

FY 2006 Economic and Industrial Policy: Key Points

Basic Assumptions

- Japan's economy is on its way to gradual recovery, especially in the area of private demand.
- On the other hand, in the mid- to long-term, Japan is confronted by great environmental changes, such as:
 - 1) The decrease and aging of the population
 - 2) The escalation of international competition due to the advancement of globalization
 - 3) Restrictions on the energy environment
- Accordingly, future economic and industrial policies shall be developed in line with the medium-term policy directions set out in section I, while the priority measures shown in section II shall be implemented in FY 2006.

I. Medium-term Direction for Economic and Industrial Policies

1. Ceaselessly create value and convey it to the world

For Japan's mid- to long-term development, it is necessary to create new products and services through innovations in technologies and business models, and to promote values and lifestyles embodied by them to the international community. To meet such goals, the following policy initiatives will be undertaken based on the New Industry Promotion Strategy:

- 1) Investment in human resources and technology, and protection of intellectual property (investment in the fundamentals of value creation)
- 2) Prioritized cultivation of industry groupings that utilize Japan's strengths
- 3) Revitalization of SMEs and recovery of regional economies
- 4) Development of strategic trade policies, including the establishment of an East Asian Economic Group

2. Re-establish a social system that supports creative business activities

In order to encourage fluid and vigorous business activities and innovation, the social system that acts as their foundation must be flexible, transparent, safe, secure, and highly reliable. To build this type of highly reliable society, the following policy initiatives will be undertaken:

- 1) Establishment of a flexible and strong energy supply-demand structure, and active approaches to environmental issues

- 2) Reform of the corporate system, including the use of information technology (IT), and the development of market rules
- 3) Establishment of tax and social security systems that bring about vitality and stable management of the macro economy

Sample listing of budget items

Names of budget item:

Amount requested for FY 2006 Budget (Amount of FY 2005 Initial Budget)

- □: budget-related ●: tax-related ■: government investment and loans-related
- ⊙: law-related ☆: mechanism and capacity-related
- ◇: relating to government staffing establishments △: other
- Items with an asterisk (*) overlap with other budget items.

II. Priority Measures for FY 2006

1. Creating competitive industries through innovation

- Based on the New Industry Promotion Strategy 2005, it is imperative to utilize Japan's strengths to enhance industrial competitiveness.
- Specifically, it is necessary to place priority on the following tasks:
 - 1) Maintenance and strengthening of the virtuous cycle involving highly-specialized component/material industries, SMEs possessing core technologies, and the state-of-the-art industries they support
 - 2) Utilization of intellectual property including human resources, technologies, and customer networks
 - 3) Re-establishment of safety and security through the recovery of trust in corporations and products

*- Proposed budget for New Industry Promotion Strategy-related spending (general budget)
Total: JPY 120.41 billion (JPY 87.35 billion)*

(1) Establishment of a priority measure package for highly-specialized component/material industries and basic industries

1) Prioritized support for companies that possess core technologies

○ Strengthening of cooperation between upstream and downstream companies, and technology development support

- Effective sharing of information between upstream and downstream companies will be promoted, while research and development as well as investment in supporting technology will be advanced.
- R&D support for SMEs that work on technological innovation and other programs will be radically strengthened.
- The necessary legal measures for implementation of the above will be considered.

<input type="checkbox"/> SME supporting technology innovation program:	JPY 9.6 billion (new)
- Upstream-downstream network construction support program:	JPY 400 million (new)
- Strategic upgrading support program for basic industries:	JPY 9.2 billion (new)
● Taxation system for strengthening SME basic technologies (increasing the upper limit for tax deduction); further extension of the SME investment promotion tax break.	
■ Loans for core technology R&D, and utilization of the fruits of such R&D.	

○ **Support for strengthening the management foundation, and improvement of existing contracting practices**

→ SME management foundation will be strengthened, and the handing down of excellent technologies and businesses will be supported through measures including business-academia collaboration, compiling a database of skills and know-how, and establishing a business succession fund.

<input type="checkbox"/> SME human resources development programs, such as utilization of technical college graduates:	JPY 1.2 billion (new)
<input type="checkbox"/> SME core technology succession support program:	JPY 700 million (new)
△ Establishment of a business succession fund	

→ METI will utilize regional testing and examination organizations to promote objective evaluation of SME technologies, while enhancing the protection of intellectual property rights and reforming negative subcontracting practices.

<input type="checkbox"/> Program for enhancing SME measuring traceability:	JPY 1.1 billion (new)
<input type="checkbox"/> Training and information program for SME intellectual property protection:	JPY 200 million (new)
△ Reinforcement of the contractor payment delay prevention law	

2) Strengthening of highly-specialized component/material industries

○ **Promotion of R&D that will boost “power to integrate”**

→ With the aim of promoting innovation from within highly-specialized component/material industries, R&D that involves collaboration with users will be supported.

<input type="checkbox"/> Core technology development for highly-specialized components/materials as new industry promotion:	JPY 5.75 billion (new)
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→ Establishment of an optimally-regulated communication system for chemical substance information with appropriate management of such substances, in order to facilitate vertical collaboration between upstream and downstream industries.

☆ Establishment of a guideline for control of information on chemical substances contained in various products (to be completed in FY 2005)	
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→ Manufacturing industry integration will be promoted through joint SME-university R&D on highly-specialized components/materials.

R&D program for regional rejuvenation consortium (budget for local manufacturing innovation): JPY 4.3 billion (JPY 1.8 billion)

(2) Deployment of policies focused on intellectual property such as human resources and technologies

1) Promoting accumulation, evolution, and utilization of intellectual property such as human resources and technologies

○ Development of human resources who support corporate activities

→ A favorable environment for human resources development, which will help improve industrial competitiveness, will be developed through the following measures: upgrade specialized human resources by promoting the establishment of graduate schools specialized in manufacturing, services, and other areas; and develop a university evaluation method for the provision of education that meets industry needs.

Program for the development of core personnel at manufacturing sites through business-academia collaboration (implementation of about fifty model programs): JPY 3.11 billion (JPY 2.37 billion)
 Human resources development program for the service industry (training 3,000 individuals by the end of FY 2007): JPY 1.04 billion (JPY 770 million)
 Program for promoting human resources development evaluation: JPY 160 million (JPY 100 million)

→ Development and retention of human resources at SMEs will be assured by the establishment of a human resources development system focused on graduates of technical colleges.

Program for establishing a network linking youth and SMEs (approximately 70 locations): *JPY 2.25 billion (new)
 SME human resources development programs, such as utilization of technical college graduates (about 60 locations) (previously mentioned): JPY 1.2 billion (new)
 Program for the promotion of human resources utilization with corporate retirees: JPY 1.28 billion (JPY 510 million)
 Senior advisors: JPY 1.48 billion (JPY 1.2 billion)

→ A favorable environment for the employment of young people will be created through further promotion of “job café” job centers and career education.

Promoting “one-stop” service centers (“job cafés”): *JPY 6.75 billion (JPY 6.75 billion)
 Promotion of career education (about 30 programs at 240 institutions covering 36,000 students): JPY 510 million (JPY 340 million)
☆ Construction of a new placement mechanism through the Study Group for Developing a Capable Young Workforce

○ **Development of a human resources utilization foundation in the face of the falling birthrate**

→ Best possible labor force solutions under a reduced birthrate will be proposed through survey and analysis of SMEs that successfully meet conditions arising from the dwindling number of children. Human resources development and foundational programs will also be promoted in collaboration with other ministries and agencies dealing with parenthood-related service industries.

- Program for promoting SME management to counter falling birthrate: JPY 110 million (new)
- Service industry creation support program:
* a proportion of JPY 4.14 billion (JPY 3.55 billion)
- Human resources development program for service industries (previously mentioned):
a proportion of JPY 1.04 billion (JPY 770 million)

○ **Utilization of outstanding foreign human resources**

→ Optimized environment for welcoming outstanding human resources from overseas will be promoted, as well as revamping of foreign worker training and skill training system operation.

- ☆ Reviews of existing promotion policies will be implemented to boost the number of students and researchers from abroad (easing of residence status requirements and upgrading the quality of college education, etc.).
- ☆ Optimization of foreign worker training and skill training system operation will be examined, as well as expanding the types of jobs covered by skill training systems.

○ **R&D promotion and productivity improvement to make Japan a scientific and technological powerhouse**

→ Effective R&D will be promoted by taking advantage of the Technology Strategy Map and a shared industry-academia-government policy materialization scenario. In addition, creation of new industries will be supported through the strengthening of systematic coordination (research and development programs) among R&D policies, support for R&D, and other related policies such as standardization.

- △ Strategic emphasis on R&D projects
 - Based on the New Industry Promotion Strategy 2005, emphasis will be placed on certain research and development programs in each of the designated technology fields that can potentially lead to the creation of new industries (a total of twenty fields such as semiconductors, new drugs, diagnosis, and robots), through the utilization of a field-specific Technology Strategy Map drawn up with mid- and long-term market and social needs in mind.
- R&D program-related budget: * a total of JPY 240.41 billion (JPY 230.75 billion)
(18 programs including specialized IT equipment, device foundation program, health and peace-of-mind program, new technology program for global warming prevention, nanotechnology program, and civil aviation foundational technology program)

→ In order to further boost productivity and strengthen competitiveness in industry, R&D and IT investment will be promoted as a priority through a policy-oriented tax system. In addition, a review of the depreciation system will be implemented in order to keep up with actual corporate conditions and to maintain consistency with international practices.

- Extension of R&D promotion tax break (increasing the upper limit for tax deduction, etc.) and the IT investment promotion tax break
- Review of the depreciation system (increasing upper limit of depreciation, salvage value, etc.)

○ **Strengthening of appropriate intellectual property protection**

→ With the aim of eventually eliminating the patent examination waiting list, examination will be accelerated and shortened (the target for the patent examination system is that by 2013 the average waiting period should be reduced eleven months, the world's shortest). In addition, protection of designs, a source of new added value, will be strengthened so that corporations will be able to enjoy an environment in which they can strategically create and utilize designs.

◇ **Drastic increase in the number of examiners with fixed term appointments:**

**an increase of 100 examiners will be requested for FY 2006,
with the aim of raising the total number of examiners to 500 in FY
2008**

◎ **Amending the design law: Amendment is expected to be submitted to the Diet in the next term.**

→ The Japanese government will request China and other nations and areas where violations are a common occurrence to strengthen their domestic intellectual property protection measures, and will also assist those governments to improve their ability to enforce such protection. In addition, the Japanese government will approach those governments to conclude a treaty for the prevention of the proliferation of counterfeits and pirated goods in order to strengthen countermeasures against counterfeits and pirated products.

□ **Support for measures against counterfeits and pirated products in Asia and other regions:**

JPY 1.43 billion (JPY 1.3 billion)

□ **Implementation of overseas intellectual property rights violations survey: JPY 200 million
(new)**

2) Promotion of management that places emphasis on intellectual property

○ **Development of an optimized environment for the evaluation, management, utilization, and disclosure of intellectual property**

→ In order to encourage disclosure of intellectual property management reports, as well as internal management, reference guidelines regarding intellectual property management disclosure and evaluations on such information will be made public.

→ Through the disclosure of the above-mentioned information, Japan will make an active contribution to the international discussion regarding intellectual property disclosure at the Organization for Economic Cooperation and Development and other bodies.

○ **Development of an optimized environment for the protection of intellectual property**

→ In order to promote the appropriate management of marketing secrets, METI will amend the Guideline for Marketing Secret Management in FY 2006, and familiarize concerned parties with the change.

(3) Strengthening measures in seven strategic areas through the New Industry Promotion Strategy

METI will further specify measures in 7 strategic areas, as set out in the New Industry Promotion Strategy 2005.

•[Fuel cells

In addition to strengthening R&D systems, METI will establish a state-of-the-art research center for hydrogen materials. METI will also expand its large-scale demonstration project with the aim of

launching the world's first stationary fuel cell market.

- **Digital consumer electronics**
METI will promote digital consumer electronics networking and standardization of common basic technologies needed for the smooth provision of services, in addition to implementing trials for the diffusion of such technologies.
- **Robots**
Taking advantage of the results of trials at the EXPO 2005 in Aichi, and with the aim of a complementary relationship between next-generation industrial robots/service robots and humans, METI will implement the following: (1) creation of an optimized environment to ensure reliability and safety; and (2) development of mission-oriented elemental technologies.
- **Content**
METI will strive to achieve the aims of its "Software Power" strategy by strengthening the international promotion of Japanese software content through initiatives such as joint production with overseas companies and institutions, and personnel exchanges.
- **Health and welfare devices and services**
METI will support the launch of businesses offering advanced regional care systems as well as human resources development; R&D aimed at early materialization of advanced and individualized medical care; and standardization of clinical examinations and medical information systems.
- **Environment and energy devices and services**
METI will strive to expand markets through radical strengthening of practical technology development in energy saving and new energy areas, as well as the creation of new business models. METI will also work on the development of international rules for the global diffusion of superior environment and recycling technologies.
- **Business support services**
In order to promote further upgrading and diversification of services, METI will pick out successful examples and work on the enhancement of adult education as well as creation of pace-setting demand.

(4) Development of a basic environment for the effective use of management resources, such as start-ups, realignment, and business revitalization

○ Development of an environment for facilitating business turnaround

- METI will develop an optimized environment to fill the gap between voluntary and legal liquidation and to facilitate self-regulated business turnaround.
- Using the SME Revitalization Support Association as the core of its activities, METI will develop human resources for business revitalization and take advantage of resources such as the National Federation of Credit Guarantee Corporations and government-affiliated financial institutions.

The SME Revitalization Support Association program: JPY 3.05 billion (JPY 2.97 billion)

○ Expansion of the base for start-ups and ventures

- METI will strive to develop the world's top-level environment for start-ups and ventures, in order to promote the creation and development of new businesses through the following means: expansion of opportunities through human resources development and entrepreneurship, strengthening of entrepreneur networks, and institutional support.

Dream Gate program, National Start-Ups and Venture Forum: JPY 1.1 billion (JPY 1.22 billion)

- Entrepreneurs education promotion program: JPY 400 million (JPY 300 million)
- Program to focus and strengthen regional new business support network bases (university-based ventures):
A proportion of JPY 2.01 billion (a proportion of JPY 2.01 billion)

○ **Development of systems for fair organizational restructuring, and the promotion of direct foreign investment in Japan**

→ In order to facilitate organizational restructuring, reviews will be conducted on tax system development that meets the requirements of the new corporate law, as well as possible directions for the trust law. At the same time, METI will make proposals for the formation of fair merger and acquisition rules in areas such as disclosure and takeover bids.

- ☆ Establishment of fair M&A rules by the Corporate Value Study Group (making proposals on disclosure rules regarding takeover defense measures, as well as takeover rules such as TOB regulations)
- Development of an organizational restructuring tax system
- ☆ Establishment of a business trust system

→ With the aim of doubling direct foreign investment in Japan in the 5 year period ending at the close of FY 2006, METI will continue to make efforts to effectively use the designated structural reform system and provide support for regional courting of foreign corporations.

- Direct foreign investment promotion program: JPY 1.17 billion (JPY 950 million)

○ **Establishing financing practices that utilize a variety of corporate assets**

→ In order to establish financing practices that utilize receivables and inventory, METI will review the possibility of creating an electronic accounts receivable system/market and develop an optimized environment for the promotion of personal security loans.

- ☆ With the aim of the early enactment of an electronic accounts receivable law (tentative name), METI will cooperate with other ministries and agencies concerned in order to identify and standardize financial dealings that take advantage of electronic accounts receivable, such as the financial loan circulation market.
- Financing systems will be enhanced to use a variety of assets as collateral – accounts receivable and personal assets
JPY 15 billion (JPY 20 billion)
(a proportion of the state-of-the-art technology/economic revitalization allocations)

○ **Meeting international distribution system standards**

→ By trying to reflect Japanese business models and technologies in the international standardization processes for distribution and logistics systems, METI will establish effective supply-chain management through IT utilization and standardization.

- IT/standardization program for distribution and logistics systems: JPY 5.41 billion (new)

(5) Establishment of a safe and secure social system as the cornerstone of strengthened competitiveness

○ Improved product and corporate reliability and increased competitiveness

→ METI will conduct a wide-ranging review of safety and security mechanisms, such as industry security and product safety, inclusive of internal corporate governance.

☆ Analysis of risk factors regarding security and compliance, as well as identification of risk reduction measures

☆ Development of a database for the establishment of risk-oriented security regulations

→ METI will accelerate development of the world's first comprehensive product safety standard system, as well as international standardization and measuring standards.

Establishment of a new product safety standard system and basic standards:

JPY 100 million (new)

International standardization program:

JPY 1.87 billion (JPY 1.55 billion)

Measuring standard development program:

JPY 2.25 billion (JPY 310 million)

→ Considering the reality of damage to health caused by asbestos, METI will collaborate with other ministries and agencies concerned to promote the prompt substitution of asbestos-containing products with alternatives. METI will strive to achieve a total ban on asbestos production and new use by 2008 at the latest, and earlier if possible.

Demonstration program to promote the substitution of asbestos with alternatives:

JPY 240 million (new)

○ Development of safety basis for customer reassurance in transactions

→ In order to ensure the reliability of consumer protection and credit transactions over the Internet, METI will implement measures including clarification of the scope of regulated transactions. In addition, METI will work to develop a business environment in which individual credit information is used reasonably and appropriately.

☆ Establishment of a guideline regarding regulated transactions in Internet auctions

Survey of consumer problems in Internet transactions and the credit business environment:

JPY 310 million (JPY 200 million)

→ With countermeasures to new kinds of threats in mind, METI will promote the establishment of a basis for information security measures, such as prevention of computer virus damage and strengthening of an accident-response system.

Promotion of information security measures:

JPY 5.28 billion (JPY 3.23 billion)

Practicing software engineering through business-academia collaboration:

JPY 1.6 billion (JPY 1.51 billion)

2. Deployment of external economic policies in East Asia and beyond

- **Amid remarkable economic development in the East Asian region, the interdependence between the Japanese economy and the wider East Asian economy has been deepening. In order to facilitate business development by Japanese corporations in East Asia and to transform the growth of the region into a source of vitality for the Japanese economy, Japan needs to solve the following issues: further liberalization of economic activities, harmonization of various systems, and development of a favorable environment for trade and investment.**
- **In addition, Japan needs to encourage multilateral trade liberalization and commerce rule development. It is thus necessary to promote the WTO Doha Round and support active application of WTO rules.**

(1) Establishment of an East Asian Economic Zone for optimized division of labor

○ Strategic promotion of economic partnership agreement (EPA) negotiations

- In order to further liberalize movements of goods, services, people and capital, the ongoing EPA negotiations will continue with the following partners: Thailand, with which Japan has reached overall agreement, Indonesia, South Korea and ASEAN, among others.
 - Aim for basic agreement with Indonesia at the earliest date possible
 - Aim to conclude negotiations with ASEAN within 2 years
 - Aim for the earliest conclusion of EPA negotiations with the Philippines, Malaysia, and Thailand.

<input type="checkbox"/> Industry upgrading program for economic collaboration promotion:	JPY 800 million (new)
<input type="checkbox"/> Industrial development support program for EPA:	JPY 200 million (new)

○ East Asia-wide harmonization of various economic systems and development of a trade- and investment-friendly environment

- In order to promote borderless East Asia-wide corporate reorganization and optimal allocation of management resources, METI will aim to harmonize various economic systems in East Asia through the strategic utilization of economic cooperation and the diplomatic framework.

<input type="checkbox"/> Measures for East Asia-wide external economic policy promotion:	JPY 240 million (new)
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- While continuing to promote the Japan official development aid (ODA) model, which has made significant contributions to East Asian economic development, METI will provide technological cooperation in areas including intellectual property, standards certification, and human resources development. METI will also promote infrastructure development through inter-organizational coordination of economic cooperation tools and public-private partnership.

<input type="checkbox"/> Industrial economy, human resources development support programs:	JPY 8.94 billion (JPY 7.26 billion)
<input type="checkbox"/> Productivity improvement programs in Asia and Africa:	JPY 270 million (JPY 110 million)
<input type="checkbox"/> Support program for development of the privatization environment in developing countries:	JPY 770 million (JPY 650 million)

(2) Promotion of WTO Doha Round and on-target application of WTO rules

○ Promotion of WTO Doha Round talks

→ In order to achieve multilateral trade deregulation, as well as development of commerce rules, Japan will actively promote the Doha Round of WTO talks aiming for an agreement by the end of 2006.

○ Appropriate use of anti-dumping (AD) rules and countervailing duty measures

→ Japan will promote fair international trade through appropriate use of AD rules and countervailing duty measures.

→ METI will actively provide assistance to resolve conflicts and other issues faced by Japanese corporations in overseas markets.

3. Promotion of energy and environmental policies

- **As Japan depends mainly on external sources for its energy resources, ensuring energy security is a crucial issue. Thus, a stable and effective energy supply-and-demand structure shall be constructed in response to the following challenges: risk of global tightening of energy supply largely due to the rapid growth of China and India; skyrocketing crude oil prices; changes in market environments due to the intensification of competition due to ongoing deregulation; and environmental constraints such as global warming.**
- **Under the basic premise of “compatibility between the environment and the economy,” Japan needs to continue actively implementing measures to prevent global warming.**
- **In order to translate Japan’s responses to energy and environmental issues into greater competitiveness in Japanese industries, Japan needs to actively deploy policies such as the building of a sustainable resource circulation system.**

(1) Construction of a flexible yet robust energy supply-and-demand structure ~ Establishment and implementation of a comprehensive energy strategy ~

1) Construction of a flexible and environmentally friendly energy supply-and-demand structure

○ Further promotion of energy conservation and development of new energy sources

→ With the steady enforcement of the amended energy conservation law, METI will take measures in the newly added area of transportation, while further strengthening

energy-saving measures in the industrial and consumer sectors. In addition, METI will strengthen energy conservation measures that encourage technological development and the installation of new equipment.

- Budget for energy conservation measures: * JPY 157.56 billion (JPY 148.61 billion)*
- Review and extension of the existing tax system for promoting investment in energy supply-and-demand structure reform
 - Extension of tax system for encouraging environmentally-friendly vehicles
 - Promotional program for the introduction of high-efficiency water heaters:
 - *JPY 18.29 billion (JPY 10.82 billion)
 - Support program for businesses that implement energy conservation measures:
 - * JPY 26.27 billion (JPY 20.29 billion)
 - Energy conservation technology development program: JPY 56.25 billion (JPY 51.17 billion)
 - Greening and streamlining promotion program for distribution and logistics:
 - * JPY 6.3 billion (JPY 500 million)

→ In order to achieve the goal of bringing 19.1 million kl of new energy on stream by FY 2010, METI will promote the introduction of new energy by implementing intensive support measures and steadily enforcing the renewables portfolio standard (RPS) law. In addition, METI will promote the further development of high-efficiency and low-cost energy technologies.

- Budget for new energy measures: * JPY 149.3 billion (JPY 146.34 billion)*
- Support program for businesses that use new energy: JPY 39.61 billion (JPY 34.5 billion)
 - New energy technological development program: *JPY 61.85 billion (JPY 58.74 billion)
 - Local field tests of biomass energy: JPY 4 billion (new)
 - Future-type technology R&D for solar energy systems: JPY 2.02 billion (new)
 - Subsidies for the grid-connection of wind turbine generation systems: JPY 1.97 billion (new)

○ Promotion of safety-guaranteed nuclear power

→ METI will make efforts to reassure the public concerning nuclear energy by taking all possible measures to ensure its safety. At the same time, METI will strengthen safety measures for aging reactors, while further improving public relations activities regarding nuclear power safety.

- Budget relating to nuclear power safety, disaster prevention/nuclear substance protection measures: JPY 36.66 billion (JPY 34.88 billion)*

→ METI will further promote the establishment of good community relations in regions where nuclear facilities are located, as well as a steady nuclear fuel cycle. METI will also continue to promote nuclear power – which has a long investment return period – as a major source of power generation, including replacement of old reactors, through the development of an environment conducive to nuclear power generation investment.

- Development of power generating regions: * JPY 134.91 billion (JPY 134.2 billion)
 - Support for community relations in areas with aging reactors and nuclear fuel cycle facilities: JPY 14.79 billion (JPY 12.96 billion)
- Nuclear power technology development program: JPY 14.79 billion (JPY 12.96 billion)

- Development of next-generation light-water reactors, with a view to future mass-scale substitution (feasibility study):	JPY 50 million (new)
<input type="checkbox"/> Support for the development of skilled on-site maintenance technicians that transcends corporate borders:	* JPY 100 million (new)

○ **Promotion of fuel source diversification in the transport sector**

→ From a mid- and long-term point of view, METI will work to develop an optimized environment for the use of biomass fuels, synthetic liquid fuels (such as gas-to-liquid or GTL fuel), and hydrogen, etc., as potential fuel options for the transport sector. METI will also work on technological development and demonstration of these types of fuels.

<input type="checkbox"/> Research, demonstration, and other activities involving biomass fuels: *	A proportion of JPY 8.6 billion (a proportion of JPY 8.21 billion)
<input type="checkbox"/> R&D and demonstration of synthetic liquid fuels: *	JPY 4 billion (JPY 3.33 billion)
- Demonstrative research of GTL technology:	JPY 1.8 billion (new)
<input type="checkbox"/> Technological development of fuel cells and hydrogen fuel: *	A proportion of JPY 35.91 billion (a proportion of JPY 35.4 billion)

2) **Securing stable energy supply by strengthening fuel strategy**

→ In response to the changing international situation, METI will flexibly deploy comprehensive resource strategies through measures including the following: promotion of independent development of oil and natural gas in strategic areas such as Russia and diversification of supply sources; protection of Japanese mining rights in the East China Sea and other areas; strengthening of Japan’s relationship with oil and gas supplier nations; and promotion of natural gas-related research and development.

<input type="checkbox"/> Promotion of independent development and diversification of supply sources for oil and natural gas in strategic regions such as Russia:	JPY 34.03 billion (JPY 23.77 billion)
<input type="checkbox"/> Protection of Japan’s mining rights for oil and natural gas:	JPY 26.61 billion (JPY 23.06 billion)
<input type="checkbox"/> Technological development for GTL, DME, and other fuel sources:	* JPY 13.45 billion (JPY 14.03 billion)

→ METI will promote the effective management of oil reserves, while strengthening such reserves by means including increasing the national petroleum stockpile. METI will also comprehensively promote the environmentally-friendly and efficient use of natural gas and other resources, as well as the strengthening of the management base in the domestic oil industry.

<input type="checkbox"/> Petroleum stock-related budget (including LP gas reserves):	JPY 209.3 billion (JPY 224.95 billion)
<input type="checkbox"/> Development of advanced function-fusion technologies for oil refining:	JPY 6 billion (new)
<input type="checkbox"/> Development and diffusion of clean coal technology:	* JPY 16.05 billion (JPY 16.42 billion)
<input type="checkbox"/> Support for increased demand for natural gas:	* JPY 14.85 billion (JPY 14.24 billion)

3) **Promotion of energy and environmental policies across Asia**

→ In line with the increase in demand for energy in the Asian region, various measures will be reinforced in Asian countries, including introduction and enhancement of petroleum stockpiling systems and clean coal technology, as well as enhancement of energy conservation and environmental measures.

- Budget for energy conservation and environmental measures in Asia: *	JPY 8.6 billion (JPY 7.95 billion)
<input type="checkbox"/> Strengthening of energy security including the introduction and reinforcement of petroleum stockpiles in Asia:	*JPY 1.92 billion (JPY 1 billion)
<input type="checkbox"/> Promotion of the construction of energy conservation systems and new energy systems in Asia:	* JPY 6.68 billion (JPY 6.95 billion)

(2) Countermeasures to global warming

○ Efforts to reduce the level of greenhouse gases based on the Kyoto Protocol

- Based on planned targets, METI will promote a national effort to reduce greenhouse gases, as well as efforts to achieve the promised 6 percent reduction of such gases.
- From the standpoint of achieving the gas reduction commitment and making contributions to emission reduction, METI will construct a Kyoto Mechanism credit acquisition system.

- Energy conservation budget (previously mentioned):	*JPY 157.56 billion (JPY 148.61 billion)
- New energy measures budget (previously mentioned):	*JPY 149.3 billion (JPY 146.34 billion)
- Emission control of 3 gases including alternatives for chlorofluorocarbons:	JPY 1.65 billion (JPY 1.38 billion)
- Full-scale utilization of Kyoto Mechanisms:	JPY 7.39 billion (JPY 6.33 billion)

○ Mid- to long-term measures to prevent global warming

- From a long-term perspective, including enhancement of industrial competitiveness, METI will promote the development of innovative energy conservation, hydrogen utilization and CO2 recovery and retention technologies.

<input type="checkbox"/> Energy conservation technology development program (previously mentioned):	JPY 56.25 billion (JPY 51.17 billion)
- Strategic development of technology for streamlined energy use:	JPY 6.2 billion (JPY 6.2 billion)
<input type="checkbox"/> New energy technology development program (previously mentioned):	*JPY 61.85 billion (JPY 58.74 billion)
- Basic research program for state-of-the-art hydrogen energy:	JPY 1.7 billion (new)
<input type="checkbox"/> New technology program for the prevention of global warming:	JPY 6.97 billion (JPY 6.63 billion)
- Technological development for CO2 recovery and retention:	JPY 5.41 billion (JPY 5.17 billion)

- Japan strives to lead international debates on global warming in order to construct an effective global framework in which the United States and developing countries are willing to participate.

(3) Establishment of the world's first sustainable resource circulation system

○ Formulation of strategic resource policies

→ In order to secure a stable supply of the resources that are essential to maintaining industrial competitiveness, METI will survey the status of resource circulation, from mining to use, disposal, and recycling, while implementing measures such as the following: strengthening diplomatic efforts to secure resources, promotion of mineral exploration, review of stock system, and construction of alternative supply routes through the recovery and recycling of useful resources.

- *Strategic resources policies budget: *JPY 10.48 billion (JPY 9.39 billion)*

- | | |
|--|-----------------------------------|
| <input type="checkbox"/> Feasibility study program for the supply of metal resources: | JPY 100 million (new) |
| <input type="checkbox"/> Development of platinum group metal recycling: | JPY 200 million (new) |
| <input type="checkbox"/> Program for the construction of an international resource circulation system: | JPY 150 million (JPY 120 million) |

○ Enhancement of water resource strategy

→ In order to effectively use limited water resources, METI will review possible options for securing water resources and conduct a survey on securing safe water access in developing countries.

- | | |
|---|-----------------------|
| <input type="checkbox"/> Expenses for water resource strategy survey: | JPY 110 million (new) |
|---|-----------------------|

○ Boosting competitiveness through utilization of environmental protection information

→ Taking advantage of the Law for Promotion of Effective Use of Resources and other means, METI will promote optimized management of environmental protection information at each step in environmental protection design and life cycles.

- *Environment protection design budget: JPY 2.22 billion (JPY 1.88 billion)*

- | | |
|--|-----------------------------------|
| <input type="checkbox"/> Technological development for environmental protection and program for building the basis for such development: | JPY 530 million (JPY 290 million) |
|--|-----------------------------------|

○ Upgrading the container wrap recycling system

→ METI will conduct a review of the existing container wrap recycling system, in order to increase the efficiency of the overall system, improve the quality of separate recycling collection and further reduce container wrapping.

- | |
|--|
| ◎ Amendment of the Law for Promotion of Sorted Collection and Recycling of Containers and Packaging: |
|--|

Expected to be submitted to the next Diet session

4. Revitalization of small and medium enterprises and the recovery of regional economies

- In order to encourage active business development by SMEs, which are a major source of the vitality of the Japanese economy, the following measures need to be implemented: support for SMEs that play a predominant role in basic technologies; development and retention of human resources; facilitation and diversification of fund supply; and enhancement of the SME financial base.
- In order to revitalize regional economies, which make up the larger part of the Japanese economy, amid depopulation, reduced birthrates, graying of the population and financial constraints, each regional economy should develop an environment in which local resources are effectively utilized in a creative fashion.

(1) SME revitalization

- Focused support for companies that play important roles in basic technology (previously mentioned)
- Securing and development of human resources at SMEs (previously mentioned)
- Facilitation of SME financing

→ **Review of credit insurance system**

METI will enhance SME management and recovery support through diversification of the existing credit insurance system, in consideration of SME needs as well as the appropriate sharing of responsibilities with financial institutions.

- Subsidies for National Federation of Credit Guarantee Corporations fund:
JPY 6.77 billion (JPY 5.4 billion)

→ **Further promotion of SME financing that does not overly depend upon real estate security and guarantors**

No-collateral, conventional loans by government-affiliated financial institutions will be expanded, including support for securitization of debts and increased upper limit for loans secured by accounts receivable and inventory.

- Securitization support program by the Japan Finance Corporation for Small and Medium Enterprises: JPY 5.9 billion (JPY 3.5 billion)
- Increased upper limit for no-collateral loans by government-affiliated financial institutions

→ **Improvement in SME fund-raising ability**

In order to encourage improvements in financial strength, a radical review will be conducted on support for raising the quality of SME accounting as well as undistributed profit taxation.

- Expansion of SME collateral exemption system through application of the Guidelines for SME Accounting.
- Radical tax revisions, including abolition of undistributed profit taxation at family companies

○ **Revitalization of city centers**

→ In order to encourage the building of compact and lively towns, the Japanese government will facilitate the amendment of the city center revitalization law. METI will provide intensive support for comprehensive revitalization projects that aim to shift overall city functions to city centers.

◎ **Amendment of the Law on Improvement and Vitalization in City Centers:**

Expected to be submitted to the next Diet session

□ **Strategic assistance project for revitalization of commerce in city centers:**

JPY 8 billion (JPY 4.1 billion)

○ **Review of SME cooperative system**

→ In order to improve the health and transparency of SME cooperative operations, METI will conduct a review of the existing SME cooperative system and try to utilize such cooperatives in community projects in which SMEs and local residents cooperate.

◎ **Amendment of Law on the Cooperative Association of Small and Medium Enterprises:**

Expected to be submitted to the next Diet session

(2) Revitalization of regional Economies

○ **Support for large municipal areas' self-regulated economic development**

→ In order to enable large municipal governments to make efforts for self-regulated economic development, METI will support the consolidation of industrial facilities through collaboration with multiple municipal governments, as well as integration of regional industrial promotion measures.

□ **Model project for industrial promotion plan survey in large municipal areas:**

JPY 160 million (new)

□ **Support program for consolidation and streamlining of industrial facilities: ***

JPY 4.13 billion (JPY 1.4 billion)

○ **Further promotion of industrial cluster plans**

→ With regard to the industrial clusters policy, METI will continue its efforts to enhance its business-academia-government network in the regions and develop an environment conducive to innovation in the regions through closer coordination of related policies, such as those on new collaborative initiatives, human resources development, and intellectual property, in order to revitalize regions through technological innovation (aiming to have launched a total of 50,000 clusters between FY 2002 to 2006).

- *Industrial cluster budget: *JPY 77.9 billion (JPY 46.53 billion)*

□ **Program for the formulation of an assistance network for wide-ranging new business activities:**

* JPY 2.01 billion (JPY 2.01 billion)

□ **Regional rebirth consortium R&D program:**

* JPY 22.39 billion (JPY 13.72 billion)

○ **Support for the revitalization of city centers (previously mentioned)**

○ **Innovation in service industries**

→ With regard to health & fitness, regional promotion and other service industries that support regional economies, METI will collaborate with other ministries and agencies concerned in order to support development of human resources and business bases. The aim is to expand the market size of the health service industry (from about JPY 56 trillion in 2002 to about JPY 75 trillion in 2010), and to double the number of foreign visitors to Japan (from 6.14 million in FY 2004 to 10 million in FY 2010).

- Program for supporting the creation of new service industries (previously mentioned):**
* **JPY 4.14 billion (JPY 3.55 billion)**
- Program for human resources development in service industries (previously mentioned):**
JPY 1.04 billion (JPY 770 million)