

Section 5 Initiatives to support the formation of global and regional rules

In addition to economic partnership agreements, the establishment of and compliance with rules by bodies such as the WTO and APEC, as well as by plurilateral initiatives in individual fields, are essential to improving the trade environment.

1. The World Trade Organization (WTO): A multilateral free trade system

The contracting parties to GATT, which took effect in 1948, held multilateral negotiations on eight occasions and sought to formulate free and fair trade rules. Following several rounds of negotiations²⁷, tariff reductions were progressively achieved and trade-related rules were also put in place in areas other than tariffs. Following the conclusion of the Uruguay Round in 1993, GATT underwent a progressive reorganization, resulting in the establishment of the WTO (World Trade Organization).

In addition to taking over GATT's role of reducing tariffs on trade in goods and non-tariff barriers as well as strengthening and enhancing trade rules to increase security and predictability through the rounds of negotiations, the WTO expanded the scope of rules to cover trade in services and the trade-related aspects of intellectual property rights for the first time. Furthermore, the dispute settlement mechanism was fundamentally strengthened. Compared to GATT, the WTO became a more effective organization with a broader scope.

Regarding the Doha Round which was launched in 2001, at the Eighth WTO Ministerial Conference (MC8) in December 2011, after acknowledging that a simultaneous conclusion of all elements of the Round²⁸ was unlikely in the near future, Ministers recognized the need to more fully explore different negotiating approaches and agreed to advance negotiations where progress could be achieved. Through subsequent negotiations, Members shared a common recognition that trade facilitation, some elements of agriculture, and development were fields in which progress was possible and, as a result of intensive negotiations at the Ninth WTO Ministerial Conference (MC9) held in Bali, Indonesia in December 2013, an agreement was reached in the form of the Bali Package.

Outside the round negotiations, dispute settlement procedures aimed at enforcing WTO agreements (rules) are also functioning effectively and the use of these procedures is growing, including among emerging economies. Moreover, since the global financial crisis triggered by the Lehman Shock, some countries have introduced protectionist measures such as export restrictions of mineral resources and measures implemented under the pretext of supporting domestic industry or securing employment. Japan is actively utilizing the WTO's dispute settlement procedures to request rectification of such measures.

This section provides a broad overview of the enforcement of existing WTO agreements, the status of the Doha Round negotiations, efforts to counter protectionism, and initiatives outside the round negotiations — namely ITA (Information Technology Agreement) expansion negotiations, Trade in Services Agreement, negotiations on environmental goods and initiatives to revise the Agreement on

²⁷ Since the fifth round of negotiations (the Dillon Round), which began in 1960, multilateral negotiations have been referred to as “the XX Round”.

²⁸ See Table 1 Fields of Negotiations and Major Issues Regarding the Doha Round Single Undertaking.

(1) Enforcement of the existing WTO Agreements (rules)

As well as stipulating rules for free and fair trade, the WTO agreements lay the ground rules for dispute settlement procedures in the event of trade disputes between member countries and regions, by clarifying the interpretation and application of the rules. The procedures on WTO are highly effective when compared with dispute settlement procedures in other multilateral international agreements, as they provide for not only recommendations on bringing measures at issue into the consistency with the WTO agreement, but also the initiation of countermeasures in the event that a party complained against does not take a measure to comply with a recommendation. Requesting that other countries and regions rectify legislation and measures that are inconsistent with the WTO agreements is vital not only simply to eliminate any disadvantage to Japan, but also to guarantee the effectiveness of the agreements. Moreover, in order to ensure that trade disputes do not needlessly cause political problems, it is necessary to make sure that claims and responses are based on the rights and obligations on the WTO agreements.

Based on this policy, Japan utilizes both bilateral negotiations and the WTO's dispute settlement procedures to request remedies for any legislations or measures adopted by another country that are inconsistent with the WTO agreements. Dispute settlement procedures have been substantially strengthened under the WTO. As a result, the rules for dispute settlement are more actively used by member countries than those of the GATT, and the number of requests for consultations based on the dispute settlement procedure has increased markedly. Since the WTO's launch in 1995, its dispute settlement procedure has been initiated in 474 cases (as of April 11, 2014). Amid this situation, Japan has requested consultations as a party to a dispute in 19 cases, and is also involved in numerous other cases as a third-party country.

(2) Cases referred to the dispute settlement procedure for a solution

Japan uses bilateral negotiations, the WTO dispute settlement procedure, and any other available opportunities to seek remedies for those legislations and measures of foreign governments that are consistent with the WTO agreements. The following outlines the most recent examples of cases that Japan is seeking to resolve by referring them to the WTO's dispute settlement process as a party to the dispute.

(A) Response to China's export restrictions on raw materials

The Chinese government imposes export restrictions ((i) export duties, (ii) export quotas, and (iii) minimum export prices) on numerous raw materials. Other countries have made repeated requests China to eliminate the export restrictions at the WTO committee and bilateral consultations on the grounds that China's export restrictions are inconsistent with both GATT (the General Agreement on Tariffs and Trade) and China's WTO accession protocol. The Chinese government responded that its export restrictions are consistent with Article XX of GATT, as their purpose is to protect the

environment and conserve exhaustible natural resources. However, China did not provide a detailed explanation of any grounds justifying the measures under China's accession protocol.

In June 2009, the U.S. and EU requested consultations on the grounds that export restrictions on nine raw materials, including bauxite, coke, and fluorspar, were inconsistent with the WTO agreements, but as the consultations did not lead to a solution, a panel was established in December that year (with Japan participating as a third-party country). In July 2011, the panel report was released, stating that China's export restrictions were inconsistent with the WTO agreements. China appealed the following month, but in January 2012, the Appellate Body report broadly upheld the panel's findings. As a result, China was required to bring the export restrictions which are inconsistent with the WTO agreements into conformity with WTO Agreements; a deadline of December 31, 2012 was set for doing so. Since January 2013, the Chinese government has abolished the export duties on six items, namely bauxite, coke, fluorspar, magnesium, manganese, and silicon metal, and has revised the rate of duty on yellow phosphorus and zinc to within the scope prescribed in China's accession protocol. In addition, China has implemented the recommendations, including the abolition of export quotas on bauxite, coke, fluorspar, silicon carbide, and zinc.

In March 2012, Japan, the U.S., and the EU requested WTO consultations regarding China's export restrictions (export duties, export quotas, and restrictions on trading rights) on rare earths, tungsten, and molybdenum. These consultations were held in April 2012. However, in June of that year, the three countries requested a panel be established, as the consultations had not reached a solution, and the panel was established in July. Subsequently, on March 26, 2014, the panel released its report, which fully approved the claim by Japan, the U.S., and the EU that China's export restrictions are inconsistent with Article XI of GATT (General Elimination of Quantitative Restrictions), paragraph 11 (3) of China's WTO accession protocol (Elimination of Export Duties), and paragraph 5 (1) of China's WTO accession protocol (Restriction of the Trading Right). The panel's rulings were significant not only in securing a stable supply of natural resources, such as rare earths, but also in restraining the proliferation of protectionism observed in some resource-endowed countries. Japan will strongly urge China to accept the Panel's rulings and the recommendations that follow and eliminate its export restrictions as soon as possible.

(B) Local content requirement in the feed-in tariff program for electricity in Ontario, Canada

In May 2009, the Canadian province of Ontario established a feed-in tariff (FIT) program for the generation of electricity via renewable energy, in order to promote more widespread use of renewable energy. As a condition of entry to the feed-in tariff program for power generation operators, they were obliged to use solar photovoltaic and wind power generation equipment to which a certain proportion of value had been added (via assembly, procurement of raw materials, etc.) in the province (local content requirement). This measure constituted a violation of Article III of GATT, which prescribes a duty of national treatment, and Article 2 of the Trade-Related Investment Measures (TRIMs).

Japan initially sought to resolve the issue through bilateral discussions, including high-level approaches to the Canadian federal government, as well as expressing its concerns to the Ontario

government via the local consulate-general. However, it was unable to secure a positive response from the Canadian side, so in September 2010, Japan requested bilateral consultations with Canada based on the WTO. In June 2011, Japan requested the establishment of a panel; after being established in July, the panel meetings were held in March and May 2012. In December 2012, the panel issued its final report. The report broadly accepted Japan's claim that the local content requirement in the purchase conditions should be eliminated on the basis of the WTO agreements, and the panel ruled that Canada was giving undue preferential treatment to goods produced in the province, in violation of Article III of GATT and Article 2 of TRIMs. Based on this recognition, the panel recommended Canada to take steps to ensure that the measures in violation of GATT and TRIMs were brought into conformity with the WTO agreements. In February 2013, Canada appealed the panel's ruling to the Appellate Body and the Appellate Body's final report was published in May 2013. This report endorsed the decision made by the Panel.

In response to the Appellate Body report, Canada agreed with Japan to implement the recommendations within ten months (by March 24, 2014). In August 2013, the government of Ontario published a directive from the energy minister, stating that the proportion of local content would be reduced from 50% to 20% in the case of small-scale wind power generation projects and from 60% to 19-28% in the case of small-scale solar photovoltaic power generation projects, as an interim step toward the implementation of the recommendations. Ontario's parliament is currently discussing a reform bill to eliminate the local content requirement.

(C) Introduction and extension of Argentina's non-automatic import license system

In November 2008, the Argentine government introduced a non-automatic import license system in regard to metal products (elevators, etc.), which imposed a requirement to submit an application providing such details as the importer, the exporter, and the price and quantity of the goods being imported. This system was subsequently extended and now covers around 600 different goods. In addition, it imposed on importers trade balancing requirements (i.e. requiring that for every \$1 of imports, there must be \$1 of exports). Furthermore, in February 2012, it introduced an additional import permit system in the form of the Advance Sworn Import Declaration system, requiring importers of all goods to submit a prior application to the Federal Administration of Public Revenue. In January 2013, the non-automatic import license system was abolished, but the other measures (the Advance Sworn Import Declaration and the trade balancing requirements, etc.) are still in existence.

These import-restrictive measures have the potential to conflict with Article XI of GATT (General Elimination of Quantitative Restrictions).

In August 2012, in light of requests for improvement received from industry, Japan joined the U.S. and Mexico in requesting bilateral consultations, which took place that September, but as a satisfactory solution could not be reached, Japan, the U.S., and the EU together requested in December 2012 that a panel be established. The panel was established in January 2013 and the case is currently being considered.

(D) AD (anti-dumping) measures imposed by China against stainless steel seamless tubes from Japan

In September 2011, upon a written application by the domestic industry, the Chinese government initiated an AD investigation concerning imports of high-performance stainless steel seamless tubes from Japan and the EU. In November 2012, the Chinese government made a final determination imposing AD duties on these products on the basis of its finding of dumping, injury to the domestic industry, and the causal relationship between them.

These measures may be inconsistent with the AD Agreement, as there have seemingly been flaws in the investigation process, such as an insufficient description of the facts in the public notice of the final determination, as well as flaws in the finding of injury caused to the domestic industry by dumping.

Accordingly, at the meetings of the WTO AD Committee in the autumn of 2011 as well as the spring and autumn of 2012, Japan pointed out that most of the relevant products exported from Japan were high-grade products used, e.g., in boilers for ultra-supercritical coal-fired thermal power stations which did not compete with Chinese products, and therefore did not cause injury to the domestic industry. In addition, Japan strongly requested that an appropriate determination be made by taking into consideration the views of users of the Japanese products in question within China. Japan continued to seek a solution via dialogue, lobbying the Chinese government for Japanese products to be excluded from the scope of the investigation. However, as it was unable to reach a solution, in December 2012, Japan requested bilateral consultations with China based on the WTO agreements, which took place in January 2013 (with the EU participating as a third-party country). A panel was established in May, following a request made by Japan the previous month in light of the outcome of the consultations. In June, the EU also requested WTO consultations on this matter and a panel was established in August, following a request from the EU earlier that month. The panels established at the request of both Japan and the EU are currently engaged in deliberations on this matter.

(E) Russia's recycling fee on motor vehicles

On September 1, 2012, the Russian government introduced a recycling fee on motor vehicles, obliging the importers of motor vehicles and Russian domestic automobile producers to pay a fee for recycling motor vehicles. Russian domestic producers who accepted their obligation to ensure the safe disposal of waste are exempted from paying the recycling fee, but the exemption is conditional upon the vehicles using components manufactured in a country that is a member of Russia's customs union (Russia, Kazakhstan, and Belarus), among other conditions. In addition, the recycling fee was deemed not to be applicable to cars imported from countries within the customs union if they met certain conditions.

Granting the possibility of an exemption from the recycling fee only to domestically-produced vehicles, deeming it not to be applicable to vehicles from other members of the customs union, and eliminating the possibility of an exemption for imported vehicles has the potential to violate the duty of national treatment (Article III of GATT). Accordingly, from June 2012 onwards, Japan expressed its

concerns via the Minister of Economy, Trade and Industry and the Minister for Foreign Affairs in high-level meetings with Russia's Minister for Economic Development and First Deputy Prime Minister, among others. Moreover, Japan expressed its concerns alongside the U.S. and the EU at a meeting of the WTO Goods Council.

In April 2013, in response to these requests, the Russian government announced a bill to reform the recycling fee system, to make it consistent with the WTO (abolishing the exemption system for domestic producers and other members of the customs union, and obliging all companies to pay the fee). However, in light of the announcement in June that year that the debate on the bill (which had originally been scheduled for July 1) had been postponed to the autumn, the EU and Japan each submitted requests in July for WTO consultations with Russia, which took place in July and August, respectively. Following these requests for the system to be rectified, the act revising the recycling fee system was passed by the Russian Federal Assembly in October 2013 and entered into force on January 1, 2014.

Under this revision, (i) the exemption system for Russian domestic producers that meet certain conditions, and (ii) the exemption system for vehicles imported from other members of the customs union were abolished, basically rectifying the issue of discrimination between domestic and foreign producers and the favored treatment granted to certain countries. In future, Japan will continue to pay close attention to situation in terms of the entry into force and operation of the revised law and relevant implementing ordinances, to ensure that Japanese companies are not subject to treatment that discriminates between domestic and foreign manufacturers.

(F) Ukraine's safeguard measures on passenger cars

In July 2011, Ministry of Economic Development and Trade in Ukraine initiated a safeguard investigation on imports of passenger cars (passenger cars with a displacement of 1,000-1,500cc and those with a displacement of 1,500-2,200cc), setting on the investigation period 2008-2010. In April 2012, Interdepartmental Trade Commission recommended that safeguard measures (imposition of an additional tariff) should be imposed. However, the fact that the number of passenger cars imported into Ukraine showed a substantial decline during the investigation period was one of a number of points that gave rise to strong doubts about whether the requirements concerning the application of such measures are consistent with the Agreement on Safeguards. Accordingly, Japan and the EU expressed their concerns to the Committee on Safeguards of WTO in October 2011 and April 2012. Moreover, Japan requested that Ukraine refrain from applying these measures, expressing its concerns via participation in public hearings, bilateral consultations, and letters to the Ukrainian Minister of Economic Development and Trade.

However, in March 2013, the Ukrainian government announced that it had decided to apply safeguard measures, stating that it would “for the next three years, impose the measures 30 days after the announcement, imposing an additional tariff of 6.46% on imported passenger cars with a displacement of 1,000-1,500cc, and of 12.95% on imported passenger cars with a displacement of 1,500-2,200cc.” Ukraine began to levy the additional duty in April of that year. In response to this

movement, Japan repeatedly requested Ukraine to withdraw the safeguard measures on several occasions such as the ministerial level, bilateral talks and meetings of relevant WTO committees. However, since the situation was not improved, in October 2013 Japan requested the consultations Under the WTO agreements. Consultations with Ukraine were held in November 2013 and again in January 2014. But as a satisfactory solution could not be reached Japan requested a panel establishment in February 2014 and a panel was established in March 2014. Japan will aim to seek a solution to this matter via the WTO's dispute settlement procedure, while continuing to closely monitor Ukraine's movement.

(3) The Doha Round negotiations (promotion of multilateral negotiations)

(A) Characteristics and history of the Doha Round negotiations

The launch of the Doha Development Agenda (hereinafter "the Doha Round") was declared at the Fourth WTO Ministerial Conference in Doha, Qatar in 2001. It is characterized by the fact that it covers not only the liberalization of trade in goods, but also a wide range of other negotiating areas tailored to the new age of globalization and widespread use of IT, including trade in services and trade rules such as anti-dumping, as well as environmental issues and developing country issues. For Japan, the promotion of this round is significant as (i) it will reduce tariffs in other developed countries and major developing countries; (ii) it will make it easier for companies in Japan's services sector to enter overseas markets; (iii) it will increase security and predictability by strengthening trade rules, thereby preventing trade disputes; and (iv) it provides an opportunity for member countries and regions to promote domestic structural reforms.

Round negotiations are complex and difficult, because they aim to achieve an agreement between member countries and regions that are at different stages of economic development and have different interests and concerns. The conclusion of the Uruguay Round was reached after eight years of persistent negotiations, characterized by numerous breakthroughs and setbacks, between relevant parties. As regards the Doha Round, following the failure of the Ministerial Meeting in July 2008, negotiations reached an impasse due to conflicts between developed and developing countries. In the "Elements for Political Guidance" from the Chairman's Concluding Statement at the Eighth Ministerial Conference in December 2011, after acknowledging that a single undertaking in the Doha Round was unlikely in the near future, Ministers recognized the need to more fully explore different negotiating approaches and agreed to advance negotiations where progress could be achieved, including focusing on the elements of the Doha Declaration that allow Members to reach provisional or definitive agreements based on consensus earlier than the full conclusion of the single undertaking (Table III-1-5-1).

Through subsequent negotiations including informal ministerial meetings, trade facilitation, some elements of agriculture, and development were identified as areas where progress could be achieved. The commitment to deliver outcomes consisting of the three areas at the Ninth Ministerial Conference in December 2013 (the Bali Package) was repeatedly reaffirmed on occasions such as APEC Ministerial and Economic Leaders' Meetings.

Table III-1-5-1 Items Negotiated in the Doha Round and main issues

Agriculture	Reducing domestic subsidies, reducing tariffs, giving preferential measures for developing countries
NAMA (Non-agricultural market access)	Tariff reduction (the Swiss Formula, sectoral elimination of tariffs), elimination of non-tariff barriers
Services	Liberalization such as reduction of foreign investment restrictions, strengthening disciplinary rules such as transparency of domestic regulations
Rules	Strengthening disciplinary rules for anti-dumping measures and subsidies
Trade facilitation	Simplification and acceleration of customs procedures, assistance to LDCs regarding implementation of measures
Development	Special and Differential treatment (S&D) for developing countries
TRIPs (intellectual property rights)	Multilateral register of geographical indications (GI) for wine and spirits
Trade and the environment	Trade liberalization and facilitation on environmental goods and services.

Source: METI.

(B) The Ninth Ministerial Conference

After Roberto Azevêdo took over as Director-General in September 2013, negotiations were accelerated with a view to concluding the Bali Package by the end of October in order to ensure the success of the Ninth Ministerial Conference. Of the three areas, although progress was seen in the area of development, where there was relatively little political conflict, negotiations faced difficulties in the areas of trade facilitation, where there were many remaining issues, and agriculture, where there was a conflict between the U.S. and India over a proposal regarding public stockholding for food security purposes. Director-General Azevêdo continued negotiations, progressively extending the negotiation deadline, but at the November 26 General Council Meeting, negotiations broke down on the verge of a final agreement. As such, he requested Members to figure out a way forward and the Ninth Ministerial Conference went ahead without concluding the negotiations.

Even after the Ninth Ministerial Conference opened, India adhered to its positions, strongly advocating the need to reach a permanent solution for the issue of public stockholding for food security purposes. This put the adoption of the Bali Package under threat, but the U.S. and India continued to negotiate behind closed doors and eventually reached an agreement. Although some countries advocating anti-liberalization strongly opposed the draft of the final agreement on the Bali Package, Director-General Azevêdo's tireless efforts to coordinate views yielded an agreement by all Members (Figure III-1-5-2).

Trade facilitation, which was agreed at the Ninth Ministerial Conference, would support the global activities of Japanese companies through the simplification and enhanced transparency of customs procedures. At the same time, if an Agreement is adopted, it would be the first multilateral trade Agreement by all Members since the establishment of the WTO in 1995. The Ninth Ministerial Conference achieved a groundbreaking outcome in the 13-year Doha Round negotiations and has contributed substantially to maintaining the credibility of the WTO's negotiating function (Figure III-1-5-3).

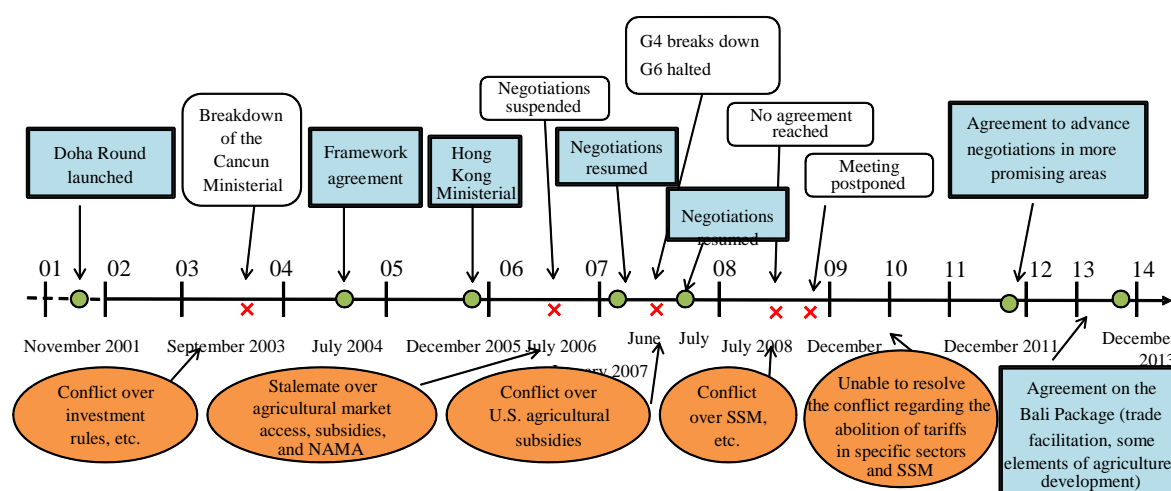
At the Ninth Ministerial Conference, in addition to the Bali Package, Members agreed to prepare a work program on the remaining issues of the Doha Round within the next 12 months. At the Informal WTO Ministerial Gathering hosted by Switzerland in Davos on January 25, 2014, discussions concerning the approach to future WTO negotiations began. Regarding the work program, Director-General Azevêdo stated that it is necessary to consider the interconnectedness of issues, that both transparency and inclusiveness of the process are vital, and that care should be taken to achieve a balance between doability and ambition. At present, discussions on future WTO negotiations are being held by Members, and Japan will continue to actively contribute to such negotiations, with a view to maintaining and strengthening the multilateral trading system embodied in the WTO.

Table III-1-5-2 Contents of the Bali Package

Trade facilitation	<ul style="list-style-type: none"> • Stipulates measures that each country should implement to accelerate customs procedures and improve the transparency of trade rules (development of a system for pre-arrival processing and an advance ruling system, etc.) • Stipulates that, for developing countries, implementation of provisions will not be required until implementation capacity has been acquired, and that assistance and support will be provided by donors (developed countries, etc.) if a developing country lacks the necessary capacity
Agriculture	<u>(i) Ministerial Decision on public stockholding for food security purposes</u> <ul style="list-style-type: none"> • Until a permanent solution is reached, Members refrain from challenging public stockholding for food security purposes through the Dispute Settlement Mechanism, even if such measures constitute domestic support subject to reduction under the WTO Agreement on Agriculture • The aforementioned agreement is an interim solution and Members will negotiate to agree on a permanent solution on public stockholding by the 11th Ministerial Conference
	<u>(ii) Understanding on tariff rate quota administration provisions (Ministerial Decision)</u> <ul style="list-style-type: none"> • Stipulates rules for improving the transparency of tariff rate quotas administration and improving quota fill rates
	<u>(iii) Ministerial Declaration on export competition</u> <ul style="list-style-type: none"> • Political declaration that members will exercise utmost restraint in the use of agricultural export subsidies
Development	<ul style="list-style-type: none"> • Dedicated Discussion will be held to verify progress on cotton
	<ul style="list-style-type: none"> • Guidelines on preferential rules of origin for LDCs
	<ul style="list-style-type: none"> • Preferential measures in the service sector for LDCs
	<ul style="list-style-type: none"> • Duty-Free and Quota-Free market access for LDCs
	<ul style="list-style-type: none"> • Monitoring mechanism for Special and Differential treatment (S&D) for developing countries

Source: METI.

Figure III-1-5-3 History of the Doha Round Negotiations



Note 1: G4 consists of the U.S., the EU, India, and Brazil. G6 consists of G4 + Japan and Australia.

Note 2: SSM: Special safeguard mechanism for the agricultural sector in emerging economies

Source: Ministry of Economy, Trade and Industry.

(4) Resisting protectionism

Following the global financial crisis triggered by the Lehman Shock in September 2008, political pressure to introduce protectionist measures aimed at supporting domestic industry and securing employment increased in each country²⁹. There was strong concern that submission to this political pressure by one country would lead to other countries following suit or taking reprisals, resulting in a worldwide proliferation of protectionism that would adversely affect global trade and the global economy. Amid this situation, the multilateral trading system embodied in the WTO has played a crucial role in resisting protectionism and maintaining the free trade system.

The 10th Report on G20 Trade and Investment Measures, published in December 2013, noted that the number of new protectionist measures implemented by G20 members during the investigation period had increased compared with the previous period, and called upon G20 members to reinforce their efforts to counter protectionism. Such reports are expected to strengthen the monitoring of each country's trade measures and help prevent the proliferation of protectionist measures.

In addition, high-level international political statements calling for efforts to resist protectionism have been adopted at G20 and APEC meetings. Members have the obligation to comply with the WTO agreements, but political statements are significant because they express a level of commitment above and beyond that stipulated in the WTO agreements.

To effectively counter protectionism, the G20 and APEC political statements on resisting protectionism include two major elements. One is the standstill commitment, a pledge to not introduce

²⁹ See Chapter 2, Section 3 of the White Paper on International Economy and Trade 2009.

any new protectionist measures. The other is the rollback commitment, a pledge to rectify protectionist measures that are already in place³⁰. At the G20 Saint Petersburg Summit in September 2013, Leaders affirmed their rollback commitment and agreed to extend their standstill commitment until the end of 2016.

(5) Negotiations on expansion of the ITA

(A) Background to negotiations on expansion

Focusing on 144 types of IT product (HS 6-digit heading basis: only those items listed in Attachment A³¹), the ITA (Information Technology Agreement) is an agreement to remove bound rates on these items from countries participating in the agreement. An agreement was reached by 29 countries, including Japan, the U.S., the EU, and ROK, at the Singapore WTO Ministerial Conference in December 1996, and went into effect in 1997. Since then, the number of participating countries has increased to include China, India, and Thailand, among others, with participants in the agreement numbering 78 countries and regions as of February 2014 (however, neither South Africa nor such major Latin American countries as Mexico and Brazil are taking part). These countries' items covered by the ITA account for more than 97% of the total value of world trade, so the ITA will contribute to the elimination of tariffs worth approximately 15% (\$4.8 trillion (2011)) of the total value of world trade. The main items covered include semiconductors, computers, communications equipment, and semiconductor manufacturing equipment.

Sixteen years have passed since the current agreement went into effect, so hopes are growing in each country's industrial sector that the list of goods in the current agreement will be expanded and the scope of application of the list clarified to take account of technological progress during that time.

Negotiations concerning the expansion of the ITA aim to clarify the focus of the ITA (including the transfer of items from Attachment B to Attachment A of the current agreement), which has, in the past, been referred to the WTO's dispute settlement procedure over the expansion of the list of items covered by the ITA and its scope, specifically, in relation to medical equipment and digital cameras, which have become more advanced and digitized due to technological progress, as well as new types of high-performance, multifunctional integrated circuits.

(B) Developments leading up to the launch of negotiations on expansion

In March 2011, 39 industry groups from 17 countries including Japan, the U.S., ROK, and Taiwan (increasing to 41 industry groups from 18 countries that May) issued a joint statement requesting the expansion of the ITA. In response, within APEC, in which almost all of the main participants in the ITA (such as Japan, the U.S., China, ROK, and Taiwan) are involved, Japan and the U.S. worked together to begin building momentum with a view to launching negotiations within the WTO

³⁰ At the 2012 G20 Los Cabos Summit, Leaders reaffirmed the standstill and rollback commitments they had made at the Cannes Summit. (June 2012 G20 Los Cabos Summit Leaders Declaration)

³¹ The list of items covered by the ITA consists of Attachment A (in which the items covered are identified by their HS) and Attachment B (a list of items covered irrespective of their tariff classification).

concerning the expansion of the ITA. More specifically, at the APEC Leaders' Meeting in Honolulu in November 2011, an agreement was reached that "the APEC economies will play a leadership role in launching negotiations to expand the product coverage and membership [of the ITA]."

In response to this APEC Leaders' Declaration, Japan and the U.S. worked together to reconcile views among participating countries, with a view to launching negotiations in the first half of 2012. On the other hand, consultations among the various countries continued right up until the final stage of launching negotiations, with the EU insisting that negotiations concerning tariffs should be linked to negotiations concerning non-tariff barriers in the negotiations on expanding the ITA, while Japan and the U.S. argued that they should concentrate on tariff-related negotiations, to meet the expectations of industry and ensure that the WTO was able to produce results quickly, given that the Doha Round was deadlocked. Japan and the U.S. lobbied the EU in partnership with other countries and ultimately secured the EU's agreement to conduct negotiations on tariffs separately from those on non-tariff barriers, thereby paving the way for the launch of negotiations.

In May 2012, Japan and the U.S. jointly submitted to the WTO a concept paper calling for the launch of negotiations on expansion. At the ITA Committee meeting, which took place the day after the Symposium of the 15th Anniversary of the ITA was held on May 14 at the WTO Secretariat in Geneva, the various countries strongly endorsed the expansion of the ITA and the commencement of work to this end. This marked the start of substantive negotiations.

(C) Current status of negotiations on expansion

From the end of May 2012, monthly negotiation meetings were held in Geneva with the participation of such interested parties as Japan, the U.S., the EU, ROK, Thailand, and Malaysia. Work progressed on identifying the items that each party wished to add and organizing them into a list of candidate goods.

During the negotiation meetings in the autumn of 2012, work began on narrowing down the list of candidate goods, with the participation of the Philippines, Singapore, and China (the world's biggest trading nation in the IT products sector). In addition, discussions took place regarding the sensitive items for each country. However, the July 2013 negotiation meeting was halted, due to a lack of significant improvement in China's extensive list of sensitive items.

Various countries took the opportunity offered by meetings of APEC and other bodies to continue high-level approaches to China and, as a result, negotiations resumed in October 2013.

Following the resumption of negotiations, while various countries offered concessions at the November 2013 meeting, with a view to reaching an agreement, China continued to insist upon a large number of sensitive items, so no agreement was reached. Currently, the countries involved are coordinating with each other, with a view to resuming negotiations as soon as possible.

As of February 2014, 55 countries and regions (28 of which are accounted for by the EU) are participating in the negotiations on ITA expansion, between them accounting for at least 90% of the total value of world trade in the items covered by the current ITA.

(6) Progress in discussions on a Trade in Services Agreement

Given the length of time since GATS entered into force in 1995 and the fact that the widespread use of the Internet and other technological innovations have brought about major changes in the supply and consumption of services, there have been calls for the revision of the schedules of commitments and the formulation of new rules, to take account of changes of circumstances within the WTO as well. However, the Doha Round negotiations have been at an impasse with little prospect for rapid progress, member countries have promoted the liberalization of trade in services through the conclusion of FTAs/EPAs.

Amid this situation, at the Eighth WTO Ministerial Conference in December 2011, Ministers agreed (i) to remain committed to working actively toward a successful conclusion of the Doha Development Agenda that developing countries strongly support, and (ii) to explore different negotiating approaches that build on possible results such as provisional or definitive agreements based on consensus earlier than the full conclusion, acknowledging that a single undertaking is unlikely in the near future.

In light of this, as part of these “different negotiating approaches,” discussions began in early 2012 concerning the establishment of a new agreement aimed at the liberalization of trade in services among interested Members. On July 5, 2012, a press release entitled “Advancing Negotiations on Trade in Services” was officially announced, detailing the areas where consensus had been reached through discussions over the previous six months or so, with the aim of maintaining and increasing the momentum of negotiations, ensuring transparency for countries and regions other than those previously participating members, and encouraging them to take part in the discussion. The voluntarily-participating countries and regions, which include Japan, held successive rounds of talks aimed at reaching a new trade in services agreement tailored to the 21st century, discussing such matters as new rules and methods of commitments for liberalization. In June 2013, participants issued a joint statement confirming that they had entered into the full negotiating stage³². A total of 23 countries and regions are members as of the end of March 2014 (Japan, the U.S., the EU, Australia, Canada, ROK, Hong Kong, Taiwan, Pakistan, Israel, Turkey, Mexico, Chile, Colombia, Peru, Costa Rica, Panama, New Zealand, Norway, Switzerland, Iceland, Paraguay, and Liechtenstein).

(7) Negotiations on Environmental Goods Agreement

(A) Background to discussions

The launch of negotiations on “the reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods and services” and the establishment of the Committee on Trade and Environment Special Session (CTESS) were included in the 2001 Doha Ministerial Declaration. In response, discussions began within the CTESS concerning the list of environmental goods to be subject to the reduction or elimination of tariffs.

Subsequently, with the Doha Round negotiations having reached a stalemate, the venue for

³² See the MOFA website (http://www.mofa.go.jp/mofaj/press/release/press6_000387.html).

discussions concerning the reduction or abolition of tariffs on environmental goods shifted to APEC. At the November 2011 APEC Leaders' Meeting in Honolulu, participants agreed to reduce applied tariff rates on the goods concerned to 5% or less by the end of 2015, while at the APEC Leaders' Meeting in Vladivostok in September 2012, they agreed on a list of 54 environmental goods.

(B) Current situation

Due in part to the agreement at APEC to reduce tariffs on 54 types of environmental goods, discussions among the "Friends of Environmental Goods and Services" (Japan, the U.S., the EU, ROK, Taiwan, Singapore, Canada, Australia, New Zealand, Switzerland, and Norway) began in Geneva in November 2012, concerning the approach to future WTO negotiations on the liberalization of environmental goods.

In June 2013, the U.S. announced the President's Climate Action Plan. This stated that, based on the APEC List of Environmental Goods, the U.S. would work to launch negotiations at the WTO towards global free trade in environmental goods, including clean energy technologies such as solar, wind, hydro, and geothermal, and that over the next year, it would work towards securing the participation of countries which account for 90% of global trade in environmental goods.

Discussions in Geneva accelerated after an agreement was reached at the October 2013 APEC Leaders' Meeting in Bali to explore opportunities to make progress at the WTO, based on the APEC List of Environmental Goods. In January 2014, at the initiative of the U.S., 14 voluntarily-participating countries and regions (Japan, the U.S., the EU, China, ROK, Taiwan, Hong Kong, Singapore, Canada, Australia, New Zealand, Switzerland, Norway, and Costa Rica) issued a joint statement aimed at the launch of WTO negotiations concerning environmental goods. This was timed to coincide with the WTO's informal ministerial meeting at Davos. More specifically, it welcomed the APEC Leaders' Declaration made in Bali and stated that members would not only use the APEC List of Environmental Goods as the starting point within the WTO, aiming to add a broad range of products that can contribute to green growth, but also explore the eventual abolition of tariffs, in order to reinforce both global environmental protection and the multilateral trading system.

Japan will actively promote these negotiations in partnership with relevant other countries, in order to boost the competitiveness of Japanese companies, contribute to combatting global environmental problems, and revitalize the WTO as a forum for negotiations.

(8) Agreement on Government Procurement

The Agreement on Government Procurement, which was drawn up in 1994 and entered into force in 1996, stipulates that fresh negotiations will take place within three years of its entry into force. Accordingly, negotiations concerning the revision of the Agreement were launched in 1997 by the Committee on Government Procurement, focusing on three main areas for revision: i) improving the Agreement and the simplification of procedures; ii) abolishing discriminatory measures and procedures that inhibit open procurement; and iii) expanding the scope of the procurement entities covered by the Agreement.

Regarding i), a provisional agreement on proposed provisions of the Agreement's articles was reached in December 2006. Regarding ii) and iii), with bilateral negotiations conducted based on requests (requests made to another party to extend the scope of the Agreement) and offers (offers made to another party to expand its coverage) submitted between contracting countries based on the modality (negotiation framework) agreed in July 2004. Since it was not easy to bridge the differences in perceptions between the contracting countries, agreement was not reached for many years. However, 14-year negotiations were substantially concluded on December 15, 2011, during the WTO Ministerial Meeting on Agreement on Government Procurement, which was held prior to the eighth regular WTO Ministerial Conference. Later, the revised Agreement on Government Procurement was formally adopted by the Committee on Government Procurement on March 30, 2012. The conclusion of the negotiations resulted in extension of the scope of covered procurement –such as by expanding the entities that each country includes as subject to the Agreement – creating more government procurement markets. For example, Japan has decreased thresholds of procurement of goods and services to be opened internationally, the U.S. has added another ten federal government entities to be opened internationally, and ROK has added ten central government institutions and the subway sector to be opened internationally. According to the WTO Secretariat, the revision of the Agreement is estimated to have created new markets for government procurement worth \$80-100 billion annually. In addition, the Agreement articles have been revised, and clauses have been introduced to promote the accession of developing countries, including S&D (special and differential treatment) for developing countries during the process of accession negotiations and implementation of the revised Agreement. One reason behind this revision was the fact that most of the contracting countries of the Agreement on Government Procurement are developed countries, therefore promoting the accession of developing countries, which possessed potentially large government procurement markets, is one of the major tasks. Moreover, clauses for conducting more effective procedures have been introduced, including efforts to promote the use of electronic tools. It is anticipated that participation by foreign suppliers in government procurement procedures will be easier because of such revisions.

Two-thirds of the contracting countries to the Agreement on Government Procurement must accept the revised Agreement on Government Procurement for it to enter into force. On March 7, 2014, the tenth country (Israel) fulfilled this condition accepted the revised Agreement, and their instruments of acceptance were deposited with the WTO Secretariat, the revised Agreement entered into force on the 30th day after that date, April 6. In Japan, after the approval of the Diet session on December 3, 2013 for the conclusion of the revised Agreement, Japan proceeded with the revisions to domestic legislations required to implement the revised Agreement. On March 17, 2014, it deposited the instrument of acceptance with the WTO Secretariat and the revised Agreement entered into force on the 30th day after that date, April 16. The entry into force of the revised Agreement has not only extended the coverage of government procurement in other countries in which Japanese suppliers can be involved, but also promoted more efficient, agile procurement within Japan itself.

2. Promotion of regional economic integration and economic growth via APEC

APEC is a regional cooperation framework in the Asia-Pacific region, which was founded in 1989 at the initiative of Japan and Australia. It currently has 21 member economies.

In 1994, during the APEC Leaders' Meeting held in the Indonesian city of Bogor, it set as its medium- to long-term goal the achievement of free and open trade and investment by 2010 for industrialized economies, and by 2020 for developing economies (the Bogor Goals. The 2010 follow-up to these states that industrialized economies will continue to aim to achieve free and open trade and investment by 2020).

Furthermore, APEC has had a major impact not only on the liberalization and facilitation of trade and investment in the Asia-Pacific Economic Cooperation, but also on the formulation of global trade and investment rules. For example, APEC made a great contribution to the accord reached on the Information Technology Agreement (ITA) at the 1996 WTO Ministerial Conference, as participants in the APEC Leaders' Meeting held immediately beforehand agreed to aim to abolish tariffs on IT products, thereby providing backing for the WTO agreement.

In addition, at the APEC Leaders' Meeting in Hanoi in 2006, members agreed to conduct further research concerning ways and means of promoting regional economic integration, including the Free Trade Area of the Asia Pacific (FTAAP) as a long-term prospect. Since that time, discussions within APEC concerning regional economic integration have progressed rapidly.

(1) Recent developments

(A) 2010 (Chair Economy: Japan)

In 2010, as the APEC chair economy, Japan held a series of meetings, from the Leaders' Meeting and ministerial meetings to meetings of expert groups. These resulted in the Yokohama Vision, which aims to achieve an economically-integrated, robust, and secure community.

In this, as well as reporting the remarkable progress made as of 2010 toward the achievement of the Bogor Goals, members affirmed that they would continue to promote regional economic integration initiatives aimed at the achievement of the Bogor Goals by 2020.

Moreover, members agreed to take concrete steps toward realization of the FTAAP, pursuing this as a comprehensive free trade agreement by developing and building on ongoing regional undertakings, such as ASEAN+3, ASEAN+6, and the Trans-Pacific Partnership (TPP) Agreement. Furthermore, in the process of realizing an FTAAP, they vowed that APEC would contribute as an incubator of this free-trade area by playing a critical role in defining, shaping, and addressing the next-generation trade and investment issues that the FTAAP should contain (Roadmap for the FTAAP).

In addition, the comprehensive, long-term APEC Leaders' Growth Strategy was formulated in order to achieve five growth attributes: Balanced, Inclusive, Sustainable, Innovative, and Secure Growth, as a means of further securing the growth of the Asia-Pacific region, the world's growth center.

(B) 2011 (Chair Economy: the U.S.), 2012 (Chair Economy: Russia), 2013 (Chair Economy: Indonesia)

At APEC, concrete discussions took place between 2011 and 2013, aimed at translating the Yokohama Vision and the Growth Strategy into reality through the promotion of regional economic integration, green growth, and connectivity.

Firstly, in terms of promoting regional economic integration, members affirmed that they would address next-generation trade and investment issues with a view to realizing the FTAAP, while striving to achieve the liberalization and facilitation of intraregional trade and investment, and regional economic integration. Regarding the next-generation trade and investment issues that the FTAAP should contain, the issues selected to be addressed in 2011 were (1) promoting effective, non-discriminatory, and market-driven innovation policy (innovation and trade), (2) enhancing SMEs' participation in global production chains, and (3) facilitating global supply chains, with common principles being formulated regarding the first two of these issues. In 2012, as well as conducting more in-depth discussions concerning these three issues, (4) FTA transparency was selected as an additional issue, and an APEC model chapter on the transparency of RTAs/FTAs was drawn up.

In relation to green growth, at the 2012 Leaders' Meeting, members agreed on the APEC List of Environmental Goods (consisting of 54 items, including solar photovoltaic power generation panels and wind power generation equipment) as a means of directly and actively contributing to green growth and sustainable development, thereby committing to reducing applied tariff rates on the goods concerned to 5% or less in all economies by the end of 2015, in accordance with the agreement reached at the 2011 APEC Leaders' Meeting (the Honolulu Declaration). Discussions on reducing tariffs on environmental goods have taken place at the WTO as part of the deliberations on trade and environment since the Doha Round was launched in 2001, but it is a challenging issue, so a concrete agreement has not yet been reached. Although the items covered by APEC and the WTO differ, as do the reduction targets, it would be fair to say that the fact that an agreement was reached at APEC was a remarkable outcome that demonstrated the role played by APEC in promoting the liberalization of trade and investment within the region. The APEC agreement has also given fresh impetus to efforts within the WTO to promote trade liberalization in regard to environmental goods.

In 2013, when Indonesia chaired APEC, the promotion of connectivity was highlighted as a priority issue and discussions focused on (i) physical connectivity, especially the promotion of infrastructure development and investment; (ii) institutional connectivity, including efforts to advance the APEC New Strategy for Structural Reform and promote cross-border education; and (iii) people-to-people connectivity, such as facilitating the movement of students, researchers, and businesspeople. As well as drawing up a blueprint for cross-cutting efforts to promote growth, members agreed to expedite each of the relevant initiatives. In particular, regarding physical connectivity, the Multi-Year Plan on Infrastructure Development and Investment was formulated, covering such matters as the establishment of the APEC PPP (public private partnerships) Experts Advisory Panel and Pilot PPP Center, with an emphasis on life-cycle cost in infrastructure development and investment. Based on this, APEC members will cooperate in efforts to address the

development, maintenance, and renewal of physical infrastructure. APEC members have also welcomed Japan's offer to hold a seminar this year on developing human resources in the infrastructure development and investment sector, to promote concrete initiatives of this nature.

(2) Future prospects

In 2014, with China chairing APEC, discussions have been taking place on the theme "Shaping the Future through Asia-Pacific Partnership," focusing on three priorities: (1) advancing regional economic integration; (2) promoting innovative development, economic reform and growth; and (3) strengthening comprehensive connectivity and infrastructure development. The outcomes will be presented at the APEC Leaders' Meeting and Ministerial Conference in Beijing in November.

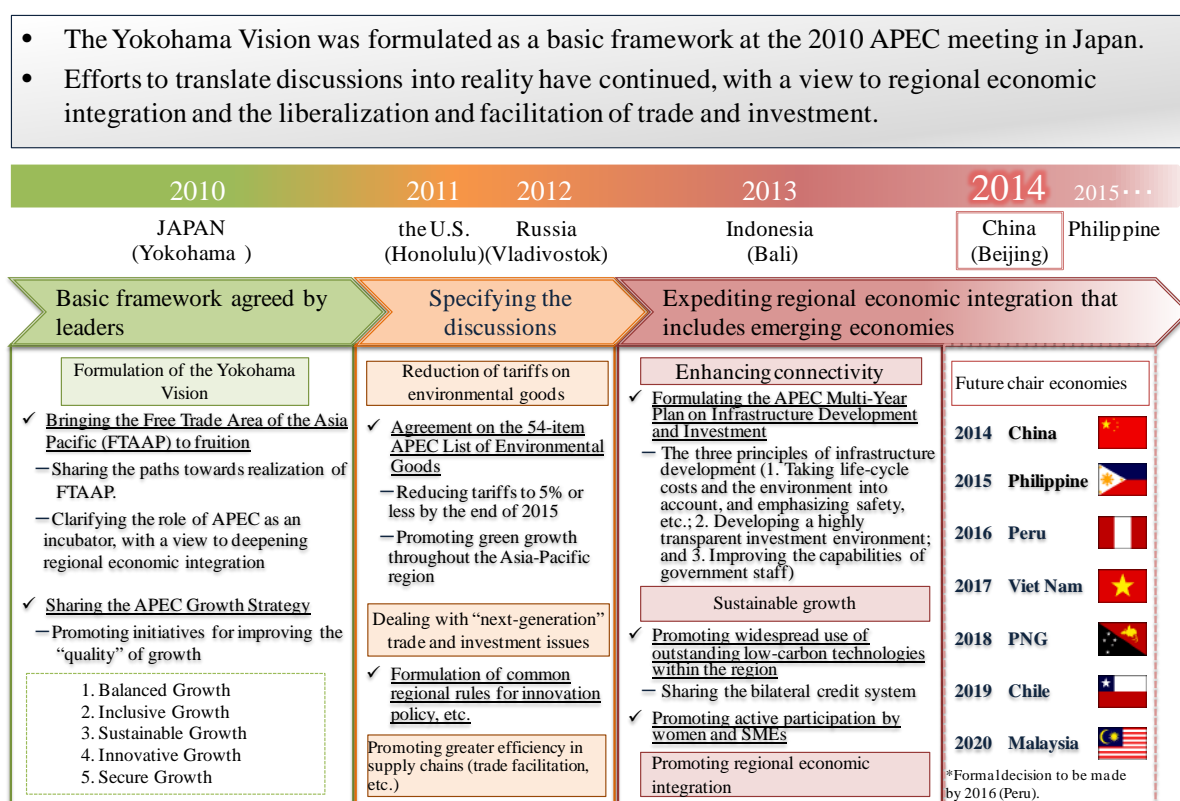
While steadily handing on the baton of discussions based on the 2010 Yokohama Vision, Japan will strive to encourage the liberalization and facilitation of trade and investment in the Asia-Pacific region by undertaking concrete initiatives relating to the liberalization of trade in services and the promotion of infrastructure development and investment, thereby promoting regional economic integration and achieving further development within the region. In addition, by tapping into the powerful growth potential of this region, its strong demand for infrastructure, and the purchasing power of its immense middle class, Japan will implement a trade policy that brings wealth and dynamism to our nation.

Figure III-1-5-4 Scenes from the APEC ministerial meeting and Leaders' meeting in 2013



Source: Photographs by the Ministry of Economy, Trade and Industry

Figure III-1-5-5 Developments in recent APEC discussions



Source: Ministry of Economy, Trade and Industry.

3. Global Trends in Regulatory Cooperation

Besides the abolition and reduction of tariffs, one of the key points in international trade policy that is attracting increasing interest amid the progressive globalization of the world economy and a growing awareness of the importance of global value chains is how to reduce costs arising from “behind-the-border issues” by eliminating or alleviating non-tariff measures. Such moves will lead in due course to the development of global rules governing non-tariff measures.

Representatives of industry in Europe and the U.S have already been lobbying their respective governments to introduce regulations in order to facilitate the introduction of their own products to markets five or even ten years hence. Supporting such activities, the U.S. government and members of the EU are introducing regulations. “Regulatory cooperation” is being discussed in each sector of industry within the negotiations between the U.S. and the EU concerning the Transatlantic Trade and Investment Partnership (TTIP), as one means of expediting such moves. As such, Representatives of industry in Europe and the U.S are working together to verify the feasibility of putting such cooperation in place between the U.S. and the EU, and are actively making policy proposals to negotiators and regulatory authorities on both sides. Moreover, as multilateral forums have not hitherto systematically analyzed the effects of international regulatory cooperation from the perspective of trade policy, discussions have recently started within the OECD, at a workshop it held in February 2014.

Japan is also discussing “regulatory cooperation” in the Japan-EU Industrial Policy Dialogue, which took place in April 2014. In future, Japan will need to monitor worldwide developments in this area while addressing this issue.