renewable energy (excluding nuclear) in the Total Primary Energy Supply is expected to grow from 11% in FY2017 to 13%-14% in 2030, according to the 2018 Strategic Energy Plan. Chart 4.8 provides the actual and planned relative shares of the various renewable energies in those totals.

Chart 4.8 Relative shares of the various renewable energies for FY2017 and FY2030 (planned)



Source: Data provided by the authorities.

[59] Government of Japan, *5th Strategic Energy Plan, July 2018*. Viewed at: https://www.meti.go.jp/english/press/2018/pdf/0703_002c.pdf.

4.105. The main policy development during the period under review was the adoption, in July 2018, of a fifth Strategic Energy Plan (SEP), replacing the 2014 SEP issued in the aftermath of the great east-Japan earthquake and the nuclear accident of Fukushima; stated objectives were the reduction of nuclear power and fossil fuel dependencies, and the expansion of renewable energies.

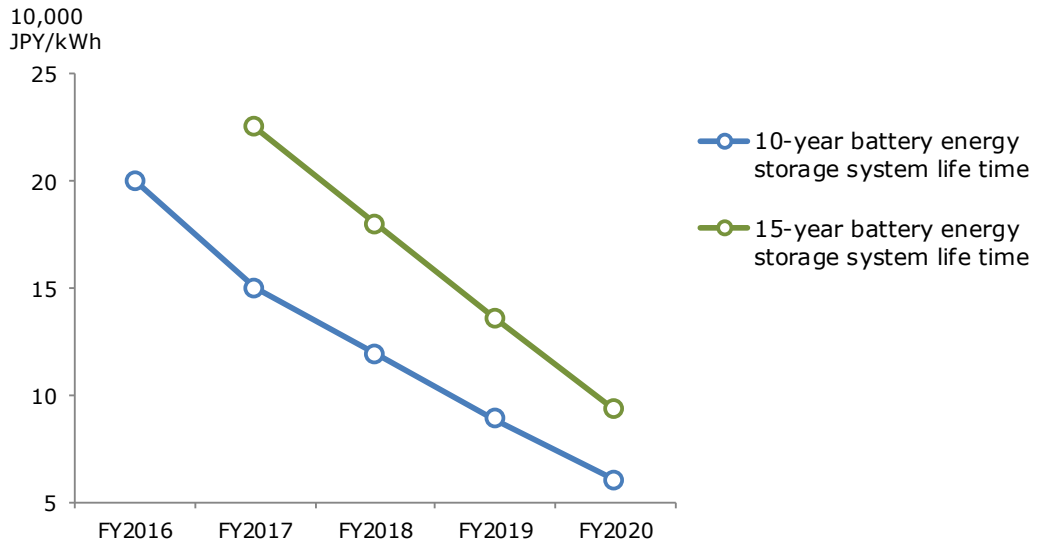
4.106. While the new Plan confirms the basic principles of Japan's energy policy (Energy security, Economic efficiency, Environment sustainability and Safety (3E+S)), it revises the 2014 Plan in view of the four years of implementation experience, and sets objectives for 2050; the previous Plan had a 2030 horizon. The Plan comprises two elements: a long-term energy supply and demand outlook for 2030 issued via a 2015 decision of the METI ("energy mix"); and the design of scenarios for 2050 with the aim of achieving energy transition and decarbonization through technological innovation.

4.107. The New SEP sets as a goal for 2050 the realization of the "hydrogen society", hydrogen being an efficient energy source, with no greenhouse gas emissions. Japan, therefore, plans to pursue the research already undertaken in this area. The Ministerial Council on Renewable Energy, Hydrogen and Related Issues, a special coordination body, created in April 2017 to deal with renewable energy issues, adopted, in December 2017, the Basic Hydrogen Strategy to that effect (for more elements on the subsidy programme for fuel cell vehicles, see Section 3.3.1.3).

4.108. Another significant development was the adoption by the Cabinet, in May 2018, of the Basic Plan on Ocean Policy, which contains a component on the development of offshore mineral energy and mineral resources. In this context, the Government revised the Plan for the Development of Marine Energy and Marine Mineral Resources in February 2019. This Plan contains, *inter alia,* support measures for resource mapping and technology development for better production of marine energy and deep-sea mineral resources, to an amount of JPY 37.89 billion for the duration of the Plan. This covers not only oil and natural gas but also methane hydrate gas.

4.109. The 2018 SEP indicates that the Government will propose measures aimed at utilizing solar power for residential consumption and as a distributed power source to carry out local production for local consumption. The support measures taken since application of the SEP include an annual JPY 2.8 billion subsidy scheme to support the construction of net zero energy houses equipped with storage batteries or electric vehicle charging/discharging facilities, and an annual JPY 2 billion subsidy scheme for companies constructing local micro grids i.e. energy systems which can be operated independently from large-scale electric power systems in case of blackout. The Government is also subsidizing the acquisition of storage batteries for residential and small factory use, based on a target/maximum eligible price system whose scales are described in Chart 4.9. Measures are also expected to be taken to ensure the proper recycling of used solar panels.

Chart 4.9 Target costs of energy storage systems in households



Source: Data provided by the authorities.

4.110. For larger-scale solar production, the feed-in tariff (FIT), introduced in July 2012, contributed to the growth of solar generation capacity from 0.9 GW in 2012 to 34.4 GW in 2017. However, the fifth SEP, approved by the Cabinet on July 2018, states that the FIT has become too financially burdensome[60], and plans to replace it by an auction system and sales on the wholesale market (Section 4.2.2.2).

4.111. Regarding wind energy, the SEP acknowledges the environmental constraints, the scarcity of suitable locations available onshore, the grid connection, and the high costs of production. It sets an ambitious cost objective of JPY 8 to JPY 9/kWh in 2030, and plans to develop this energy essentially offshore, and to introduce a bidding system to limit costs.

4.112. Geothermal, hydropower and biomass are envisaged by the Plan as essentially local sources of energy produced by small-scale facilities. The Government is to provide assistance to these types of project and to the building of distribution systems combining small-scale energy renewable sources.

4.113. The basic legislation on energy efficiency is the 1979 Act on the Rational Use of Energy (Energy Saving Act), last amended in 2013, which sets a non-binding target of a 1% per year improvement in energy efficiency, an objective met during the last five years by the majority of energy-intensive businesses. While this legislation did not change during the period under review, numerous initiatives were taken regarding energy efficiency, in the form of additional secondary regulation, notably regarding the setting of efficiency norms for the various sectors, including construction, voluntary actions by private actors and government, and private-sector research programmes, e.g. on AI, IoT, and big data applied to energy; smart grids; smart meters; optimal design of electrical appliances; and insulation and construction materials. It is also expected that the structural reforms of the gas and electricity market (see below) will have an effect on energy efficiency and, in particular, on the management of electricity peak demand.

4.114. The Government is in the process of adapting and expanding the efficiency monitoring process of the Energy Saving Act and its correlative schemes of sanctions and support mechanisms. A specific government effort is directed towards medium and small enterprises in that regard, via local support offices. During the period under review, the benchmark programme, which sets targets for energy consumption per unit of productions, etc. was extended to 16 industrial sectors.

4.115. The Agency for Natural Resources and Energy and its Advisory Committee for Natural Resources and Energy in the METI are responsible for energy policy, planning, and legislation, as well as regulation of the industry. The Nuclear Regulation Authority in the Ministry of the Environment is responsible for the supervision of nuclear power plants.

4.116. According to Japan's latest notification to the Committee on Subsidies and Countervailing Measures, during the review period, several schemes provided support, in form of subsidized loans and/or grants, to energy-related activities aimed at implementing the country's energy policy objectives regarding supply, stockpiling, renewable energy, energy efficiency, and environmental protection (Table 4.19).[61]

Table 4.19 Domestic support to energy-related projects, 2020

Scheme	Budgetary outlays	Duration
Loans for Purchasing Petroleum and Liquefied Petroleum Gas (LPG) for Stockpiling by Private Companies	FY2016 (settlement of accounts) JPY 517.9 billion; FY2017 (settlement of accounts) JPY 335.2 billion	Since 2004, no expiry date
Provision of Equity Capital and Loans to Joint Stockpiling Companies	FY2016 (settlement of accounts) JPY 244 million; FY2017 (settlement of accounts) JPY 156 million	Since 2004, no expiry date
Subsidy for loans to develop domestic oil and natural gas	FY2016 (settlement of accounts) JPY 168 million; FY2017 (settlement of accounts) JPY 138 million	Since 2008, no expiry date
Subsidy for Loans to Purchase Petroleum and LPG to be Stored	None	None
Subsidy for projects concerning the stable supply of petroleum from oil-producing countries	FY2016 (final results) JPY 3.7 billion; FY2017 (final results) JPY 3.8 billion	Since 2008, no expiry date;

[60] Government of Japan, *5th Strategic Energy Plan, July 2018*, pg. 52. Viewed at: https://www.meti.go.jp/english/press/2018/pdf/0703_002c.pdf.

[61] WTO document G/SCM/N/343/JPN, 19 July 2019.

Scheme	Budgetary outlays	Duration
Subsidy for promoting business reorganization and resilience of petroleum industrial complexes	FY2015 supplementary budget (settlement of accounts) JPY 6.9 billion; FY2016 (settlement of accounts) JPY 10.1 billion; FY2017 (settlement of accounts) JPY 120 billion	February 2013 to end-FY2019
Subsidies for developing the local energy-supply bases	FY2016 (final results) JPY 3.0 billion; FY2017 (final results) JPY 2.4 billion	Since 2010, no expiry date
Subsidies for Measures to Promote Conversion into Natural Gas Taken by Local City-gas Suppliers	FY2016 (final results) JPY 0.4 million; FY2017 (final results) JPY 0.3 million	Since 1985, no expiry date
Subsidies for Small and Medium-scale Subsidies for Interest on Loans to Introduce Specific Facilities Suitable for Natural Gas	FY2016 (final results) JPY 875 million; FY2017 (final results) JPY 802 million	Since 1985, no expiry date
Subsidy for demonstration project for high-efficiency gas turbine technology	FY2016 (settlement of accounts) JPY 2.6 billion; FY2017 (final results) JPY 2.1 billion	April 2012-March 2020
Subsidy for R&D for practical application of the advanced ultra-super critical technology for a thermal power plant	FY2016 (settlement of accounts) JPY 830 million	April 2008–March 2017
Hydropower Development	FY2016 (final results) JPY 262 million; FY2017 (final results) JPY 184 million	April 1986–March 2025
Geothermal Energy Programme	FY2016 (final results) JPY 285 million	April 1986–March 2017;
Grant for the Technical Development of a Full-MOX ABWR Plant System	FY2015 (final results) JPY 100 million; FY2016 (final results) JPY 50 million	April 1996-March 2017
New Energy and Industrial Technology Development Organization Project Activities	FY2016 (final results): Energy Systems (JPY 6.3 billion); Energy Conservation and Environment (JPY 4.9 billion); Industrial Technology (JPY 16.4 billion); New Industry Creation and Discovery of Technology Seeds (JPY 4.5 billion); FY2017 (final results): Energy Systems (JPY 8.5 billion); Energy Conservation and Environment (JPY 5,.4 billion); Industrial Technology (JPY 13.9 billion); New Industry Creation and Discovery of Technology Seeds (JPY 4.4 billion, fixed completion date); Subsidy for "Ene-farm", etc. introduction support operating cost subsidy for expansion of use of fuel cell (FY2016 (settlement of accounts) JPY 8.0 billion, FY2017 (settlement of accounts) JPY 6.7 billion	April 2009-March 2021
Subsidy for Major Oil Spill Response Programme	FY2016 (final results) JPY 820 million; FY2017 (final results) JPY 659 million	Since 1990, no expiry date

Source: WTO document G/SCM/N/343/JPN, 19 July 2019.

4.2.2.1 Hydrocarbons

4.2.2.1.1 Coal

4.117. Production of coal was 0.68 million tonnes of oil equivalent (MTOE) in 2017 (i.e. 0.16% of Japan's Total Primary Energy Supply (TPES)), while imports accounted for 114.78 MTOE. Imports of coal increased after the Fukushima nuclear accident (from 23% of the primary energy supply in 2010 to 25% in 2017, and from 28% of the power generation in 2010 to 32% in 2017). This was due to the fact that coal constitutes a relatively cheap source of energy for power generation. However, it emits a considerable amount of greenhouse gases, which runs counter to the reduction objectives undertaken in the context of the Paris Convention. The Government intends to keep coal as a major source of energy, since it is expected to represent 25% of the total primary energy source in 2030 and 26% of electricity production, while encouraging the adoption of technologies reducing emissions, such as Integrated Gasification Combined Cycle, Ultra Super Critical pressure, and Carbon Capture Utilization and Storage.

4.118. Coal and coal products (except for three product lines at rates of 2.5%, 3.2% and 3.9%) continue to enter Japan duty-free. The main sources of imports in 2018 were Australia, Indonesia and the Russian Federation.

4.119. The JOGMEC contributes to the coal industry in various ways, including conducting geological surveys, developing technologies, and providing financial support and information, in order to secure

a stable coal supply in Japan.[62] The State also supports coal exploration through the JOGMEC, with a budget of JPY 890 million for FY2019.

4.120. The State is not involved in coal mines or coal processing facilities ownership. There are no domestic support schemes for coal mines, nor social programmes to help the reconversion of areas affected by the closure of coal mines.

4.121. Japan's regimes of importation and distribution of coal did not change since its previous Review. They are entirely in private hands, and are open to foreign capital and ownership. In practice, coal imports often come from mines developed abroad by Japanese companies (with mining rights), notably in Australia; such type of imports account for 70% of Japan's total coal imports. To help ensure coal supply, the Government is promoting the acquisition by Japanese companies of coal mines abroad, for example, in Indonesia.

4.122. There are no preferential/subsidized tariffs/prices for coal purchase and sale in Japan

4.2.2.1.2 Oil

4.123. Production of crude oil was 0.44 MTOE in 2017 (i.e. 0.1% of Japan's TPES), while imports accounted for 158.45 MTOE. Local production of oil products was 164.1 MTOE (a figure in decline), while imports were 44 MTOE in 2017.

4.124. The share of oil and oil products in the TPES was 43.0% in 2015, 41.5% in 2016, and 39.0% in 2017. It is planned to decrease this to 33% by 2030. Its share in power generation, which was 9% in 2017, is also planned to be decreased, to 3% by 2030. These planned decreases are largely voluntary, and can be explained by the geopolitical uncertainties surrounding this source of energy and the subsequent wide price variations it registers, as well as the plan to switch to fewer or no greenhouses gas-emitting sources of energy.[63]

4.125. Crude oil continues to enter Japan duty-free, and oil products remain subject to MFN tariff rates ranging from zero to 7.9% (a type of lubricating oil). The main sources of imports in 2018 were Saudi Arabia, the United Arab Emirates, and Qatar.

4.126. Similar to metals (Section 4.2.1.1), to ensure stable supplies of oil and natural gas (Section 4.2.2.1.3), the state agency JOGMEC contributing in a wide variety of areas, including survey, research, development, production and stockpiling.[64] It provides equity capital to Japanese companies for oil and natural gas exploration and production (E&P) projects, to mitigate the risks for them. Upon discovery of commercial oil or gas reserves, the JOGMEC also provides liability guarantees for oil and natural gas E&P projects conducted by Japanese companies, to support their finance. Support for certain oil and gas supply activities continues to be provided under certain subsidy schemes (see above). The State is not involved in the ownership of oil exploration, oil production, oil refining, or oil distribution companies.

4.127. Japan's regimes of importation and distribution of crude oil and oil products did not change since its previous Review. They are entirely in private hands, and are open to foreign capital and ownership. The number of filling stations and refineries is declining. There is no maritime pipeline linking Japan to its neighbours; all oil (and gas) is entirely imported by sea.

4.128. There are no preferential/subsidized tariffs/prices for oil in Japan.

4.2.2.1.3 Gas

4.129. Production of natural gas was 2.56 MTOE in 2017 (i.e. 0.6% of Japan's TPES), while imports accounted for 98.21 MTOE. The share of natural gas in Japan's TPES was 23.3% in 2015, 23.9% in 2016, and 23.0% in 2017. It is expected to decrease to 18% by 2030. Its share in power generation, which was 40% in 2017, is also planned to decrease to 27% by 2030.However, its relative share in

[62] JOGMEC, *Coal.* Viewed at: http://www.jogmec.go.jp/english/coal/index.html.
[63] Government of Japan, *5th strategic Energy Plan, July 2018*, pp. 25-26. Viewed at: https://www.meti.go.jp/english/press/2018/pdf/0703_002c.pdf.
[64] JOGMEC, *Oil and Natural Gas.* Viewed at: http://www.jogmec.go.jp/english/oil/index.html.

fossil fuels will increase. Ongoing and future technological developments regarding gas include co-generation systems, the use of natural gas as a source of hydrogen, and combined cycle thermal power generation using biogases.

4.130. Liquefied gas continues to enter Japan duty-free but natural gas in gaseous state (HS 271121) remains subject to a 4.5% import duty. The main sources of imports in 2018 were Australia, Malaysia, and Qatar.

4.131. Similar to metals and oil, to ensure stable supplies of natural gas, the state agency JOGMEC contributes in many areas (Sections 4.2.1.1 and 4.2.2.1.2). Several domestic support schemes for gas supply activities continue to be provided under certain subsidy schemes (see above). The State does not appear to be involved in the ownership of gas exploration, production, liquefaction or distribution companies. Local governments are involved in city-gas companies and own some liquefied natural gas (LNG) terminals.

4.132. In 2017, 65% of natural gas was imported by seven electricity companies for power generation. City-gas companies imported the remainder, with one third of their sales to individual consumers and more than half to industry. The city-gas industry is fragmented into many vertically integrated regional companies, the four largest having a combined market share of 71%. Under the provisions of the Foreign Exchange and Foreign Trade Act, foreign entities wishing to invest in gas utilities must notify their intention to the competent authorities, including the METI. The authorities state that permission may be denied on grounds of, *inter alia,* public order.[65] Foreign investments have effectively taken place in this sector.

4.133. There are no preferential/subsidized tariffs/prices for gas in Japan.

4.134. Following the amendment of the 1954 Gas Business Act in April 2017, the full deregulation of the gas retail market was enforced on 1 April 2017. As a consequence of this reform, the share of new entrants rose in volume, from 8% to 14% between April and July 2019, the number of registered retail firms rose to 54 (as at April 2018), among which 18 directly served individual households. There are foreign operators among them. The number of consumers switching from one company to another rose from 60,000 in March 2017 to 840,000 in March 2018. The next stage of the reform, the legal separation of the pipelines business division from large gas suppliers, is scheduled for April 2022.

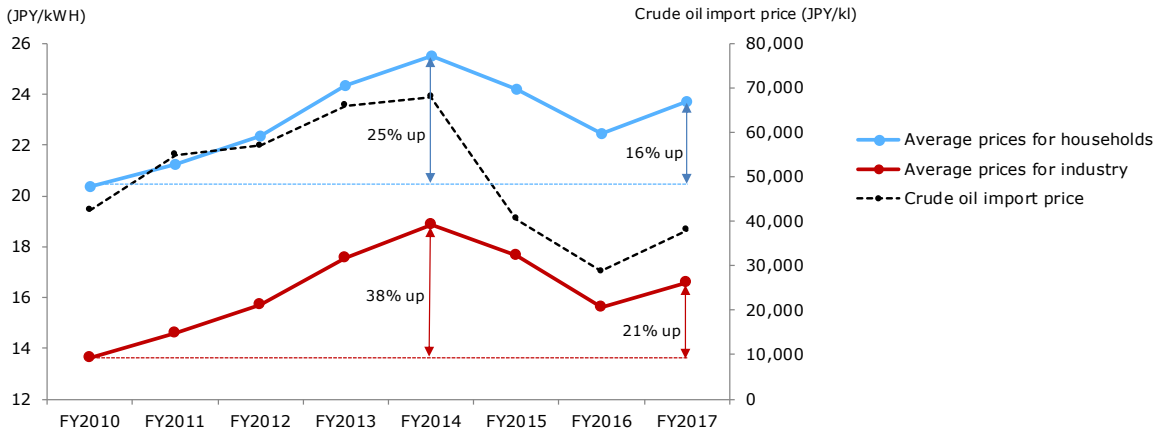
4.2.2.2 Electricity

4.135. By depriving Japan for several years of about 10% of its power-generation capacity, the Fukushima nuclear incident and the subsequent closure of all nuclear power plants for some years, disrupted, and continues to disrupt, the electricity sector. This is illustrated in Chart 4.10, which shows, for 2016 and 2017, a repetition of the cycle of high prices experienced immediately after the nuclear accident and, hence, the persistence of a structural problem regarding the prices of power generation.

4.136. The chart shows a parallel evolution of crude oil prices and electricity prices. This explains why Japan is planning to reduce the share of oil in power generation from 9% to 3%. It also illustrates why the Government wants to restore the share of nuclear energy in the power generation mix by 2030 to 22%-20%. So far, nine reactors have been authorized to restart, and six more are planned to be authorized in the coming months. This restored a 1% share of nuclear energy within Japan's total TPES for FY2017.

[65] The Minister of Finance and the minister in charge of the industry involved may order the suspension of a proposed investment if they consider it may "endanger national security, disturb the maintenance of public order, or hamper the protection of public safety", or "adversely and seriously affect the smooth management of the Japanese economy". They may also recommend that the parties concerned alter their investment plans.

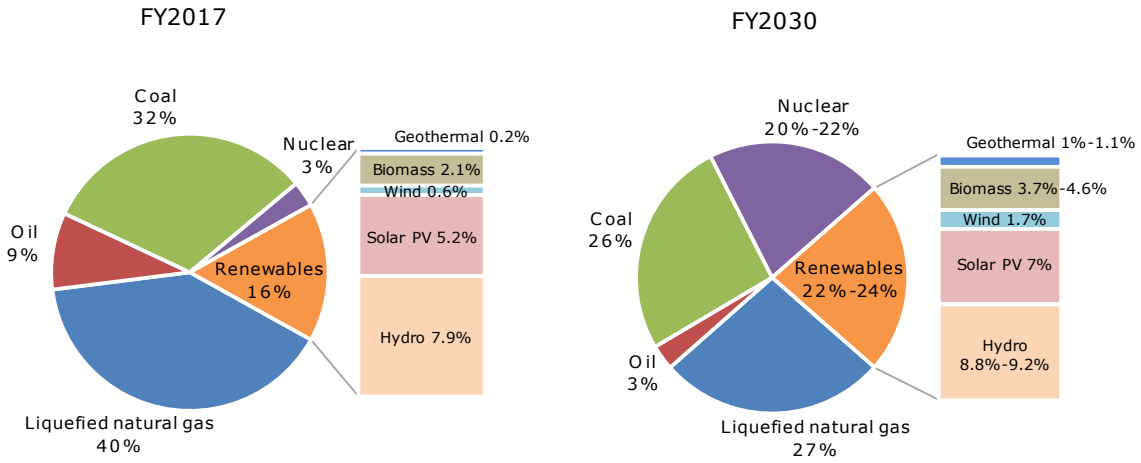
Chart 4.10 Electricity and oil prices trend



Source: Data provided by the authorities.

4.137. Chart 4.11 describes the power-generation mix for FY2017, and the planned one for 2030.

Chart 4.11 Power-generation mix

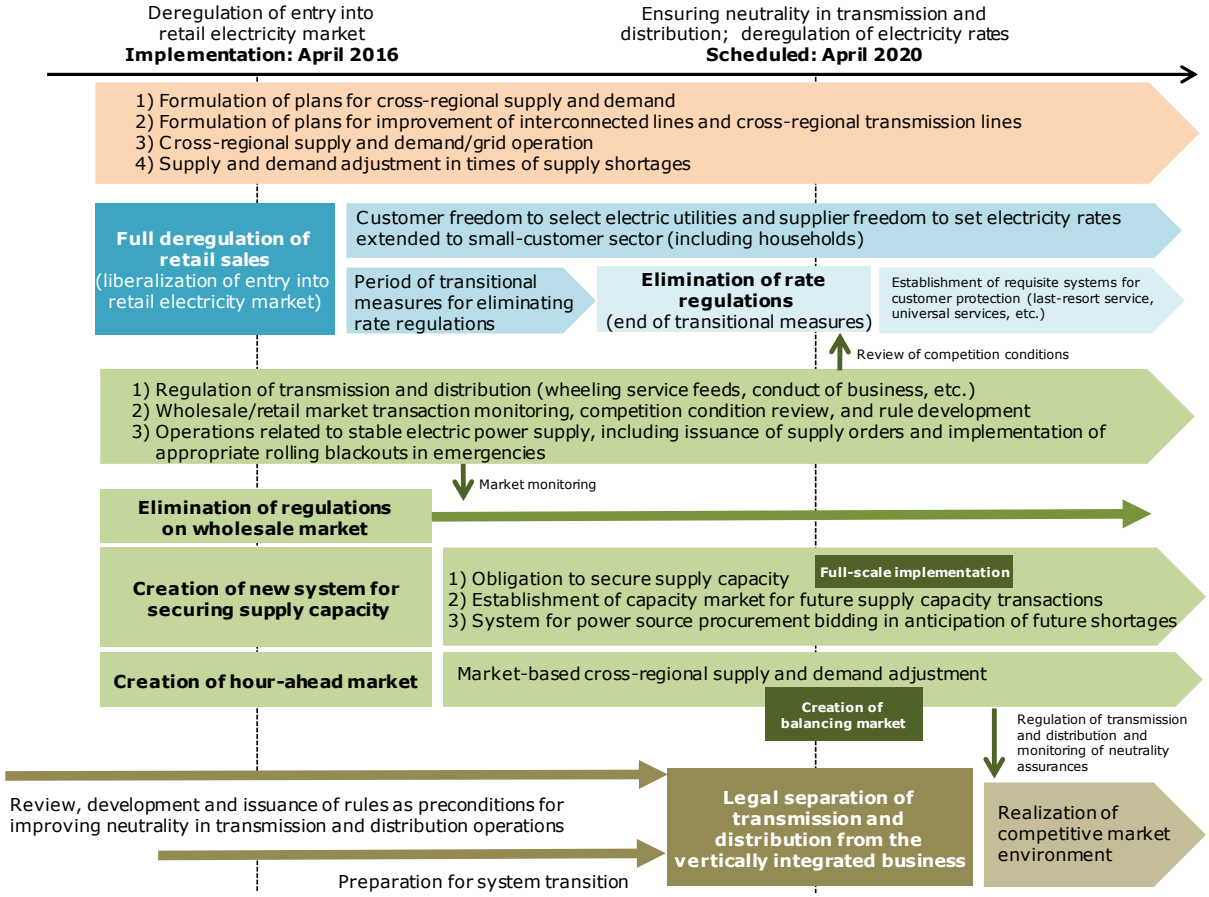


Source: Data provided by the authorities.

4.138. During the period under review, Japan pursued the preparation of the third stage of the deregulation of the electricity market, initiated in 2013; the first two stages (the establishment of the Organization for Cross-regional Coordination of Transmission Operators in April 2015, and of the Electricity Market Surveillance Commission in September 2015 on the one hand, and the deregulation of the retail market in April 2016 on the other hand) were described in the previous report.

4.139. As illustrated in Chart 4.12, the next step, the legal unbundling of transmission and distribution of vertically integrated regional utilities, is scheduled for April 2020, and the preparation of this next reform and the follow-up of the first two stages of the reform are ongoing.

Chart 4.12 Electricity system reform



Source: Japan Electric Power Information Center (JEPIC), *The Electric Power Industry in Japan 2019.* Viewed at: https://www.jepic.or.jp/en/data/epijpdf.html.

4.140. Following the 2016 liberalization of the retail market, and up to May 2019, the share of new power producers and suppliers of electricity in total retail sales rose from 5.0% to 14.2%. Entry into the retail market requires government approval. In addition, under the provisions of the Foreign Exchange and Foreign Trade Act, foreign entities wishing to invest in electric utilities (including retail operations) must notify their intention to the competent authorities, including the METI. The authorities state that permission may be denied on grounds of, *inter alia,* public order. The number of new entrants rose considerably, from 109 operators registered in October 2013 to 614 in September 2019. New options for consumers have appeared, such as bundled packages with gas and other services, loyalty schemes, and the provision of CO_2-free electricity.

4.141. A parallel evolution took place on the wholesale market, the Japan Electric Power Exchange, created in 2003, where the power traded on the spot market rose from 3% in 2016 to 15% in 2017. The METI envisages the creation of additional new markets to fluidify the adjustment of demand and supply, namely a baseload power market, a capacity market, a balancing market, and a no-fossil-value market but no decision has been taken yet in that regard.

4.142. While consumers can now choose among a variety of services offered by the operator they selected, the prices for specific retail services remain regulated for the time being, so long as competition has not fully produced its effects.

4.143. Regarding pricing and support scheme issues, the METI announced, in August 2019, a major reform of the FIT system, adopted in 2012, to promote greater development of renewable energy. Under the 2012 system, solar and wind energy is purchased at predetermined prices. A large part of the purchase costs incurred is passed on to final consumers (households or businesses) via their electricity bill. As stated by the fifth SEP, the cost of this system had become too burdensome; the cost of these preferential purchases reached JPY 3.6 trillion in FY2019, JPY 2.4 of which passed on

to final consumers. The new system will replace the predetermined price with a system of competitive bidding on the wholesale market, as prices will be referenced based on market conditions. The reform is under consideration. The main idea is to move power sources that are expected to be competitive to a new system, in view of their integration into the power market. For other power sources used, the basic framework of the FIT system will be maintained for the time being. In addition, the reform is aimed at optimizing the renewable energy sector, by ensuring safety and by disposing of waste solar panels appropriately, and by developing a transmission network suitable for mainstreaming renewable energy.

4.144. The exemption of 80% of the FIT for energy-intensive consuming industries is still in place; but it will be re-examined after the FIT tariff reform.

4.3 Manufacturing

4.145. Manufacturing (20.8% of GDP in 2018) accounts for the majority of merchandise exports, and remains driven by transport equipment, machinery (general purpose, production and business-oriented), food product, chemical, and basic metal activities. The import content of exports varies across manufacturing industries, indicating a degree of global value chain (GVC) integration of certain industries. During the review period, certain manufacturing policy developments, including AI, robotics and related plans interlinked with services activities, were undertaken. Since the previous Review, the average MFN applied tariff for manufacturing products dropped, and TRQs continued to apply on 62 manufactured items; peak rates (AVEs) affect footwear (219.4%) and silk (97.9%). A few industrial items were subject to anti-dumping duties. Domestic support continued under several non-industry-specific schemes, involving tax and non-tax incentives; activity-specific incentives were available, *inter alia,* to the bekko (tortoiseshell) and ivory crafts industries, the leather and leather goods industries, the manufacture of traditional craft products, care robot equipment, sochu manufacture, and fuel-cell vehicles and connected industries.

4.3.1 Features

4.146. Manufacturing's share of GDP increased from 19.9% in 2014 to 20.9% in 2015, and then dropped slightly to 20.8% in 2016 and 2017 (Table 1.2); its share in employment dropped slightly from 15.5% in 2014 to 15.2% in 2017. Its employment share was much lower than its share in GDP, which implies that labour productivity in manufacturing remains much higher than in agriculture.[66] Furthermore, the productivity of SMEs in manufacturing remains a concern to the authorities (Sections 1.2.1, 1.2.4.1 and 1.2.4.4). In 2016, there were more than 217,600 establishments (with four or more persons employed) in the manufacturing sector. The major contributors to GDP and employment remain the transport equipment, machinery (general purpose, production and business-oriented), food product, chemical and basic metal activities.[67] In 2018, Japan remained the world's third largest automobile manufacturing country (after China and the United States), had the largest electronics goods industry, and is often ranked among the world's most innovative countries, leading several measures of global patent filings.[68] Facing increasing competition from China and the Republic of Korea, manufacturing in Japan continues to focus primarily on high-tech and precision goods, such as optical instruments, hybrid vehicles, and robotics. During the review period, the share of manufacturing in total exports declined slightly; it accounted for 86.8% of total merchandise exports in 2018 (87.2% in 2015), mainly automotive products (21.5%), non-electrical machinery (15.1%) and chemicals (10.7%). The import content of exports varies across

[66] According to Japan Productivity Center estimates, the monthly labour productivity index stood at 98.1 (2015=100) in February 2019, or 2.0 percentage points less than the same month the year before; during the same period, the labour productivity growth rate went up in 6 out of the 21 industries in the survey. For example, fabricated metals (+1.5 percentage points), and transport equipment (+1.2 percentage points) were consistently positive for five months, mainly because auto exports to Europe were strong. Japan Productivity Center, *Productivity Statistics*. Viewed at: https://www.jpc-net.jp/eng/stats/.

[67] Statistics Bureau/Ministry of Internal Affairs and Communications, *Statistical Handbook of Japan 2018*, Table 6.1. Viewed at: https://www.stat.go.jp/english/data/handbook/pdf/2018all.pdf#page=80.

[68] World Atlas, *Countries With The Most Diverse Economies*. Viewed at: https://www.worldatlas.com/articles/countries-with-the-most-diverse-economies.html; and International Organization of Motor Vehicle Manufacturers, *2018 Production Statistics*. Viewed at: http://www.oica.net/category/production-statistics/2018-statistics/.

manufacturing industries, but is high for the top exporters, illustrating the role that imports plays in supporting exports, and indicating the degree of GVC integration of these industries.[69]

4.3.2 Policy and institutional developments

4.147. During the review period, there have been certain manufacturing policy developments, including futuristic plans interlinked with services activities. As a response to concerns, *inter alia,* relating to inadequate qualitative changes in human resources, quantitative labour shortages, awareness of transformations such as the digitalization of the economic society, and the recognition of a need for continuous reform, a 2017 White Paper explained the actions to be taken by the manufacturing industry, including: measures for the maintenance and enhancement of workplace productivity; the development and securing of digital human resources; and measures for improving value added, in response to new environmental changes.[70]

4.148. A 2017 New Industrial Structure Vision (Future Vision towards 2030s) is aimed at identifying and overcoming systemic challenges to society by taking advantage of technological innovations, including the IoT, Big Data, AI, and robots, and directing such achievements toward economic growth.[71] The Vision considers Japan's advantages and disadvantages anew, designs mid- to long-term approaches to gain global markets and strategies, and presents a compilation of breakthrough projects, forecasting specific reforms of related systems. By accurately identifying the trends associated with these technological innovations and making bold changes to its economic and social systems, Japan considers that it can play a leading role in ushering in this new interconnected future, which the Government has dubbed Society 5.0 (Section 2.1).[72] Under the 2017 Connected Industries policy initiative, which set a goal for Japanese industries to create new value through connecting things, people, technologies, organizations, and other societal elements, the authorities are committed to efforts for achieving the Vision.[73] Its specific strategies include a supply-chain (smart supply chains, enhanced sophistication, and efficiency in manufacturing/production) strategy, which was integrated into the Connected Industries initiative. Regarding manufacturing, *per se*, the METI is developing Connected Industries in strategic fields, such as Automated Driving and Mobility Services, Bio Technologies and Materials, Smart Life, Plant/Infrastructure Safety Management, and Manufacturing and Robotics. Concerning food products, the MAFF developed the 2018 Strategy for Food Industries, which highlights challenges and specifies the vision to be shared for the coming decade.

4.149. A 2017 Artificial Intelligence Technology Strategy, focused on three priority areas of Society 5.0, namely health, mobility and productivity, foresees three phases: expanding use of data-driven AI in each service domain; general use of AI and data across services; and the formation of

[69] Across many OECD countries, there is a strong correlation between higher import content of exports and a higher share of their domestic value-added being exported (export orientation), illustrating the strong complementarity of imports and exports. In the case of Japanese manufacturing industries, this is less obvious, reflecting a greater role for domestic, rather than imported, supply of inputs. OECD, *International trade, foreign direct investment and global value chains, 2017*. Viewed at: http://www.oecd.org/investment/JAPAN-trade-investment-statistical-country-note.pdf.

[70] METI, *FY 2017 Measures to Promote Manufacturing Technology (White Paper on Manufacturing Industries*). Viewed at: https://www.meti.go.jp/english/press/2018/0529_001.html.

[71] METI, *A Final Report on the New Industrial Structure Vision was compiled*. Viewed at: https://www.meti.go.jp/english/press/2017/0530_003.html; and *New Industrial Structure Vision.* Viewed at: https://www.meti.go.jp/english/publications/pdf/vision_171222.pdf.

[72] Society 5.0 was proposed in the 5th Science and Technology Basic Plan in 2016 as a future society that Japan should aspire to. It follows the hunting society (Society 1.0), the agricultural society (Society 2.0), the industrial society (Society 3.0), and the information society (Society 4.0). It is considered a centrepiece of the Government's growth strategy, which means that science, technology and innovation policy has become a mainstream political agenda. Japan's regular budget for science and technology, which had remained unstable over FY2002 to FY2017 at around JPY 3.6 trillion (USD 33 billion), rose to JPY 3.8 trillion (USD 35 billion) in 2018 then to JPY 4.2 trillion (USD 38 billion) in 2019, thus providing a boost to investment in the development and application of digital technologies. Japan aims to achieve Society 5.0 through the full utilization of technological innovation, including IoT, AI and Big Data derived from the fourth industrial revolution. Cabinet Office, *Society 5.0*. Viewed at: https://www8.cao.go.jp/cstp/english/society5_0/index.html; and UNESCO, *Japan pushing ahead with Society 5.0 to overcome chronic social challenges.* Viewed at: https://en.unesco.org/news/japan-pushing-ahead-society-50-overcome-chronic-social-challenges.

[73] Under the Connected Industries initiative, the authorities would identify priority fields and invest policy resources in those specific fields, promote cross-sectoral policies, thereby allowing domestic industries to gain a foothold in the competitive global "real-data" markets. METI, *Connected Industries' Tokyo Initiative 2017*. Viewed at: https://www.meti.go.jp/english/press/2017/1002_004.html.

ecosystems through a complex merger of these services. The AI Strategy 2019 is aimed at specifying the environment and measures conducive to effective future utilization of AI for the purposes of contributing to the solution of global issues through realization of Society 5.0, and overcoming the issues facing Japanese society. This Strategy establishes an integrated policy package for AI that encompasses educational reform, R&D, and social implementation, in order to contribute to the world, overcome challenges, and ultimately improve Japan's industrial competitiveness. The Ministry of Internal Affairs and Communications provided support to implement this Strategy through the Research and Development of Next-generation Artificial Intelligence Technologies scheme, the Research and Development and Social Implementation of Multilingual Speech Translation System, and the Research, Development and Demonstration of Sophisticated Conversation Agent Technologies scheme (Section 4.3.4).

4.150. A Robot Strategy and its five-year action plan by sector (manufacturing, services, nursing and medical fields; infrastructure, disaster response, and construction fields; agriculture, forestry, fishery; and food industry) toward the realization of the Robot Revolution has been in place since 2015.[74] It is based on three pillars: fundamental enhancement of robot-creation ability; utilization and dissemination of robots across the country; and development and dissemination around the world of the Robot Revolution. This Strategy provides support for R&D of robotics, international standardization and training system integrators of robotics, and assistance to each sector. The authorities indicated that there is no aggregate budgetary cost for implementing this policy.

4.151. The METI remains, *inter alia*, responsible for policy development on industry and trade matters (Section 2.2). Upon consultation with the Minister of Economy, Trade and Industry and the Industrial Structure Council, an independent body outside of METI and composed, *inter alia,* of industry representatives and academics, carries out investigations into, and deliberations on, important policy matters, particularly with regard to improving the economic strength of the private sector and promoting smooth international economic relations.[75] The Artificial Intelligence Research Center (AIRC), inaugurated in May 2015 under the National Institute of Advanced Industrial Science and Technology, and the Council for Artificial Intelligence Technology Strategy, set up in April 2016, remain in place. The AIRC has mainly pursued social implementation of the AI Strategy 2019 by focusing on bridging its practical application side to companies with superior AI technology.

4.3.3 Border measures

4.152. The average MFN applied tariff for manufacturing products dropped from 3.5% in FY2016 to 3.3% in FY2019 (HS definition, Table 3.1). TRQs continued to apply on 62 manufactured items (HS basis) (Section 3.1.4.1), of which 32 were under HS Chapter 41 (raw hides and skins, and leather), 5 were under HS Chapter 50 (silk), and 25 were under HS Chapter 64 (footwear). Footwear, and raw hides and skins remain subject to TRQs, and thus benefit from the highest tariff protection, with average MFN applied tariffs of 27.3% and 10.5%, respectively, at HS level; peak rates (AVEs) were on footwear (219.4%) and silk (97.9%). On leather footwear, in FY2017, FY2018 and FY2019, the out-of-quota tariff rates were either 30%, or JPY 2,400 or JPY 4,300 per pair, whichever is higher; according to the authorities, in FY2017 and FY2018, their TRQ utilization rate was 66% and 71.7%, respectively. Regarding some raw hides and skins, and leather, in-quota rates stood at 12% (bovine, equine) or 16% (sheep, goat), and the out-of-quota rate at 30%; according to the authorities, their average quota utilization rates were 35.8% in FY2017 and 32% in FY2018. In FY2018, the fill rate of silk-worm cocoons and raw silk, which are subject to a zero in-quota rate and out-of-quota rates of JPY 2,523/kg and JPY 6,978/kg, respectively, stood at 55.8%.[76] Compared to the previous TPR, as at end-2018, a few more industrial items, mainly chemicals (electrolytic manganese dioxide, toluene diisocyanate, potassium hydroxide, polyethylene terephthalate, and carbon steel butt-welding fittings), were subject to anti-dumping duties (Section 3.1.7.1).[77]

[74] METI, *Japan's Robot Strategy was Compiled*, January 2015. Viewed at: https://www.meti.go.jp/english/press/2018/0529_001.html; and *New Robot Strategy*. Viewed at: https://www.meti.go.jp/english/press/2015/pdf/0123_01b.pdf.

[75] METI, *Industrial Structure Council*. Viewed at: https://www.meti.go.jp/english/policy/economy/industrial_council/index.html.

[76] WTO document G/AG/N/JPN/238, 15 May 2019.

[77] WTO document G/ADP/N/322/JPN, 4 February 2019.

4.3.4 Domestic support measures

4.153. During the review period, domestic support continued under several programmes (Section 3.3.1). The sector's non-industry-specific schemes included measures under the Subsidy Program for Global Innovation Centers, tax incentives for strengthening local business facilities, incentives regarding special zones, incentives based on the 2013 Industrial Competitiveness Enhancement Act, incentives under the 2018 Act on Special Measures for Productivity Improvement, the tax incentive system based on the Act on Strengthening a Framework for Regional Growth and Development by Promoting Regional Economy Advancement Projects, tax incentives for R&D, the tax incentive for wage and productivity improvement, incentives related to disaster recovery, and incentives of local governments for foreign-affiliated companies (e.g. subsidization of rent expenses, and incorporation/registration and other fees).[78] According to JETRO information, the sole activity-specific incentive is the Connected Industries Taxation System, involving special depreciation or tax deductions for software, apparatuses, equipment, machinery, and devices. Other activity-specific support includes that under the fuel-cell vehicles initiative (Section 3.3.1.2). According to the 2017 WTO notification to the Committee on Subsidies and Countervailing Measures covering FY2015/16, the activity-specific support schemes for manufacturing included the bekko (tortoiseshell) and ivory crafts industries, the leather and leather goods industries, and the manufacture of traditional craft products.[79] According to its latest WTO notification covering the period 2016/17, activity-specific support schemes for manufacturing included leather and leather goods, traditional craft products, R&D for care robot equipment, and sochu manufacture are in place either at central or local government level (Table 4.20).[80]

4.154. Under the AI Strategy 2019 (Section 4.3.2), the Research and Development of Next-generation Artificial Intelligence Technologies scheme (FY2017-19), with a budget of JPY 408 million (FY2017) and JPY 200 million (FY2018), aims to promote R&D for the realization of next-generation AI technologies that can select, extract, classify and learn features and meanings in real time from small data and random data by imitating features of the brain. The Research and Development and Social Implementation of Multilingual Speech Translation System (FY2017-19), with a budget of JPY 1,257 million (FY2017) and JPY 700 million (FY2018), aims to promote R&D and social implementation of the Multilingual Speech Translation System developed by National Institute of Information and Communications Technology, to remove language barriers, and to realize free and global communication. The Research, Development and Demonstration of Sophisticated Conversation Agent Technologies scheme (FY2018), with a budget of JPY 200 million (FY2018), aims to encourage the formation of a service development community, promoting the utilization and application of sophisticated conversation technologies, by developing conversation agent core technologies and making them broadly and commonly available. The METI assists companies to establish data-sharing platforms in order to utilize data in cooperative areas, and to develop internationally competitive AI systems that leverage such shared data, to cultivate connected industries, at an annual budgetary cost of JPY 3 billion.

Table 4.20 Domestic support to some manufacturing-related projects

Scheme	Budgetary outlays	Duration
Subsidy for the Leather and Leather Goods Industries	FY2015 (settlement of accounts) JPY 285 million (general budget); FY2016 (settlement of accounts) JPY 262 million; FY2017 (settlement of accounts) JPY 261 million; FY2018 (settlement of accounts) JPY 298 million	Since 1971, no expiry date
Leather and leather goods industry - "strengthening fund" subsidy	FY2015 supplementary budget (settlement of accounts) JPY 13.3 billion	March 2016, no continuation
Subsidy for Supporting the Manufacture of Traditional Craft Products	FY2015 (final results) JPY 286 million; FY2016 (final results) JPY 298 million; FY2017 (final results) JPY 310 million; FY2018 (final results) JPY 295 million	No time-limit

[78] JETRO, *Subsidy Program for Global Innovation Centers*. Viewed at: https://www.jetro.go.jp/en/invest/incentive_programs/info.html.
[79] WTO document G/SCM/N/315/JPN, 9 June 2017.
[80] WTO document G/SCM/N/343/JPN, 19 July 2019.

Scheme	Budgetary outlays	Duration
Subsidy for Promoting the Manufacture of Traditional Craft Products	FY2015 (final results) JPY 699 million; FY2016 (final results) JPY 700 million; FY2017 (final results) JPY 700 million; FY2018 (final results) JPY 700 million	No time-limit
Subsidy for Research and Development for Care Robot Equipment	FY2015 JPY 2.55 billion; FY2016 JPY 2.0 billion; FY2017 JPY 1.64 billion	April 2015-March 2018
Finance Measures for Credit Guarantee of Sake Manufacturers	4/2016-3/2017 (fund's running profit) JPY 9 million; 4/2017-3/2018 (fund's running profit) JPY 11 million	No time-limit
Finance Measures for Single Distilled Shochu Manufacturers (formally known as Finance Measures for Shochu B Manufacturers)	4/2016-3/2017 JPY 559 million; 4/2017-3/2018 JPY 541 million	Since 2010, no expiry date
Subsidy for Research and Development of Next-Generation Technology (local government)	FY2017 (settlement of accounts) JPY 381.8 million; FY2016 (settlement of accounts) JPY 420.5 million	No time-limit
Subsidy for Promoting the Manufacture of Traditional Craft Products (local government)	FY2016 (settlement of accounts) JPY 43.3 million; FY2017 (settlement of accounts) JPY 47.4 million	• Akita prefecture: from FY2011 to FY2017. • Fukui prefecture: from FY2011 to FY2017. • Kagawa prefecture: from FY2016 to FY2018. • Other prefectures: no time-limit

Source: WTO document G/SCM/N/343/JPN, 19 July 2019; and data provided by the authorities.

4.4 Services

4.4.1 Financial services

4.155. Japan is one of the main financial services markets in the world, and has a fully developed and mature financial services sector which represented 4.2% of its GDP in 2017 and 2.4% of total employment in 2018. Its financial asset base is equivalent to 1,420% of its GDP[81], and it is the largest creditor country, with net foreign assets amounting to USD 3.1 trillion, i.e. the equivalent of 62% of its GDP at the end of 2018. Boxes 4.1 to 4.4 provide an overview of the main statistical indicators of the sector and of its various subsectors.

Box 4.1 Main economic indicators of the financial services sector, 2016-18

Share of financial services in GDP 2016: 4.2% 2017: 4.2%
Share of financial services in total employment 2016: 2.5% 2018: 2.4%
Financial services (except insurance and pension services) credit 2018: JPY 1,272.6 billion Insurance and pension services credit 2018: JPY 270.6 billion Financial services (except insurance and pension services) debit 2018: JPY 905.6 billion

[81] Compared with 1,124% in the U.S. Economist Intelligence Unit, Industry Report series, *Financial Services Japan*, second quarter 2019.

Insurance and pension services debit 2018: JPY 788.6 billion
Capital stock of financial services providers abroad: (March 2018) Total amount of capital stock of foreign-controlled banks operating in Japan: JPY 20.0 billion Total amount of capital stock insurance companies operating in Japan: JPY 32,283 billion Ratio of capital stock of foreign-controlled banks to total amount of capital stock of banks operating in Japan: 0.1%[a] Ratio of capital stock of foreign-controlled insurance companies to total amount of capital stock of insurance companies operating in Japan: 8.5%
Significance of the financial services arm of Japan Post – deposits in Japan Post Bank amounted to JPY 180.9 trillion, i.e. the equivalent of 33% of GDP. It is the largest pool of savings in the world. In April 2019, the deposit cap was doubled, with a limit of JPY 13 million each for ordinary savings accounts and fixed-term deposit accounts – market share of Japan Post insurance: 20.2% as at end-March 2018

a This figure only takes into account the capital of foreign banks operating as subsidiaries, whereas the dominant form of operation of foreign banks in Japan is the use of branches, which do not have capital, *per se,* only quasi-capital, parked in Japan, of at least JPY 2 billion per branch.

Source: Information provided by the authorities.

Box 4.2 Main indicators of the banking sector, 2015-18

Banking services
Number of banks End-March 2015: 195 banks (of which, foreign-controlled banks: 4; branches of foreign banks: 54) End-March 2018: 195 banks (of which, foreign-controlled banks: 3; branches of foreign banks: 56) Recent consolidation (since 2016) May 2018: Kiraboshi Bank, Ltd. (merger of Tokyo Tomin Bank, Ltd., Yachiyo Bank, Ltd. and ShinGinko Tokyo, Ltd.)
Concentration/share of the various types of banks in the total balance sheet for banks (JPY 100 million) End-March 2015: total balance sheet: 10,165,870 (foreign-controlled banks: 56,041; branches of foreign banks: 471,876) End-March 2018: total balance sheet: 12,658,092 (foreign-controlled banks: 7,699; branches of foreign banks: 509,923)
Lending activities (credit volumes) End-March 2018: JPY 580,873.3 billion (foreign-controlled banks: 548; branches of foreign banks: 8,830)
Securities activities: (securities holding in bank accounts) End-March 2018: JPY 27,004.6 billion (foreign-controlled banks: 22; branches of foreign banks: 919)
Non-performing loans as a % of total bank assets: 1.1% (end-March 2018)

Source: Information provided by the authorities.

Box 4.3 Main indicators of the insurance sector, 2015-18

Insurance
Number of insurance companies 2015: 94 (life: 42 (of which branches of foreign insurance companies, 3); non-life: 52 (of which branches of foreign insurance companies, 22)) 2018: 93 (life: 41 (of which branches of foreign insurance companies, 1); non-life: 52 (of which branches of foreign insurance companies, 22)) Recent consolidation (since 2016) January 2018: AIG General Insurance Company, Ltd. (merger of AIU Insurance Company, Ltd. and Fuji Fire and Marine Insurance Co., Ltd.)
Total balance sheet of the insurance sector End-March 2018: JPY 414,085 billion (of which life insurance: 92.1%; non-life: 7.9%)
Concentration: (cumulative market share of the top five companies, end-March 2018) Life insurance (%):

Japan Post Insurance: 20.2
Nippon Life Insurance Company: 17.4
Meiji Yasuda Insurance Company: 10.1
Dai-ichi Life Insurance Company: 9.5
Sumitomo Life Insurance Company: 8.3

Non-life insurance (%):
Tokio Marine & Nichido Fire Insurance Co. Ltd.: 29.5
Sompo Japan Nipponkoa Insurance Inc.: 23.4
Mitsui Sumitomo Insurance Company Ltd.: 21.6
Aioi Nissay Dowa Insurance Co. Ltd.: 10.6
AIG General Insurance Company, Ltd.: 2.9

Penetration (premiums as share of GDP, end-March 2018)
Life insurance: 5.9%; non-life insurance: 1.9%

Source: Information provided by the authorities.

Box 4.4 Main indicators of the pension fund and stock exchange and securities sectors

Pensions funds

Number of pension funds
2016: 19,039
2017: 19,223

Total assets
2016: JPY 94.4 trillion
2017: JPY 96.2 trillion

Stock exchange and securities:

Capitalization of the companies listed
2015: JPY 589,788,804 hundred million (111.00% of nominal GDP; 114.09% of real GDP)
2018: JPY 582,670,408 hundred million (106.15% of nominal GDP; 109.06% of real GDP)

Gross value of publicly issued bonds
2015: JPY 2,002,202 hundred million (issued by non-Japanese residents in the Japanese domestic market payment basis) JPY 41,775 hundred million)
2018: JPY 1,790,826 hundred million (issued by non-Japanese residents in the Japanese domestic market payment basis) JPY 25,701 hundred million)

Securities turnover on the Stock Exchange (secondary market)
(JPY hundred million).
2018: domestic shares: 795,524,801; foreign shares: 223,739; domestic bonds: 0; foreign bonds: 0; structured products and options: 3,218,020,844; investment funds: 67,914,443

Source: Information provided by the authorities.

4.156. The Financial Services Agency (FSA) remains the supervisory body of all financial services in Japan. It underwent a structural reform in 2018/19. In November 2018, it published a document entitled "For Providing Better Financial Services in the Era of Transition"[82], where it indicated its willingness to promote the development of banks and other financial institutions. Its activities were reorganized in three bureaux, namely the Strategy Development and Management bureau, the Policy and Markets bureau, and the Supervisory bureau, which absorbed most of the functions of the ex-Inspection Bureau. The intent of the supervisory approach is to put more emphasis on the business potential of borrowers rather than on their collateral or credit guarantees, and to prompt Japanese banks to utilize a "risk appetite framework" in light of the difficult environment born out of prolonged negative interest rates, worldwide political and economic uncertainties, and the emergence of online banking, e-payments and fintech.

4.157. In May 2017, the FSA revised its 2014 Stewardship Code for Institutional Investors, aimed at enhancing corporate governance and improving investment returns. The main revisions were the strengthening of asset managers' governance, the management of conflicts of interest, and the clarification of the roles of asset owners, including pension funds. By subscribing to this voluntary

[82] FSA, *For Providing Better Financial Services in the Era of Transition*, September 2018. Viewed at: https://www.fsa.go.jp/en/news/2018/20180926/Summary_Financial_Services_Policy2018.pdf.

Code, investorscommit, in particular, to disclosing how they exercise their stewardship activities. By August 2019, it had been adopted by 256 investors, among which 117 were foreign.

4.158. In a longer-term perspective, the FSA set up a panel of experts in November 2017, i.e. the Study Group on the Financial System, in charge of developing a new approach to regulation. Regulation is by financial function rather than by type of actor, since, for instance, banks are diversifying in asset management and insurance, while fintech, including Internet and telecom companies, venture into e-payments and banking. This panel identified four key functions that should be regulated, regardless of the type of actor involved in them, namely: payment and settlement, lending, investment, and risk transfers. The aim is to maintain consumer protection, and to encourage financial innovation.

4.159. The regulatory regime of financial services has been described in great detail in several recent TPR reports[83], and did not see any major regulatory changes during the period under review.

4.4.1.1 Regulatory evolutions in the banking sector

4.160. For banking services, there were no changes regarding preferential and bilateral policies, licensing procedures and conditions, prudential regulation and the banking deposit insurance scheme, or the market access regime for foreign banks, as noted in the annual OECD Services Trade Restrictiveness Index.[84]

4.161. The regulatory changes made during the period under review include the following areas: the privatization process of Japan Post Bank (JPB), regional bank consolidation, measures to ensure compliance with the Basel Committee's Core Principles for Effective Banking Supervision, anti-money laundering, e-payments, fintech, and crypto-currencies. The privatization process of JPB is dependant on that of the mother company, Japan Port Holdings (JPH). In September 2017, the Government sold a 23.6% share of JPH, in addition to the 19.5% it had already sold in November and December 2015. This leaves the Government with a 56.9% share of JPH. A third sale, which would cover a maximum of 23.5% of the shares (since, by law, the Government must own at any time one third of JPH shares) has not been decided yet. All the proceeds of these sales were affected to reconstruction projects in areas affected by the 2011 earthquake and tsunami.

4.162. JPH sold some of the shares of JPB in 2015, and currently holds 89% of its shares. 2% of JPB now in private hands shares belong to foreign investors. JPH also sold some of the shares of Japan Post Insurance Co Ltd. (JPI) in 2015 and 2019, and currently holds 64% of its shares. 2.3% of JPI now in private hands shares belong to foreign investors. When JPH will have sold 50% or more of the shares of JJPB, the new business implemented by JPB will no longer be subject to approval, but simply to the notification system. However, it will remain possible for the authorities to order additional supervisory measures. Regional banks are encouraged by the Government to diversify their business away from mortgage-lending activities (a segment of low profitability due to low interest rates and shrinking demand by an ageing population), and to provide loans to regional revitalization projects. The Government amended regulations on the 5% cap on regional banks' equity holdings in small companies. More specifically, the revision deregulated restrictions on the investment ratio (the "5% rule") in relation to regional revitalization, and to smooth business succession for local companies. In November 2018, the Prime Minister issued a directive to the Cabinet to facilitate, through legislative and regulatory improvements, mergers among regional banks, to consolidate the sector.

4.163. Regarding measures to implement the Basel Committee's core principles, in December 2017, the final Basel III (also commonly known as "Basel IV") standards were expanded to cover a wider range of capital requirements by 2022. A progress report issued by the Basel Committee in April 2019 indicated that Japan had adopted 14 of these standards, was in the process of adopting 3 more, was late in adopting 2 of them, and was planning to adopt 9 more by 2022. In addition, the draft rule of large exposure requirement was published in June 2019, and will be adopted from April 2020. Japan also transposed, in 2018, the Basel's Committee recommendations on the capital

[83] WTO documents WT/TPR/S/310, 19 January 2015; and WT/TPR/S/351, 18 January 2017.
[84] OECD, *Access the Data.* Viewed at: https://qdd.oecd.org/subject.aspx?Subject=STRI.

treatment of Interest Rate Risk in the Banking Book. For more on these standards and their state of implementation, see Table A4.3.

4.164. The three largest Japanese banks (Mitsubishi UFJ Financial Group, Sumimoto-Mitsui Financial Group, and Mizuho Financial Group) are subject to additional capital requirements, since they are among the 29 world-wide systematically important financial institutions; the latest list was published in November 2018. The rule imposing that their total loss-absorbing capacities must amount to 16% of their risk-weighted average was published and implemented in March 2019, and this requirement will be raised to 18% in March 2022. The rule will also be applied to Nomura Holdings in March 2021, and will be raised to 18% in March 2024.

4.165. Regarding anti-money laundering measures, in February 2018, the FSA released Guidelines on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) and, in August 2018, it released a follow-up monitoring report to improve financial institution's risk management in the AML/CFT area. It is preparing the Financial Action Task force review, and the report will be adopted in June 2020. In these documents, the FSA considers that efforts could still be made in this area.

4.166. Regarding e-payments, Japan has been relatively slow to switch to cashless payments, and credits cards, for instance, are much less used than by other OECD countries. However, this is now changing very rapidly, due to e-payments (notably by mobile phones) and more marginally to crypto-currencies. The Government set an objective of 40% of cashless payments by 2025.

4.167. Examples of smartphone-based e-payment apps using QR codes include Line Pay by a messaging company, which launched its code payment service in June 2018; J-Coin Pay, launched by Mizuho Bank in cooperation with 56 banks in March 2018 and which has a target of 6.5 million or more users in five years; Rakuten Pay, developed by an Internet company; and PayPay, a joint venture between a mobile operator, Softbank, and an Internet company, Yahoo!Japan. Some foreign operators, such as Paypal, have registered, and operate in Japan.

4.168. The Government is developing a regulatory framework for e-payment services, in order to protect consumers and boost innovation. The Banking Act was amended on 26 May 2017 to add a new chapter on electronic payment services (Chapter VII-5). This Chapter created a registration procedure office to operate such services. Foreign corporations and foreign individuals can register but must designate an agent in Japan. The definition of Electronic Settlement Intermediary Services Providers (ESISPs) encompasses both Payment Initiation Services Providers and Account Information Service Providers, and includes provisions regulating their business conduct. In particular, if such a provider seeks to be connected with a banking IT system to start fund remittances or gain access to information related to deposit accounts, it must enter into an agreement with said bank regarding matters such as security of information and the allocation of responsibilities in case of damages regarding the customer. Banks must publicly disclose to the ESISPs their standards of connectivity by March 2018, and try to establish a voluntary open Application Programming Interface system by 2020

4.169. In order to develop fintech, the FSA eased, in May 2016, the restrictions on banks' ownership of finance-related IT companies. However, such acquisitions remain subject to FSA approval. In September 2017, the FSA established the FinTech Proof of Concept (PoC) Hub. The main aim of the Hub is to support innovative projects improving user convenience and/or productivity of companies. For each selected PoC project, the FSA will set up a special working team, in cooperation with relevant authorities and/or industry associations, as necessary. A special working team will support a project, by giving advice on issues related to compliance and supervision, etc., that participants of the PoC project would like to clarify The newly formed (July 2018) Strategic Development and Management bureau of the FSA is in charge of this programme.

4.170. In April 2017, the FSA implemented the revised Payment Services Act, which introduced the registration system for exchange service providers of virtual currency for legal tender, and established the legal framework, such as security requirements and segregation rules between the operators' assets and the users' assets. After the Coincheck site was illegally accessed in January 2018, the FSA conducted a number of on-site inspections and business improvement orders, to try to improve their internal management structure and AML capabilities.

4.171. Following the crash of the bitcoin value (from USD 20,000 in December 2017 to USD 4,000 in December 2018) and two major thefts at virtual exchanges involving USD 500 million and USD 60 million, the FSA announced, in December 2018, its intention to strengthen applicable rules and to ensure user protection. This act was passed by the Diet in May 2019, and will be implemented by June 2020. The new Payment services actt replaces the term "virtual currency" by "crypto-asset", to underline its speculative character, requires service providers to pre-notify the authority of plans to change a line of virtual currency products, and contains provisions forcing virtual currency exchanges to secure funds for repayments to customers in the case of theft or business failure.

4.172. In a parallel move, in October 2018, the FSA granted self-regulatory status to the Japan Virtual Currency Exchanges Association, to make this institution responsible for safeguarding customers assets, issuing operational guidelines, and preventing money laundering. Japan proactively contributed to the establishment of a Contact Group (CG) within Financial Action Task force, to promote AML measures of virtual assets; a first face-to-face meeting of the CG was held in mid-June 2019.

4.4.1.2 Regulatory evolution in other financial services sectors

4.173. There were no significant regulatory changes during the period under review for insurance and pension funds.

4.174. Regarding stock markets, on 31 May 2019, the Financial Instruments and Exchange Act was amended, to subject high-speed traders to a registration requirement, as of 31 May 2020. Foreign high-speed traders are also subject to this registration requirement. The conditions for registration do not include the establishment of an office in Japan but require the designation of a representative or an agent in Japan.

4.175. In January 2019, in the framework of corporate governance reform, Japan adopted a new rule which requires companies to disclose the method used for the verification of cross-shareholding, and which expands the coverage of mandatory individual disclosure of cross-shareholding (from 60 to 30 shares), a provision applicable for financial reports covering periods ending March 2019 and after.

4.176. The commitments undertaken by Japan during the period under review regarding financial services in the CPTPP and in the EU-Japan EPA include some elements which differ from those already undertaken in its previous FTAs. The CPTPP contains GATS plus commitments on insurance intermediation, such as brokerage and agency, on securities-related transactions with financial institutions and other entities in Japan, and on sales of a beneficiary certificate of an investment trust or an investment security, through securities firms in Japan. The EPA with EU contains specific definitions, exceptions and disciplines on new financial services, self-regulating organizations, payment and clearing systems, transparency, and rules on insurance services provided by postal entities.

4.4.2 Telecommunication services

4.177. Box 4.5 details the main economic indicators of the telecommunications sector.

Box 4.5 Main economic indicators of the telecommunications sector

Penetration rates (2018)
Fixed-telephone subscriptions per 100 inhabitants: 49.9
Mobile-cellular subscriptions per 100 inhabitants: 139.2
Fixed (wired)-broadband subscriptions per 100 inhabitants: 32.1
Mobile broadband subscriptions per 100 inhabitants: 188.9
Households with a computer per 100 inhabitants: 76.4
Households with Internet access at home per 100 inhabitants: 98.5
Individuals using the Internet per 100 inhabitants: 84.6

Main actors
Number of companies providing telecom services (April 2019):

- 327 carriers (owning networks and circuits) are registered by the Ministry of Internal Affairs and Communications (MIC)

- 19,491 carriers (without networks) have submitted notifications

Compared to the situation at the beginning of the period under review (March 2016), the net number of registered carriers increased by 20, and that of carriers subject to the notification regime increased by 2,323

Names and market shares of the leading companies for fixed telecom services (December 2018):
NTT East and NTT West (combined market share for fixed telecom services, 23.2%); KDDI (17.9%); Optage (3.8%); Softbank (2.9%); various wholesalers using NTT East and West networks (31.7%)

Name and market shares of the leading companies for mobile telephones services (December 2018):
NTT DoCoMo (38.1%); KDDI group (including Okinawa Cellular) (27.5%); SoftBank group (22.9%)

Name and market share of broadband Internet services (March 2018):
NTT group (e.g. OCN) (24.9%); KDDI group (e.g. Biglobe) (30.7%); pure Internet service providers (e.g. So-net, @nifty) (13.1%)

Foreign ownership participation in telecom companies:
- Except for NTT, there are no restrictions for Japan's telecommunications carriers. For NTT, the limitation stands at less than one third of foreign ownership
- Foreign ownership shares of listed telecom companies are not available, except for NTT, where it stood at 28.1%, as at June 2019

State ownership: NTT 35.9%

Establishment of new companies, mergers or closures since the last Review:
"Rakuten Mobile" joined the telecommunication market as the fourth Mobile Network Operator in May 2018

Source: Information provided by the authorities; and, for penetration figures, the ICT/EYE ITU database., viewed at: https://www.itu.int/itu-d/apis/clients/res/pdf/country_profile/report_JPN.pdf.

4.178. The telecommunication regime has been described in several past TPR reports[85], and did not undergo any significant changes during the period under review. In particular, there were no changes regarding the mobile interconnection regime, facility sharing, local loop unbundling, spectrum management, or accounting rates.

4.179. Regarding number portability, a major change occurred. The enforcement, in May 2019, of the "telecommunication Number Plan (public notice No. 6 of the Ministry of Internal Affairs and Communications (2019))" required telecommunications operators to take the necessary measures to enable number portability among them by the end of January 2025.

4.180. Regarding the fixed interconnection regime, the leading companies (NTT West and NTT East) are now obliged to include their optical fibre lines, as well as their Internet Protocol core network "Next Generation Network", as designated facilities into their interconnection offer. Regarding licensing, operators providing name conflict resolution mechanisms in the context of the attribution of first rank Internet domain names such as ".jp" are, since May 2016, subject to a notification regime.

4.181. The universal service regime was updated through an amendment to the method of calculation of compensation; it must now take into account the transition from analogue fixed telephones to optical IP telephones. The amount of compensation received by the universal services providers (NTT East and NTT West) was JPY 6.8 billion in 2015, JPY 6.76 billion in 2016, JPY 6.92 billion in 2017, and JPY 6.5 billion in 2018.

4.182. Apart from those minor technical amendments to the regime, and of the deployment of 5G-LTE networks and of experimental programmes on the IoT and on AI, the government policy regarding telecommunications during the period under review was essentially focused on two issues: consumer protection, and the lowering of costs linked to the use of mobile handsets.

4.183. Consumer protection rules were enhanced and strengthened by an amendment of the Telecommunication Business Act, promulgated in May 2016. New obligations were introduced, such

[85] WTO documents WT/TPR/S/351, 18 January 2017, pp. 111-113; WT/TPR/S/310, 19 January 2015, pp.101-103; and WT/TPR/S/W/276, 15 January 2013, pp. 95-98.

as the issuing of documents after the signing of a contract, the initial contract cancellation system, the prohibition of mis-statement, the prohibition of continued solicitation, and the provision of guidance to agents. The Ministry of Internal Affairs and Communications (MIC) has been actively monitoring the implementation of these new rules, notably through regular meetings of the Consumer Protection Rules Monitoring Study Group, established under the aegis of the ICT Safety and Security Study Group.

4.184. Regarding SIM locking, the MIC revised its guidelines in January 2017 to shorten the time required for SIM unlock after the purchase of mobile terminals. In the case of instalment payment, the time was shortened to 100 days after the day of purchase; in the case of lump-sum payment, SIM unlock was made possible on the day of purchase. In August 2018, the MIC further revised its guidelines to require operators to accept requests for the SIM unlocking of used terminals. This amendment was to apply from 1 September 2019.

4.185. As evidenced by its ranking in Table 4.21, telecommunications prices in Japan remain relatively high by international standards, especially for data access via fixed and mobile broadband.

Table 4.21 Telecommunication prices, 2017

Type of service	Japan's worldwide ranking	Unit	Price expressed in USD in purchase power parity
Mobile-cellular basket	45	ITU basket	28.22
Mobile-cellular prices (on-net)	81	Per-minute local call	0.00[a]
Mobile-cellular prices (off-net)	81	Per-minute local call	0.00[a]
Mobile-cellular prices to fixed telephones	81	Per-minute local call	0.00[b]
SMS	81	Local SMS	0.03[b]
Fixed-broadband prices	80	Residential monthly subscription	33.2
Mobile broadband basket, prepaid	93	Handset-based (500 MB)	49.39
Mobile broadband basket post-paid	77	Computer-based (1 GB)	49.39

a NTT DOCOMO provides post-paid "Kake-hodai Plan" for basic monthly charge of JPY 2,700/USD 25 (for Smart phones) with free domestic calls.

b NTT DoCoMo provides a post-paid Kake-hodai Plan for a basic monthly charge of JPY 2,700/USD 25 (for smartphones) with free domestic calls. This is the price of an SMS on the post-paid Kake-hodai Plan provided by NTT DoCoMo.

Source: ITU, *Measuring the Information Society*, Report 2018, Volume 1, viewed at https://www.itu.int/en/ITU-D/Statistics/Pages/publications/misr2018.aspx.

4.186. The Government is actively pursuing a policy aimed at lowering the costs linked to the use of mobile handsets, and has taken, or is planning to take, several measures to that effect.

4.187. First, the Telecommunication Business Act was revised in May 2019 ("A law to amend part of Telecommunication Business Act" Act No. 5, 2019), to establish a prohibition on the discount of connection fees and mobile phone handsets when selling connection and handsets as a set, from September 2019. The discount on mobile phone handsets when selling connection and handsets as a set, and that on mobile phone handsets for new customers, was to be limited to JPY 20,000 (this limitation is listed in the ministerial ordinance delegated by the law that stipulates the specific amount of benefits offered if benefits are provided for customers). The law also stipulates that the difference between the price plan with time constraint and the one without time constraint is limited to JPY 170 per month. This rule applies to the three main mobile telephone operators (NTT DoCoMo Inc., SoftBank Corp., and KDDI Corp.) as well as to Rakuten, the e-commerce firm that entered the mobile telephone market. These measures are meant to completely separate the connection fee from the price of mobile phone handsets, and to ban excessive customer capture.

4.188. The Government also plans to place a cap on benefits that are offered by mobile phone companies to long-term subscribers, notably by limiting the benefit offered per year for the extension of a contract to one free month of connection.

4.189. In addition, the Government announced, in June 2019, that it will require mobile phone operators to drastically cut cancellation fees for users who quit in the middle of a two-year contract, so as to promote competition and lower the country's relatively high communication charges. Under the plan approved by the communications ministry's panel, Japan's four main mobile phone operators and the Mobile Virtual Network Operators will be obliged to cut cancellation charges by 90%, to JPY 1,000 (USD 9) or less, from the current JPY 9,500, enabling users to switch companies more easily. To introduce this measure, in September 2019, the ministry revised the Regulations for the Enforcement of the Telecommunications Business Law.

4.190. Under the GATS, Japan made commitments on all telecommunication subsectors, be they basic or value added, subscribed to the GATS disciplines of the reference paper, and listed only two restrictions, both for NTT and KDDI: a limitation on foreign ownership of 20%, and a nationality requirement for the majority of the board. This situation related to NTT and KDDI is echoed in the subsequent bilateral or regional agreements, but the foreign ownership limitation was scheduled at a less restrictive, status quo level of one third, which correspond to the applied regime.

4.4.3 Postal, courier and express services

4.191. The MIC is the regulatory authority for postal services, while the Ministry of Land, Infrastructure and Transport (MLIT) regulates express service activities under the Consigned Freight Forwarding Business Act. There is no independent regulator for postal matters.

4.192. Since 2000, postal services providers have been reorganized, in three steps. First, the Postal Services Agency, which was an external agency of the Ministry of Public Management, Home Affairs, Posts and Telecommunications, was replaced in April 2003 by a new public corporation named Japan Post. This public corporation remained 100% government-owned, its staff retained civil servant status, and it continued to provide both postal and financial services including savings and insurance. In a second stage, in October 2007, postal services were privatized under the Postal Service Privatization Act (Law No. 97 of 2005), the Japan Post Group was established, and its employees lost their civil servant status. The Japan Post Group was composed of five entities, namely JPH; Japan Post Service; Japan Post Network (i.e. the post offices); JPB; and Japan Post Insurance, two of which (Japan Post Service and Japan Post Network) dealt with postal services *stricto sensu*. In a third stage, in October 2012, the two latter entities merged under the name Japan Post Company Limited.

4.193. In 2018, the Japan Post Company Limited employed over 193,000 persons, and had a network of 24,000 post offices, over 180,000 mailboxes, revenue of JPY 3,887.4 billion, and a profit of JPY 85.4 billion. Japan Post Co. is the only sub-entity of the Japan Post Group that has not been the object of an initial public offering/listing, and it remains 100% JPH-owned. The other sub-entities were subject to an initial public offering/listing of 10% of their capital in November 2015.

4.194. Box 4.6 summarizes the somewhat complex domestic regime of postal, courier and express services.

Box 4.6 Postal, courier and express domestic regime

1. Special correspondence

Definition: one, or a combination, of the following mail items:

- mail items that have dimensions (height + width + thickness) totalling over 73 cm or a weight over 4 kg;
- mail items that are to be delivered within three hours; and
- mail items that have a delivery charge that exceeds the amount specified by a ministerial ordinance of the MIC (JPY 800).

Legal status: liberalized

Operator(s): 538 private operators

4. Parcels of more than 4 kg

Definition: as in title

Legal status: open to competition

Operators: express and parcel operators (first-class and second-class freight forwarders)

2. General correspondence Definition: postal items whose height, width and thickness are, respectively, under 40 cm, 30 cm and 3 cm, and whose weight is under 250 g (usually letters) sent within Japan and which are to be delivered within three days[a] Legal status: liberalized Operators: Japan Post, since no private providers applied for a licence		
3. Correspondence postal items Definition: – second-class mail: postcards (2-6 g) – first class mail: residual category (other than 2nd, 3th and 4th classes including express mail services) within a limit of 4 kg Legal status: part of a reserved area/universal service of Japan Post Operator: Japan Post	**5. Non-correspondence postal items** Definition: – third class mail: periodicals, magazines and newspapers within a limit of 1 kg; – fourth class mail: items which require special consideration, e.g. for the blind Legal status: part of reserved area/ universal service of Japan Post Operator: Japan Post	**6. Parcels of less than 4 kg** Definition: as in title Legal status: open to competition Operators: Japan Post competes with express and parcel operators (first-class and second-class freight forwarders)

a However, the minimal limit for special correspondence are dimensions totalling over 73 cm or weighing over 4 kg. Thus, items totalling less than those dimensions or weighing between 250 g and 4 kg fall into the general correspondence category.

Note: Jurisdiction of the MIC: 1+2+3+5
Jurisdiction of the MLIT: 4+6
Scope of the Correspondence Delivery Act: 1+2
Scope of the Postal Act: 3+5
Scope of the notion of correspondence: 1+2+3
Scope of non-correspondence: 4+5+6
Activities of Japan Post: 2+3+5+6
Universal service/reserved area of Japan Post: 3+5
Activities of Japan Post in competition with the private sector: 6
Activities outside the universal service/reserved area where Japan Post is the sole provider: 2.

Source: Compiled by the Secretariat.

4.195. The universal service, as defined by the Postal Act No. 167 of 1947 and last amended in 2002 (to change the approval of the rates by the MIC from a prior notification system to a *post facto* notification system), comprises the totality of postal items defined as such by the relevant international conventions, including Express Mail Services. There is no universal service fund.

4.196. The *de jure* monopoly of the Japan Post Company Ltd. includes letters (when containing "correspondence", see below) and postcards (between 2 and 6 g) and the following postal items: smart letters (i.e. up to A5 size and 1 kg throughout Japan at a fixed rate), letter packs (up to A4 size and 4 kg throughout Japan at a fixed rate) and express mail services items.

4.197. As illustrated in Box 4.6, the notion of "correspondence" determines the borderline with parcels, which are open to competition and are under the jurisdiction of the MLIT[86]. It is defined by Article 4, paragraph 2 of the Postal Act (Law No. 165 of 1947) as "any document expressing the will or intent of the sender to a specific recipient or informs such a recipient of factual information".

[86] Except for periodicals (3rd class mail) and material for the blind (4th class mail), which are not a form of correspondence but are nevertheless part of the universal postal service and of the reserved area of Japan Post, and are under the jurisdiction of the MIC.

Hence, for instance a résumé sent to a company is a written correspondence, but the same résumé sent back by the company is not. Article 76 of the Postal Act stipulates that the sender and the delivery company sending correspondence items could face up to three years' imprisonment or a fine of up to JPY 3 million for infringement.

4.198. The Act on Correspondence Delivery by Private Business Operators (Law No. 99 of 2002) liberalized, since 1 April 2003, "correspondence delivery services", and opened them *de jure* to private postal operators. Correspondence delivery services are divided into two sub-categories, with different scopes, licensing procedures and licensing conditions: "general correspondence services" and "special correspondence services".

4.199. General correspondence services, or "basic services", cover postal items whose height, width and thickness are, respectively, under 40 cm, 30 cm and 3 cm, and whose weight is under 250 g (usually letters), sent within Japan, and which should be delivered within three days. The conditions for application require complete territorial coverage, the installation of "correspondence collection boxes" (i.e. mailboxes) evenly throughout the country, according to the populations of municipalities, a six-days-a-week delivery frequency, the guarantee of secrecy of correspondence, and an adequate business plan. There were no applications and hence no licences delivered so far for the exercise of those services.

4.200. Special correspondence services, or "high-value services", are defined as one, or a combination, of the following mail items:

- mail items that have dimensions (height + width + thickness) totalling over 73 cm or a weight over 4 kg;
- mail items that are to be delivered within three hours; and
- mail items that have a delivery charge that exceeds the amount specified by a ministerial ordinance of the MIC (JPY 800).

4.201. The requirements for application for a licence are quality-based. The applicant company must guarantee the protection of secrecy of correspondence, and present an adequate business plan. Needs are assessed on the basis of the estimate of business revenues. There are geographical limitations on delivery within three weeks. Permission to operate is given by the MIC, and is perpetual. As at July 2019, 538 operators were licensed, none of them foreign. Their total sales amounted to JPY 19.3 billion in FY2018.

4.202. Japan did not make any commitments regarding postal and express services either under the GATS or in the positive listing agreement with Singapore. However, it bound special correspondence services in most of its positive listing agreements with India, Brunei Darussalam, Thailand, Malaysia, Viet Nam, Indonesia and the Philippines, with a standstill commitment in the latter five. In its negative listing agreements, Japan reserved future measures for postal services, both for investment and cross-border trade in the services chapters for national treatment, senior management and boards of directors, and local presence.

4.203. Express carriers, including international express carriers such as Fedex, UPS, DHL and TNT, fall under another regulatory regime, the Consigned Freight Forwarding Business Law" (Law No. 82 of 1989), applicable since 1990 and last amended in 2008. This Law is administered by the MLIT.

4.204. In its latest amendment, the Law distinguishes between two types of freight forwarders: first-class and second-class.

4.205. First-class freight forwarders are freight forwarders deploying transport intermediation activities within a single mode of transport (maritime, air, rail, or road) and which do not engage in the door-to-door collection and delivery of cargo. First-class freight forwarders are subject to a simple registration procedure for entry, and to an *ex-post-facto* reporting system for fares (charges and fees).

4.206. Second-class freight forwarders organize multimodal activities, and ensure door-to-door services. They are subject to a permission regime, which implies the preliminary approval of the general business plans as well as the approval of the collection/delivery plans for cargo.

4.207. In terms of conditions of access for foreign operators in these two classes, the Law creates three distinct regimes, depending on the type of transport activities undertaken:

- for freight forwarding using air transportation between points within Japan, a nationality requirement is imposed on both natural and legal persons (whether constituted under foreign law or under Japanese law, and with less than two thirds of Japanese nationals on the board and with voting rights);

- for freight forwarders using international air transportation, permission or registration (depending on the class concerned) is subject to a reciprocity test; and

- for freight forwarders using maritime transportation, permission or registration (depending on the class concerned) is also subject to a reciprocity test.

4.208. UPS, Fedex, DHL and TNT operate in Japan. To the extent that they are allowed to operate (i.e. except for freight forwarding using air transport between points within Japan, and once the reciprocity test is satisfied for the other two subsectors), foreign express operators enjoy full national treatment.

4.209. However, express carriers, domestic, foreign or Japan Post Co Ltd, do not compete under exactly the same regulatory conditions, in terms of customs valuation methods and *de minimis* thresholds, location of customs clearance, traffic fines, loading and unloading of shipments, and advance cargo information[87]. According to the authorities, these differences in treatment are normal by international standards, can be explained by the different nature of the items shipped and their different transport chains, and do not constitute discrimination against express carriers.

4.210. Japan did not undertake any commitments on freight forwarding under the GATS. It reflected its applied regime for freight forwarding in some of its FTAs. This is the case of seven positive listing agreements with India, Brunei Darussalam, Thailand, Malaysia, Viet Nam, Indonesia and the Philippines, with a standstill commitment in the latter five. As far as negative listing agreements are concerned, Japan bound its existing regime by lodging reservations for existing measures (hence, subject to standstill and ratchet); this is reflected in its agreements with Mongolia, Switzerland, Australia, Chile, the European Union, Mexico, Peru, and the CPTPP partners.

4.4.4 Transport services

4.4.4.1 Maritime transport

4.4.4.1.1 Market overview

4.211. In 2017, Japan relied on maritime transport for 72.3% of its imports and for 70.2% of its exports, in value. In addition, coastal shipping, which is reserved for the national flag, is an important economic sector, with 2,500 companies employing 65,000 persons, among which 28,000 seafarers, and with business revenue of around USD 11 billion in 2016.

4.212. The total Japanese fleet (i.e. the Japanese-flagged fleet[88] and the foreign-flagged but Japanese-controlled fleet) remains the second largest in the world, after the Greek fleet. Nationally-flagged vessels are, for the most part, deployed on cabotage traffic. The internationally deployed fleet (mostly composed of foreign-flagged, Japanese-controlled vessels) employed 2,000 Japanese seafarers and 56,000 foreign seafarers, and had business revenue of USD 39 billion in 2016. In

[87] Global Express Association, *Overview of de minimis value regimes open to express shipments world wide.* Viewed at: https://global-express.org/assets/files/Customs Committee/de-minimis/GEA overview on de minimis 28 March 2018.pdf; the Customs Act (Law No. 61 of 1954, as amended), Article 76; the Plant Protection Act (Law No. 151 of 1950, as amended), Articles 6 and 8; the Act on Livestock Infectious Diseases Control (Law No. 166 of 1951, as amended), Article 38; the Road Traffic Act (Law No. 105 of 1960, as amended), Article 4; and the Act on Postal Matter Shipping Consignment (Law No. 284 of 1949), Article 16.

[88] Due to ownership restrictions, there are no Japanese-flagged vessels controlled by foreign interests.

2018, the Japanese fleet carried about 8.7% of the global seaborne trade, in volume. The share of Japan's fleet in the world total is higher for bulk traffic[89] than for in-liner shipping, as the container-carrying capacity of ONE, the new single operator born out of the merger in March 2018 of the three historical operators (Mitsui OSK; K-line; and NYK), accounted for only 7% of the capacity in 2018, and ranked number six among liner shipping operators.

4.213. As at 1 January 2019, the total fleet was composed of 987 nationally-flagged vessels over 1,000 gross registered tonnes (GRT) totalling 38.99 million dead weight tonnes (DWT), i.e. 1.9% of world tonnage capacity, and of 2,844 foreign-flagged, Japanese-controlled vessels over 1,000 GRT and totalling 186.72 million DWT of capacity, i.e. 9.5% of world tonnage.

4.214. Ports in Japan essentially serve external trade. Although the volume of containers transhipped to foreign destinations in Japan declined significantly in recent years (from 265,000 twenty-foot equivalent units (TEU) in 2012 to 131,000 TEU in 2017), the total container handling volume was on the rise (from 21,226,000 TEU in 2012 to 22,822,000 TEU in 2017). In this 2017 total, cabotage container handling represented a volume of 4,428,000 TEU, i.e. 19.3 %.

4.215. Table 4.22 provides in more detail the main economic indicators of the maritime transport sector, in terms of fleet and traffic.

Table 4.22 Maritime transport, main economic indicators

Fleet (vessels over 1,000 GRT) as at 1 January 2019	**Vessels (number)**		**Tonnage (DWT)**			
			(Million tonnes)		**(% of world tonnage)**	
National flag	987		38.99		1.9%	
Of which foreign-controlled	0		0		0%	
Beneficially owned fleet under foreign flags	2,844		186.72		9.5%	
Merchandise trade	**Volume ('000 tonnes, except for containers: '000 TEU), 2017**		**Value (JPY billion) 2017**		**% of Japan's international trade (all modes of transport) FY2017**	
	Imports	**Exports**	**Imports c.i.f.**	**Exports f.o.b.**	**Imports**	**Exports**
International maritime freight trade	962,595	289,649	54,536	54,986	72.3	70.2
Of which containers	9,207	9,187	31,138	33,963	41.3	43.4
Of which transhipped	75	56	..	..	..	..
Of which dry bulk	407,898	66,426	10,177	6,604	13.5	8.4
Of which liquid bulk	372,725	19,964	13,221	1,078	17.5	1.3

.. Not available.

Source: Information provided by the authorities; and UNCTAD.

4.4.4.1.2 Regulatory developments

4.216. The Maritime Bureau in the MLIT is responsible for maritime shipping policy and national legislation. It also represents Japan at the International Maritime Organization, which sets the worldwide standards for safety, security and environmental norms for maritime transport.

4.217. The main laws covering the maritime transport of goods are: the Basic Act on Maritime Policy of 2007; the Carriage of Goods by Sea Act of 1992; the International Carriage of Goods by Sea Act of 1957; the Maritime Traffic Safety Act of 1972; the Port and Harbour Act of 1950 (as amended); the Port Regulations Act of 1948; and the 1933 Ship Safety Act (as amended).

4.218. During the period under review, the main regulatory developments essentially concerned FTAs, ports, and the support regime of the Japanese fleet. The competition and applied market access regimes remained unchanged.

4.219. Regarding the support regime, in 2017, the "roll-over relief" system, i.e. the deferred taxation of capital gains in the case of the sale of old vessels replaced by new vessels, was extended until the end of FY2019. In 2019, the additional depreciation applicable to Japanese-flagged vessels

[89] This includes the carriage of crude oil and refined petroleum products ("liquid bulk") and of coal, iron ore, grain and phosphates ("dry bulk").

fulfilling certain conditions, notably of an environmental nature, through either the declining-balance method or through the straight-line method, was raised from 18% to 20%.

4.220. In May 2018, the Cabinet adopted the third quinquennial Basic Plan on Ocean Policy[90], which sets three objectives regarding the merchant fleet, corresponding to three different segments of maritime transport, namely international freight transport, domestic/coastal freight transport, and domestic passenger transport.

4.221. First, regarding the ocean-going fleet, the objective is to strengthen the international competitiveness of Japan's merchant fleet, and to secure maritime transport systems centred on Japanese-flagged ships (whose number should be multiplied by 1.2 by the end of the Plan in 2023) and Japanese crews (the objective being to multiply the number of seafarers by 1.5 by the end of the Plan in 2028). This objective is meant to be achieved by prolonging, until March 2023, the tonnage tax system instituted in 2008.

4.222. While the rates of the tonnage tax remain unchanged[91], its scope of application was expanded to include "deemed-Japanese-flagged vessels" i.e. a foreign-flagged-vessel operated by a Japanese shipping firm and owned by an overseas subsidiary of a company established under Japanese law, which may change its flag to the Japanese one immediately in case of issuance of an "order of navigation"(e.g. in case of natural disasters). In accordance with the Maritime Transport Act, the tonnage tax rates applicable to those vessels are 1.5 times higher than those applicable to Japanese-flagged vessels.

4.223. The Plan does not modify the existing International Ship Regime (ISR), whereby a Japanese-flagged vessel may receive a reduction of registration and licence taxes and property taxes, provided it fulfils certain conditions; namely, it must be of more than 2,000 GRT, be an ocean-going vessel whose non-Japanese seafarers hold a certificate issued by the MLIT, or be of a roll-on/roll-off or LNG carrier type. Companies may apply for the ISR scheme if they are established under Japanese law, regardless of the nationality of their shareholders.

4.224. The second objective of the third Basic Plan on Ocean Policy is to strengthen coastal shipping operators, to develop advanced coastal ships, and to secure a sufficient number of national seafarers, in line with the June 2017 MLIT Plan for the Future of Coastal Shipping. The Plan sets the target of increasing the average coastal tonnage of cabotage vessels from 715 tonnes in FY2015 to 858 tonnes in FY2025. The Coastal Shipping Tentative Measures Programme/Scrapping Incentives, instituted in FY1998[92] and the Coastal Shipping Joint Ownership Scheme under the Japan Railway Construction, Transport and Technology Agency (JRTT)[93], instituted in 1957, remain unchanged. The Basic Plan on Ocean Policy also foresees the maintenance of the present cabotage regime, i.e. the reservation of the national flag, save exceptions foreseen in the Friendship Commerce and Navigation treaties with Denmark, the United Kingdom and Norway, or under reciprocity conditions.

4.225. Regarding passenger transport, the Plan recognizes that domestic passenger ships and ferries are an indispensable transportation infrastructure for regional communities, and they promote tourism in Japan. It foresees the continuation of the policy of subsidizing remote island sea routes. Of the 295 remote island sea routes in service at the end of FY2018, 120 were subsidized. According to the authorities, the Government subsidizes these projects to maintain regional public transport. The total value of subsidies in FY2018 was JPY 20 billion.

4.226. The competition regime remained the same during the period under review. The last review of the anti-trust immunity provided by the Marine Transportation Act was concluded, with no

[90] *The Basic Plan on Ocean Policy*. Viewed at: https://www8.cao.go.jp/ocean/english/plan/pdf/plan03_e.pdf.

[91] Namely, for vessels less than 1,000 net tonnes (NT), JPY 120/100 NT; for vessels over 1,000 and up to 10,000 NT, JPY 90/100 NT; for vessels over 10,000 and up to 25,000 NT, JPY 60/100 NT; and for vessels over 25,000 NT, JPY 30/100 NT.

[92] The project of provisional measures for coastal shipping was introduced in May 1998 to revitalize the coastal shipping business. To deal with excessive tonnage, it adjusts the available tonnage by the scrap-and-build method.

[93] Since 1959, the JRTT provides support to coastal shipping by sharing the cost and ownership of vessels, with JRTT taking 70%-90% of costs and ownership. The domestic shipping company pays a usage fee to the JRTT for the period of joint ownership, which is 7-15 years.

changes, in 2015. No further review is planned. The scope of this immunity, defined in Article 28-4 of the Act, provides immunity "to conclude an arrangement or agreement or to conduct a concerted act concerning the fares or charges and other transportation conditions, routes, allocation of ships as well as sharing of shipping between a ship operator and other ship operators on routes between ports in Japan and a territory other than Japan". In practice, this immunity covers agreements such as conferences, discussion agreements, stabilization agreements, vessel-sharing agreements and consortia (including alliances) in liner shipping, and tramp pools in bulk shipping. The benefit of this immunity is conditioned by a filing requirement, as Article 29-(2) of the Marine Transportation Act stipulates that "any ship operator shall, if he/she intends to engage in the act provided for in Article 28 item (4) or to alter the content thereof, notify beforehand the Minister of Land, Infrastructure, Transport and Tourism to that effect".

4.227. The applied market access regime remained unchanged. Japan does not discriminate against foreign participation in international maritime services, and accords national treatment.

4.228. The applied regime was only partially bound. Japan's commitments under the GATS are relatively limited (access to/use of port services, pushing and towing services, maritime agency services, salvaging, watering and fuelling services), due to the outcome of the 1995-96 maritime transport negotiations. Commitments undertaken in the context of FTAs vary widely; the more liberal commitments are in negative listing agreements (with Australia, Chile, the European Union, Mexico, Peru, Switzerland, and the CPTPP partners) and in recent positive listing agreements containing standstill clauses (with Indonesia, Malaysia, Mongolia, the Philippines, and Thailand); these commitments were described in detail in one of the previous reports.[94] While Japan replicated its previous maritime commitments in negative listing agreements signed since 2013 (namely with Peru in 2012, Australia in 2015, CPTTP partners in 2018, and the European Union in 2019), the only positive listing agreement signed since then (with Mongolia in 2016) contains a supplementary commitment binding an autonomous liberalization of the applied regime, i.e. the suppression of the economic needs test for cargo handling and container depot station activities.

4.229. Regarding ports, there were significant regulatory developments during the period under review. First, the third Basic Plan on Ocean Policy adopted by the Cabinet in May 2018 includes a port component. The objective is to maintain and expand key maritime routes, with port calls in Japan, with anti-seismic infrastructures adapted to large container ships, large bulk carriers and car transporters, through freight collection, freight creation, and enhanced port competitiveness. The Plan also foresees the development of international logistics terminals, and of domestic terminals tailored to the transportation needs of key industries, such as automobile recycling in ports; and the creation of specific bunkering facilities for LNG-fuelled ships will also be encouraged, including abroad (e.g. in Singapore).

4.230. During the period under review, Japan also actively pursued its policy of according concessions to an increasing number of container and bulk terminals. Privately managed container terminals are now present in nine harbours, compared to three mentioned in the previous report. Although this activity is opened to foreign investment, all operators selected so far are of Japanese nationality.

4.231. Table 4.23 provides an overview of concessions accorded recently.

Table 4.23 Overview of the ports' recently accorded terminal concessions

Privately managed terminals	Type of cargo	Managing company(ies)/ nationality	Volume (TEU, 2017)	Date & duration of contract
Keihin (some)	Container	Yokohama-Kawasaki International Port Corporation/Japanese	3,055,994	04.03.2016 Indefinite duration
Kobe·Osaka (some)	Container	Kobe-Osaka International Port Corporation/Japanese	5,251,000	28.11.2014 Indefinite duration
Nagoya·Yokkaichi (some)	Container	Nagoya-Yokkaichi International Port Corporation/Japanese	693,447	01.09.2017 Indefinite duration
Niigata (some)	Container	Niigata World Trade Terminal Company Limited/Japanese	169,002	07.03.2014 Indefinite duration

[94] WTO document WT/TPR/S/276, 15 January 2013, Table A.IV.4, pp. 142-148.

Privately managed terminals	Type of cargo	Managing company(ies)/ nationality	Volume (TEU, 2017)	Date & duration of contract
Sakai Semboku (some)	Container	Sakai Semboku Wharf Corporation/Japanese	30,374	21.12.2015 Indefinite duration
Mizushima (some)	Container	Mizushima Port International Logistics Center Corporation/Japanese	167,036	20.01.2014 Indefinite duration
Hiroshima (some)	Container	Hiroshima Port & Harbor Administration Center Co., Ltd/Japanese	254,098	02.02.2017 Indefinite duration
Hakata (some)	Container	Hakata Port Terminal Corporation/Japanese	850,179	20.02.2014 Indefinite duration
Ibaraki Port Hitachinaka District (some)	Container	Ibaraki Port Authority Corporation/Japanese	29,827	08.06.2000-08.06.2020

Source: Information provided by the authorities.

4.4.4.2 Air transport

4.232. Japan has a well-developed air transport sector, with approximately 100 million international passengers, 223 million domestic passengers[95], and 1.4 billion tonnes of international cargo in 2018.[96] There are 114 airports in operation in the country, and the top five accounted for more than half of all traffic, and the top two for over one third: Narita International Airport accounted for 33.7% of international passengers; and Tokyo International Airport (Haneda) for 30.3% of domestic passengers. Users of low-cost airlines (LCCs) have been increasing; 20% of international passengers were reported to be using LCCs in 2018.[97]

4.233. During the period under review, the regime of air transport services remained largely unchanged, except for slots, airport concessions and bilateral air transport agreements.

4.234. As far as services explicitly covered by the GATS are concerned, computer reservation services, and selling and marketing of air transport services are not regulated by any sector-specific legislation; they abide by general company law and the general legal framework for competition. In both instances, there are no provisions limiting market access; these services were the object of extensive commitments under the GATS and in all of Japan's FTAs.

4.235. Aircraft repair and maintenance services, another type of air auxiliary service explicitly covered by the GATS, are regulated by the Aircraft Manufacturing Industry Act, which does not impose any obligation to repair nationally-flagged planes locally. This act conditions establishment of new entrants to an economic needs test whose criterion is that "the capability of manufacturing or repairing aircraft or specific equipment does not become notably excessive". This criterion is formulated in a non-discriminatory manner. Several permissions were granted during the period under review. The number of US Federal Aviation Administration-(FAA) and European Agency for Safety in Aviation (EASA) -certified repair stations (11 in both instances) remained unchanged during the period under review.

4.236. The commitments for aircraft repair and maintenance under the GATS and under the positively listed FTAs of Japan reflect the applied regime, i.e. the existence of an economic needs test. That situation is echoed in all of Japan's negatively listed FTAs.

4.237. Regarding air transport services not explicitly covered by the GATS, the regime of ground handling services also remained unchanged during the review period. Self-handling and mutual handling are allowed at all airports, as is third-party handling. Differentiated situations may result from bilateral agreements, due to reciprocity considerations. The CPTPP and the Japan-EU EPA both include ground handling services in their scope but, in both instances, these services are the object of Annex II type reservations, carving out future measures from MFN obligations.

[95] East Japan Civil Aviation Bureau, *Usage status of jurisdiction airport.* Viewed at: https://www.cab.mlit.go.jp/tcab/statistics/01.html; and Osaka Airlines Bureau, *Usage report*. Viewed at: https://ocab.mlit.go.jp/about/total/report/.

[96] Civil Aviation Bureau, *Data*. Viewed at: http://www.mlit.go.jp/koku/15_hf_000030.html.

[97] MLIT online information.

4.238. Domestic air freight forwarding is reserved for Japanese nationals, while access to international freight forwarding activities is subject to approval based on a reciprocity test. Aerial work is reserved for national operators, and foreign investment in this sector is subject to a notification procedure, and is limited to one third of the voting rights.

4.239. Regarding commercial air transport *stricto sensu*, charters are subject to authorization by the MLIT; the authorization is liberally granted except in cases of lack of reciprocity. There is no specific policy for all-cargo flights. Foreign participation in nationally established airlines is limited to one third of the voting rights, including for holding companies. Domestic traffic is reserved for nationally established airlines.

4.240. Table 4.24 provides an overview of Japanese airlines, in terms of fleet, turnover and shareholders, in 2018.

Table 4.24 Overview of airlines, 2018

Airline	Number of aircraft	Turnover (JPY bn)	Shareholders
ANA Holdings	292	1,971.7	No shareholder with more than 5%
JAL	231	1,383.2	Only one shareholder with more than 5%: the Master Trust Bank of Japan (Trust Accounts), Ltd: 5.37%
Nippon Cargo Airlines	11	97.9	Owned 100% by Nippon Yusen
Low-cost carriers			
Peach Aviation	20	54.7	ANA Holdings: 67.0%; First Eastern Investment Group: 17.9%; INCJ: 15.1%
Vanilla Air	14	32.9	ANA Holdings: 100%
Jetstar Japan	21	57.0	JAL and Quantas: 33% each; Mitsubishi, Century Tokyo Leasing: 16.7% each
Spring Airlines Japan	4	9.1	Spring Airlines: 33.0%; Others: 67.0%
Air Asia Japan	2	..	Air Asia Investment: 33.0%; Others: 67.0%

.. Not available.

Source: Information provided by the authorities.

4.241. The main regulatory changes adopted during the period under review concern three areas, namely: slots and congested airports, airports privatization/concessions, and bilateral air transport agreements.

4.242. In anticipation of the Olympic Games in 2020, the number of slots available at Tokyo airports (Haneda and Narita) were considerably increased, passing from 680,000 in 2015 (Haneda 410,000, Narita 270,000) to approximately 1,000,000 in 2020 (Haneda 490,000, Narita 500,000). In addition, Fukuoka was added to the list of congested domestic airports (in addition to Haneda, Narita, Itami and Kansai), where a notification from a domestic airline to the MLIT is needed before adding a frequency.

4.243. Regarding airport privatization/concession, Japan amplified considerably its policy, initiated in 2013, with the Act on Operation of National Airports Utilizing Skills of the Private Sector, which is part of a wider Private Finance Initiative governed by annual plans. Table 4.25 provides an overview of this concession process.

Table 4.25 Overview of airport concession process

Airport concerned	Date of concession (or stage of concession process)	Bidder selected	Duration of concession	Observations
Osaka Airports (Kansai and Itami)	December 2015	Vinci Airports and Orix	45 years	
Sendai Airport	December 2015	Tokyo Group consortium	30 years	
Osaka's Kobe Airport	April 2018	Vinci Airports and Orix	42 years	
Fukuoka Airport	1 April 2019	Fukuoka Airport HD Corporation (Nishi Nippon Railway Corporation; Mitsubishi Corporation; Kyushu Electric Power Corporation; and Singapore's Changi Airport International	30 years	
Takamatsu Airport	1 April 2018	Mitsubishi Estate	35 years	
Shirahama Airport	April 2019	Minchori Holdings-led consortium	10 years	
Shimojishima Airport	January 2018	Mitsubishi Estate	Permanent	Special purpose vehicle to develop and operate passenger terminal facilities
Mount Fuji Shizuoka Airport	April 2019	Mitsubishi Estate and Tokyo Corporation	20 years	
Nagasaki Airport	Survey to determine the viability of privatization, was to be completed by March 2019	Not yet selected	Not decided	
One Hokkaido (seven airports)	January 2020 (New Chotose Airport) October 2020 (Asahikawa Airport) March 2021(Wakkanai Airport, Kushiro Airport, Hakodate Airport, Obihiro Airport, Memanbetsu Airport)	Hokkaido Airport Group	30 years	
Hiroshima Airport	– Guidelines for the tender published in May 2019; – Selection of a preferred negotiation rights holder in June 2020 - agreement in August 2020; – Full-scale private operations to commence from April 2021		30 years	
Kumamoto Airport	April 2020	MSJA-Kumamoto Consortium	33 years	

Source: CAPA- Centre for Aviation, viewed at https://centreforaviation.com/analysis/reports/japans-airport-privatisation-picks-up-pace---and-interest-418151 and complementary information provided by the authorities

4.244. Regarding bilateral air transport agreements, during the period under review, Japan concluded or amended four bilateral agreements, namely with India, Papua New Guinea, Cambodia, and Lao PDR. These agreements essentially added new frequencies without liberalizing further other clauses. Table A4.2 details the characteristics of all air services agreements in force for Japan, coded according to the WTO QUASAR methodology[98], which provides an assessment of their degree of liberalness.

[98] For more elements on this methodology, see WTO document S/C/W/270/Add.1, 30 November 2006.

4.4.5 Environmental services

4.245. Following standard practice for TPR reports, and for the purpose of this Section, environmental services should be understood as covering sewage services, refuse disposal services, sanitation services, cleaning services of exhaust gases, noise-abatement services, nature and landscape protection services, and other environmental protection services.[99] Fresh water distribution services/water utilities are also covered in this Section, as this type of service is technically bundled with sewage services, and uses, at least partly, the same infrastructure as sewage services.

4.246. This list covers basically three types of services. The first group is constituted by services linked to the provision of basic public services, with natural monopoly characteristics (water utilities/distribution, sewage, consumer waste disposal and sanitation services, such as snow- and ice-clearing services). These services are regulated by various acts, described below, which entrust municipalities, or grouping of municipalities, with the provision of these services to the general public. However, they were modified in recent years, to allow the creation of PPPs, whereby municipalities can delegate the management of those services to the private sector. A second group is composed of services that are delivered mainly by private companies (industrial waste management, cleaning services of exhaust gases, and noise-abatement services). These sectors are regulated at both national and local levels, essentially on questions of safety and norms. Finally, nature landscape and protection services constitute the third group, which is regulated at both national and local levels; the bulk of the regulation consists of environmental norms. The Ministry of the Environment is the main regulator of the environmental services sector. The MLIT is the main regulator of the sewage sector.

4.4.5.1 Water distribution services and waste water treatment/sewage services

4.247. The main policy objective of Japan's water distribution and waste water treatment/sewage services is to ensure access to water for everyone (Box 4.7).

Box 4.7 Market overview of water distribution and waste water treatment/sewage services

Japan's share of the global market (2010)	8%, or USD 247.6 billion
Number of firms (2015)	2,123
Revenue of private water companies (2015)	USD 21 billion
Main private national companies	Kurita Water Industries, Organo Corporation, Hitachi Ltd., METAWATER Co., Ltd.
Level of regulation	National
Main regulations	Water Supply Law; Local Public Enterprise Act; Sewage Water Act
Main objectives of the regulations	Provision of access to water for everyone

Source: Development Bank of Japan, Report (2015). Viewed (in Japanese) at: https://www.dbj.jp/pdf/investigate/etc/pdf/book1508_02.pdf; and United States International Trade Commission (USITC), *Environmental and Related Services (2013)*. Viewed at: https://www.usitc.gov/publications/332/pub4389.pdf.

4.248. From a regulatory point of view, water distribution services and sewage services are not vertically integrated in Japan, and hence obey to two distinct legal regimes.

4.249. Water distribution is regulated by the Water Supply Law Act No. 177 of 1957, which attributes to the municipalities the competence of providing water. Some smaller municipalities may

[99] The Services Classification List contained in document MTN/GNS/W/120, which was used by most Members to schedule their commitments under the GATS, covers the following subsectors: sewage services; refuse disposal services; sanitation and similar services; and "other" environmental services, which includes the remaining elements listed in the provisional version of the UN CPC, namely: cleaning of exhaust gases (CPC 94040), noise-abatement services (CPC 94050), nature and landscape protection services (CPC 94060), and "other environmental protection services not elsewhere classified" (CPC 94090).

group together, in "bulk water supply businesses", to share the large-scale investments needed. This type of investment is subsidized at the national level, to an amount varying between one third and one half of the total investment.

4.250. Municipalities and bulk water supply businesses can, in turn, delegate part or all of the operation and management of the water distribution system to private firms, under various contractual arrangements. About 65% of the municipalities use one of these contractual arrangements.[100]

4.251. Table 4.26 describes the various forms of delegation to the private sector of the management of water distribution.

Table 4.26 Main characteristics of public-private contractual arrangements for the management and operation of water distribution

Type of contract	Description	Typical duration and number of water distribution networks and private companies involved
Subcontracting (limited or extensive)	Limited: subcontracting one of the following functions: facilities design, water quality inspection, facility maintenance inspection, meter reading Extensive: subcontracting several or all of the functions listed above	Usually 2-5 years 1,714 distribution networks (involving 622 private companies)
Technical subcontracting	Subcontracting technical duties, such as operational management of water purification plants or water quality control	2-5 years 191 distribution networks (involving 46 private companies)
Design Build Operate (DBO)	Commissioning to a private company the design, construction and operation of facilities, the funding of the design and of the construction remain public	5-20 years 6 distribution networks (involving 7 private companies)
Private Finance Initiative (PFI)	The private contractor provides the funding for the design, construction, operation, maintenance and repair of the facilities	20 years 12 distribution networks (involving 8 private companies)
Concession	The administration of the facilities and their operation are entrusted to a private enterprise, while the local government remains the owner of the facilities. The private partner collects the fee from the customers	Up to 20 years No case so far, as this form of contract was only introduced in 2018 (see below) The Osaka municipality declared its intention to have recourse to this new legal instrument

Source: MHLW, Report, 2019. Viewed (in Japanese) at: https://www.mhlw.go.jp/content/10900000/000490819.pdf.

4.252. The main recent regulatory development was an amendment of the 1957 Water Supply Law, Amendment 92/2018, dated 12 December 2018, allowing municipalities to grant, through a concession contract, the full management of water distribution to private companies for a duration of up to 20 years. This amendment applies f the annual Public Private Partnership (PPP)/Private Finance Initiative (PFI) plan of 2018.[101]

[100] Japan Water Works Association online information (JWWA). JWWA Report on *Current Issues in Water Business* (2015). Viewed at: http://www.jwwa.or.jp/houkokusyo/pdf/suidoujigyou/report_01.pdf (in Japanese).

[101] *PPP/PFI*. Viewed (in Japanese) at: https://www8.cao.go.jp/pfi/actionplan/pdf/actionplan29_2.pdf.

4.253. There are no legal rules banning foreign companies from taking part in any of the contractual arrangements listed in Table 4.26.

4.254. Japan did not undertake any commitments regarding water distribution under the GATS nor in its positive listing FTAs (i.e. Brunei Darussalam, India, Malaysia, Mongolia, the Philippines, Thailand, Singapore, and Viet Nam). For negative listing FTAs, Japan systematically listed an Annex 1 reservation (subject to standstill and ratchet obligations) for an existing measure on an *a priori* notification procedure for investments in the water supply and waterworks industry (sector classified under JSIC 3611). This covers the agreements with Australia, Chile, Mexico, Peru, Switzerland, the European Union, and the CPTPP. In the case of the European Union and of the CPTPP, the text of the reservation is more developed that in other agreements.[102]

4.255. Waste water treatment/sewage services are regulated by the Sewage Water Act No. 79 of 1958, which attributes the competence of providing sewage services to municipalities. Municipalities can, in turn, delegate part or all of the management of sewage systems and facilities to the private sector under various forms of contractual arrangements; no less than 90% of sewage treatment facilities operation are delegated to the private sector.[103]

4.256. Table 4.27 provides an overview of the various forms of public-private contractual arrangements in use, ranked by decreasing number of municipalities using them.

Table 4.27 Main characteristics of public-private contractual arrangements for the management and operation of sewage treatment facilities

Type of contract	Description	Number of municipalities involved
Extensive subcontracting	Subcontracting works, such as patrolling, inspection, survey, cleaning, repair of the facilities, chemical/fuel procurement, and repair, to the private sector	252
DBO	Subcontracting the design, construction, operation and maintenance of the facilities/system; the funding of it remains public	20
PFI	The private contractor provides the funding for the design, construction, operation, maintenance and repair of the facilities	7
Concession	The administration of the facilities and their operation are entrusted to a private enterprise, while the local government remains the owner. The private partner collects the fees from the consumers to recoup its investment and its operational costs	2

Source: MLIT, PPP/PFI situation in the sewerage (as at April 2018). Viewed (in Japanese) at: http://www.mlit.go.jp/common/001300117.pdf.

4.257. There are no legal provisions barring foreign companies to enter into such contractual arrangements. Japan has a full commitment for the relevant mode of delivery (mode 3) for sewage services under the GATS and in all its FTAs so far, be they positively or negatively listed.

4.4.5.2 Waste management services

4.258. The main policy objective of waste management services is to limit the volume of waste disposal, reduce the consumption of natural resources, and promote the sustainable use of resources (Box 4.8).

[102] WTO RTA-IS data base. "1. The prior notification requirement and screening procedures under the Foreign Exchange and Foreign Trade Law apply to foreign investors who intend to make investments in water supply and waterworks industry in Japan. 2. The screening is conducted from the viewpoint of whether the investment is likely to cause a situation in which national security is impaired, the maintenance of public order is disturbed, or the protection of public safety is hindered. 3. The investor may be required to alter the content of the investment or discontinue the investment process, depending on the screening result."

[103] MLIT, *PPP/PFI situation in the sewerage* (as at April 2018). Viewed (in Japanese) at: http://www.mlit.go.jp/common/001300117.pdf.

Box 4.8 Market overview of waste management services

Market size of waste management services (2017)	JPY 14,296 billion[a]
Turnover of the general/municipal waste management industry (2012)	USD 26 billion
Turnover of the industrial waste management industry (2012)	USD 3 billion
Number of firms (2011)	110,000 licensed firms
Volume of waste produced (2016)	430.2 million tonnes
Customers	Public sector and waste-generating private enterprises
Assets and annual sales of the top Japan-based waste management firms	Dowa Eco-System Co., Ltd, annual sales: JPY 99 billion
Exports and imports	Export of waste management and recycling services: JPY 603 billion Import of waste management and recycling services: JPY 418 billion
Main private companies	Solid waste: Dowa Eco-system Co., Ltd, Daiseki Co., Ltd and JFE Kankyo Corporation Hazardous waste: Ebara Corp., Kubota
Level of regulation	National law
Main regulations	Basic Environmental Law; Basic Law for Establishing the Recycling-based Society; Waste Management and Public Cleansing Act; Act on the Promotion of Effective Utilization of Resources; Law Concerning Special Measure Against Polychlorinated biphenyl (PCB) Waste
Main objectives of the regulations	Achieving a circular economy by limiting the volume of waste disposal; reducing the consumption of natural resources; and promoting sustainable use of resources

a JPY 14,296 billion is the total amount of the three categories in the report "Estimation of the Market Size of the Environmental Industry on a Commission Basis in Fiscal 2017", published in 2019. The three categories are facilities for waste management and recycling, services for waste management and recycling, and production of recycled materials.

Source: Ministry of the Environment (2012). Viewed (in Japanese) at: https://www.env.go.jp/recycle/report/h24-05.pdf; and http://www.sanpainet.or.jp/service/doc/144750_3.pdf; and Ministry of the Environment Report, *2011 Industrial Waste Disposal Business Survey Report*. Viewed (in Japanese) at: https://www.env.go.jp/press/y0310-03/mat02.pdf; https://www.env.go.jp/press/files/jp/109313.pdf; and http://www.env.go.jp/recycle/waste_tech/ippan/h28/data/disposal.pdf.

4.259. Waste management is regulated by the Waste Management and Public Cleansing Act (Act No. 137 of 1970), which attributes the collection, treatment and recycling of "general waste" to municipalities, and the treatment of industrial waste to the industry that produced it. In both instances, municipalities and industries have recourse to private companies. Hazardous waste is subject to a specific legal regime, the Special Management Waste Regulations, involving recourse to licensed services providers abiding by strict qualification norms. In addition, companies using polychlorinated biphenyl must use one of five chemical disposal sites managed by the public Japan Energy Service Corporation (JESCO).

4.260. For municipalities, the forms of PPPs available are Design Build Operate; Build Transfer Operate, a scheme where the private partner operates the facility but transfers its ownership to the public partner immediately after construction; Build Operate Transfer, which is similar except that the transfer of property takes place after the end of the period of operations by the private partner; and Build Own Operate, where the private partner retains ownership of the facility it has built and operated.

4.261. Private providers entering into such arrangements must obtain a licence from the prefectural government. There are no legal provisions barring foreign firms to enter the waste and recycling market. Japan has full commitments for the relevant mode of delivery (mode 3) for waste management services under the GATS and in all its FTAs so far, be they positively or negatively listed.[104]

4.4.5.3 Air and noise pollution abatement services

4.262. Japan is one of Asia's largest producers and consumers of goods and services related to air and noise pollution abatement. The domestic market is characterized by intense competition among indigenous firms. Large Japanese suppliers account for about 80% of the air pollution abatement market

4.263. The main policy objective of air and noise pollution abatement services is to protect citizens (Box 4.9).

Box 4.9 Noise pollution abatement services

Market size (2013)	Air pollution abatement services: USD 71.0 billion Noise pollution abatement services: USD 8.2 billion
Main private companies	Ebara, Hitachi Zosen, Horiba, Hotaka Engineering, and Mitsubishi Heavy Industries
Level of regulation	National and local
Main regulations	Air Pollution Control Law; Law Concerning Special Measures Against Dioxins; Pollution Release and Transfer Registry Law; Basic Environment Law; Noise Control and Vibration Control Law; Aircraft Noise Prevention Law
Main objectives of the regulations	Protection of citizens

Source: USITC, *Environmental and Related Services (2013)*. Viewed at: https://www.usitc.gov/publications/332/pub4389.pdf.

4.264. The national Government and prefectures provide environmental investment incentives through tax support, low interest loans, subsidies, and grants.

4.265. Japan has a full commitment under mode 3 for air and noise pollution abatement services under the GATS and under all its FTAs so far, be they positively or negatively listed.[105]

4.4.5.4 Remediation, and nature and landscape protection services

4.266. The landowner is responsible for remediation of the soil. Steel companies, as well as large construction and water treatment firms, have reportedly established themselves firmly in the soil remediation market. Japanese remediation firms have cultivated alliances with foreign firms in order to benefit from proven methods and technologies.[106]

4.267. The main policy objective of remediation, and nature and land protection services is to protect the health of citizens by preventing pollution and by purifying the pollution that has already occurred (Box 4.10).

[104] Japan's commitments under mode 3 in GATS and other FTAs cover CPC 9401-9409. However, Japan inscribed a limitation in its GATS Schedule for refuse disposal services (CPC 9402) with respect to the number of licences that may be conferred to service suppliers of waste oil disposal at sea from vessels. Furthermore, Japan inscribed a reservation under mode 3 in the horizontal section of its Schedule, with respect to R&D subsidies.

[105] Japan's commitments on nature and landscape protection services (CPC 9406) in its GATS Schedule with respect to national treatment do not extend to R&D subsidies.

[106] USITC, *Air and Noise Pollution Abatement Services: An Examination of U.S. and Foreign Markets (2005),* Table 4.1, pp. 4-20. Viewed at: https://www.usitc.gov/publications/332/pub3761.pdf.

Box 4.10 Regulatory overview of remediation, and nature and landscape protection services

Japan's share of the global remediation and industrial services market (2010)	13% of USD 37.7 billion
Revenue, number of firms, and employment in remediation and industrial services (2010)	Entire remediation services market were valued at USD 4 billion, site assessment and soil remediation segments were valued at USD 600 million
Main private companies	Kurita Water Industries, Ebara Corporation, Organo Corporation, Shimizu Corporation, Obayashi Corporation, Taisei Corporation
Level of regulation	National Government
Main regulations	Soil Contamination Countermeasure Law; Basic Environmental Law; Ambient Environmental Quality Standards; Environmental Quality Standards for Soil
Main objectives of the regulations	Protection of health of citizens by preventing pollution and the purification of pollution that has already occurred

Source: USITC, *Environmental and Related Services (2013).* Viewed at: https://www.usitc.gov/publications/332/pub4389.pdf.

4.268. Japan has a full commitment for remediation, and nature and landscape protection services under the GATS and under all its FTAs so far, be they positively or negatively listed.

4.4.6 Distribution services with a specific focus on e–commerce

4.269. With the advent of e-commerce, the distribution services[107] sector is rapidly evolving, while its regulatory framework remains stable since 2000, at least regarding physical outlets. Distribution services is one of the largest service sectors in Japan, as the addition of wholesale and retail represented 14% of the GDP in 2017. In terms of employment, in 2017, wholesale employed more than 3.9 million persons (5.6% of total employment) and retail more than 7.6 million (11.6%).

4.270. The main foreign distributors present in Japan with fully owned physical outlets are Walmart (United States, through its subsidiary Seyu, with 334 outlets), Metro (Germany, 10 wholesale outlets), H and M (Sweden, 91 outlets), Costco (United States, 26 wholesale outlets), and Ikea (Sweden, 9 outlets).

4.271. The presence of many other foreign distributors is ensured through agency agreements rather than franchising agreements. The purpose of an agency agreement is to set out the terms and conditions of the relationship between the business which wants to sell an item (the Principal) and the intermediary who agrees to sell it on their behalf (the Agent). When a sale is made by the Agent, the law deems that a contract is formed between the Principal and the end-customer. For example, Marubeni, the Japanese mega trading company, operates as a commercial Agency for Merrell, the Michigan-based footwear giant; hence, Marubeni operates as the Agent, and Merrell as the Principal. Franchising remains significant in certain subsectors, e.g. grocery, where the foreign-owned 7-eleven company has a network of 21,000 franchisees all over Japan.

4.272. E-commerce physical merchandise sales (as opposed to services sales and digital sales of films, games, software, etc) reached JPY 8,600.8 billion for B2C, and JPY 94 trillion for B2B. The penetration of e-commerce is much stronger in the B2B segment (29.6% of wholesale sales in 2017, up 9.0% compared to 2016) than in B2C (5.8% of the sales in 2017, up from 5.4% in 2016 and 4.7% in 2015). However, for B2C, the situation varies from item to item: for home appliances, office supplies, books, DVDs and CDs, this proportion was over 25%, while, for food, beverages and automobiles, it was less than 5%.

[107] In this Section, distribution services is to be understood as the distribution of physical goods as defined in the GATS standard nomenclature, the Central Product Classification (CPC) Provisional version, items 611 to 6432, and WTO document MTN/GNS/W120, 10 July 1991, Section IV. It does not include Consumer to Consumer (C2C) sales of physical goods via Internet platforms (e.g. Ebay).

4.273. In 2017, Japan was the third largest B to C e-commerce market in the world. The leading actors are Amazon, a foreign company (with a market share of 35% in 2016) followed by Rakuten, a domestic company (30%), and Yahoo! Shopping Lohaco, a joint venture between the Japanese company Softbank and the US company Altaba (17%). 60% of purchases take place via a mobile application ("m-commerce", e.g. the Mercari app) but only 15% comes from abroad.[108] Japanese e-commerce providers are also trying to attract foreign customers, as exemplified by the recent acceptance of the Union Pay credit card by Amazon Japan, to attract Chinese customers. E-commerce is frequently combined with physical outlets via delivery at conveniences stores ("kombini"). Clothing items are the most popular items sold (with specific sites such as Uniqlo and the market place Zozotown), followed by beverages and foods, books, computers and games, electronics, and cosmetics.

4.274. The regulatory framework of physical distribution services was described in great detail in a previous report (WT/TPR/S/276, pp. 106-109) and did not undergo any substantial changes since then. Establishment of large-scale stores remain regulated by the 2000 "Act on the Measures by large-scale retail stores for the preservation of the living environment", which does not include an economic needs test but foresees procedures to establish and operate large-scale stores so as to protect the living environment (e.g. noise impact assessment - notably for parking - traffic impact assessment, etc). In addition, since 2007, local governments can decide on the location of large-scale stores based on city planning considerations. Specific licensing procedures implying an economic test exist for liquor distributors, central wholesale markets, and the sale of pharmaceutical products. There are no other GATS-type restrictions in the applied regime for distribution services.

4.275. Similarly, there are no GATS-type restrictions on e-commerce. There is no specific general regulatory framework for e-commerce. The main relevant laws deal with consumer protection and e-payments. The most significant among them is the Act on Special Provisions to the Civil Code on Electronic Consumer Contracts and Electronic Acceptance Notice (Act No. 95 of 29 June 2001). This Act provides special provisions to the Civil Code (Act No. 89 of 1896) in cases where there are certain mistakes in the elements comprising an electronic consumer contract, or where an electronic acceptance notice is dispatched by a consumer under a contract made at a distance.[109] The Consumer Contracts Act (Act No. 61 of 12 May 2000) permits a consumer to rescind his/her intention to offer or accept a contract when s/he has misunderstood, or was distressed by, certain acts of the business operator. It also nullifies any clauses (in whole or in part) that exempt business operators from liability for damages, or that otherwise unfairly harm the interests of consumers.

4.276. The Payment Services Act (Act No. 59 of 24 June 2009) regulates payment services, including prepaid payment instalments, fund transfers, and exchange services for virtual currency. It was amended in 2017 to subject e-payment providers to a registration procedure (Section 4.4.1). The METI issued the Interpretative Guidelines on Electronic Commerce and Information Property Trading in March 2002. The latest amendment was made in June 2017. The Guidelines were created with a view to enhancing predictability for concerned parties, and facilitating trade by clarifying how the Civil Code and other relevant laws are applied to various legal issues relating to electronic commerce and information property trading.

4.277. The trade regime bound by Japan under GATS and its FTAs was described in great detail in a previous report.[110] The GATS commitments do not cover the distribution of petroleum and petroleum products, rice, tobacco, salt, alcoholic beverages, or products sold at public wholesale markets. Positive listing agreements echo these sectoral limitations, while negative listing agreements do not contain such restrictions for petroleum and petroleum products, rice, salt, and tobacco. Japan replicated its previous distribution commitments for negative listing agreements signed since (namely with Peru in 2012, Australia in 2015, CPTTP partners in in 2018, and the European Union in 2019), and for the only positive listing agreement signed since, that with Mongolia, with a standstill obligation.

[108] Export.gov, *Japan – eCommerce*. Viewed at: https://www.export.gov/article?id=Japan-E-Commerce.
[109] Thomson Reuters Practical Law, *Digital business in Japan: overview.* Viewed at: https://uk.practicallaw.thomsonreuters.com/5-621-1305?transitionType=Default&contextData=(sc.Default)&firstPage=true&bhcp=1.
[110] WTO document WT/TPR/S/276, 15 January 2013, Table AIV.9.

4.4.7 Legal services

4.278. Legal services accounted for around 0.1% of GDP in 2017. There are over 36,000 lawyers (bengoshi), employed mostly in small-scale firms. The Attorney Act of 1949 grants them the exclusive right to provide legal services, unless explicitly stated otherwise. However, their right to appear in court is shared under certain conditions with some other legal professions, such as judicial scriveners.

4.279. There are also a number of other types of legal practitioners, namely:

- judicial scriveners (*shihohoshi*), who handle, *inter alia,* registration and deposit in an official repository with the legal affairs bureau of the Ministry of Justice, and who prepare documents to be submitted a court or public prosecutor office;
- tax attorneys (*zeirishi*), who prepare tax returns, represent clients before the tax authority, and provide consultation services on tax matters;
- patents attorneys (*benrishi*), who represent clients on all matters relating to patent rights, utility model rights, design rights and trademark rights at the Japan Patent Office and before the METI;
- maritime procedure agents (*kaijidairishi*), who deal with maritime formalities;
- administrative scriveners (*gyoseishoshi*), who handle documents to be lodged with administrative agencies; and
- notaries.

4.280. Table 4.28 indicates the number of individuals and firms exercising these various legal professions.

Table 4.28 Number of individuals and firms exercising legal professions

Profession	Number of individuals	Number of firms
Judicial scriveners (*shihohoshi*)	22,740, of which 113 foreigners	706 employing 27 foreigners
Tax attorneys (*zeirishi*),	78,028	3,963
Patents attorneys (*benrishi*)	11,507	295
Maritime procedure agents (*kaijidairishi*)	2,130	..
Administrative scriveners (*gyoseishoshi*)	47,901	..
Notaries	500	..

.. Not available.

Source: Information provided by the authorities.

4.281. The situation varies regarding the exercise of those various legal professions by foreign individuals and foreign firms.

4.282. For lawyers/*bengoshi*, there is no nationality requirement to be eligible to practice as a *bengoshi*. However, to do so, one must qualify through a six to seven-year cursus, pass the national bar exam, and undertake a 12-month apprenticeship sanctioned by a final graduation examination apprenticeship. There is no obligation to have followed undergraduate studies in Japan, so long as the individual concerned has attended 16 years of official school, followed by 3 to 4 years of undergraduate studies. These conditions are common to all graduate schools in Japan. However, law schools can impose additional conditions. An individual can also skip one or two years of law school, and present himself as a free candidate to the bar examination. This possibility is opened to both Japanese nationals and foreigners.

4.283. There is no specific track or procedure for requalification of foreign lawyers, already qualified abroad, in Japanese law. The whole cursus must be followed. In addition, a commercial presence in Japan is required. That may explain why foreign lawyers almost never practice as *bengoshi*.

4.284. Based on the Act on Special Measures concerning the Handling of Legal Services by Foreign Lawyers (Law No.66 of 1986), foreign lawyers may engage in legal services in relation to home-country law and international law, if they register with the Japan Federation of Bars Association. They can do so if they meet the following requirements: be qualified as a lawyer in their home country, and have practiced three years in their home country or abroad (this delay is reduced to two years for pure advice activities). In addition, Registered Foreign Lawyers may establish a Registered Foreign Lawyer Corporation.

4.285. Foreign firms can also associate themselves with Japanese law firms. When an individual *bengoshi* associates himself with a Foreign Law Joint Enterprise, s/he may engage in *bengoshi* activities, even if Registered Foreign Lawyers hold a majority in the association/joint venture. Registered Foreign Lawyers and Registered Foreign Lawyer Corporations may employ *bengoshi* and, as at end-2019, 15 foreign firms employed a total of 62 *bengoshis*.

4.286. In view of these small figures, Registered Foreign Lawyers and Registered Foreign Lawyer Corporations' activity is, therefore, concentrated on consultancy regarding their home-country law, third-country law, and international law. About 50 foreign law firms operate in Japan, originating from Australia, China, France, Ireland, Italy, the Netherlands, Switzerland, the United Kingdom, and the United States.

4.287. Legal advisory services are defined negatively, and do not include:

- legal representational services for juridical procedures in courts and other government agencies, and the preparation of legal documents for such procedures;
- the expression of legal opinions concerning laws other than laws of the jurisdiction where the service supplier is qualified as a lawyer (hereinafter referred to as "the jurisdiction");
- legal representational services for the preparation of notarial deeds; and
- activities concerning a legal case whose primary objective is the acquisition, loss or change of rights concerning real property in Japan, or of industrial property rights, mining rights or other rights arising upon registration thereof with government agencies in Japan.

4.288. Registered Foreign Lawyers and Registered Foreign Lawyer Corporations can also practice international law, provided that the international law is in force in their jurisdiction. Association with, and employment of, a *bengoshi* is permitted. Representation in arbitration is permitted.

4.289. Foreign law firms can establish under two different legal forms, namely: stand-alone foreign law firm or Registered Foreign Lawyer Corporation. Each of these may form a joint enterprise with an individual *bengoshi* or a Japanese law firm. Only Registered Foreign Corporations can have branches.

4.290. The use of a foreign firm name is unrestricted, provided that it is followed by a reference to "Gaikoku-Ho-Jimu-Bengoshi-Jimusho" (Office of Registered Foreign Lawyer).

4.291. For administrative scriveners (*gyoseishoshi*), the exercise of the profession is limited to natural persons, and is not tied to a nationality requirement. However, a full qualification cursus must be undertaken in Japan, and a commercial presence is required.[111]

4.292. For maritime procedure agents (*kaijidairishi*), the exercise is also limited to natural persons, and is not tied to a nationality requirement, but a commercial presence is not required.

4.293. Judicial scrivener (*shihohoshi*), patent attorney (*benrishi*), and tax attorney (*zeirishi*) activities can be undertaken by both natural persons and legal ones. An individual wanting to exercise these activities must be fully qualified in Japan, and there are no nationality requirements. A commercial presence must, however, be established in the district where this person will exercise

[111] Administrative Scrivener Law (Law No. 4 of 1951).

(except *benrishi*). Firms willing to exercise this activity are required to establish a corporation under the laws and regulations of Japan ("Shiho-Shoshi-Hojin", etc).[112]

4.294. Only individuals can be appointed as notaries by the Ministry of Justice, and they must be of Japanese nationality. This profession is therefore closed to foreign individuals.[113]

4.295. The GATS commitments for Japan limit the exercise of legal professions (*bengoshi*, *zeirishi*, *benrishi*, *kaijidairishi*) to natural persons, except for legal advisory services, and require a commercial presence. Negative listing agreements, including those recently signed with CPTPP partners and with the European Union, basically bind the applied regime described above, including exercise by firms, when allowed, and in all legal professions except notaries. Positive listing agreement commitments vary but are somewhat larger than the GATS, as they include, in certain instances, standstill obligations and additional commitments regarding the allowance of arbitration, the unlimited use of brand name, and the employment of partnership with *bengoshi*.

[112] Judicial Scrivener Law (Law No. 197 of 1950) (Chapters 3, 4, 5 and 7); Patent Attorney Law (Law No. 49 of 2000) (Chapters 6 and 8); Certified Public Tax Accountant Law (Law No. 237 of 1951) (Chapters 3, 4, 5-2, 6 and 7); and Enforcement Regulation on Certified Public Tax Accountant Law (Ministerial Ordinance of the Ministry of Finance No. 55 of 1951).

[113] Notary Law (Law No. 53 of 1908) (Chapters 2 and 3).

5 APPENDIX TABLES

Table A1.1 Merchandise exports by group of products, 2014-18

	2014	2015	2016	2017	2018
Total exports (USD billion)	690.2	624.9	644.9	698.1	738.2
	(% of total)				
Total primary products	6.5	6.0	5.4	5.6	6.0
Agriculture	1.5	1.7	1.6	1.6	1.6
Food	0.7	0.8	0.9	0.9	0.9
Agricultural raw materials	0.9	0.8	0.7	0.7	0.7
Mining	5.0	4.3	3.8	4.1	4.3
Ores and other minerals	0.8	0.7	0.6	0.7	0.7
Non-ferrous metals	1.9	1.8	1.7	1.7	1.8
Fuels	2.3	1.8	1.5	1.6	1.8
334 - Petroleum oils, other than crude	1.9	1.5	1.2	1.3	1.4
Manufactures	87.6	87.2	87.3	86.6	86.8
Iron and steel	5.4	4.9	4.1	4.2	4.2
6732 - Flat-rolled products of iron or non-alloy steel, not clad, plated or coated, not further worked than hot-rolled (other than those of subgroup 673.1)	0.4	0.4	0.3	1.1	1.1
Chemicals	10.4	10.1	10.0	10.2	10.7
5112 - Cyclic hydrocarbons	1.0	0.9	0.7	0.7	0.8
5822 - Other plates, sheets, film, foil and strip, of plastics, non-cellular and not reinforced, laminated, supported or similarly combined with other materials	0.9	0.8	0.8	0.8	0.8
Other semi-manufactures	4.7	4.7	4.6	4.4	4.4
Machinery and transport equipment	58.0	58.7	59.8	58.8	58.7
Power generating machines	1.8	1.8	1.8	1.8	1.7
Other non-electrical machinery	14.0	13.8	14.3	14.9	15.1
7284 - Machinery and mechanical appliances specialized for particular industries, n.e.s.	2.7	2.8	3.4	1.5	1.4
7232 - Mechanical shovels, excavators and shovel-loaders, self-propelled	1.1	1.0	1.1	1.2	1.3
Agricultural machinery and tractors	0.3	0.3	0.3	0.3	0.3
Office machines and telecommunication equipment	9.5	9.6	9.3	9.4	8.9
7599 - Parts and accessories (other than covers, carrying cases and the like) suitable for use solely or principally with the machines of subgroups 751.1, 751.2, 751.9 and group 752	0.3	0.3	0.2	1.4	1.3
7763 - Diodes, transistors and similar semiconductor devices; photosensitive semiconductor devices (including photovoltaic cells, whether or not assembled in modules or made up into panels); light-emitting diodes	1.0	1.0	1.0	0.9	0.9
Other electrical machines	6.4	6.5	6.7	6.4	6.5
7725 - Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits (e.g. switches, relays, fuses, surge suppressors, plugs, sockets, lamp-holders, junction boxes) for a voltage not exceeding 1,000	1.1	1.1	1.2	1.2	1.1
7786 - Electrical capacitors, fixed, variable or adjustable (pre-set)	0.6	0.7	0.7	0.7	0.8
7781 - Batteries and electric accumulators, and parts thereof	0.6	0.6	0.7	0.7	0.7
Automotive products	21.0	21.9	22.5	21.5	21.5
7812 - Motor vehicles for the transport of persons, n.e.s.	12.8	13.8	14.2	13.4	13.4
7843 - Other parts and accessories of the motor vehicles of groups 722, 781, 782 and 783	4.7	4.6	4.9	2.4	2.3
7821 - Motor vehicles for the transport of goods	1.5	1.5	1.4	1.3	1.2
7132 - Internal combustion piston engines for propelling vehicles of division 78, group 722 and headings 744.14, 744.15 and 891.11	0.6	0.7	0.7	0.7	0.7
7783 - Electrical equipment, n.e.s., for internal combustion engines and vehicles; parts thereof	0.7	0.7	0.7	0.7	0.7

	2014	2015	2016	2017	2018
Other transport equipment	5.2	5.1	5.3	4.9	4.9
7932 - Ships, boats and other vessels (other than pleasure craft, tugs, pusher craft, special-purpose vessels and vessels for breaking up)	1.8	1.8	2.0	1.7	1.7
7139 - Parts, n.e.s, for the internal combustion piston engines of subgroups 713.2, 713.3 and 713.8	1.0	0.9	0.9	0.9	0.9
Textiles	1.0	1.0	1.0	0.9	0.9
Clothing	0.1	0.1	0.1	0.1	0.1
Other consumer goods	8.0	7.9	7.9	7.9	7.8
8746 - Automatic regulating or controlling instruments and apparatus	0.7	0.7	0.7	0.7	0.8
Other	5.9	6.8	7.3	7.8	7.2
9710 - Gold, non-monetary (excluding gold ores and concentrates)	0.7	0.9	1.3	1.5	1.0

Source: UNSD, Comtrade database (SITC Rev.3).

Table A1.2 Merchandise imports by group of products, 2014-18

	2014	2015	2016	2017	2018
Total imports (USD billion)	812.2	625.6	606.9	671.5	748.2
	(% of total)				
Total primary products	48.8	38.7	36.3	39.2	40.9
Agriculture	10.1	11.9	12.2	11.8	11.1
Food	8.5	10.1	10.4	10.1	9.5
Agricultural raw materials	1.6	1.8	1.8	1.7	1.6
Mining	38.7	26.8	24.1	27.4	29.8
Ores and other minerals	4.5	4.2	3.8	4.1	4.1
2831 - Copper ores and concentrates	1.2	1.2	1.2	1.2	1.3
2815 - Iron ore and concentrates, not agglomerated	1.7	1.3	1.0	1.2	1.0
Non-ferrous metals	1.9	2.2	2.0	2.2	2.4
6841 - Aluminium and aluminium alloys, unwrought	0.8	0.8	0.7	0.8	0.8
Fuels	32.3	20.5	18.3	21.1	23.3
3330 - Petroleum oils and oils obtained from bituminous minerals, crude	16.1	7.2	8.4	9.5	10.8
3431 - Natural gas, liquefied	9.1	7.3	5.0	5.2	5.7
3212 - Other coal	2.3	2.5	2.4	3.3	3.3
334 - Petroleum oils, other than crude	3.1	2.3	1.5	1.9	2.4
3421 - Propane, liquefied	1.0	0.7	0.5	0.7	0.7
Manufactures	49.8	59.5	61.9	59.1	57.4
Iron and steel	1.1	1.1	1.1	1.2	1.2
Chemicals	7.9	10.2	10.7	10.0	10.2
5429 - Medicaments, n.e.s.	1.4	2.4	2.4	1.9	1.9
5157 - Other heterocyclic compounds; nucleic acids	0.5	0.7	0.7	0.6	0.6
Other semi-manufactures	3.7	4.3	4.4	4.0	3.9
Machinery and transport equipment	24.0	28.2	29.5	28.8	27.7
Power generating machines	1.0	1.3	1.5	1.5	1.6
7149 - Parts of the engines and motors of heading 714.41 and subgroup 714.8	0.4	0.5	0.6	0.7	0.7
Other non-electrical machinery	3.6	4.5	4.5	4.7	4.9
Agricultural machinery and tractors	0.1	0.1	0.1	0.1	0.1
Office machines and telecommunication equipment	11.3	12.8	13.0	13.0	12.0
7643 - Transmission apparatus for radio-telephony, radio-telegraphy, radio-broadcasting or television	2.0	2.3	2.5	3.5	3.2
7522 - Digital automatic data-processing machines, containing in the same housing at least a central processing unit and an input and output unit	1.1	1.1	1.0	1.0	0.9
7599 - Parts and accessories (other than covers, carrying cases and the like) suitable for use solely or principally with the machines of subgroups 751.1, 751.2, 751.9 and group 752	0.4	0.4	0.4	0.7	0.7
7763 - Diodes, transistors and similar semiconductor devices; photosensitive semiconductor devices; light-emitting diodes	1.2	1.1	0.9	0.7	0.6
Other electrical machines	3.9	4.7	4.9	4.5	4.2
7731 - Insulated (including enamelled or anodized) wire, cable (including co-axial cable) and other insulated electric conductors; optical fibre cables made up of individually sheathed fibres	0.8	1.0	1.0	1.0	1.0
Automotive products	2.6	3.1	3.5	3.4	3.3
7812 - Motor vehicles for the transport of persons, n.e.s.	1.3	1.4	1.7	1.7	1.6
7843 - Other parts and accessories of the motor vehicles of groups 722, 781, 782 and 783	0.9	1.2	1.3	1.0	1.0
Other transport equipment	1.5	1.8	2.0	1.6	1.6
Textiles	1.1	1.3	1.3	1.2	1.2
Clothing	3.8	4.6	4.6	4.2	4.0
8453 - Jerseys, pullovers, cardigans, waistcoats and similar articles, knitted or crocheted	0.6	0.7	0.7	0.6	0.6

	2014	2015	2016	2017	2018
Other consumer goods	8.1	9.8	10.3	9.6	9.1
8722 - Instruments and appliances used in medical, surgical or veterinary sciences (including sight-testing instruments but excluding electro-diagnostic and radiological instruments and apparatus)	0.5	0.7	0.7	0.7	0.7
Other	1.4	1.8	1.8	1.7	1.7

Source: UNSD, Comtrade database (SITC Rev.3).

Table A1.3 Merchandise exports by destination, 2014-18

	2014	2015	2016	2017	2018
Total exports (USD billion)	690.2	624.9	644.9	698.1	738.2
			(% of total)		
Americas	24.7	25.8	25.7	24.7	24.4
United States	18.9	20.2	20.2	19.3	19.1
Other America	5.8	5.6	5.5	5.4	5.3
Mexico	1.5	1.7	1.7	1.6	1.6
Canada	1.2	1.2	1.3	1.4	1.3
Europe	11.3	11.5	12.5	12.4	12.4
EU-28	10.4	10.6	11.5	11.1	11.4
Germany	2.8	2.6	2.7	2.7	2.8
United Kingdom	1.6	1.7	2.1	2.0	1.9
Netherlands	1.9	1.9	1.8	1.8	1.7
France	0.9	0.8	1.0	0.9	1.0
Belgium	0.8	0.8	0.9	0.8	0.9
EFTA	0.6	0.6	0.6	0.9	0.6
Other Europe	0.3	0.4	0.4	0.5	0.4
Commonwealth of independent states	1.6	1.0	1.0	1.0	1.2
Russian Federation	1.3	0.8	0.8	0.9	1.0
Africa	1.5	1.4	1.2	1.1	1.1
Middle East	4.1	4.2	3.7	3.0	3.0
United Arab Emirates	1.4	1.4	1.2	1.0	1.1
Asia	56.7	56.1	55.9	57.8	57.9
China	18.3	17.5	17.6	19.0	19.5
Other Asia	38.4	38.6	38.2	38.7	38.3
Republic of Korea	7.5	7.0	7.2	7.6	7.1
Chinese Taipei	5.8	5.9	6.1	5.8	5.7
Hong Kong, China	5.5	5.6	5.2	5.1	4.7
Thailand	4.5	4.5	4.2	4.2	4.4
Singapore	3.0	3.2	3.1	3.2	3.2
Australia	2.1	2.1	2.2	2.3	2.3
Viet Nam	1.7	2.0	2.0	2.2	2.2
Indonesia	2.1	1.8	1.8	1.9	2.1
Malaysia	2.0	1.9	1.9	1.8	1.9
Philippines	1.4	1.5	1.6	1.6	1.5
India	1.2	1.3	1.3	1.3	1.5
Memorandum:					
APEC	77.8	77.8	77.6	78.8	78.3

Source: UNSD Comtrade database.

Table A1.4 Merchandise imports by origin, 2014-18

	2014	2015	2016	2017	2018
Total imports (USD billion)	812.2	625.6	606.9	671.5	748.2
			(% of total)		
Americas	13.9	16.2	16.7	16.5	16.4
United States	9.0	10.9	11.4	11.0	11.2
Other America	4.9	5.3	5.3	5.5	5.2
Canada	1.4	1.5	1.5	1.6	1.6
Chile	1.0	1.0	0.9	0.9	1.0
Europe	10.8	13.0	14.1	13.2	13.2
EU-28	9.5	11.4	12.4	11.6	11.7
Germany	3.0	3.2	3.6	3.5	3.5
Italy	1.1	1.2	1.4	1.5	1.5
France	1.4	1.5	1.7	1.5	1.5
United Kingdom	0.8	1.0	1.1	1.1	1.1
EFTA	1.2	1.5	1.6	1.5	1.3
Switzerland	0.9	1.2	1.3	1.2	1.0
Other Europe	0.1	0.1	0.1	0.1	0.2
Commonwealth of independent states	3.2	2.8	2.1	2.4	2.4
Russian Federation	3.0	2.5	1.9	2.1	2.1
Africa	2.1	1.8	1.2	1.2	1.2
Middle East	18.4	9.1	9.9	10.9	12.5
Saudi Arabia, Kingdom of	5.8	0.4	3.2	4.1	4.5
United Arab Emirates	5.1	3.8	2.9	3.1	3.7
Qatar	4.1	2.6	1.8	1.6	2.0
Asia	51.6	57.1	56.1	55.7	54.2
China	22.3	25.7	25.8	24.5	23.2
Other Asia	29.3	31.5	30.3	31.2	31.0
Australia	5.9	5.6	5.0	5.8	6.1
Republic of Korea	4.1	4.3	4.1	4.2	4.3
Chinese Taipei	3.0	3.7	3.8	3.8	3.6
Thailand	2.7	3.3	3.3	3.4	3.3
Indonesia	3.2	3.2	3.0	3.0	2.9
Viet Nam	1.9	2.4	2.7	2.8	2.8
Malaysia	3.6	3.4	2.9	2.9	2.5
Philippines	1.3	1.4	1.5	1.4	1.4
Singapore	1.0	1.3	1.2	1.3	1.3
Memorandum:					
APEC	65.4	72.5	71.4	71.0	69.7

Source: UNSD Comtrade database.

Table A3.1 Taxation rates, November 2019

Tax	Rates (JPY)
NATIONAL TAXES	
Income tax	Progressive rates up to a maximum of 45%
Corporation tax	23.2%
Inheritance tax/gift tax	Applied on properties and gifts, with progressive rates up to a maximum of 55%
Consumption tax	10%
Liquor tax	JPY 20,000/kl–JPY 370,000/kl. In some cases, there is a JPY 10,000-11,000 additional amount of tax per 1% of alcohol
Tobacco taxes[a]	JPY 6,622/1,000 cigarettes
Gasoline tax and local gasoline tax	JPY 53,800/kl
Liquefied petroleum gas tax	JPY 17.50/kl
Aviation fuel tax	JPY 18,000/kl
Petroleum and coal tax	Crude petroleum or petroleum products, JPY 2,800/kl; natural gas or petroleum gas, JPY 1,860/tonne; coal, JPY 1,370/tonne
Promotion of power-resources development tax	JPY 375 per 1,000 kWh of electric power sold
Motor vehicle tonnage tax	Applied to passenger cars less than 13 years old. JPY 2,600/year–JPY 4,100/year for every half tonne
International tourist tax	JPY 1,000/departure overseas
Registration and licence tax	Sale of real property – 2% of value Acquisition of pledge/mortgage for real property – 0.4% of loan amount Incorporation of stock company – 0.7% of capital amount (applied to values over JPY 150,000) Registration of capital increase regarding stock companies – 0.7% (applied to values over JPY 30,000) New licence registration for bank businesses and financial instrument business operators – JPY 150,000/licence New licence registration for lawyers, doctors and licensed tax accountants – JPY 60,000/licence
Stamp tax	JPY 200–JPY 480,000. Applies to: deeds of content concerning transfer of real property; deeds of contracts concerning contracting work; promissory notes and bills of exchange; and share certificates, bond certificates, etc.
PREFECTURAL TAXES	
Inhabitant tax on corporations	Per capita rate: JPY 20,000–JPY 800,000 (according to the amount of capital). Corporation tax rate: 1% of the amount of the corporation tax liabilities
Inhabitant tax on individuals	Per capita rate: JPY 1,500; income rate 4% of the total sum of ordinary income in the previous calendar year; interest rate 5% on the interest amount; stock dividend rate: 5% of specified dividends received; capital gains rate: 5% of amount of capital gains from special stocks
Local enterprise tax	Enterprise (with capital of JPY 100 million or less): 7% of net income Enterprise (with capital exceeding JPY 100 million): 1% of net income 1.2% of value-added; 0.5% of the capital amount Electricity, gas supply and insurance companies: 1% of gross receipts
Local consumption tax	17/63% of the amount of national consumption tax (8% as at September 2019)
Real property acquisition tax	4% of the assessed value of the acquired real estate (3% for residence and land)
Prefectural tobacco tax	JPY 930 per 1,000 cigarettes
Golf links tax	JPY 800 per person per day
Automobile acquisition tax	2%-3% of the acquisition value of automobiles or light motor vehicles
Delivered Diesel Oil Tax	JPY 32,100/kl
Automobile tax	Rates vary according to category and cylinder volume
Mine Lot Tax	Mine lot with mining right not for placer mining: JPY 200-JPY 400/ha/year. Mine lot with mining right for placer mining: riverbed, JPY 600/1,000 m^2 of extension/year; non-riverbed, JPY 200/ha/year
Hunting Tax	JPY 5,500-JPY 16,500
Water Utility and Land Profit Tax	Voluntary tax rate, based on price or area of land or house ("voluntary" refers to the fact that the tax rate is established according to the ordinance of each relevant municipality)
MUNICIPAL TAXES	
Inhabitant tax on individuals	Per capita rate (JPY 3,500); income rate: 6% of the total sum of ordinary income in the previous calendar year
Fixed property tax	1.4% of the assessed value registered in the fixed property tax ledger

Tax	Rates (JPY)
Light motor vehicle tax	Rates vary according to category and cylinder volume
Municipal tobacco tax	JPY 5,692/1,000 cigarettes
Mine production tax	1% of mineral price
Special land possession tax	3% of the land acquisition price on acquisition; 1.4% of the land acquisition price on possession.
Bathing tax	JPY 150 per person per day
Establishment tax	JPY 600/m^2
City planning tax	0.3% of the assessed value registered in the fixed property tax ledger
Water Utility and Land Profit Tax	Voluntary tax rate, based on the price or area of the land or house
Common Facilities Tax	Voluntary tax rate that the municipality establishes through regulations, taking into consideration the profit situation of common facilities
Residential Land Development Tax	Voluntary tax rate, based on the area of the residential land
National Health Insurance Tax	Voluntary tax rate

a Comprises a tobacco tax and a special tobacco tax.

Source: Information provided by the authorities; Ministry of Finance, *Learning More About Taxes (June, 2018)*. Viewed at: https://www.mof.go.jp/english/tax_policy/publication/tax008/index.htm.

Table A3.2 Tax credit for R&D expenses

Category	Before amendments	After amendments
Gross R&D cost base	A credit against national corporate tax is allowed. Credit amount: 8% to 10% of the gross R&D cost (excluding special R&D costs). Limitation of credit: 25% of corporate tax before credit.	**FY2017 Tax Reform** Credit amount: 6%-14% according to the increase or decrease in R&D costs. Limitation of credit: 25% of corporate tax before credit. *When R&D costs account for more than 10% of the average sales, additional 0%-10% tax credit is to be applied. **FY2019 Tax Reform** Credit amount: if the R&D costs exceed 10% of the average sales amount, the credit amount is increased by "(ratio of R&D costs - 10%)*0.5". Limitation of credit: 40% for a certain scope of start-ups conducting R&D.
Special R&D cost-based credit	Credit amount: 30% of the gross special R&D cost for joint R&D with a university or public research 20% of the gross special R&D cost for the joint R&D with other non-public corporations A credit against local inhabitant's tax is also allowed for SMEs. Limitation of credit: 5% of corporate tax before credit (separately from other gross R&D cost credit).	**FY2019 Tax Reform** Scope of special R&D cost: certain types of research commissioned to private companies and R&D start-ups have been added. Credit amount: 25% for certain types of research conducted jointly with, or on commission by, R&D start-ups (20% for certain types of research commissioned by private companies). Limitation of credit: 10% of corporate tax before credit (increased from 5%).
Gross R&D cost-based credit for SMEs	A credit against national corporate tax and local inhabitant's tax is allowed. Credit amount: 12% of the gross R&D cost (excluding special R&D costs). Limitation of credit: 25% of corporate tax before credit.	**FY2017 Tax Reform** Credit amount: 12%-17% of the gross R&D cost. Limitation of credit: 25% of corporate tax before credit. *Additional 10% tax credit is to be applied (when the increase rate is more than 5%).
Incremental R&D cost base and high R&D intensity base	Credit amount: a credit against national corporate tax is allowed for the higher of (i) and (ii) but subject to the limitation of 10% of tax liability before the credit. (i) 5% to 30% of incremental R&D costs; or (ii) R&D costs in excess of 10% of the average sales, times the "tax credit ratio" (ratio is a mechanical calculation depending upon the relationship between the amount of R&D costs and average annual sales). Limitation of credit: 10% of corporate tax before credit.	**FY2017 Tax Reform** (i): abolished. (ii): applicable period was extended for 2 years. **FY2019 Tax Reform** (ii): abolished.

Source: Information provided by the authorities.

Table A3.3 Provisions of the IP chapters of the CPTPP and EU-Japan EPA[a]

	CPTPP[b]	EU-Japan EPA
Patents	• Definition of "inventive step" • One-year grace period for public disclosure of inventions • Revocation/cancellation/nullification permitted only on grounds that would have justified patent grant refusal	• Extension of patent protection for pharmaceutical and agricultural chemical products to compensate for non-working while awaiting marketing approval
Industrial designs	• Protection to be available for parts of articles, or at least particular regard given to parts of articles	• Protection to be made available for parts of a product • Protection to be provided by registration • Exclusive right to make, sell, import, or export articles bearing identical or similar design • Minimum term of protection of 20 years
Product appearance		• Exclusive use of the unregistered appearance of a product for a minimum term of 3 years
Trademarks	• Minimum term of protection for registered trademarks of 10 years • Protection must be available for sound marks, and visual perceptibility may not be a precondition of registration • Trademarks include collective and certification marks • GIs to be capable of protection under the trademark system • Enhanced protection for well-known marks • Remedies for bad faith registration of a domain name identical or confusingly similar to a trademark	• Manufacture, importation, and presentation of labels or packaging bearing an identical or similar sign to a registered trademark is deemed infringement
Geographical indications (GIs)	• Administrative procedures for protection or recognition of GIs • Grounds for opposition and cancellation • Guidelines for determining whether a term is the term customary in the common language • The protection or recognition of GIs through international agreements	• Mandatory establishment of a system for the registration and protection of GIs • Mutual recognition and protection of designated GIs • Extension of higher-level protection in TRIPS Article 23.1 for wine and spirit GIs to all registered/designated GIs
Trade secrets and data protection	• Minimum 10 years protection for undisclosed data submitted to regulatory authorities, in order to secure marketing approval for agricultural chemical products	• Protection of undisclosed data submitted for marketing approval for a certain period, for pharmaceutical products utilizing new active ingredients • Protection of undisclosed data submitted for marketing approval, for a minimum of 10 years for agricultural chemical products utilizing new chemical entities
Copyright and related rights	• Exclusive right of authors to communicate works to the public by wired and wireless means, including making works available on demand • Exclusive distribution right to authors, performers, and producers of phonograms of their works, performances fixed in phonograms, and phonograms, respectively • Exclusive right of performers to authorize/prohibit the broadcast/communication to the public of unfixed performances	• Minimum term of protection for literary and artistic works = author's life + 70 years • Minimum term of protection for producers of phonograms = 70 years after publication • Minimum term of protection for broadcasts = 50 years after first transmission • Exclusive fixation and reproduction rights for performers of their performances, not limited to sound recordings • Exclusive distribution rights for authors, performers, and producers of phonograms of their works, performances fixed in phonograms, and phonograms, respectively • Exclusive rights of authors, performers, and producers of phonograms to communicate works, fixations of performances, and phonograms to the public by wired and

	CPTPP[b]	EU-Japan EPA
		wireless means, including making works available on demand • Exclusive right of performers to authorize/prohibit broadcasting/communication to public of unfixed or non-broadcast performances
Enforcement	• Substantively examined patents and trademarks entitled to presumption of validity • Copyright presumed to be held by an individual whose name appears in the usual manner on a work • Authorities empowered to act *ex officio* to initiate border measures against suspected counterfeit trademarked and pirated copyrighted goods that are imported, in transit, or destined for export • Criminal procedures and penalties for unauthorized copying of films that causes significant harm to the rights owner • Civil and criminal measures for unauthorized and wilful access, misappropriation, and disclosure of a trade secret • Provisions for damages upon infringement	• Officials to be empowered to enforce GI protections *ex officio* • Copyright presumed to be held by an individual whose name appears in the usual manner on a work • Appropriate remedies for bad faith registration or holding of a domain name identical to, or confusingly similar to, a trademark • Appropriate civil procedures and remedies for the acquisition, use, or disclosure of a trade secret, and protections for trade secrets subject to civil judicial procedures • Suspension of the release of imported or exported goods suspected of infringement, upon request by a right holder; authorities also empowered to act *ex officio*

a This Table does not represent a legal analysis of the agreements, and is offered for background reference only.

b Certain provisions of the CPTPP were suspended, following the US departure from the agreement, when it was known as the Trans-Pacific Partnership. Suspended provisions are not included in this Table.

Source: New Zealand Foreign Affairs & Trade, *CPTPP*. Viewed at: https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/cptpp/comprehensive-and-progressive-agreement-for-trans-pacific-partnership-text-and-resources/; and European Commission, EU-Japan EPA. Viewed at: http://trade.ec.europa.eu/doclib/press/index.cfm?id=1684.

Table A3.4 Summary of laws protecting IPRs, 2019

Form	Main legislation	Coverage	Duration
Patents	Patent Act (Last amended: 2019)	Any invention of a product/method that is industrially applicable, novel compared with the prior art base, and characterized by the highly advanced creation of technical ideas utilizing the laws of nature	20 years from the filing date of the patent application (extendable to a maximum of 25 years upon request)
New plant varieties	Plant Variety Protection and Seed Act (Last amended: 2015)	Any agricultural, forestry or aquatic plant, meeting the following requirements: (i) the variety is clearly distinguishable from any other variety; (ii) all the plants of the variety at the same propagation stage are sufficiently similar; and (iii) all the expressions of the characteristics of the variety remain unchanged after repeated propagation	Duration of breeder's rights of plants (except perennial plants) is 25 years, while that of perennial plants is 30 years from the date of variety registration
Utility models	Utility Model Act (Last amended: 2019)	Any creation of a device that is related to the shape or structure of an article or combination of articles, and is industrially applicable	10 years from the filing date of the application
Industrial designs	Design Act (Last amended: 2019)	Any design that is industrially applicable; shapes, patterns, colours, or any combination of an article (including a part of an article), which creates an aesthetic impression; functional or aesthetic graphic images; spatial designs[a]	20 years from the date of registration (25 years as of 2020)
Trademarks	Trademark Act (Last amended: 2019)	Any character, figure, sign, three-dimensional shape, sound, colour, or any combination of them, used by a business entity in connection with its goods or services	10 years from the date of registration
Geographical indications	Act on Protection of the Names of Specific Agricultural, Forestry and Fishery Products and Foodstuffs (Last amended: 2018)	Agriculture, forestry and fisheries products and foodstuffs, meeting the following requirements: (i) products produced in a specific place, region or country; and (ii) products for which quality, reputation or other given characteristic is essentially attributable to the place of production	Indefinite (registrations of GIs are effective as long as the prescribed requirements are met)
Trade secrets	Unfair Competition Prevention Act (Last amended: 2018)	A trade secret: a production method, sales method, or any other technical or operational information useful for business activities that is controlled as a secret and is not publicly known. Data for limited provision: technical or business information accumulated in a reasonable amount, managed by electronic or magnetic means, and provided to specific persons on a regular basis	

Form	Main legislation	Coverage	Duration
Copyright and related rights	Copyright Law (Last amended: 2018)	Any work: a production in the literary, academic, artistic or musical domain, in which thoughts or sentiments are creatively expressed. Any performance: acting dramatically, dancing, giving a musical performance, singing, giving a speech, giving a recitation, or by any other means for acting of a work. Any phonogram: the fixation of sounds on a material object, such as a phonograph disc or recording tape. Any broadcasting/cablecasting: the transmission to the public of wireless/wired communications, with the objective of allowing the public to simultaneously receive transmissions of the same content	A work: author's life plus 70 years from the beginning of the calendar year after the year in which the author dies A performance: 70 years from the beginning of the calendar year after the year in which the performance takes place A phonogram: 70 years from the beginning of the calendar year after the year in which the phonogram is published A broadcasting/cablecasting: 70 years from the beginning of the calendar year after the year in which the broadcasting/cablecasting takes place An anonymous or pseudonymous work: 70 years after the work is made public A work whose authorship is attributed to a corporation or other organization: 70 years after the work is made public A cinematographic work: 70 years after the work is made public
Circuit layout of semiconductor integrated circuits	Act on the Circuit Layout of Semiconductor Integrated Circuits (Last amended: 2014)	Any layout design of circuitry elements and the lead wires connecting such elements in semiconductor integrated circuits	10 years from the date of registration

a Protection for spatial designs, graphic images that are aesthetic rather than functional, and graphic images that are not recorded or displayed on an article, will become available in 2020.

Source: WTO document WT/TPR/S/351/Rev.1, 20 June 2017, Table 3.31; and information provided by the authorities.

Table A4.1 Self-sufficiency at the product-specific level on a volume basis, 2014-2018

(%)

	2014	2015	2016	2017	2018
Rice	97	98	97	96	97
Wheat	13	15	12	14	12
Barley	9	9	9	9	9
Tuber	78	76	74	74	73
Sweet potatoes	94	94	94	94	95
Potatoes	73	71	69	69	67
Pulses	10	9	8	9	7
Soybeans	7	7	7	7	6
Vegetables	79	80	80	79	77
Fruit	42	41	41	40	38
Unshu	104	100	100	100	100
Apples	56	59	60	57	60
Meat	55 (9)	54 (9)	53 (8)	52 (8)	51 (7)
Beef	42 (12)	40 (12)	38 (11)	36 (10)	36 (10)
Pork	51 (7)	51 (7)	50 (7)	49 (6)	48 (6)
Poultry	67 (9)	66 (9)	65 (9)	64 (8)	64 (8)
Eggs	95 (13)	96 (13)	97 (13)	96 (12)	96 (12)
Milk, milk products	63 (27)	62 (27)	62 (27)	60 (26)	59 (25)
Fish	55	55	53	52	55
Fish for food	60	59	56	56	59
Seaweed	67	70	69	69	68
Sugar	31	33	28	32	34
Oils/fats	13	12	12	13	13
Fungi	88	88	88	88	88
All grains (incl. for feed)	29	29	28	28	28
Grains for food	60	61	59	59	59
Calorie base	39	39	38	38	37
Production-value base	64	66	68	66	66
Feed	27	28	27	26	25

Notes: 2018 data are estimates.
Figures in parentheses are those adjusted with feed sufficiency.

Source: Information provided by the authorities.

Table A4.2 Bilateral air transport agreements, 2019

Partner	Date	5th	7th	Cabotage	Coop	Designation[a]	Withholding[b]	Pricing[c]	Capacity[d]	Stat	ALI[e]
Egypt	10.05.62	Y	N	N	Y	S	SOEC	DA	OR	Y	11
Iraq	20.03.78	Y	N	N	N	M	SOEC	DA	B1	Y	14
Brazil	14.12.56	Y	N	N	N	M	SOEC	DA	B1	Y	14
Bangladesh	12.02.80	Y	N	N	N	S	SOEC	DA	PD	Y	6
Fiji	10.03.80	Y	N	N	N	M	SOEC	DA	PD	Y	10
India	26.11.55	Y	N	N	N	M	SOEC	DA	OL[f]	Y	16
Greece	12.01.73	Y	N	N	N	S	SOEC	DA	OR	Y	8
Hong Kong, China	28.02.97	Y	N	N	Y	M	SOEC	ZP	FD	Y	26.5
Belgium	20.06.59	Y	N	N	N	M	SOEC	DA	B1	Y	14
Italy	31.01.62	Y	N	N	N	S	SOEC	DA	B1	Y	10
France	17.01.56	Y	N	N	N	M	SOEC	DA	B1	N	15
Austria	07.03.89	N	N	N	N	M	SOEC	DA	PD	Y	4
Australia	19.01.56	Y	N	N	Y	M	SOEC	ZP	FD	Y	26.5
Israel	23.04.99	N	N	N	N	S	SOEC	DA	PD	Y	0
Ethiopia	25.03.96	Y	N	N	N	M	SOEC	DA	PD	Y	10
Sri Lanka	22.02.84	Y	N	N	N	M	SOEC	DA	PD	Y	10
Chinese Taipei	09.07.75	Y	N	N	Y	M	SOEC	ZP	FD	N	27.5
Canada	12.01.55	Y	N	N	Y	M	SOEC	ZP	FD	Y	8
Finland	23.12.80	Y	N	N	N	M	SOEC	DA	PD	Y	10
Hungary	23.02.94	N	N	N	N	M	SOEC	DA	PD	Y	4
Indonesia	23.01.62	Y	N	N	Y	M	SOEC	ZP	FD	Y	26.5
Bahrain, Kingdom of	04.03.98	Y	N	N	N	M	SOEC	DA	PD	Y	10
Brunei Darussalam	29.11.93	Y	N	N	Y	M	SOEC	ZP	FD	Y	26.5
Denmark	26.02.53	Y	N	N	N	M	SOEC	DA	B1	Y	14
Myanmar	01.02.72	Y	N	N	N	S	SOEC	DA	B1	Y	10
Germany	18.01.61	Y	N	N	N	S	SOEC	DA	B1	Y	10
Jordan	13.04.94	Y	N	N	N	M	SOEC	DA	OR	Y	12
Korea, Republic of	16.05.67	Y	N	N	Y	M	SOEC	ZP	FD	Y	26.5
Kuwait, State of	06.10.62	Y	N	N	N	M	SOEC	DA	PD	Y	10
Lebanon	02.06.67	Y	N	N	N	M	SOEC	DA	B1	Y	14
Macao, China	10.02.10	Y	N	N	Y	M	SOEC	ZP	FD	Y	26.5
Malaysia	11.02.65	Y	N	N	Y	M	SOEC	ZP	FD	Y	26.5
Mexico	10.03.72	N	N	N	Y	M	SOEC	DA	PD	N	9
Mongolia	25.11.93	N	N	N	N	M	SOEC	DA	PD	Y	4
Nepal	17.02.93	Y	N	N	N	M	SOEC	DA	PD	Y	10
Netherlands	17.02.53	Y	N	N	N	M	SOEC	DA	B1	Y	14
New Zealand	18.01.80	Y	N	N	N	M	SOEC	DA	B1	Y	14
Norway	23.02.53	Y	N	N	N	M	SOEC	DA	B1	Y	14
Oman	24.02.98	Y	N	N	N	M	SOEC	DA	PD	Y	10
Pakistan	17.10.61	N	N	N	N	S	SOEC	DA	PD	Y	0
Papua New Guinea	30.03.97	N	N	N	N	M	SOEC	DA	FD	Y	12
Philippines	20.01.70	Y	N	N	N	M	SOEC	DA	B1	Y	14
Poland	07.12.94	Y	N	N	N	M	SOEC	DA	PD	Y	10
Qatar	04.03.98	N	N	N	N	M	SOEC	DA	PD	Y	4
Russian Federation	21.01.66	Y	N	N	N	S	SOEC	DA	PD	Y	4
Saudi Arabia, Kingdom of	18.08.08	N	N	N	N	M	SOEC	DA	PD	Y	4
Singapore	14.02.67	Y	N	N	Y	M	SOEC	ZP	FD	Y	26.5
South Africa	08.03.94	Y	N	N	N	M	SOEC	DA	PD	Y	10
Spain	18.03.80	Y	N	N	N	M	SOEC	DA	PD	Y	10
Sweden	20.02.53	Y	N	N	N	M	SOEC	DA	B1	Y	14
Switzerland	24.05.56	Y	N	N	N	S	SOEC	DA	OR	Y	8
Thailand	10.06.53	Y	N	N	N	M	SOEC	DA	B1	N	15
Turkey	08.03.89	Y	N	N	N	M	SOEC	DA	PD	Y	10
United Arab Emirates	03.03.98	N	N	N	N	M	SOEC	DA	PD	Y	4
United Kingdom	29.12.52	Y	N	N	N	M	SOEC	DA	B1	Y	14
United States	11.08.52	Y	N	N	Y	M	SOEC	ZP	FD	N	29
Uzbekistan	22.12.03	N	N	N	N	M	SOEC	DA	PD	Y	4

Partner	Date	5th	7th	Cabotage	Coop	Designation[a]	Withholding[b]	Pricing[c]	Capacity[d]	Stat	ALI[e]
Viet Nam	09.06.11	Y	N	N	Y	M	SOEC	ZP	FD	Y	26.5
China	20.04.74	Y	N	N	Y	M	SOEC	DA	PD	N	10
Cambodia	14.01.15	Y	N	N	Y	S	SOEC	DA	FD	Y	17
Lao People's Democratic Republic	16.01.15	Y	N	N	Y	S	SOEC	DA	FD	Y	17

a "S"= Single; "M"=Multiple.
b "SOEC"=Substantial Ownership and Effective Control.
c "DA"=Double Approval; "ZP"=Zone Pricing.
d "PD"=Pre-Determination; "B1"= Bermuda 1 i.e. *post facto* Determination; "OR"=Country of Origin; OL: Other Liberal, "FD"=Free Determination.
e "ALI"=Air Liberalization Index (0=no liberalization at all; 50=full liberalization).
f Japan side: the limitation of frequency to/from all airports in Japan excluding Haneda Airport has been removed.
India side: the limitation of frequency to/from Mumbai, Delhi, Kolkata, Chennai, Bengal and Hyderabad has been removed.

Source: WTO Secretariat; and information provided by the authorities.

Table A4.3 State of implementation of the Basel regulatory framework

	Basel standards	Basel Committee on Banking Supervision (BCBS) deadline	Status	Remarks
Capital	Countercyclical capital buffer (CCyB)	Jan. 2016	4 Adoption completed	Final rule on Countercyclical buffer was implemented in March 2016
	Margin requirements for non-centrally cleared derivatives	Sep. 2016	4 Adoption completed	Final rule published in March 2016 and in force from September 2016
	Capital requirements for Central CounterParties (CCPs)	Jan. 2017	4 Adoption completed	Final rule was implemented in March 2018
	Capital requirements for equity investments in funds	Jan. 2017	4 Adoption completed	Final rule was implemented in March 2019
	Standardized Approach for Measuring Counterparty Credit Risk (SA-CCR)	Jan. 2017	4 Adoption completed	Final rule was implemented in March 2018
	Securitization framework	Jan. 2018	4 Adoption completed	Final rule was implemented in March 2019
	Total Loss-Absorbing Capacity (TLAC) holdings	Jan. 2019	4 Adoption completed	Final rule was implemented in March 2019
	Revised standardized approach for credit risk	Jan. 2022	1	
	Revised Internal Ratings Based (IRB) approach for credit risk	Jan. 2022	1	
	Revised Credit Valuation Adjustment (CVA) framework	Jan. 2022	1	
	Revised minimum requirements for market risk	Jan. 2022	1	
	Revised operational risk framework	Jan. 2022	1	
	Output floor	Jan. 2022	1	
Leverage	Existing (2014) exposure definition	Jan. 2018	4 Adoption completed	Final rule on the disclosure requirements of leverage ratio was implemented in March 2015. Final rule on the minimum level of leverage ratio was implemented in March 2019
	Revised (2017) exposure definition	Jan. 2022	1	
Systemically Important Banks (SIB)	Global-Systemically Important Banks (G-SIB) requirements	Jan. 2016	4 Adoption completed	Final rule requiring public disclosure of 12 indicators for assessing G-SIBs was implemented in March 2014 Final rule on higher loss absorbency requirements for G-SIBs was implemented in March 2016
	Domestic-Systemically Important Banks (D-SIB) requirements	Jan. 2016	4 Adoption completed	Final rule on identifying D-SIBs and covering higher loss absorbency requirements for D-SIBs were implemented in March 2016
	Leverage ratio buffer	Jan. 2022	1	

	Basel standards	Basel Committee on Banking Supervision (BCBS) deadline	Status	Remarks
Interest Rate Risk in the Banking Book (IRRBB)	Interest rate risk in the banking book	2018	4	Final rule published in December 2017 and in force from March 2018
Liquidity	Monitoring tools for intraday liquidity management	Jan. 2015	1 Adoption not started (draft regulation not published)	
	Net Stable Funding Ratio (NSFR)	Jan. 2018	2 Adoption in process (draft regulation published)	Draft rule published in June 2018
Large exposure	Supervisory framework for measuring and controlling large exposures	Jan. 2019	1 Adoption not started (draft regulation not published)	Draft rule published in the form of administrative guideline in March 2019, pilot operation scheduled beginning on 31 March 2019 Guideline will be replaced with enforceable final rule after the pilot operation
Disclosure	Revised Pillar 3 requirements (published 2015)	Dec. 2016	4 Adoption completed	Final rule published in December 2017 and in force from March 2018
	CounterCyclical Capital Buffer (CCyB), Liquidity, Remuneration, Leverage ratio (revised)	Dec. 2017	4 Adoption completed	Final rule on disclosure of Liquidity Coverage Ratio (LCR) published in February 2015 and in force from June 2015 Final rule on disclosure of remuneration was implemented in March 2018 Final rule on disclosure of CCyB and Leverage ratio was implemented in March 2019
	Key metrics, IRRBB, NSFR	Jan. 2018	4,2 Adoption in process (draft regulation published)	Final rule on disclosure of key metrics was implemented in March 2018. Final rule on disclosure of IRRBB published in December 2017 and in force from March 2018 Draft rule on disclosure of NSFR published in June 2018
	Composition of capital, Risk Weighted Assets (RWA) overview, Prudent valuation adjustments, G-SIB indicators	Dec. 2018	4,1 Adoption in process (draft regulation published)	Final rule on disclosure of Composition of capital, RWA overview and G-SIB indicators was implemented in March2019
	TLAC	Jan. 2019	4 Adoption completed	Final rule was implemented in March 2019
	Market risk	Jan. 2022	1	

Note: Number code: 1 = draft regulation not published; 2 = draft regulation published; 3 = final rule published (not yet implemented by banks); 4 = final rule in force (published and implemented by banks).

Source: Basel Committee on Banking Supervision, *Sixteenth progress report on adoption of the Basel regulatory framework,* May 2019.