

(Tentative Translation)

**Report from the Government of Japan
on the EU-Japan Business Dialogue Round Table (the BDRT)
Recommendations**

March 2006

(The contents of this report are based on the situation in Japan as of 3 February 2006.)

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WP 1: Trade and Investment

1. Concrete and focused actions to follow up the investment framework agreement to enhance foreign direct investment

BDRT recommendations

- (1) The heads of governments of the EU and Japan should follow up and expand the ‘Cooperation Framework for Japan-EU Two-Way Investment Promotion’ adapted at the EU- Japan summit in Tokyo 2004. Concrete measures with substantial impact on investment between the EU and Japan should be elaborated.
- (2) Such measures should be assessable and clearly focused on the following four priorities: the optimisation of the returns on investment; supporting timely development of business; supporting timely and smooth business reorganisation; and promotion of regulatory reforms.
- (3) The results of the reviews of its progress should be communicated promptly to BDRT as well as to general public.

State of the measures taken thus far

With regard to the ‘Cooperation Framework for Promotion of Japan-EU Two-Way Investment’, issued on the occasion of the Japan-EU Summit held in June 2004, the concrete items concerned are being considered in such fora as the Japan-EU Regulatory Reform Dialogue and the EU-Japan Action Plan Steering Group. In the Joint Press Statement of the 14th EU-Japan Summit held in May 2005, the Summit leaders “*warmly welcomed the substantial progress on both sides since last year’s summit in implementing the Investment Framework to foster growth in two-way direct investment.*” In addition, in the Annex to the Joint Press Statement under the section entitled “Review of Implementation of the Japan-EU Action Plan,” it was confirmed that “*Under the Investment Framework to foster growth in two-way direct investment, on the EU side accession to the Madrid Protocol on international registration of marks and adoption of the alternative standard contractual clause on data protection by the European Commission and on the Japanese side, cooperation on standards and conformity assessment in areas such as medical devices and formaldehyde, and holding a number of seminars and symposiums in the EU to promote investment to Japan.*” Furthermore, one of the “Actions to be targeted by the next Japan-EU Summit” was to “*Promote the exchanges through the Japan External Trade Organization (JETRO) and the EU-Japan Centre for Industrial Cooperation on the basis of the Investment Framework.*” Such exchanges have taken place at various opportunities, including the following: 3rd World Investment Conference (Hosted by the European Commission and the Invest In France Agency (IFA) in June 2005 in La Baule, France—Japan was invited as a special guest); Germany-Japan Investment Symposium (Hosted by JETRO, Ministry of Economy, Trade and Industry of Japan and the German Federal Ministry of Economics and Labor in July 2005 in Berlin, Germany), and the Meeting of Experts on Investment Promotion between Japan and the EU (Hosted by the EU-Japan Centre for Industrial Cooperation in September 2005, in Brussels, Belgium). Moreover, from the perspective of promoting investment exchange, negotiations have been continuing on the conclusion and the revision of tax treaties and social security agreements.

The results of the above-mentioned Regulatory Reform Dialogue and the Joint Press Statement of the Japan-EU Summit have both been publicly announced promptly.

Future outlook

Japan and the EU are to review the progress of the measures set out in the above Japan-EU Investment Framework at future Japan-EU Summits. Accordingly, the progress of the aforementioned measures is expected to be reviewed at this year’s Japan-EU Summit.

(Note) Please refer to items 2. to 5. concerning the four priorities mentioned in (2) of the BDRT Recommendations.

2. The optimisation of returns on investment

BDRT recommendations

(1) Avoidance of double taxation

The two governments should exempt dividend payments from subsidiaries to parent companies and royalty and interest payments between related companies from withholding taxes. Japanese government, in addition, should introduce measures to avoid the reduction of the ceiling of foreign tax credits as a result of such exemption.

(2) Reducing compliance costs associated with transfer pricing

A reduction of compliance costs of transfer pricing through simplification and rationalisation of transfer pricing regimes in a coordinated manner will increase international competitiveness of businesses in the EU and Japan. The two governments should establish a joint forum, similar to the JTPF established between EU member states, for the following purposes:

(a) To harmonise and simplify interpretation and documentation requirements between the EU and Japan and among the EU Member States in order to reduce the costs of compliance to various transfer pricing taxation regimes.

(b) To make the conclusion of bilateral and multilateral APAs (advance price agreements) between the EU Member States and Japan easier and cheaper by improving procedures.

(3) Participation exemption

The governments of the EU, the EU Member States and Japan should, as a medium to long-term objective, consider the introduction and/or expansion of participation exemption regimes in order to promote direct investment between the EU and Japan.

State of the measures taken thus far

(1) As regards proposals relating to the tax system, see the attached appendix on the general standpoint for tax reform.

(2) The implementation of transfer pricing taxation regimes is being examined from various aspects with a focus on the discussions of the OECD Tax Committee as described below. Therefore, the GOJ believes that the creation of a new Japan-EU joint work group is unnecessary.

With regard to (a),

The GOJ understands that taxpayers have been bearing certain costs in order to conform to the standards for transfer pricing documentation imposed by various taxation authorities. It also understands that through the standardisation of transfer pricing documentation, taxation authorities will be provided with the materials beneficial for the analysis of relevant overseas transactions and disputes arising from transfer pricing will be reduced.

With respect to this issue, a Transfer Pricing Documentation Package was developed among the Member States of the Pacific Association of Tax Administrators (PATA), consisting of Australia, Canada, the United States (US) and Japan. While this package was not one that was implemented between Japan and the EU, it illustrates three principles and sets forth in detail contemporaneous documentation for materials required during examinations (of the documentation that existed at the time the relevant transactions were conducted or documentation that was created up to the deadline for submitting tax returns in accordance with the stipulations of each state, those which contain the relevant information on transactions that have arisen by the deadline).

- i) Multinational enterprises (MNEs) need to make sufficient efforts, in accordance with the rules determined by the tax administration agencies of each PATA Member State, to establish transfer pricing in compliance with the arm's length principle.

- ii) MNEs need to produce and maintain contemporaneous documentation during the process of establishing transfer pricing in accordance with the arm's length principle.
- iii) MNEs need to submit the documentation promptly in accordance with the request of the tax administration agencies of PATA Member States.

Taxpayers are not forced to use this model documentation package related to transfer pricing, and they are not subject to any obligation beyond the obligation imposed by domestic rules of the PATA Member States. While Japan has not laid down any legislation for contemporaneous documentation regarding transfer pricing, the materials required for a transfer pricing examination in Japan are generally consistent with the PATA model documentation package.

As Japan and the majority of EU Member States are OECD Member States, international rules on transfer pricing taxation regimes have been enforced through the OECD Tax Committee. Therefore, the interpretation of the regimes is an issue to be discussed at the OECD in the coming months as well, with the discussions to be in line with the OECD Transfer Pricing Guidelines.

With regard to (b),

The GOJ recognises the effectiveness of bilateral and multilateral APAs and it has been actively promoting them in order to ensure the smooth implementation of transfer pricing taxation regimes, to reduce the workload of businesses dealing with transfer pricing taxation regimes and to enhance the predictability of business management. In addition, mutual discussions concerning bilateral and multilateral APAs have been progressing smoothly with the EU Member States, and no particular issues have arisen.

APAs require the confirmation by the tax authorities of the calculation method for the arm's length price quoted by businesses, but in order to confirm this appropriately, it is essential that the tax authorities receive certain required information from the taxpayers, including an outline of business and relevant financial data. In addition, the process requires a certain time to be completed. APA application procedures are not too complicated in themselves, neither do they entail the collection of costs from the taxpayer.

The administration and operational guidelines for Japan's advance price agreements have already been announced and publicised, and the National Tax Agency has released the APA Program Report on its website since 2003 (the reports are also available in English). They should be referred to for information on Japan's advance price agreements and their state of implementation.

- (3) As regards proposals relating to the tax system, see the attached appendix on the general standpoint for tax reform.

Future outlook

- (1) As regards proposals relating to the tax system, see the attached appendix on the general standpoint for tax reform.

- (2) With regard to (a)

The GOJ believes that both Japan and the EU must continue to make efforts to further clarify the international rules on transfer pricing in the context of the discussions at the OECD. With regard to the documentation issue, the GOJ believes that it should actively contribute to the discussions at the OECD in the future, having agreed to the model documentation package of PATA.

With regard to (b)

As stated above, although no specific problems have arisen concerning procedures or pricing, as the number of bilateral and multilateral APAs is forecast to rise in the future, the GOJ will continue to make efforts to deal with such issues promptly and appropriately.

- (3) As regards proposals relating to the tax system, see the attached appendix on the general standpoint for tax reform.

3. Supporting timely development of business

BDRT recommendations

(1) Smoother and swifter transfer of personnel

(a) Social security contributions

The two governments should introduce measures to avoid double contributions to the social security systems of both home and host countries by intra corporate transferees through the accelerated introduction of social security agreements. In addition, they should introduce an interim measure since it is likely to take a long time to conclude bilateral agreements between all the Member States and Japan. Such an interim measure could be either unilateral exemption by the host country or refund of contributions to pension funds by the host country when such expatriates return to the home country.

Research work should be outsourced to external think tanks.

To facilitate the negotiations on Social Security agreements, external think tanks should be contracted to do the basic research and provide adaptable agreement texts to be adopted by governments within a period of five years.

(b) Work and residence permits

The two governments should simplify and accelerate the procedure to obtain a work and residence permit – or a residence permit for self-employed statutory directors – for intra-corporate transferees between the EU and Japan. The procedure should include the possibility to submit an application for a work-residence permit or a residence permit for self-employment after entering the assigned country. Furthermore, spouses should be automatically granted the same rights as the holder of the permit, such as a work-resident permit and a residence permit for self-employment, upon their arrival.

(2) Data Protection: International Data Transfer

Japan's Data Protection Law should be amended in a way that it could satisfy the level of protection required by the EU's Data Protection Law to permit the transfer of personal data from the Member States to Japan.

State of the measures taken thus far

(1) (a) Social security contributions

(i) Japan has already concluded social security agreements with Germany and the UK. In February 2005, Japan signed social security agreements with France and Belgium, which were approved by the Japanese Diet in July 2005. In order that the agreements with France and Belgium can enter into force during FY2006, both countries are advancing with the required procedures.

(ii) In addition, the GOJ is now negotiating a social security agreement with the Netherlands.

(b) Work and residence permits

(i) Procedures for determining status of residence for intra-corporate transferees

The GOJ is putting in place a variety of measures to simplify and expedite procedures (for details on these measures see the previous progress report).

(ii) Approval for spouses of intra-corporate transferees to engage in work

Japan has adopted a policy of actively accepting foreign workers in specialised and technical fields. The immigration control system of Japan classifies the types of working activities for foreign nationals in specialised and technical fields, and such classifications are stipulated under the statuses of residence. Foreign workers, including intra-corporate transferees are permitted entry to Japan after being granted for any one of these statuses of residence to work in Japan. If the purpose of entering Japan is to engage in an activity other than work, then the foreign national entering Japan needs to be granted a status of residence in accordance with that such activity, and in principle, is not permitted to engage in work.

Accordingly, in the case that the main purpose to enter Japan of the spouse of an intra-corporate transferee is to engage in daily activities as a dependent of the said intra-corporate transferee, that spouse is therefore not a foreign worker who could be accepted as such by Japan. Consequently it is not possible to grant a status of residence that permits the spouse to engage in work in the same manner as the intra-corporate transferee, nor is it possible to grant permission upon entry to Japan. This is a fundamental framework for Japan's immigration control system, and the GOJ asks for understanding in this matter.

Even in the case of the spouse of an intra-corporate transferee, the following cases apply as submitted in the previous progress report. (i) If the main purpose to enter Japan of the spouse of an intra-corporate transferee is to engage in work similar to that of the intra-corporate transferee as a foreign worker in a specialised or technical field approved by Japan, that spouse may enter Japan with any one of the statuses of residence to work in the same manner as the intra-corporate transferee, (ii) if the spouse of an intra-corporate transferee did not initially seek to engage in work at time of entry to Japan, but while in Japan has come to want to engage in work in a specialised or technical field, that spouse may engage in such work after being granted permission for a change of status of residence that would permit work to be engaged in, and (iii) if the spouse of an intra-corporate transferee desires to engage in part-time work that would not obstruct the original purpose of "daily activities of a dependent spouse," that spouse may engage in such activities after being granted permission to engage in activities other than those permitted by the status of residence previously granted.

In addition, efforts have been made to simplify and expedite the procedures to allow spouses dependent on a foreign worker, including an intra-corporate transferee who is approved to work in Japan, to gain comprehensive permission to engage in activities other than those permitted by the status of resident previously granted, as long as they do not exceed 28 hours per week, and incorporating some exceptions with regard to place of work (e.g. adult entertainment industry).

(2) Data Protection: International Data Transfer

The GOJ formulated the Act on the Protection of Personal Information, based on the eight OECD principles, and the act was promulgated and enacted in May 2003, entering into full enforcement in April 2005.

Future outlook

(1) (a) Social security contributions

- (i) In concluding social security agreements, it is necessary to give comprehensive consideration to the scale of insurance premiums levied under the social security systems of the countries concerned, the situation of Japanese nationals and companies based in those countries, demands from the business community, and bilateral relations, as well as differences between Japan's social security system and the system of the countries concerned. The GOJ intends to advance the exchange of information with a view to launching negotiations to conclude social security agreements with countries in order of priority.
- (ii) With regard to an interim measure, the GOJ already has in place a system whereby foreigners, who have paid into the national pension scheme and have returned to their home country after a short-term stay in Japan, may receive the Lump-sum Withdrawal Payments for Non-Japanese citizens which gives consideration to the premiums they have paid into the national pension scheme.
- (iii) With regard to the outsourcing of research work to external think tanks, it is currently the situation that in concluding a social security agreement, rather than research into each country's social security system and the drafting of the actual agreement, what takes the most time and effort is the negotiations to harmonise the social security systems of two countries. It is necessary for such negotiations to be held between the governments in order for the agreement to be implemented smoothly after the conclusion. As such, the GOJ considers that

from a cost-effect perspective, the current system is the most appropriate one by which to proceed with negotiations.

(b) Work and residence permits

With regard to the facilitation of acceptance of foreign workers, and the expedition of procedures, the GOJ will continue to conduct reviews as appropriate, based on Japan's immigration control system.

(2) Data Protection: International Data Transfer

The Act on the Protection of Personal Information was formulated through a process of various nation-wide discussions regarding the harmony between the proper way of personal information protection and the requirements of the Constitution. The GOJ will continue to respond appropriately, based on the status of enforcement of the act.

4. Guaranteeing stable rules for choice of legal presence and facilitating business reorganisation from a legal and tax point of view

BDRT recommendations

- (1) Improvements of Company Laws underway in the EU and Japan should be carried out in full to facilitate smooth cross-border reorganisations between the EU and Japan that involve exchange of shares and transfer of assets. Companies investing in Japan and the EU should be protected from sudden changes in rules governing the forms of legal presence acceptable for conducting business.
- (2) Tax law should be improved in order to expand the scope of tax deferral on unrealised profits resulting from business reorganisations including those involving exchange of shares and transfer of assets.

State of the measures taken thus far

- (1) On June 29, 2005, the Corporate Code was established in Japan that eases rules on compensation for mergers, split-ups of stocks and share swaps, and allowing the consideration of foreign stock as compensation. It was promulgated on July 26, 2005.
- (2) As regards proposals relating to the tax system, see the attached appendix on the general standpoint for tax reform.

Future outlook

- (1) The Corporate Code is scheduled to be enforced in May 2006, however, the section concerning the easing of rules on compensation for mergers, etc., is scheduled to be enforced in May 2007. This revision to the Corporate Code has been undertaken in due deference to the appropriate procedures required for legal amendment, including Legislative Council, and the public comments system.
- (2) As regards proposals relating to the tax system, see the attached appendix on the general standpoint for tax reform.

5. Promotion of regulatory reforms

BDRT recommendations

- (1) The EU and Japan should continue to cooperate with each other through their on-going regulatory reform dialogue with the goal of creating an open environment for trade and investment.
- (2) The EU and Japan should abolish unreasonable authorisation procedures related to products and services, and continue to pursue mutual recognition of product standards, certification and notification. It is equally important that both governments cooperate when introducing new standards to assure standard convergence and avoid the creation of future barriers to trade.

State of the measures taken thus far

- (1) At the Japan-EU Summit in 2004, it was confirmed that the Japan-EU Regulatory Reform Dialogue which began in 1994, “*has been a uniquely successful and adaptable instrument for dealing with regulatory issues affecting the business environment.*” In addition at the Japan-EU Summit in 2005, it was similarly praised thus: “*The Regulatory Reform Dialogue continued to deliver concrete outcomes, such as in finding practical solutions to facilitate the living and working environment of expatriate nationals.*”

In FY2005, the Regulatory Reform Dialogue was held in Tokyo, in November 2005. At this meeting, discussions were mainly on the EU’s proposals to Japan, during which the EU side expressed great appreciation for development of regulatory reforms in Japan in areas such as the Public Comment Procedures, promotion of bilateral social security agreements, and promotion of translation of legal texts. Meanwhile, Japan’s proposals for the EU concerned such issues as the evaluation of equivalence between Japanese accounting standards and international accounting standards (IAS), the Proposal for a Regulation of the European Parliament and of the Council concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), the Directive on the restriction of the use of certain hazardous substances in electrical and electronic equipment (RoHS), and the speeding up and simplification of procedures for visas and work/residence permits. In these areas Japan explained its stance and requested a positive response from the EU side. The Brussels meeting in March 2006 will mainly discuss Japan’s proposals to the EU on a wide range of areas, which consist of cross-sectoral issues including the EU’s commercial laws and business practices, sectoral issues including legal services; environmental regulations; and fundamental matters related to the business environment including driving licences and work and residence permits.

- (2) (a) With regard to regulatory reforms, Japan is conducting reviews in accordance with the Three-Year Programme for Promoting Regulatory Reform and Opening Up to the Private Sector (see Item 16 of III, Measures Relevant to Respective Fields, etc.).

With respect to the systems of standards and certification, among others, implemented through the voluntary actions of businesses, the GOJ has been conducting drastic reviews to determine whether the systems need to be maintained as frameworks for government involvement.

Concerning the international harmonisation of standards, the GOJ has been making efforts to harmonise Japanese standards with existing international standards after verifying their appropriateness. In areas where international standards do not exist, the GOJ has been proposing international standards based on Japanese standards and calling for the adoption of such international standards. In addition, the GOJ has been promoting the acceptance and mutual recognition of overseas data.

Furthermore, when inspections based on multiple standards are involved, measures will be taken to eliminate the duplication of inspection for similar inspection items, among others, with a view to reducing the burden on businesses.

- (b) In October 2005, the Japanese Industrial Standards Committee (JISC) signed a Memorandum of Understanding (MoU) with the European Committee for Electrotechnical

Standardization (CENELEC). The aim of the memorandum is to promote the reciprocal exchange of information on standardization activities, as well as to strengthen comprehensive, cooperative relations through mutual participation in the Technical Committee. The signing of this MoU enables the acquisition of information concerning CENELEC standards (EN standards), which are used as technical standards in EU Directives, and also enables participation in the Technical Committee, which formulates standards. This will help to facilitate a response to such issues as the export of Japanese electrical and electronic products, and it is expected to contribute to the facilitation of Japan-EU trade in the electrical and electronic sector.

(c) With regard to the Agreement on Mutual Recognition between Japan and the European Community (hereinafter referred to as “MRA”), mutual recognition has been implemented in the following four areas: Telecommunications Terminal Equipment and Radio Equipment, Electrical Products, Good Laboratory Practice (GLP) for Chemicals, and Good Manufacturing Practice (GMP) for Medicinal Products. In order to implement the MRA, a variety of measures have been taken so far, including submission of the list of applicable articles, and the submission of the list of the confirmed facilities in the area of Good Laboratory Practice (GLP) for Chemicals. In November 2005 the Sixth Joint Committee Meeting established under the MRA was held, and consultations took place between Japan and the EC concerning the smooth operation of the MRA.

(d) Although not an item for mutual recognition, in October 2005, based on the Building Standards Law of Japan, a second EU performance evaluation organization in Sweden (the first being in Germany) was approved, making it possible for performance evaluation to be carried out for formaldehyde-emitting building materials at the above-mentioned organizations.

Future outlook

- (1) The GOJ and the EU recognise that their ongoing Regulatory Reform Dialogue is an effective framework for creating an open regulatory environment for trade and investment. Both parties will continue to pursue through this Dialogue the promotion of regulatory reforms and improvement of the business environment.
- (2) (a) The GOJ and the EU plan to conduct further reviews based on the Three-Year Programme for Promoting Regulatory Reform and Opening Up to the Private Sector, which was revised in March 2005.
(b) In addition, in connection to the various voluntary efforts being undertaken in the industrial sector with regard to the transfer of information concerning chemical substances in products, including, for example those of the Japan Green Procurement Survey Standardization Initiative (JGPSSI) mentioned in the “Background” section of the recommendations, the Ministry of Economy, Trade and Industry is currently in deliberations towards the formulation of the Basic Guideline Regarding Communication of Information on Chemicals Contained in Products. This Guideline aims to correct the current issues in the supply chain with regard to assembled products such as electronics and automobiles, etc., achieve mutual communication opportunities in upstream, midstream and downstream contacts among industries, and nurture a common consciousness to further promote cooperation. By referring to the Guideline, it is expected that companies will be able to improve their information transmission set-up with regard to chemical substances in products, and also achieve optimisation. In addition, it is expected that the stipulations of the Guideline will be reflected in measures taken by industrial bodies and organizations with regard to the transfer of information on chemical substances in products. As Japan’s product supply chain extends into the EU, it is likely that the Guideline will be disseminated in the EU also.
- (c) The GOJ plans to continue to enhance dialogue with regard to building standards. The first EU Japan Wood and Building expert dialogue is scheduled to take place in Brussels in March 2006.

6. Maintaining stable rules for legal presence of foreign companies

BDRT recommendation

The Government of Japan should use all means available, including revision, to ensure that article 821 introduced recently without adequate public notice into the Japanese Corporation Law does not constrain forms of legal presence available for foreign companies in Japan. Forcing foreign companies into detrimental reincorporation by suddenly changing the legal framework governing forms of legal presence substantially damages investor confidence in Japan.

State of the measures taken thus far

Stipulations similar to Article 821 of the Corporate Code concerning pseudo-foreign companies currently exist in Article 482 of the current Commercial Code. Article 821 does not change the scope of the definition of a pseudo-foreign company stipulated in Article 482 of the Commercial Code, but it serves as a beneficial amendment to the effects of Article 482 of the Commercial Code for pseudo-foreign companies, as Article 821 acknowledges the corporate status of pseudo-foreign companies.

Accordingly, it is clear that the Corporate Code does not create any disadvantage for foreign companies that do not constitute pseudo-foreign companies under the current Commercial Code and are registered in Japan under the applicable laws and doing business here. This point was also made clear in the Diet deliberations of the Corporate Code bill.

Although it has been stated that “article 821 introduced recently without adequate public notice into the Japanese Corporate Code,” in actual fact, in the process leading to the formulation of the Corporate Code, in the first draft outline of the bill on the modernisation of the Japanese Corporate Code that was compiled in October 2004 and subjected to public comments, a draft known as draft “A” suggested that unless pseudo-foreign companies re-established themselves in accordance with Japanese law, their corporate status should be denied. In a later draft outline and in the finalised Outline of the Bill on the Modernisation of the Japanese Corporate Code, on the basis of opinions received through the public comment system, a regulation concerning pseudo-foreign companies was incorporated, with the same content as Article 821 of the Corporate Code. The content of Article 821 of the Corporate Code, is therefore, entirely based on the “Outline” and underwent the appropriate procedures in the process of formulation. The above criticism is, therefore, groundless.

Future outlook

Article 821 of the Corporate Code was proposed for deletion by opposition parties in the deliberation process of the House of Councillors Judicial Affairs Committee during the previous regular session of the Diet. This proposed revision was overturned by a majority of the ruling party coalition, thus passing the Diet. With the legislative intent in this matter concerning Article 821 of the Corporate Code, at this stage for the law to not be enacted and for the government to move to submit a revised bill would be extremely difficult. Accordingly, the GOJ has no plans to revise Article 821 prior to the entry into force of the Corporate Code in May 2006.

It is the case that the House of Councillors has issued a concurrent resolution on Article 821, which allows for consideration to be given to an amendment, if necessary, based on the impact on foreign companies after the law has entered into force. The GOJ will carefully monitor the impact of the stipulations on foreign companies of Article 821 after enforcement of the Corporate Code, and if it is deemed necessary revision will be considered.

7. Promoting economic growth through decisive reform

BDRT recommendation

It is important that the Japanese Government continue pursuing its structural reform agenda so that the current economic recovery can be maintained.

State of the measures taken thus far

Under the policies of “no growth without reform,” “leave to the private sector what it can do,” and “leave to the localities what they can do,” the GOJ has pressed forward wide-ranging structural reforms, encompassing financial, taxation, regulatory and expenditure reforms with the aim of reviving and developing Japan. As a result, the issue of non-performing loans of the major banks has been normalised, and Japan’s economy is on a sustainable recovery track, led by private-sector demand.

Future outlook

Based on the Basic Policies for Economic and Fiscal Management and Structural Reform 2005 (approved by the Cabinet on June 21, 2005), the GOJ will further promote measures for structural reform, aiming to realise “small and efficient government,” establish a foundation to deal with the trend of declining birthrate and aging society and the trend of globalisation, as well as to overcome deflation and ensure private demand-led sustainable economic growth.

Before population decrease and the trend of declining birthrate and aging society becomes full-fledged, the GOJ will simultaneously realise “sound public finance” and “reinforcement of growth potential and competitiveness”, which are the two most prioritized tasks in the economic and fiscal policy.

For “sound public finance”, in order to present a road map to steadily restore the soundness of the public finance currently in a critical situation and to ensure its implementation, while balancing with private-sector-led sustainable economic growth, the GOJ will clarify options for the direction and the process of the reform for a “fiscal structural reform from both the aspects of expenditure and revenue” by around June 2006, and reach a conclusion within FY2006.

For “reinforcement of growth potential and competitiveness,” the GOJ will deepen the discussion on the “global strategy” as strategic measures to reinforce Japan’s growth potential and competitiveness, and incorporate the conclusion into the Basic Policies for Economic and Fiscal Management and Structural Reform 2006.

8. Modernizing legal and tax systems to support foreign investment

BDRT recommendation

The Company Law and relevant corporate tax laws should be revised to allow for cross-border share exchanges on a tax-neutral basis. Swift introduction of the triangular merger scheme into the new Corporation Law is of the highest importance.

State of the measures taken thus far

On June 29, 2005 the Corporate Code was passed in the Diet in Japan that eases rules on compensation for mergers, split-ups of stocks and share swaps, in addition to allowing the consideration of foreign stock as compensation. It was promulgated on July 26, 2005. For all aspects of the tax reform, see the attached appendix.

Future outlook

The Corporate Code is scheduled to be enforced in May 2006, however, the section concerning the easing of rules on compensation for mergers, etc., is scheduled to be enforced in May 2007, one year later.

As regards proposals relating to the tax system, see the attached appendix on the general standpoint for tax reform.

9. Take over defences should be introduced with caution

BDRT recommendation

Take over defences outlined in the new Corporation Law shall be introduced only with proper shareholders rights protection in place. We support the Guidelines outlined by Ministry of Economy Trade and Industry first and then also Ministry of Justice but are concerned that these are not yet legally binding.

State of the measures taken thus far

On May 27, 2005, the Ministry of Economy, Trade and Industry and the Ministry of Justice jointly announced Guidelines Regarding Takeover Defense for the Purpose of Protection and Enhancement of Corporate Value and Shareholder's Common Interests. As the Guidelines themselves make clear, the Guidelines hold no legally binding force. However, the objective of the Guidelines is to promote the formation of a set of fair rules with regard to takeovers, demonstrating legitimate and rational modalities for takeover defence measures, while bearing in mind what is currently considered to be the "standard" for defence measures, based on legal precedent and theory concerning takeover defences. As such, the GOJ expects that the Guidelines will become a fair rule and respected by concerned parties.

Future outlook

As it is the case that the Guidelines are revised continuously while undergoing operational reviews, the GOJ plans to amend them in the future, as and when necessary. In addition, the GOJ expects that the Guidelines will be respected by concerned parties, and that they will become a code of conduct for the Japanese business community.

10. Championing business activity at the local level

BDRT recommendation

More private sector involvement in the delivery of public services should be encouraged through the use of PFI/PPP schemes. Local governments should also take a more proactive role in attracting investment beyond their current promotion efforts, for example, by offering special tax and/or regulatory incentives to potential investors. Cities and prefectures should be better co-ordinated in their incentive packages and existing regulatory incentives should be made easier to understand for potential investors.

State of the measures taken thus far

The GOJ carries out procurement in a fair, transparent and non-discriminatory manner in accordance with the World Trade Organization (WTO) Agreement on Government Procurement and the Action Plan on Reform of the Bidding and Contracting Procedures for Public Works (approved by the Cabinet on January 18, 1994), which the GOJ formulated on its own initiative.

As of the end of December 2005, implementation outlines were publicized for 225 PFI projects throughout Japan and these projects are under way. The GOJ will continue to promote PFI projects actively.

<Number of PFI projects in progress (cumulative total)>

End of FY2000	End of FY2001	End of FY2002	End of FY2003	End of FY2004	End of December, 2005
15	43	90	137	188	225

<Number of projects by area (as of end of December 2005)>

Sector	No. of projects
Education and culture (elementary and junior high school, universities, libraries, etc.)	71
Living and welfare (welfare facilities for the elderly, etc.)	12
Health and environment (hospitals, waste disposal facilities, water supply facilities, etc.)	41
Industry (wholesale market, tourist facilities, etc.)	11
Urban development (parks, sewer facilities, port facilities, etc.)	29
Safety (police facilities, prison facilities, etc.)	12
Government offices and housing (housing for civil servants, etc.)	24
Other	25
Total	225

(Compiled by the Cabinet Office)

Given the agreement reached at the 14th EU-Japan Summit to promote PFI/PPP, the Ministry of Foreign Affairs (MOFA) of Japan, together with the Delegation of the European Commission to Japan, jointly supported a seminar held in Saitama Prefecture in June 2005, organised by the Japan PFI Association and Nippon Keidanren (Japan Business Federation). MOFA cooperated in the compilation of a manual detailing good practice of PFI/PPP in Europe, which was distributed at the above-mentioned seminar. Attendees from the EU side explained their experiences in the various sectors at the seminar, which was a good reference for attendees from Japan.

In order to further promote PFI programs in Japan, in August 2005 the law to partially amend the Law Regarding to Promote Construction and Management of Public Facilities and the Provision of Related Services Using Private Capital and Other Resources Provided by the Private Sector (PFI Law) (Law No. 117 of 1999), was promulgated and enacted. In addition, the Cabinet Office of Japan is planning to hold a series of seminars in eight locations around Japan from January to March 2006, at which the current status of PFIs and problems will be discussed, among others.

The GOJ established the Program for the Promotion of Foreign Direct Investment in Japan to support the voluntary efforts made by local governments. The GOJ is reviewing aspects including the administrative procedure so that local governments can present conditions in a flexible and prompt manner and based on their own originality and ingenuity, to attract investment. The GOJ is following up on the status of progress accordingly.

As for efforts regarding Special Zones for Structural Reform, 532 cases of regulatory reforms have been realised in agriculture, education, medical treatment, welfare and other areas previously deemed difficult to tackle, bearing in mind proposals submitted by local governments and private businesses, among others. In this way, utilising the regulatory exceptions that have been thus realised to date, a cumulative total of 709 Special Zones for Structural Reform have been created.

Future outlook

The GOJ will continue to vigorously promote the use of PFI, and will also spread knowledge on PFI/PPP.

The GOJ will continue to steadily implement the Program for the Promotion of Foreign Direct Investment in Japan. It will regularly follow up on its status of progress, make efforts to appropriately review this program as necessary and strive to effectively implement policies.

The GOJ will also invite proposals on Special Zones for Structural Reform from local governments and private businesses including foreign companies, among others. Once the proposals are received, it will seriously consider the proposals in a forward-looking manner to find out what steps are necessary in order to realise these proposals.

11. Privatisation of Japan Post

BDRT recommendation

The privatisation of Japan Post is an important element of the Japanese Government's ongoing structural reform efforts and, if implemented effectively, will contribute to the reinvigoration of the Japanese economy. It is imperative, however, that the framework for privatisation ensures a level playing field for private sector competitors in Japan Post's three core business lines: insurance, banking and delivery services. The privatisation scheme as presented in the package of bills submitted to the parliament in April 2004 does not go far enough in separating the branches of operation. Cross shareholding between the holding company and the entities (mail services, postal savings, postal life insurance and the branch network) should not be accepted as it will enable centralized group management after full privatisation in 2017 with the risk of cross-subsidised financial products on the market.

State of the measures taken thus far

- (1) The Laws related to the Privatization of the Postal Services were submitted to the 162nd regular session of the Diet, where they were rejected by the House of Councillors. However, following the dissolution of the House of Representatives and a general election, the laws were resubmitted to the 163rd special session of the Diet, in which they were approved and passed, being promulgated on October 21, 2005. With the passage of these laws, in order to promote privatisation of the postal services, the Headquarters for the Promotion of the Privatization of the Postal Services was established within the Cabinet, under the leadership of the Prime Minister. In addition, on January 23, 2006, the Japan Postal Services Holding Company, which is in charge of preparation and planning for privatisation, was established, and was given the task of formulating an implementation plan concerning the succession of business.
- (2) From the beginning of the privatization transition period (October 2007), the Postal Savings Bank and Postal Insurance Company will be supervised by the Financial Services Agency (FSA) under the Banking Law and the Insurance Business Law according to the same standards as those applied to other banks and insurance companies.

The laws impose business restrictions on the Postal Savings Bank and Postal Insurance Company during the transitional period as special provisions of the Banking Law and the Insurance Business Law. The initial scope of business of the new financial companies will be the same as that of Japan Post. Future expansion of business scope must go through a transparent and fair procedure whereby the Prime Minister (whose power is delegated to the Commissioner of the Financial Services Agency) and Minister of Internal Affairs and Communications, upon hearing an opinion from the Postal Services Privatization Committee (a third-party organization comprised of intellectuals), will decide on such expansions. Equivalent conditions of competition and management freedom shall be considered in evaluations of new product introductions when the ministers in charge make decisions on the business expansions of the new companies.

- (3) It is considered that an equal footing will be secured between the Postal Service Company and the private sector by the following:
 - (a) tax liability such as corporation tax and the application of freight transportation laws and ordinances in the same manner as other companies in the same trade;
 - (b) requirement for approval of Minister of Internal Affairs and Communications in the event of new business being implemented;
 - (c) obligation to disclose the status of profit and loss classified into postal services business and other businesses, from the perspective of avoiding unfair cross-subsidisation; and
 - (d) during the transitional period, in the event of (b) being sought, the obligation to seek the opinion of the Postal Services Privatization Committee and to give consideration to ensure that

the new businesses does not unfairly damage the interests of other companies engaged in the same type of businesses.

- (4) By splitting Japan Post into four separate business companies, it is possible to prevent in advance the profits and losses of one company impacting on the business of another.

In particular, from the perspective of the safety of the financial system, to ensure that factors not of a financial nature do not impact the stability of the financial system, a general market rule stipulated in financial-related laws such as the banking law, is the stipulation for financial business and commercial business to be separated. To this end, in the privatisation of the postal services, the new companies must abide by this rule in the same way as do other private-sector financial organisations, and they will therefore be split.

In addition, cross shareholding between the holding company and the four business companies is restricted in the same way as for private sector companies and financial organisations under the general regulations of the anti-monopoly law and the banking law, among others. The point raised about the risk of cross subsidised financial products entering the market is therefore groundless.

Future outlook

In April 2006, the Postal Services Privatization Committee will be launched. The Government will advance specific efforts towards postal privatisation in October 2007, such as the formulation of a government ordinance on the Laws related to the Privatization of the Postal Services.

12. Facilitating business development through regulatory reform

BDRT recommendation

The Japanese Government's regulatory reform programme should be strengthened by giving the new Regulatory Reform and Privatisation Promotion Council extra powers to implement the Government's "3-year Regulatory Reform Programme" and by expanding the special deregulation zone initiative. Special attention should be paid to regulatory reform recommendations made in the context of the EU Japan bilateral regulatory reform dialogue and recommendations submitted by European business organisations such as the Council of the European Business Council in Japan.

State of the measures taken thus far

The Three-year Plan for the Promotion of Regulatory Reform (Revised Version) was approved by the Cabinet on March 25, 2005 and the GOJ has been promoting regulatory reform and opening up to the private sector in accordance with the Programme. The Council for the Promotion of Regulatory Reform established in April 2004 as an advisory body to the Prime Minister has monitored the implementation status of the Programme, working to promote the reforms detailed within it. The Council submitted the Second Report on the Promotion of Regulatory Reform and the Opening Up of Government-driven Markets for Entry into the Private Sector to the Prime Minister on December 21, 2005, and on December 22, 2005, the Cabinet decided to respect the concrete measures in the report to the utmost extent.

As a part of this process, the GOJ takes into consideration recommendations on regulatory reform submitted by the EU at the Japan-EU Regulatory Reform Dialogue, as well as opinions from within Japan and overseas, including those of the European Business Community (EBC), and the Month to Receive Requests for Regulatory Reform and Opening Up to the Private Sector, which is implemented twice a year.

Future outlook

The GOJ will revise once again the revised version of the Three-Year Programme for Promoting Regulatory Reform and Opening up to the Private Sector by the end of March 2006. The GOJ will advance regulatory reform and opening up to the private sector in accordance with the revised Programme.

In addition, in its ongoing quest to advance reforms, the GOJ will continue to take into account the recommendations of the EU submitted in the Japan-EU Regulatory Reform Dialogue and the proposals from the EBC, among others.

13. Ensuring transparency and consistency in the regulatory process

BDRT recommendation

Japanese regulators should make more efforts to improve the transparency and consistency of regulation, including for tax-related matters. When new laws are formulated they should with no delay be accompanied with clarifying orders.

State of the measures taken thus far

Since September 2001, the GOJ has implemented the procedure of providing written replies to inquiries submitted before the tax filing deadline (pre-declaration inquiries) concerning treatment of individual transactions and other issues and publicising the content.

The GOJ has prepared abuse prevention measures, among others, and conducted a review to expand the scope of these measures. These measures have been applied to inquiries dating back to March 29, 2004.

Future outlook

The Japanese tax authorities will continue to respond appropriately, ensuring uniformity and transparency in the handling of taxation and predictability in interpretation and application of the tax law for taxpayers.

14. Modernising Japan's food additives list

BDRT recommendation

The remaining 43 as yet unapproved food additives in the list of 46 submitted by the Ministry of Health, Labour and Welfare (MHLW) to the Food and Sanitation Control Council on December 19, 2002 should be reviewed and approved for use in Japan without delay. The time schedule for approval should be made public by the Food Safety Commission.

State of the measures taken thus far

(1) In Japan, like the EU, food additives (including flavouring agents) are not permitted to be used unless they are designated by the Minister of Health, Labour and Welfare under the Food Sanitation Law as substances that are unlikely to cause health hazards.

Also, the Food Safety Basic Law requires that the Minister hear the opinions of the Food Safety Commission before newly permitting the use of any substance as a food additive (or a flavouring agent), and the Food Safety Commission conducts risk assessment in due course when receiving a request from the Minister of Health, Labour and Welfare.

(2) The GOJ has been proceeding with the examination of 46 food additives and flavouring agents, including those proposed by the EU, which have been proven safe internationally and are widely used, under the leadership of the Government. The Minister has already asked the opinions of the Food Safety Commission on the 30 food additives and 15 flavouring agents for which full documents have been prepared, and procedures for designation such as risk assessment have been initiated for more than 60 per cent of the 46 food additives.

In addition, among them 4 food additives and 8 flavouring agents have been designated and permission has been obtained to be used in Japan, after the evaluation by the Food Safety Commission and consideration by the Pharmaceutical Affairs and Food Sanitation Council.

Future outlook

(1) Looking towards the designation of those food additives in the future, the Ministry of Health, Labour and Welfare will continue to prepare the necessary documents and engage in consideration, and then will consult with the Food Safety Commission and the Pharmaceutical Affairs and Food Sanitation Council. The Food Safety Commission will continue to conduct appropriate risk assessment at the request of the Ministry of Health, Labour and Welfare.

(2) Since March 2005, the GOJ has announced the schedule for initiating the risk assessment of the remaining food additives out of the 46 items including the above-mentioned items requested by the EU, which are not yet submitted to the Food Safety Commission for assessment, and the GOJ will make efforts to work to that schedule.

(3) The GOJ continues to expect that related information such as documents used for scientific evaluation in the EU will be provided, in order to expedite assessment in Japan.

15. Protecting test data in new drug applications

BDRT recommendations

Protection for data submitted as part of a new drug application should be made equivalent to the protection currently provided for in Europe. We support the Federation of Pharmaceutical Manufacturers' Association of Japan (FPMAJ) call for an eight-year protection period, noting that a similar period of protection was approved by the EU Council on March 11, 2004.

State of the measures taken thus far

FPMAJ submitted a request dated April 14, 2004 to set the period of protection for data on new drugs at eight years. With this in mind, the GOJ is considering strengthening the protection of test data submitted for new drug application from the perspective of the protection of intellectual property rights and increasing incentives for new drug development.

Future outlook

The GOJ intends to continue discussion on this issue, gathering opinions from the industries concerned and considering a wide range of perspectives such as the need for and the effect of setting the data protection period as well as balancing this with promoting generic drug use, and will come to a conclusion by the end of FY2005.

16. Strengthening market mechanisms in the telecommunications sector

BDRT recommendation

- (1) Japan should not introduce universal service funding obligations. Non traffic sensitive (NTS) costs should not be transferred from the interconnection charge into a universal service funding scheme.
- (2) Japan should maintain its current policy approach of non-intervention in the mobile market as this strikes the right balance between vigorous price competition and sustainable investment in innovative products and services.
- (3) Japan should ensure that the criteria for allocating growth spectrum do not entrench dominance and unfairly disadvantage competitors by starving them of spectrum and frustrating their growth.
- (4) There should be a legislative requirement that the regulator make decisions based on objective economic factors, with specific references to internationally accepted tests, such as “the long-term interests of end-users”, “efficiency”, “innovation”, “investment”, and “effectively competitive outcomes”.
- (5) The existing obligations on bottleneck facilities do not adequately safeguard abuse of dominance. They need to be strengthened by:
 - Requiring NTT to notify and price on tariff in market segments where it is dominant;
 - Requiring NTT to publish regulatory accounts horizontally across its different businesses and vertically between the network and retail parts of its horizontal business; and
 - Strengthening firewalls to prevent NTT from leveraging its dominant position in the local loop into new business areas.

State of the measures taken thus far

- (1) The universal service fund system was already introduced in Japan in June 2002. (It is not newly introduced at this time.) In the ministerial ordinance for the universal service fund, it was stipulated that the system would be reviewed about two years after the introduction. The review was duly conducted by the Telecommunications Council whose report was submitted in October 2005. Required measures such as an amendment to the relevant ministerial ordinances will be taken. The report, identifying services such as subscriber line access to subscriber telephone services as potential recipients of funding from the universal service fund, recommended changing the method of calculation from a model cancelling out surplus in profitable areas and deficit in unprofitable areas, to a benchmark model whereby all regions with costs in excess of a given threshold are deemed eligible for funding. This review of the universal service fund was not intended to recover NTS costs that had been transferred in accordance with the review of NTT interconnection charges in 2004. Instead, the review aims to respond to changes in the telecommunications business environment, and ensure the provision of universal service.
- (2) The ownership rate for mobile telephones stands at 70 per cent (as of the end of September 2005), and it is projected that the number of contracts will arrive at a point of maturation from now. This is an area in which the creation of added value through diversification and advancement of services is an important issue, and an area in which it is possible to expect the utmost in innovation from private sector businesses. The importance of ensuring stable investment for innovation is commonly recognised.

At the same time, given the limitations caused by scarcity of frequencies for mobile telecommunications services, it is not easy to begin operating such services. It is a fact that the private sector itself has expressed the opinion that limitation on market entry in this way is hindering innovation. In order to ensure both innovation and stable infrastructure, the GOJ considers it important that opportunities for network utilisation be opened up to a diversity of operators and businesses. Accordingly, the GOJ expects existing businesses to proceed voluntarily with the opening of their networks and platforms, before regulations make this compulsory, and that added value of services and applications will be further enhanced.

The mobile and broadband sector in Japan is one in which various new issues make their first appearance on the global stage, such is the spirit of innovation amongst businesses in Japan. Accordingly market analysis and the sharing of such data is essential for creating social consensus, and the GOJ therefore believes that in the same way that the government is accountable in terms of policy, businesses operating through use of these scarce frequencies should be accountable for their own business activities. In making efforts for voluntary opening of markets by businesses, as well as measures to enhance information transparency, the GOJ considers that administrative intervention can ultimately be minimised.

- (3) The Ministry of Internal Affairs and Communications (MIC) formulated a policy for the frequency allocation (Establishment Guidelines) in August 2005, based on the recommendations of the Radio Regulatory Council and the results of a public comment process. Applications have been accepted for the 1.7 GHz Nationwide Band and the 2 GHz band in accordance with the guidelines. As a result of examination, the attestations of the establishment plans of all three carriers were granted in November 2005. This policy limits application for the 1.7GHz Nationwide Band and the 2GHz band to new market entrants, and in the case of the 1.7GHz “Tokyo-Nagoya-Osaka” Regional Band, the spectrum may be assigned to new entrants or incumbents according to spectrum congestion. However, with regard to the 1.7GHz “Tokyo-Nagoya-Osaka” Regional Band, from the viewpoint of avoiding a concentration in the spectrum of certain operators, accommodation of a greater number of users will be required in cases where the spectrum bandwidth assigned to an operator exceeds a certain level.
- (4) The scope of administrative authority held by the MIC in the area of telecommunications is clearly stipulated in the Telecommunications Business Law, with reference to requirements and means of its enforcement. In addition, in the formulation of regulations, or in their abolition, efforts have been made through the public comment system, among others, to enhance the transparency and predictability of procedures, as well as to reflect the opinions of users and carriers alike. Article 1 of the Telecommunications Business Law provides that the purpose of this law is to “protect the users” [of telecommunications service] benefit and thereby to ensure the convenience of the people.” The promotion of the benefit of the users is therefore already stipulated in legislation. The same Article also stipulated that “the proper and reasonable operations [of telecommunications business] shall be ensured.” Thus, considerations on economic factors in decision-making are already included in the legal stipulations.
- (5) Even after the amended Telecommunications Business Law went into effect in April 2004, telecommunications carriers which establish so-called bottleneck facilities are obliged to carry out the following tasks. The MIC can thus sufficiently monitor potential abuse of market power.
 - (i) The accounting for the bottleneck facility management division and bottleneck facility use division shall be kept separate and the accounting results should be publicly released.
 - (ii) Interconnection tariffs shall be established and authorisation from the Minister for Internal Affairs and Communications shall be obtained.
 - (iii) In order to appropriately calculate charges, accounting shall be maintained for each service and publicly disclosed in accordance with the procedures established by the ministerial ordinance of the MIC.
 - (iv) Tariffs shall be filed for services that are established considering that alternative services are not fully provided by other carriers, among other factors.
 - (v) No inappropriate preferential or disadvantageous handling shall be targeted at any specified telecommunications carriers.

Even in the event that a telecommunications carrier establishes inappropriate charges or conditions of service provision, the Minister for Internal Affairs and Communications can issue an order to improve business activities to rectify the situation.

Future outlook

- (1) The GOJ plans to establish the required measures such as the revision of related ministerial ordinances, respecting the contents of the above mentioned report of the Information and Communications Council issued in October 2005.
- (2) The GOJ continues to expect that private sector carriers will make voluntary efforts to open their networks and platforms, and will take measures to ensure information transparency.
- (3) As explained in “state of measures taken thus far,” the GOJ expects that by allocating frequency according to the policy explained above, competition in 3G mobile services will be further promoted, thus benefiting end-users.
- (4), (5) As explained in the “state of measures taken thus far,” the necessary structural measures have already been taken, enabling appropriate responses to be taken to avoid abuse of dominance by a dominant carrier.

In addition, from October 2005, the Study Group on a Framework for Competition Rules to Address Progress in the Move to IP has been convened, and is currently discussing new competition rules, including the possibility of revising the current regulations.

17. Promoting EU-Japan cooperation in commercial aircraft development, production and procurement

BDRT recommendation

Competition in the procurement of commercial aircraft will benefit all airline companies and passengers, and could contribute to promoting the Japanese government's plan to double the number of foreign tourists to Japan within five years.

By buying large aircraft for official government use from various suppliers, the Japanese government would follow the positive example of the private sector which has recognised the advantages of multiple-sourcing.

State of the measures taken thus far

If the "large aircraft for official government use" in this recommendation refers to the Japanese government's "special aircraft," the current model in the possession of the GOJ is a B747-400 type, which was purchased in 1987 (and delivered in 1991) after taking into account a variety of considerations, including flight range capability, transport capacity and support structures.

Besides, the special helicopters owned by the GOJ at the moment and used, e.g., for the transportation of VIP guests from foreign countries were purchased from a European company.

Future outlook

The GOJ maintains no principle that government planes should be purchased from a specified country or region. On the other hand, the GOJ currently has no plans to purchase a new "large aircraft for official government use," and given the stringency of the fiscal situation, the GOJ intends to utilise the existing government plane to maximum effect.

18. Foreign tax credit

BDRT recommendation

The Japanese government should expand the number of tiers covered by its foreign tax credit system considerably. Furthermore, the minimum shareholding requirement should be reduced from the current 25% to 5 or 10%.

State of the measures taken thus far

For all aspects of the tax reform, see the attached appendix.

Future outlook

For all aspects of the tax reform, see the attached appendix.

19. CFC rules

BDRT recommendation

We recommend the following three points concerning Japanese CFC rules.

- (1) To exempt profits for re-investment
- (2) To increase certainty in their application
- (3) To reconsider of Exception

State of the measures taken thus far

As regards proposals relating to the tax system, see the attached appendix on the general standpoint for tax reform.

Future outlook

As regards proposals relating to the tax system, see the attached appendix on the general standpoint for tax reform.

WP2: Accounting and Taxation

20. Accounting Issues

BDRT recommendations

- (1) We ask that the public authorities in Japan and the European Union make steady progress towards adoption and implementation of IAS/IFRS.
- (2) We ask the public authorities to observe closely the process of rule setting and revision by IASB and to have regard for the interests of companies and investors (whether European or Japanese) in the opinions they transmit to the IASB, in particular in its Performance Reporting project.
- (3) Concerning research on the introduction of reports on internal control over financial reporting, we ask that both governments sufficiently discuss the function of internal control, correlating with each mechanism to improve credibility of financial reporting, such as corporate governance, audits on financial statements and oversight over companies and independent auditors.
- (4) Recognising that convergence of international standards of accounting, auditing, and disclosure is an objective, we ask that the public authorities adopt mutual recognition as a short-term target on a course toward convergence in the future.

State of the measures taken thus far

- (1) Regarding cross-border acceptance of foreign accounting standards that are used by foreign companies in the Japanese market, the GOJ has accepted the use of financial statements prepared in accordance with International Accounting Standards (IAS), mainly by European companies, subject to appropriate additional disclosure.
- (2) The Japanese stakeholders are greatly concerned about the process of standard setting and revision by the International Accounting Standards Board (IASB). In the discussion on the revision of the constitution of the International Accounting Standards Committee (IASC) Foundation, the GOJ expressed views regarding a balanced composition of members and an appropriate due process. As for each IASB standards including the performance reporting project, the Accounting Standards Board of Japan (ASBJ) plays a central role in giving Japan's opinions to the IASB, and the GOJ provides its opinions to the IASB when deemed necessary.
- (3) On December 8, 2005, the Business Accounting Council (BAC) of the Financial Services Agency (FSA) published a report on standards that apply when managements' assessment of the effectiveness of internal controls over financial reporting and certified public accountants are engaged to audit their assessment. The report was entitled, "The Model Standards for Managements' Assessments and Independent Auditors' Audit on Internal Control over Financial Reporting." Responding to concerns that such requirements may impose an excessive burden on public companies, the report incorporated several measures to mitigate the relevant costs. The experiences of the United States, which has previously introduced a similar system, have been duly considered.

(Note) Measures to mitigate the costs

- ① A top-down and risk-based approach, ② a simple classification of control deficiencies, ③ auditors express their opinion solely on managements' assessment (no direct reporting), ④ integration of the financial statement audit and the internal control audit, ⑤ preparation of a combined audit report (in connection with the above integration of audits), and ⑥ Auditors' timely communication with corporate auditors, audit committee and internal auditors
- (4) Currently, Japanese GAAP are accepted in each of the EU countries, and the accounting standards of EU countries are likewise accepted in the Japanese market. However, the GOJ finds it extremely regrettable that due to the implementation of the recent EU Prospectus Directive and Transparency Directive, the EU intends to prohibit the use of Japanese GAAP in EU markets. The GOJ strongly hopes that the EU will continue to accept Japanese GAAP, without changes to the rules that it has applied for acceptance of Japanese GAAP to date.

Future outlook

The GOJ will continue to support the ASBJ's positive efforts towards convergence. The GOJ also hope that Japanese GAAP will continue to be accepted in EU markets, with regard to the assessment of equivalence.

Furthermore, the GOJ considers it important that the IASB follows appropriate due process and will continue to closely monitor it. As for each IASB standard including the performance reporting project, the ASBJ will play a central role in giving Japan's opinions to the IASB, and the GOJ provides its opinions to the IASB when deemed necessary.

A legal framework for managements' assessment and independent auditors' audit on internal control over financial reporting has been studied with a view to enforcement, and the bill to amend the Securities and Exchange Law (which includes the said enforcement) will be submitted to the Diet during its regular session.

21. Tax Issues

BDRT recommendations

- (1) We ask that the government of Japan quickly reform the consolidated tax system, allowing the carrying forward of tax losses in subsidiaries incurred before the system came into effect, exempting revaluation of subsidiaries at the initiation, and allowing tax deduction of transfers between consolidated entities.
- (2) In order to promote mutual investment between the EU and Japan, the BDRT asks the Government of Japan to reduce or eliminate certain withholding taxes.

State of the measures taken thus far

As regards proposals relating to the tax system, see the attached appendix on the general standpoint for tax reform.

Future outlook

As regards proposals relating to the tax system, see the attached appendix on the general standpoint for tax reform.

WP3: Information & Communication Technology

22. Promotion of broadband usage

BDRT recommendation

Both governments should enable development of mass market e-entertainment services and give priority to large scale public e-services.

State of the measures taken thus far

As a result of increased competition among businesses, broadband in Japan is now among the cheapest and fastest in the world. The future promotion of broadband usage is a challenge and the contents in the entertainment sector are particularly influential in this regard.

Regarding contents usage, Japan is most advanced in the world in terms of internet access from mobile telephones, and content downloads of such items as ringtones and games are now the norm. In addition, home broadband access has resulted in an increase in the number of businesses providing services such as IP television and Video-on-Demand (VOD). Moreover, from April 2006 terrestrial digital television broadcasting services, aimed at mobile terminals, are scheduled to begin. In addition, new electronic clearing systems are now being introduced by the private sector for mobile terminals that are equipped with an electronic settlement function, and platform functions centring on the ICT industry are being considered.

In addition, concerning the promotion of e-government in Japan, the GOJ has promoted system and infrastructure improvements to enable administrative procedures to be conducted online, based on the “e-Japan Strategy” (formulated in January 2001). Active efforts have been made to make online administrative procedures a reality, including the development of the Government Public Key Infrastructure (GPKI). As of March 2005, 96% of all government administrative procedures can be processed online. In addition, the e-government portal site known as “e-Gov” has been in operation since April 2001, and this site provides a one-stop service, including a search function for all laws and ordinances, a search function through all government sites, and information on public comments submitted to each ministry and agency. In the promotion of e-local government too, various efforts at infrastructure development have been promoted, including the establishment of a multipurpose online receiving system, in order for applications and notifications and other administrative procedures required of residents and companies to be conducted online. The number of local governments that have introduced the multipurpose online receiving system, as of April 1, 2005, stood at 37 prefectural governments, and a total of 493 municipal governments.

Future outlook

In the future it is expected that with the further expansion of even faster broadband service, use of transmission services such as music, games and moving images will increase, and that VOD services will continue to further penetrate the market.

In the area of e-government, the “IT New Reform Strategy” formulated in January 2006 aims for Japan to achieve the most convenient and effective e-government in the world. With regard to the procedures for which online usage is to be promoted, including registration, tax filings, and social insurance-related procedures that have a high number of applications, a Usage Promotion Action Plan, containing usage targets for each procedures, the digitalization of attached documents, simplification and abolition, and reviews of handling charges, was formulated and announced in FY2005, in which the objective of achieving online usage in excess of 50 per cent by FY2010 is stated.

The GOJ will continue to promote infrastructure development in such areas as the multipurpose online receiving system, thus endeavouring to improve resident services.

23. Establishment of a seamless ubiquitous network environment

BDRT recommendation

Both governments should coordinate as widely as possible when it comes to the preparation of the next World Radio Conference in 2007.

State of the measures taken thus far

At the World Radio Conference in 2003 (WRC-03: June/July 2003), the agenda items for the World Radio Conference in 2007 (WRC-07) were established, and the structure by which the Radiocommunication Sector (ITU-R) of the International Telecommunications Union (ITU) would review and prepare the agenda items was decided at the first Conference Preparatory Meeting (CPM06-1: July 2003).

In the preparatory work being undertaken in the Radiocommunication Advisory Group (RAG) of the ITU-R, Japan is contributing to the process based on the decisions of the Committees that operate under the auspices of the Telecommunications Council ITU-R Sectional Meeting. Moreover, towards WRC-07, Japan has announced its provisional position at the regional meetings and is making efforts to implement regional coordination. Taking advantage of the opportunity provided by the regional meetings experts from both sides are being dispatched to engage in exchange of opinions and information on such issues as fourth generation mobile communications systems, aviation radio, and HEO satellites. The provisional position provided by the GOJ already incorporates a broad range of private sector opinions, gathered using the public comment system.

Future outlook

Preparations for the WRC-07 will have a direct effect not only on policies for radio frequencies but also on users of radio waves. In the deliberations of the ITU-R and the regional meetings, the GOJ will continue to take measures with a view to the effective usage of radio frequency, and ensuring benefits for users, bearing in mind the advancement in radiocommunication systems.

Japan will also continue to exchange opinions among experts in the fora of the regional meetings and the ITU-R meeting

24. Ensuring secure ICT infrastructure

BDRT recommendations

Both governments should have continuous talks to raise their awareness of quality of ICT infrastructure for ensuring secure ICT infrastructure, by promoting highly reliable and secure system/products, information exchange and matching regulations between them, and establishing a framework that can draw lessons from terror events and disasters.

State of the measures taken thus far

The IT New Reform Strategy lays out measures for the upgrading and advancement of the information transmission infrastructure to enable information transmission in times of disaster. The GOJ is in this way working towards the realisation of a safe and secure society of which Japan can be proud. In addition, as a mid- to long-term plan for information security issues in general, the first national strategy on information security (issued on February 2, 2006) has been formulated, and this plan aims to strengthen future measures through a cross-sectoral approach designed to prevent IT failures of key infrastructure that forms the basis for the lives of the people as well as social and economic activities.

In order to respond to the advances in IP networks that are predicted in the future, the Ministry of Internal Affairs and Communications (MIC) established the Study Group on Next Generation IP-based Infrastructure, which compiled a report in August 2005. The report covered a variety of issues, including ensuring quality and function, safety and reliability, and offered recommendations in order to realise the various challenges. Upon receiving this report, the GOJ has promoted “cyber attack exercise” designed to protect the Internet from widespread organised cyber attacks, and has made efforts to enhance communications and cooperation between telecommunications carriers and government.

In response to illegal and harmful contents on the Internet, MIC established a study group consisting of telecommunications carriers and scholars to broadly discuss voluntary measures against illegal and harmful contents on the Internet by ISPs and schemes and policies that effectively assist ISPs voluntary measures.

In response to spam, the GOJ is making comprehensive efforts to deal with the problem, including enforcing anti-spam laws, promoting voluntary efforts by private sector operators, providing user support and advancing international cooperation, among others. In particular, in 2005, the amendment to the Law on Regulation of Transmission of Specified Electronic Mail was passed, which introduces criminal penalties for persons falsifying sender information when sending advertisement e-mails. The amended law went into force in November 2005.

Regarding the protection of personal information in the area of telecommunications businesses, based on the Act on the Protection of Personal Information and the Guideline on the Protection of Personal Information in the Telecommunication Business, strict guidance is being provided to telecommunications carriers.

On the occasion of the 13th Japan-EU Summit in June 2004, the Joint Statement on Cooperation on Information and Communication Technology was issued. In this it is recorded that Japan and the EU will share their perspectives and policy considerations to ensure the security of information systems and networks and the safety of Internet users. Based on this statement, Japan and the EU are implementing cooperative activities in multilateral fora.

Future outlook

According to the IT New Reform Strategy, the GOJ will continue to endeavour to improve reliability of ICT infrastructure, and based on the report of the Study Group on Next Generation IP-based Infrastructure, efforts will be made to revise the technical aspects of rules, as a means of ensuring network safety and reliability in an era of advanced IP. In addition, based on the “first national strategy on information security” a promotional plan will be formulated each financial year,

in which so-called “Safety Standards”—the standards for measures in each priority sector—will be set out. In this way information security measures will be promoted.

Regarding illegal and harmful information on the Internet, the above-mentioned Study Group will continue their investigations, and it is expected that a final report will be drawn up by July 2006. As for the issue of spam, in addition to the strict enforcement of the amended law, the GOJ will continue to actively take comprehensive and multi-faceted measures to counter spam. In the area of protection of personal information, strict guidance will continue to be given to telecommunications carriers.

Based on the content of the “Joint Statement on Cooperation on Information and Communication Technology” the GOJ will advance appropriate cooperation between Japan and the EU in order to create a secure network environment.

25. Bridging the digital divide

BDRT recommendations

Both governments should adopt every possible measure to improve ICT literacy, especially by promoting ICT education in schools. We encourage an exchange of information between Japan and Europe on the success of these initiatives in order to mutually benefit from experiences gained by the partner country when developing future initiatives.

State of the measures taken thus far

The GOJ recognises the great importance of promoting ICT education, from the perspective of achieving a ubiquitous society. It is therefore taking the following measures, “Development of an environment for high-speed Internet usage in schools,” “Measures to prevent illegal or damaging information being spread on Internet” and “Usage of new ICT media in education.”

In addition, in order to realise a society in which everyone, including the disabled and the elderly, can enjoy the benefits of ICT, the GOJ is implementing support measures to improve accessibility to Internet and ICT equipment, to promote the spread of subtitled broadcasting, and supporting R&D of telecommunications and broadcasting technologies that enhance convenience and utility for the elderly and disabled.

Future outlook

There has been a rise in recent years in incidents involving children that have also involved ICT media in some form, for example, the Internet or mobile telephones. Given this situation, from now the GOJ plans to make further efforts to improve comprehensive ICT media literacy of children, among other related programs, in order to promote and develop healthy use of ICT media.

26. Ubiquitous and interoperable platform

BDRT recommendation

Interoperability of software and systems should be a relevant matter in R&D programmes set up by governments.

State of the measures taken thus far

Given the advances in IP networks, it is expected that an environment will be achieved in which various networks, services and equipments will be interconnected in a seamless way. It is for this reason that the promotion of interoperability is of the utmost importance. Given this situation, the Next-Generation IP Network Promotion Forum was established on December 16, 2005. The aim of the forum is to engage in comprehensive efforts to implement interconnectivity tests and verification tests for the next generation network, based on industry-academia-government cooperation, as well as to promote strategically research and development and standardisation, etc.

Future outlook

Through the activities of the Next-Generation IP Network Promotion Forum, the GOJ expects that as part of industry-academia-government cooperation, the required interconnectivity tests and verification tests, as well as R&D and standardisation, etc., will be promoted.

27. IPR in a network society

BDRT recommendation

Governments should intensify their dialogue on the best way how to protect intellectual property rights e.g. by promoting the use of protection solutions as DRMs.

State of the measures taken thus far

Based on the Intellectual Property Strategic Program, the GOJ has been developing the IP protection structure appropriate for the Internet age, and addressing various policy measures designed to promote the media contents business in Japan.

Future outlook

In the Task Force on Contents of the Intellectual Property Strategy Headquarters, strategies to promote the digital contents business in Japan has been discussed, and a report is expected to be issued at the end of February. The report makes various policy recommendations with the aim of making Japan a major power of the digital contents business. In the trend of the integration of broadcasting and telecommunications, the report includes measures to expand the provision of the digital contents and to encourage the development of a well balanced protection system. These policy recommendations and measures are taken into consideration in the formulation of the Intellectual Property Strategic Program 2006. Based on this program, the GOJ plans to further pursue the IP policy, including measures to promote the contents business in Japan.

28. Barriers to market access

BDRT recommendation

Japanese government should continue to work towards eliminating barriers to market access.

State of the measures taken thus far

Self-Confirmation of Technical Regulations Conformity has been introduced for both terminal equipments and radio equipments. Radio equipments designated under this system are those which are unlikely to cause interference or other disturbances, which damage the operation of other radio stations, considering technical standards and modalities of use of such radio equipments.

When the system was introduced, mobile telephone terminals, PHS devices and cordless telephones (both analogue and digital), were designated as radio equipments based on the practice of using radio equipments before that time.

With regard to further expansion of the scope of the system, close scrutiny of ongoing improvements will be required, particularly with respect to compliance of wireless LANs and other radio equipments with the relevant legislations and regulations. Therefore, careful consideration will be needed.

The GOJ understands that in a number of other countries where the Supplier's Declaration of Conformity approach has been adopted, equipment designation is carefully decided in order to ensure adequate consumer protection. In the United States, for instance, conformity assessment of radio equipment is normally required to be carried out basically by third-party organizations, and eligibility for the Supplier's Declaration of Conformity is confined to a limited number of designated equipment.

Future outlook

As stated above, when considering widening the scope of the SDoC system, the GOJ is looking at the circumstances by which legislation concerning radio equipment such as wireless LAN is adhered to, and it will be necessary to carefully monitor improvements, and make thorough considerations.

29. Diverse working styles for ensuring quality of life

BDRT recommendation

Both governments should take an active role in encouraging work-style conceptual frameworks by promoting societal experiments, and their evaluation, by experts in various areas of industry, academia, and government.

State of the measures taken thus far

In both the e-Japan Strategy II (decided by the IT Strategic Headquarters in July 2003) and the IT New Reform Strategy (decided by the IT Strategic Headquarters in January 2006), one of the stated goals is, “By the year 2010, teleworkers...will account for 20% of the working population.” The GOJ is working to achieve the spread of teleworkers.

In addition, in November 2005 the Telework Promotion Forum was established as collaboration among industry, academia and government, and is engaged in efforts to facilitate the introduction of telework, and promoted investigation and research and advocacy, in order that it can operate effectively.

Future outlook

Aiming towards the goal of a society in which, “by the year 2010, teleworkers will account for 20% of the working population,” the GOJ will cooperate with the Telework Promotion Forum and other bodies to promote the spread of teleworkers as well as fully introducing telework into the work of national government employees.

WP4: WTO

30. Policy Statement concerning the World Trade Organisation

BDRT recommendations

- (1) The BDRT reiterates its strong support for the multilateral trading system and the DDA, which are crucial to bolstering international economic growth and helping developing countries integrate into the global economy.
- (2) The BDRT welcomes the progress in the WTO Doha Round achieved since the WTO General Council of July 2004 in Geneva successfully put the DDA back on track. The BDRT welcomes the EU and Japan taking instrumental roles in this, including their flexibilities shown on the so-called “Singapore Issues”.
- (3) Having some concerns about future prospects, however, the BDRT calls on the EU and Japan to work closely together, and with other WTO Members, to ensure that the Hong Kong Ministerial Conference in December 2005 achieves a balanced and significant result in view of a rapid conclusion of the Round. The BDRT hopes that the General Council Meeting scheduled in July this year will reach the first approximation of the Hong Kong agreement which may provide a clear way forward in all areas.
- (4) On industrial products, the BDRT underlines the need to maintain ambition in terms of achieving genuine and substantial market opening. To that end, the BDRT supports the Swiss formula which reduces tariff peaks and high tariffs of Member countries. In addition, the BDRT would welcome sectoral initiatives that further liberalise trade by reducing or eliminating tariffs in sectors of interest to Member countries. While believing that special and different treatment for developing countries is an integral part of the modalities, the BDRT is concerned about the potential for excessive flexibilities to undermine our goal of achieving real market opening.
- (5) On services, the BDRT is particularly concerned about the current state of play. Services are one of the main pillars of the DDA, but so far progress in services negotiations has been slow, and they are lagging behind other negotiating areas. Services negotiations should match the level of ambition of other negotiating areas. All WTO Members have an important stake in these negotiations and should contribute with substantial offers in services trade. Considering the place of this sector in the economy of developed countries, an increased access to the services market will offer new prospects to developing countries.
- (6) With regard to agriculture, which remains a key factor of the DDA, the BDRT reiterates the importance of achieving progress in the agricultural negotiations and encourages all Members to show the required flexibility to reach a balanced agreement.
- (7) The issue of geographical indications should also be elaborated in an appropriate manner.
- (8) The BDRT supports the development of an ambitious and specific set of rules on trade facilitation across all elements of the negotiating mandate. The BDRT recognises that the other Singapore Issues (investment, competition and transparency in government procurement) are not for negotiation in the DDA but underlines the importance of keeping them in the WTO. Other rules issues, such as anti-dumping, are an integral and important part of the DDA and need to be effectively addressed.
- (9) There is a need to continue to build on efforts to address developing countries’ concerns, including with respect to capacity building, and to deliver results, including on market access, to ensure that Least Developed Countries participate actively in the DDA. All WTO Members should make serious efforts in this regard.
- (10) The BDRT congratulates the WTO Members on the choice of Mr. Pascal Lamy as the new WTO Director-General. With his strong trade background and qualifications, Mr. Lamy is well placed to build consensus and lead the WTO at this important stage of the DDA.

- (11) The BDRT encourages the EU and Japan to keep strong bilateral contacts and co-ordinate their positions closely on the DDA in order to help drive the DDA forward, recognising the significant importance of the negotiation resumption for a successful conclusion.

State of the measures taken thus far

- (1) Following the Doha Ministerial Declaration in 2001, Japan has been actively engaged in the Doha Development Agenda (DDA) negotiations, which include negotiations on the issues of agriculture, non-agricultural market access (NAMA), services and rules such as anti-dumping rules, trade and development and trade facilitation. The GOJ is committed to the negotiations to obtain balanced and comprehensive results as early as possible, focusing not only on market access, but also on the areas of establishing and enhancing rules.
- (2) In December 2005 the Sixth World Trade Organization (WTO) Ministerial Conference was held in Hong Kong. Participants of the Conference confirmed the items on which members could agree at that point and agreed to aim for agreement by the end of April 2006 on the establishment of common rules (modalities) for the members on specific tariff reduction methods, etc., in the agricultural and non-agricultural sectors.
- (3) Prior to the Hong Kong Ministerial Conference, Japan launched the “Development Initiative for Trade”. This initiative offers a package of extensive development assistance at three different phases of trading by developing countries; “Produce” “Sell” and “Buy”, including duty-free and quota-free market access for essentially all products originating from all LDCs. The initiative includes ten billion US dollars in financial assistance in trade, production, and distribution infrastructure and an exchange of a total of ten thousand trainees and experts in these fields, over the next three years. The announcement of the initiative contributed to the adoption of the Ministerial Declaration at the Hong Kong Ministerial Conference.
- (4) Regarding the negotiations on the trade in services, at the Hong Kong Ministerial, agreement was reached on the Objectives, Approaches and Timelines for the solid negotiations. Discussion has been held on how to effectively advance new plurilateral negotiations and so forth. It was agreed to enhance and accelerate negotiations with regard to rules.
- (5) Protection of intellectual property rights is critical for the industries in Japan, and the GOJ has been observing the compliance situation of the TRIPS Agreement by WTO members such as China. In addition, following the statement made by Prime Minister Junichiro Koizumi at the G8 Summit in 2005, the GOJ has begun to examine the formulation of “Possible International Legal Framework on Preventing Proliferation of Counterfeits and Pirated Goods”, while consulting with the countries concerned.

Future outlook

- (1) At the WTO Hong Kong Ministerial Conference, it was agreed to aim to establish modalities for agriculture and non-agricultural market access (NAMA) by the end of April 2006, and to submit comprehensive draft Schedules based on these modalities no later than 31 July 2006. In addition, regarding trade in services, it was agreed that a second round of revised offers shall be made by the end of July 2006. Also regarding negotiations on Rules, it was decided that text proposals for an agreement be prepared at a sufficiently early stage. The objective is for the Doha round to be concluded by the end of 2006, and although negotiations from now are expected to be increasingly difficult, the GOJ will make an active contribution to ensure the achieved result is an ambitious and well-balanced package for all members, including Japan.
- (2) The GOJ will endeavour to revitalise the negotiations, not only through the talks in Geneva, but also through various contacts with our counterparts in their capitals. The GOJ will offer meaningful inputs at Geneva through discussions with developed and developing members.
- (3) The GOJ has made frequent contacts with the private sector, including an exchange of opinion with, among others, Nippon Keidanren (Japan Business Federation). The GOJ will continue to deepen its cooperation with the private sector.

WP 5: Life Sciences & Biotechnology (LS&BT)

31. General Recommendations

BDRT recommendations

- (1) Continue to implement with urgency the Action Plans issued by the EU in 2002 and by Japan in 2002 through the strong initiatives by both Governments. Continuous review of these Action Plans is recommended to ensure that they keep pace with advances in LS&BT and the changes of society. Further, project evaluation functions and inter-minister/ inter-states coordination should be strengthened.
- (2) Encourage Governments to establish “National LS/BT Understanding Promotion Plans” by a strong governmental initiative in cooperation with industrial and academic sectors for promoting public understanding of biotechnology in the form of a strengthened education in biotechnology and in the form of more direct Communication programs. Encourage the academic society to help by playing a greater role in fostering understanding in biotechnology.
 - (a) Cooperation to improve public understanding and acceptance of LS&BT
 - (b) Reassessment and harmonisation of current regulations of the EU and Japan to facilitate commercialisation of products of LS&BT
- (3) Make research for LS & BT a priority in public research funding schemes (e.g.; Framework Programme 7 in the EU and the 3rd term S&T Basic Plan in Japan)
 - (a) Adoption of the final EU FP7 programme should confirm the importance of research in biotechnology that was outlined in the initial Commission proposal of April 2005.
 - (b) The Japanese government should position the LS/ BT fields in top priority in the 3rd term Science and Technology Basic Plan starting in 2006.

State of the measures taken thus far

- (1) The Japanese Biotechnology Strategic Plan, established by the Biotechnology Strategy Council in December 2002, outlines Japan’s national strategy on biotechnology. The GOJ has made a concerted effort to promote biotechnology policies based on this Plan. At the meeting of the Biotechnology Strategy Council in January 2006, a follow-up was made on the status of progress of policies based on the Plan. The Council confirmed that 10 percent were “completed” and 32 percent were “nearing completion” of the 200 specific Action Plans in the Biotechnology Guidelines, showing the progress has been made.

In addition, from FY2005 the Council for Science and Technology Policy initiates efforts on the Science and Technology Coordination Policies. These policies are designed to enhance coordination among ministries, avoiding the unnecessary duplication of biotechnology-related policies among them, including in the areas of “post-genomic research (promotion of health science)” and “emerging and re-emerging infectious diseases.”

- (2) One strategy of the Biotechnology Strategic Plan is stated as “thorough permeation of public understanding.” Under this strategy, the various liaison committees from the relevant ministries and agencies formulated a policy entitled “Towards the Promotion of Public Understanding on Biotechnology,” in order to promote the disclosure and provision of information related to biotechnology in 2003. The relevant ministries and agencies are promoting various measures to enhance public understanding based on this policy.
- (3) In December 2005, the Council for Science and Technology Policy issued a report which forms the basis for the Third Science and Technology Basic Plan. The report stated that the area of life sciences should continue to be a prioritized area for research and development, as in the current Basic Plan.

Future outlook

- (1) The GOJ will continue to hold meetings of the Biotechnology Strategy Council as and when

appropriate to follow up on the Biotechnology Guidelines, among other things, making efforts to promote research and development in biotechnology.

- (2) The report of the Council for Science and Technology Policy which forms the basis for the Third Science and Technology Basic Plan states as one of its basic stances, “promote science and technology to be supported by the public and to benefit society.” Under the Basic Plan, the Council for Science and Technology Policy will formulate a promotion strategy of the GOJ for life sciences by March 2006. This is projected to incorporate a strategy to promote understanding on GM products and the like among the people of Japan.
- (3) Based on the report of the Council for Science and Technology Policy which forms the basis for the Third Science and Technology Basic Plan, the Third Science and Technology Basic Plan is scheduled to be formulated by the GOJ by the end of FY2005.

32. LS&BT for Health

BDRT recommendations

- (1) Ensure the communication mechanisms between industry and Government regarding pricing and evaluation system of medicines to address the barrier to the innovation
 - (a) Work together to ensure that the value of innovation is recognised in the pricing of medicines in EU Member States and Japan.
 - (b) Ensure that mechanisms in place for the evaluation of medicines are based on clear, transparent and objective criteria, and are subject to appeal.
- (2) Enhance funding to the clinical research and facilitate regulatory harmonization to enhance the integrity as well as the practicability of meaningful pre- and post approval review
 - (a) Support clinical research by addressing regulatory barriers, public involvement in clinical trials and facilitating development of an improved infrastructure for clinical research. The government should make clinical research a priority area for funding in research programmes and through establishment of study programmes for clinical practitioners.
 - (b) Continue to facilitate regulatory harmonisation where possible and practical by supporting international regulatory harmonization. Review the regulatory requirements for vaccines between EU & Japan
 - (c) Work with industry to make further improvements to the regulatory framework for medicines, such as supporting the development in biomarkers, surrogates, and predictive technologies to ensure development of regulatory competence and acceptance

State of the measures taken thus far

- (1) (a) While the research and development (R&D) of new medicines requires tremendous amounts of time and financial resources, it is not necessarily the case that the success rate for the R&D will be particularly high. It is, therefore, essential that future R&D resources be secured to ensure that people will be able to receive the benefits of new drugs in the future.
 - (b) In the Central Social Insurance Medical Council convened on December 16, 2005, the Outline of Pricing System Reform FY2006 was approved. This Outline gives the opportunity to those seeking the application of incremental costs for a new drug listing to directly express their opinions, prior to a decision being taken by the Drug Pricing Organization on drug pricing proposals.
- (2) (a) Based on the Three Year Plan for National Clinical Trial Vitalization which was jointly formulated by the Ministry of Education, Culture, Sports, Science and Technology and the Ministry of Health, Labour and Welfare in 2003, efforts will continue to be made to enhance the infrastructure and environment for clinical trials. Specifically, in addition to engaging in educational activities for raising awareness of the significance of clinical trials among the people, as a measure to develop the infrastructure and improve the environment for clinical trials in medical institutions, the GOJ is making efforts to enhance the implementation system for clinical trials, advancing the cultivation of clinical trial coordinators, who are to provide on-site support, etc., for doctors and other personnel giving treatment.

In order to promote clinical research as a whole, including clinical trials, the GOJ is going to implement Clinical Research Infrastructure Promotion Programs from FY2006, which aim to nurture human resources such as young doctors who will be responsible for clinical research in the future and also biostatisticians through Health and Labour Science Research Grants. In addition, in March 2005, the Ad hoc Expert Committee for Clinical Trials was established, and discussion has been conducted on means to improve the quality and function of the Institutional Review Board (IRB).

In the FY2006 Guidelines on Budgetary/Personnel Resources Allocation in Science and Technology, the Council for Science and Technology Policy highlights the prioritisation of clinical research and clinical trials as measures that the government should promote.

(b) Since the establishment of the International Conference on Harmonisation (ICH), the Ministry of Health, Labour and Welfare has been promoting harmonisation of pharmaceutical regulations related to new drug products through the activities of the ICH and has contributed to the activities of the ICH.

(c) With regard to the regulatory framework for medicines, the GOJ has engaged in dialogue with Japanese and foreign pharmaceutical industries.

Future outlook

(1) (a) The GOJ will continue to operate the system in an appropriate manner.

(b) The GOJ will engage in operations in accordance with the Outline of Pricing System Reform FY2006.

(2) (a) Through efforts within such frameworks as the Ad-hoc Expert Committee for Clinical Trials, the GOJ will continue to work to develop the clinical trials environment in Japan.

In addition, the report of the Council for Science and Technology Policy which forms the basis for the Third Science and Technology Basic Plan states as one of its basic stances, “promote science and technology to be supported by the public and to benefit society.” Under the Basic Plan, the Council for Science and Technology Policy will formulate a promotion strategy for the GOJ in life sciences by March 2006. This is projected to incorporate a strategy to promote clinical research and clinical trials.

(b) The GOJ will continue to actively cooperate in international regulatory harmonisation and the promotion of innovative medicine.

(c) The GOJ will continue to provide opportunities for dialogue.

33. LS&BT for Industrial/Environmental Uses

BDRT recommendations

- (1) Encourage Governments to work towards harmonisation of regulatory requirements for biotechnology products and processes.
- (2) Provide incentives to enable industries to switch to more sustainable production processes.
 - (a) Consider tax abatements and investment tax credits to incentivise and speed up the implementation of sustainable production technologies.
 - (b) Provide financial support for highly promising Bio-based technologies at the proof-of-concept stage.
- (3) Support setting up a few demonstration projects, either in the area of Bio-chemicals, Bio-materials and/or Bio-fuels, using the US Bio-refineries as a model.

State of the measures taken thus far

- (1) As for standards for biodegradable plastics, the Biodegradable Plastics Society (BPS), an industry group, established the GreenPla^{*1} identification system in June 2000 based on examinations of the experiment and assessment methods for biodegradable plastics and their safety that METI (then the Ministry of International Trade and Industry) carried out from 1989 to 1999. Plastic products composed only of material whose safety and biodegradability has been confirmed are certified as GreenPla products and efforts are being made to differentiate these products from other plastic products by using the unified symbol mark^{*2}. Starting in FY2002, the BPS established and began administering standards on the compostability of certified products. By the end of 2005, over 800 products had obtained the GreenPla mark.

In December 2001, the BPS began cooperating with DIN CERTO, the German certification organisation for GreenPla products, and the International Biodegradable Products Institute (BPI), which is the US certification organisation, to reciprocally use testing results, among other things.

(*1) GreenPla is a nickname for biodegradable plastics. The then-Ministry of International Trade and Industry, Japan Bioindustry Association (JBA) and BPS jointly called for applications for nicknames. GreenPla won the Minister of International Trade and Industry Prize.

(*2) GreenPla mark



At the theme restaurants and food courts of the 2005 World Exposition, Aichi, Japan, held from March 25 to September 25, 2005, more than 20 million biomass-derived biodegradable plastic items were used. In addition to raising awareness among consumers, including the visitors, this was a practical experiment aimed at establishing practical use of biodegradable plastics and methods for recycling.

- (2) The Ministry of Economy, Trade and Industry (METI) and New Energy and Industrial Technology Development Organization (NEDO) are implementing research and development programs (Green Biotechnology Program) aimed at creating a cyclical industrial system in harmony with the environment. These programs, by promoting the use of biotechnology in the industrial process and environment-related areas, aid the establishment of an advanced manufacturing society that utilises bioprocesses, and advance biodegradation and disposal technologies for waste and pollutants, etc.

For all aspects of the tax reform, see the attached appendix.

- (3) As one project within the Green Biotechnology Program described in (2) above, METI and NEDO are implementing the development of biorefinery technologies, such as production

technology for useful, biomass-derived materials utilising bioprocesses.

Future outlook

- (1) Steps are currently being taken to establish Japanese Industrial Standards (JIS) for the biodegradable plastics identification system. Safety standards, biodegradability standards, compostability standards and identification standards are scheduled to be successively established by 2009.
- (2) The Green Biotechnology Program aims, by the end of FY2010, to build a technological foundation that can contribute to establishing a cyclical industrial system and apply it for a practical use, under which useful substances are produced through bioprocesses and waste and pollutants are either disposed or converted to renewable resources by microorganisms , while ensuring safety and preserving ecosystems.
- (3) The program described in (2) above aims to construct a bioprocessing system (biorefinery technology) whereby by FY2010 biomass can be converted to sugar with high efficiency, from which the building block chemicals for a variety of commodity chemicals can be produced with high efficiency.

34. LS&BT for Plants

BDRT recommendations

Further implement and enforce existing regulatory frameworks on GMOs, both in the EU and in Japan.

- (a) We urge the Japanese government to ensure that the central and local governments take the same position that GMO technology is essential in innovation of agriculture in Japan and the governments take unified actions toward wide applications of the advanced technology.
- (b) We urge the Japanese government to prevent regulation, delay and/or restriction by laws and/or guidelines of local governments in the cultivation and use of the GMO crops that are approved by the central government for cultivation and use in Japan based on safety evaluation.
- (c) We would like Japanese government to make and implement comprehensive, nationwide action plans for public understanding/acceptance of GMO crops to provide the public with accurate and sufficient information in order to remove apprehension for GMO crops among consumers and farmers.

State of the measures taken thus far

One strategy of the Biotechnology Strategic Plan is stated as “thorough permeation of public understanding.” Under this strategy, in 2003 the various liaison committees from the relevant ministries and agencies formulated a policy entitled “Towards the Promotion of Public Understanding on Biotechnology,” in order to promote the disclosure and provision of information about biotechnology. The relevant ministries and agencies are promoting various measures to promote public understanding on GM crops based on this policy.

Future outlook

The report of the Council for Science and Technology Policy, which forms the basis for the Third Science and Technology Basic Plan, presents its basic stance as “science and technology to be supported by the public and to benefit the society.” Under the Basic Plan, the Council for Science and Technology Policy will formulate a promotion strategy of the GOJ for life sciences by March 2006. This is projected to incorporate a strategy to promote understanding on GM crops among the people of Japan.

WP 6: Sustainable Development

35. Effective Use of The Kyoto Mechanisms

BDRT recommendation

The Kyoto Mechanisms, including CDM (Clean Development Mechanism) and JI (Joint Implementation), are important scheme for international cooperation approved by the Kyoto Protocol and effective utilization of this mechanism will help to reduce GHG on a global scale. CDM, in particular, contributes to GHG reduction in developing countries by the investments of energy-efficient infrastructures from developed countries, and can be implemented at lower cost than domestic countermeasures. Therefore, this scheme should be actively promoted without being seen simply as a complementary initiative. The authorities should adopt active use of the Kyoto Mechanisms as a government policy and create such systems as internationally harmonized accounting and tax incentive which lead industries to easily utilize this mechanism.

State of the measures taken thus far

- (1) The first meeting of the CDM Executive Board was convened in 2001.
- (2) It took time for the Executive Board to formulate methodologies for projects and formulate project registration criteria, and the first Certified Emission Reduction (CER) credit took four years to be issued from the time of the first meeting in (1), the first credit being issued in October 2005.
- (3) At the first Meeting of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP 1) held in Montreal at the end of 2005, Japan made active calls for CDM to be promoted to the world in an initiative led by Japan called “Future CDM”. Due to these efforts, at COP/MOP 1 it was decided to revise the CDM in order that it may be further promoted in the future. Specifically, it was decided to initiate specific deliberation on energy conservation promotion, the review of the definition of small-scale CDM, and carbon dioxide capture and storage projects to be treated as CDM. At the meeting a policy was agreed upon strengthen the functions of the CDM Executive Board and the Secretariat, aiming to accelerate the process of examination, etc.

Future outlook

- (1) As a result of (3) above, the process has been initiated to revise the definition of small-scale CDM, and a final decision is expected at COP/MOP 2 at the end of 2006. In addition, it is also anticipated that energy conservation CDM projects will be promoted, which has not been the case to date, despite their significant emissions reduction potential due to the fact that there were few methodologies.
- (2) The GOJ will further promote international initiatives including “Future CDM”, a Japan-led initiative aiming to improve the CDM structure. The GOJ will also continue to call on the CDM Executive Board for improvements to the CDM structure.
- (3) In the newly established JI Supervisory Committee at COP/MOP 1, the GOJ will seek to utilise the knowledge fostered at the Executive Board as best practice, and ensure that detailed implementation regulations are compiled in the near term.

36. Post Kyoto Framework

BDRT recommendation

- (1) It is indispensable that major GHG emitting countries such as the USA, China and India participate in the post Kyoto framework (beyond 2012) in order not only to reduce global GHG emissions but to secure the competitive position of the EU and Japanese industries. We recognize that it should be considered to set different targets from the initial Kyoto Protocol, which encourage those countries to join the framework. Energy efficiency or emission intensity by major sub-sectors on a cross-border basis is one of the targets to be set instead of the current country by country basis.
- (2) We recognize that the technological development for reduction of GHG emissions including joint efforts of the authorities and public-private partnership of the EU and Japan is important. The European Commission and the Japanese Government should work together to include the technological development as an item for post-2012 negotiation.

State of the measures taken thus far

- (1) The Kyoto Protocol entered into force on February 16, 2005.
- (2) At COP/MOP 1 in Montreal at the end of 2005, the following points were agreed: (i), initiation of the Dialogue on long-term cooperative action to address climate change (ii) initiation of the consideration of commitments for subsequent periods for Parties included in Annex I to the Convention under Article 3, paragraph 9, of the Kyoto Protocol, and (iii) the preparation procedures for the review of the Kyoto Protocol, under Article 9 of the Kyoto Protocol.
- (3) Dialogue has taken place on a framework beyond 2012 in various fora, including the G8 Gleneagles Summit (July 2005), the Asia-Pacific Partnership for Clean Development and Climate (APP) (launched July 2005, first ministerial meeting held January 2006), and the Fourth Informal Meeting on Further Actions against Climate Change (October 2005).

Future outlook

- (1) The position of the GOJ is that the framework for subsequent periods should be a truly effective one that brings about maximum reduction efforts by all major emitting countries, while enabling all countries to take mitigation measures in accordance with their own capacities. The GOJ considers that for significant reductions, the diffusion of existing technologies and the development of innovative new technologies will be the key.
- (2) Through active participation in the Workshops on the Dialogue on long-term cooperative action to address climate change, and other actions including the holding of the Fifth Information Meeting on Further Actions against Climate Change, the GOJ will seek to encourage major GHG emitting countries in particular to engage in efforts to tackle global warming.
- (3) In addition, through APP meetings and other undertakings, the GOJ will make efforts on the technology innovation and technology transfer on climate change through public-private cooperation. The GOJ will actively provide information on technology that could be considered beneficial to share among UNFCCC Parties, and will also contribute to the development of dialogue concerning the next framework and future actions.

37. Impact Assessment

BDRT recommendation

The impact of materials and products should be assessed in an extended manner which includes the economic, social and environmental dimensions. It is important for the authorities to adopt the methods of life-cycle assessment and/or full value chain assessment in any impact assessment, and not exclusively for GHG reduction.

State of the measures taken thus far

In addition to developing and establishing life-cycle assessment (LCA) methods (inventory analysis, environmental impact assessment, etc.), the GOJ discloses collected inventory data and others on an online database, and is making efforts to disseminate LCA methods to industry and promote the development of environmentally conscious products, among others. Moreover, in order to disseminate LCA methods into the wider community and achieve their acceptance, the GOJ has implemented OCA research in individual products, 3R, and local industries, among others, and is compiling a manual of LCA methods.

As a basic concept relating to the compilation of criteria for specified procurement goods, the Basic Policy of the Law Concerning the Promotion of Procurement of Eco-Friendly Goods and Services by the State and Other Entities (Law on Promoting Green Purchasing) stipulates that it is advisable and preferable to consider various ways to reduce environmental loads from the products lifecycle as a whole. Thereby the GOJ adopts LCA methods, and criteria are revised every year.

Future outlook

The GOJ will continue to engage in efforts to promote the widespread use of LCA methods in industry.

38. Development of Energy-Saving Products and Services and Diffusion on a global basis

BDRT recommendation

As stated in Basic Thoughts, industries of EU and Japan have already made considerable efforts for GHG reduction, and room for drastic improvements by using current technologies is limited. However, we recognize there is potential of reduction of GHG emissions by implementing the following measures by the industries and people together with the supports from the authorities:

- (a) Adopting higher efficient electric and electronics equipment by using a top runner approach
- (b) Using the full potential of IT society such as higher efficiency of production and logistics, and diffusion of e-commerce
- (c) Adopting energy-saving offices and houses equipped with high performance insulators
- (d) Diffusion of fuel-efficient vehicles

State of the measures taken thus far

Given the recent situation concerning energy, the GOJ has devised a variety of measures designed to further promote the rationalisation of energy use in order to cope actively with the prevention of global warming.

- (a) In order to promote the introduction and dissemination of more energy efficient equipment, an energy conservation labelling system has been introduced through Japanese Industrial Standards (JIS), to work on the dissemination of equipment that meet the standards laid out by the top runner approach. Moreover, a system to recognise outstanding sales outlets for energy conserving products has been established, whereby retailers are assessed and publicised on the activeness of their efforts to sell energy conservation equipment. In this way the active sale of energy conserving equipment by retailers is being promoted.
- (b) The GOJ is promoting the realisation of efficient logistics that have a minor environmental impact, through cooperation and collaboration with cargo and logistics companies. To this end, the Law Concerning the Promotion of Comprehensive and Efficient Distribution Operations and the Green Logistics Partnership Conference have been utilised to establish logistics facilities with advanced functions, and to spread information and communications technology throughout the logistics network, including electronic tagging in accordance with international standards.
- (c) Based on the Law Concerning the Rational Use of Energy, the constructors of buildings exceeding a certain size (excluding residential homes) are obliged to notify the administrative body concerned of a certain standard of energy conservation measures incorporated into the structure of new buildings or extensions to existing buildings. In addition, regarding constructions including office buildings, the GOJ is offering support for the introduction of high efficiency facilities through utilisation of the Energy Service Company (ESCO) project and others and the introduction of Building Energy Management Systems (BEMS) utilising ICT. With regard to residential housing, support is being provided for the introduction of high efficiency equipment for air-conditioning, ventilation systems, and so forth, and the introduction of high efficiency energy systems, including the implementation of insulation renovations and improvements. The GOJ is also supporting technology development aiming to spread energy-saving service for medium and small size office buildings and houses, and commercialization of such services.
- (d) Concerning measures aimed at individual automobiles, the GOJ has introduced top runner standards for gasoline vehicles based on the Law Concerning the Rational Use of Energy. In addition, in order to promote the diffusion of clean energy vehicles, including gasoline vehicles with outstanding fuel efficiency in conformance with the top runner program, as well as electric and natural gas-powered vehicles, the GOJ is implementing subsidy systems, low interest financing schemes and greening taxes for automobiles, among others.

Future outlook

- (a) In addition to revising the standards laid out in the top runner approach, and expanding equipment eligible under this system, as well as implementing further measures for energy conserving equipment, the GOJ will further promote dissemination of products by expanding the products under the energy conservation labelling system.
- (b) In order to steadily realise the objectives of the Comprehensive Program of Logistics Policies (2005-2009), the realisation of efficient logistics that have a minor environmental impact will be promoted, through cooperation and collaboration with cargo and logistics companies. In addition, based on the revised Law Concerning the Rational Use of Energy that enters into force on April 1, 2006, distributors and cargo businesses exceeding a certain size will be obligated to formulate an energy conservation plan and report on the volume of their energy use, among other measures.
- (c) With regard to the dissemination of energy-saving housing, in the revised Law Concerning the Rational Use of Energy, notification of energy conservation measures will be required not only for new construction and additional constructions to existing buildings, but also to large-scale renovation projects, and residential housing projects will be obliged to submit notifications in the same way as other buildings. Moreover, concerning construction materials as well, with regard to improvements to and disclosure of quality related to insulation, measures will be intensified targeting not only manufacturers, but also processing companies and importers of construction materials. In the future the GOJ will continue to implement further energy conservation measures through the steady promotion of the revised Law Concerning the Rational Use of Energy, including the above-mentioned measures.
- (d) With regard to promoting the diffusion of high fuel-efficient vehicles, the GOJ is revising, where appropriate, the scope of application for subsidies, low interest financing schemes, and automobile greening taxes, and will continue to make efforts to promote the diffusion of such vehicles. In addition, it is planned to add heavy vehicles over 3.5 tons (trucks and buses) to the list of vehicles to which the top runner standards apply.
- (e) Based on the Kyoto Protocol Target Attainment Plan, the GOJ will work for further reduction of greenhouse gas emissions through industry-government-academia cooperation.

39. Cultivation for People and Initiatives of the Authorities

BDRT recommendation

It is important to work together with the participation of the authorities, industry and the public to reduce emissions of greenhouse gases. Industry has been working hard not increasing CO² emissions with voluntary actions. Its emissions have remained flat, or even decreasing for some sectors. But CO² emissions from household are largely increasing. Therefore, it is necessary to reduce emissions especially from this sector, and to educate and cultivate the population to contribute individually to GHG reduction. It is also important that the authorities take initiatives to promote such movement as a model for the nation/community.

State of the measures taken thus far

The GOJ launched the Kyoto Target Achievement Plan in April 2005. In order to ensure the target, the government has launched a campaign called “Team -6%” to stop global warming, with the purpose of leading to concrete actions on the part of individuals for GHG reduction and bringing about a change in lifestyles and working styles. A series of concentrated campaigns have been instigated centred on this plan to promote specific actions to prevent global warming, including “COOL BIZ” and “WARM BIZ,” by utilising TV programs, newspapers, magazines, and radio programs, and cooperating with various sectors including the business community.

In addition, in order to support environmental protection activities undertaken by elementary and junior high school students in their local communities, the GOJ is implementing the Junior Eco-club Program. Other programs being implemented include the Minister of the Environment in My Home Program, which supports environmental protection activities in the home, and the Eco-Friendly Renovation of School Buildings and Environmental Education Program, which promotes community-wide environmental education utilising efforts to remodel school buildings to reduce GHG.

Future outlook

The GOJ will continue to use the “Team Minus 6%” campaign and other current activities as the major channels for individuals to take concrete action for GHG reduction and to change their lifestyle and working styles.

40. Diversification of Energy

BDRT recommendation

From a mid to long-term point of view, it is indispensable to promote technological development for nuclear energy, renewable energy such as wind, solar, biomass, and hydrogen energy, or other forms of energy which will replace fossil fuels. Renewable energy needs cost reduction and stability of output power. Hydrogen energy has huge potential as generation of electricity and fuel battery, however, there are big issues such as production methods without CO² emissions as well as secure safety of storage/transportation. It is important to promote the joint development between industry and the authorities to solve those issues. Technologies of CO² capture and storage should be also developed. We call for government initiatives, including joint ones between the European Commission and the Japanese Government.

State of the measures taken thus far

Given the recent situation concerning energy, in order to balance increasing severe resource and environment constraints with economic growth, the GOJ is advancing strategically with development of energy technologies.

- With regard to nuclear energy, in order to promote this as Japan's main source of energy into the future, the GOJ will engage in development of nuclear technologies, including nuclear fuel cycle, in collaboration with the industrial sector. In engaging in such efforts, the GOJ will actively utilize forums for international cooperation, including the Generation IV International Forum (GIF).
- Renewable energy such as wind, solar and biomass, in addition to hydrogen energy and other types of alternative energy to fossil fuels, not only contribute to the diversification of energy resources, they are also important from the perspective of global warming countermeasure. By engaging in technological development to resolve issues such as cost reduction and output stability, the GOJ is making efforts to further promote these types of energy.
- With regard to hydrogen energy, in addition to cooperation among domestic research organisations, Japan will be cooperating with research institutions in the EU (three organisations from three countries in FY2005) as international joint research to undertake research and development towards the resolution of such issues as how to increase efficiency of hydrogen production.
- With regard to the secure storage and transport of hydrogen, the Fuel Cell Testing and Standardization Network (FCTESTNET) and the Clean Urban Transport for Europe (CUTE) are examples of EU projects in which Japan is cooperating and efforts are being made to establish domestic and international codes and standards.
- With regard to the development of carbon dioxide capture and storage technologies, through the Research Institute of Innovative Technology for the Earth (RITE), which serves as Japan's pivotal research institution in this technological sector, and other institutions, the GOJ is actively advancing technological development with the participation of many private sectors companies.

Future outlook

The GOJ will continue to make every effort in government-industry-academia cooperation towards the introduction of new energy sources, including the advancement of nuclear power and the enhancement of support policies in response to the characteristics of and challenges facing each different new energy source.

(Appendix)

Proposals relating to the Tax System

In the annual tax reform process, contents of the reform were decided based on requests and opinions submitted to the tax authorities by related ministries and agencies, taking into account various factors including economic circumstances, financial situation and discussions by the Government Tax Commission and the Tax Commission of the ruling parties. Related ministries and agencies refer to opinions from various levels, including proposals raised by the BDRT, when compiling their tax reform requests. These opinions have been reflected in past annual tax reforms.

Proposals relating to the tax system have been made for the following items in the recommendations from the 7th Japan-EU BDRT meeting.

- WP 1: Trade and Investment
- 2. The optimisation of returns on investment
- 4. Guaranteeing stable rules for choice of legal presence and facilitating reorganisation from a legal and tax point of view
- 8. Modernizing legal and tax systems to support foreign investment
- 18. Foreign tax credit
- 19. CFC rules
- WP 2: Accounting and Taxation
- 21. Tax Issues
- WP 5: Life Sciences & Biotechnology (LS&BT)
- 33. LS&BT for Industrial/Environmental Uses

The GOJ will refer to these proposals when they seem appropriate, from the standpoint of improving the business environment.

Between the proposals raised by BDRT, with regard to the item 2.(1) “Avoidance of double taxation,” following the total revision of the Japan-US Income Tax Convention in 2003, the GOJ signed a new Japan-UK Income Tax Convention in February 2006 from the perspective of promoting international investment exchange, which wholly renew the existing convention. In the same way as the Japan-US Income Tax Convention, the new convention will reduce the withholding taxes on investment incomes (Dividends, Interests and Royalties) in the source country, and in addition to such expansion in tax reduction, it will also enhance measures to prevent tax avoidance.

Negotiations are currently underway with the Netherlands and France on the revision of income tax conventions, and the GOJ will maintain its policy to advance negotiations with European countries when it is necessary.