

B Efforts Aimed at Realizing Prosperity in the International Community

Overview

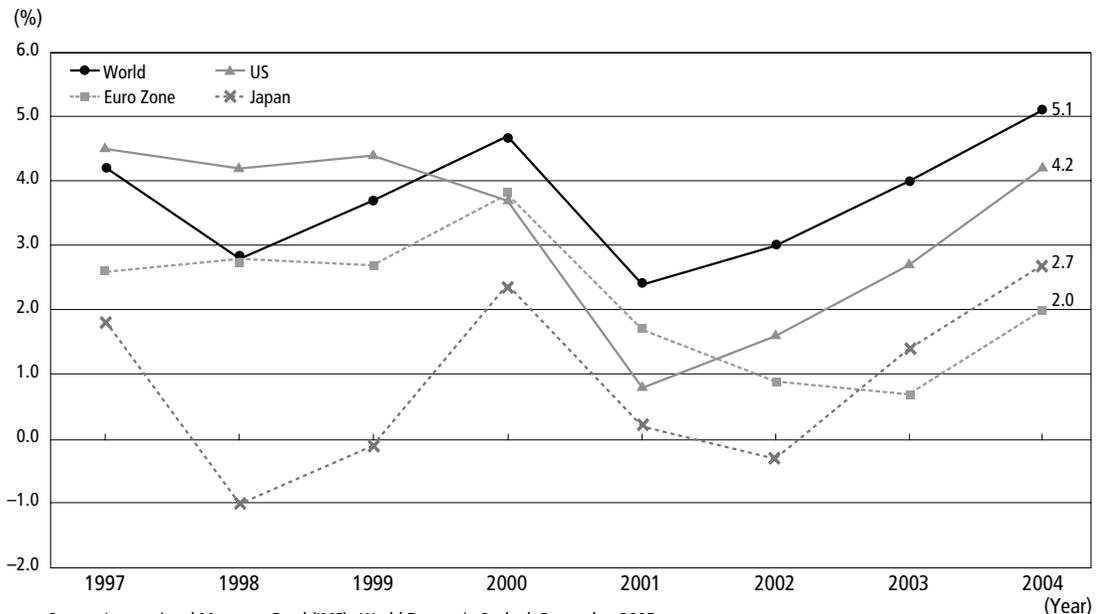
The global economy in 2005 generally continued on a path of robust growth, albeit at a milder pace than the previous year. Despite concerns over rising crude oil prices and the impact of serious large-scale natural disasters, the United States (US) economy continued to expand, and together with the remarkable growth of Asia's emerging economies, it continued to be the engine of global economic growth. In Japan too, economic growth continued, led by domestic demand, and expectations are growing that Japan will make more contribution to the global economy.

Under these circumstances, Japan has promoted economic diplomacy with the following five priority issues, aimed at further strengthening the Japanese and global economy. The five priority issues are: (1) Maintaining and strengthening the multilateral trading system (efforts at the global level) mainly under the World Trade Organization (WTO), and creating rules in order to promote economic partnership at the regional and bilateral levels to complement the multilateral trading system; (2) Active participation in international

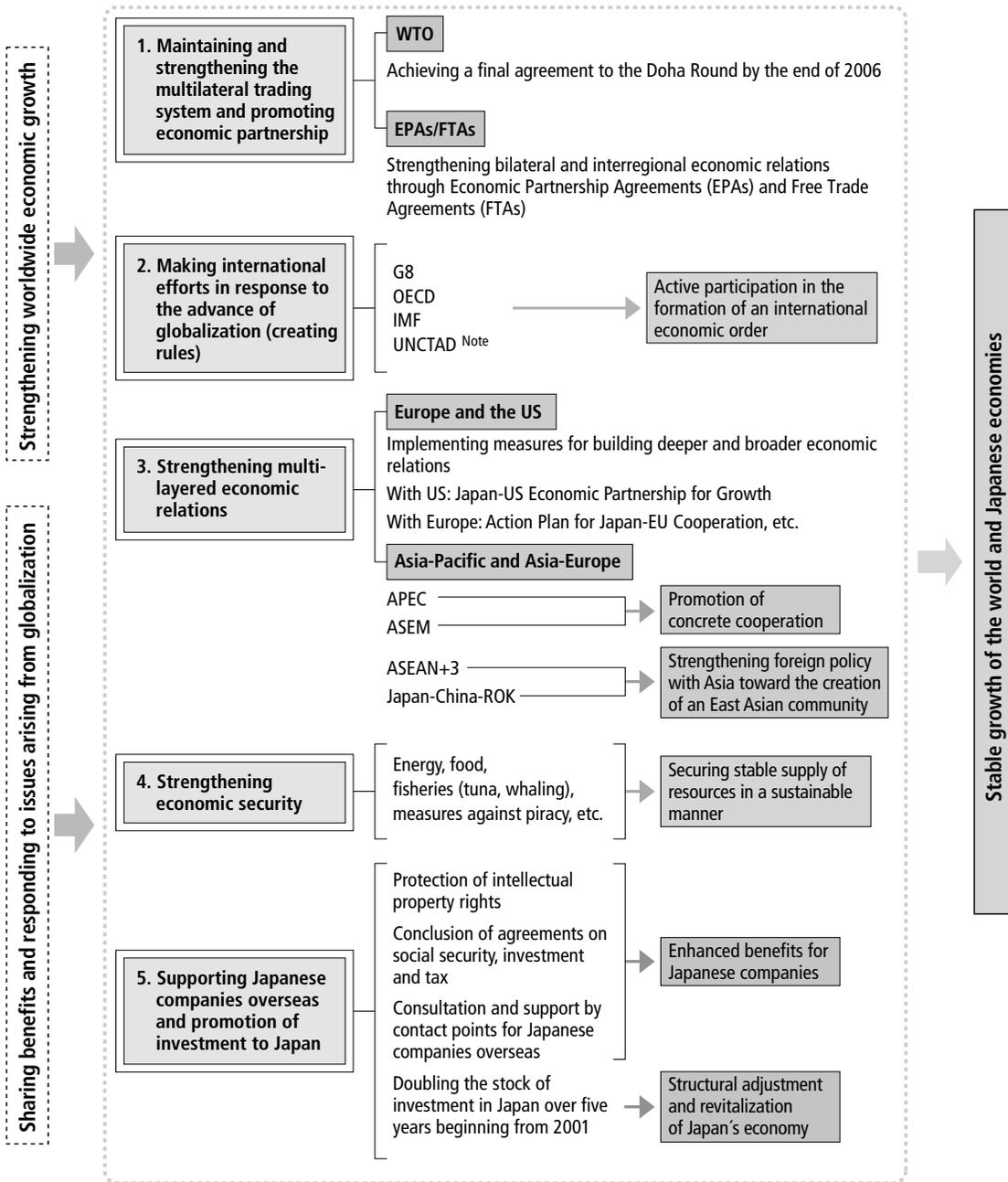
efforts to cope effectively with global issues such as world economic growth and sustainable development; (3) Reinforcing frameworks for interregional cooperation such as the Asia-Pacific Economic Cooperation (APEC) and the Asia-Europe Meeting (ASEM), and of multilayered economic relations, including those between Japan and the US as well as Japan and Europe; (4) Strengthening economic security, such as in the areas of energy, food, marine issues, fisheries (including tuna and whaling) and piracy that have a direct impact on the lifestyles of the public; and (5) Support for Japanese companies overseas, including the protection of their intellectual property rights, and the promotion of investments to Japan. (Refer to the table overleaf entitled "Theme of Japan's Economic Foreign Policy.")

Moreover, the international community prioritizes the utilization of science and technology to resolve various global issues, and based on its experiences as a world leader in science and technology Japan has been advancing bilateral cooperation through science and technology cooperation agreements and other means, as well as multilateral cooperation in the fields of astronautics and nuclear fusion, among others.

Real GDP and GDP Growth Rate of Major Countries



Theme of Japan's Economic Foreign Policy



In order to resolve the various issues the world currently faces, while Japan is intent on actively participating in pursuit of the prosperity of the inter-

national community, it is also promoting its own economic interests.

1 Strengthening the Multilateral Trading System

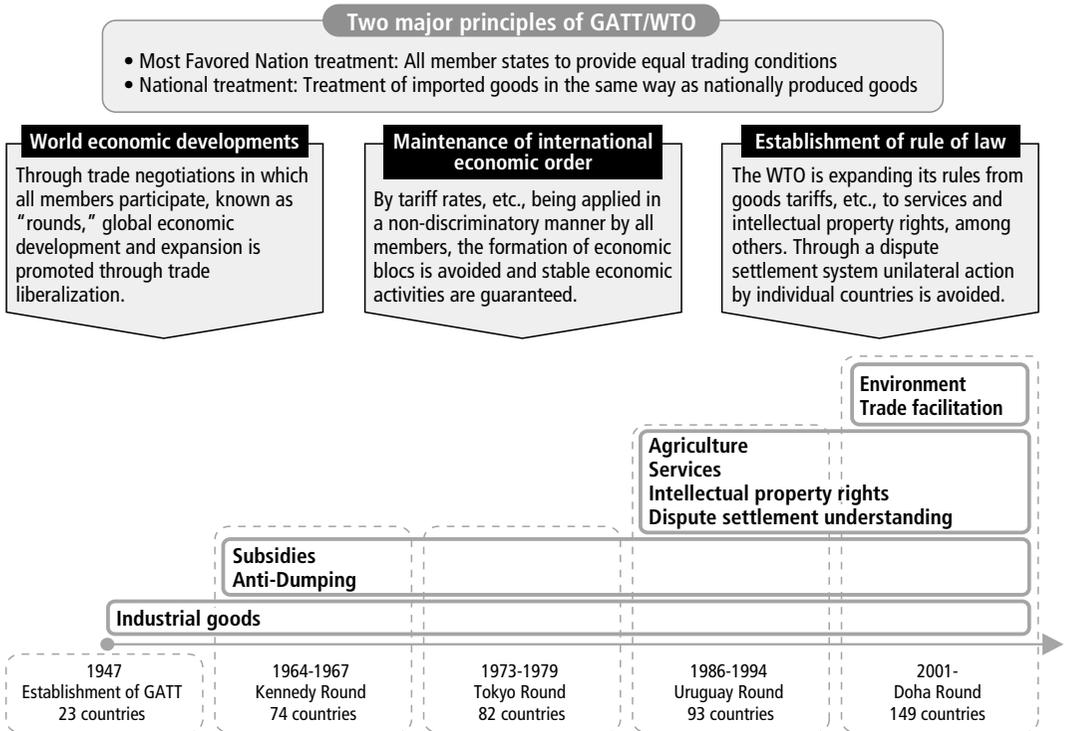
(a) Significance and Importance of the Multilateral Trading System

Japan has recovered from economic ruin following World War II and created today's prosperity by economic development thanks to the benefits of the multilateral trading system based on the General Agreement on Tariffs and Trade (GATT), which was launched after the war and would become the WTO.¹ For Japan which has been deeply committed to promoting free trade, strengthening and further developing the multilateral trading system that stands on WTO rules will continue to be indispensable. Specifically, the following three points are of particular importance for Japan: (1) preventing the formation of

economic blocs by maintaining and strengthening multi-lateral, non-discriminatory trade rules; (2) contributing to global economic growth brought about by trade expansion, and global stability and prosperity through development in developing countries; and (3) promoting the rule of law in the economic field, by enabling unilateral actions to be corrected through the formulation of rules in unregulated sectors and the WTO dispute settlement system.

As detailed above, the development of the multilateral trading system and Japan's economic interests are closely intertwined, and it is of the utmost importance that Japan, as the world's second largest economy participates in the formulation of rules.

Developments in the Multilateral Trading System—From GATT to WTO



1. GATT was launched in 1947 with the participation of 23 countries and regions. Japan joined in 1955. Over the 50 years until the establishment of the WTO, GATT had an influence on the enhancement of a free trade system.

(b) Outline of Negotiations in 2005

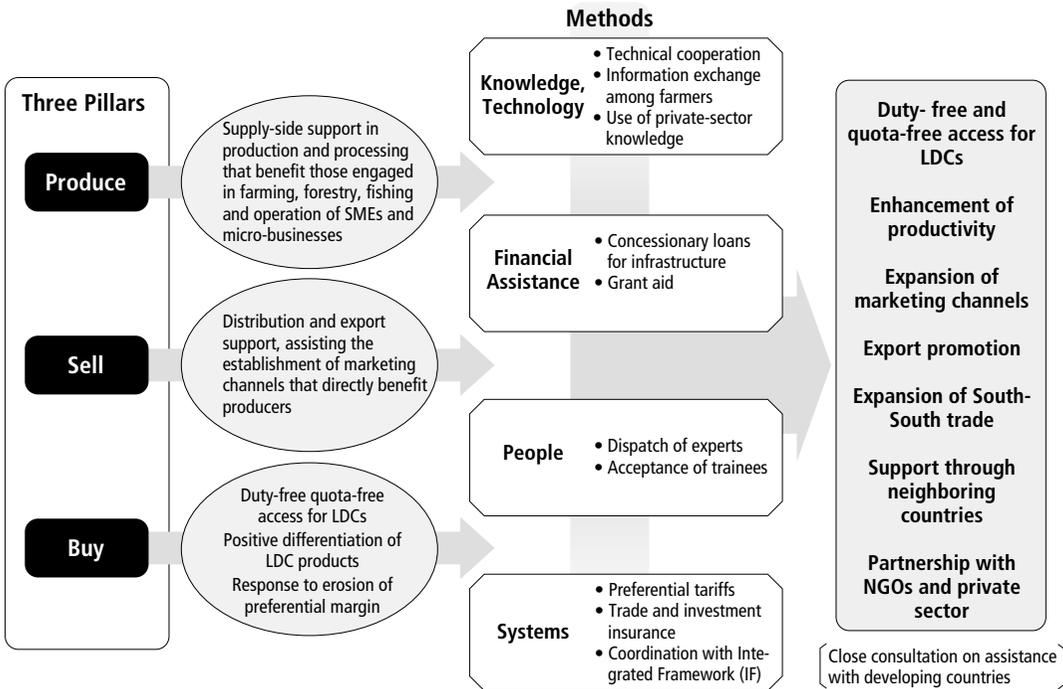
In the course of the Doha Development Agenda negotiations that began based on the mandate provided at the WTO Ministerial Conference held in Doha, Qatar in November 2001, a variety of issues pertaining to trade have been negotiated, including agriculture, non-agricultural products (industrial goods, forestry and fishery products), trade in services, development issues, rules (anti-dumping, etc.), and trade facilitation (including simplification of trade procedures).

In 2005, informal ministerial negotiations were held on an ad hoc basis in Davos, Switzerland; Mombasa, Kenya; Paris; and Dalian, China. From October 2005, the major WTO members entered a stage of earnest negotiations, including the issue of specific rates of reduction for tariffs and domestic subsidies in the area of agriculture. At this juncture the G10 group,² including Japan, also submitted a proposal concerning a tariff

reduction formula for agricultural products.

In December the 6th WTO Ministerial Conference was held in Hong Kong. The Ministerial Conference confirmed the points that had been agreed up until that point and concluded with an agreement to aim for the establishment of modalities no later than the end of April 2006 on globally common rules such as a concrete tariff reduction formula in agriculture and non-agricultural market access (NAMA) sectors. Prior to the opening of the Ministerial Conference, Japan announced the “Development Initiative for Trade” (see page 172 for details) with regard to the issue of development in developing countries, which has been one of the major agenda items in negotiations in the Doha Development Agenda. The announcement of this initiative contributed significantly to the adoption of the Ministerial Declaration, which seeks to respond to developing countries’ concerns.

Development Initiative



2. The G10 is a group of countries that are net importers of food. (Bulgaria left the group in April 2005, given its intention of acceding to the European Union, and the nine remaining countries and regions are Japan, Switzerland, Norway, Iceland, ROK, Taiwan, Liechtenstein, Mauritius and Israel.)

(c) Outline of the Main Areas

(1) Agriculture

With regard to agriculture, at the Hong Kong Ministerial it was agreed that all export subsidies be eliminated by 2013. The outline for the reduction of domestic subsidies and tariff rates was also decided upon. Although tough negotiations are anticipated toward deciding specific reduction rates and the number and treatment of sensitive products,³ Japan will continue negotiations to seek a balanced final agreement that takes into account non-trade concerns such as the multifunctionality of agriculture and food security.

(2) Negotiations on Non-agricultural Market Access

The negotiations on non-agricultural market access focus on how to realize the reduction and elimination of tariffs and non-tariff barriers on non-agricultural products such as industrial products and forestry and fishery products. Under the "July package" of framework agreements,⁴ negotiations have concentrated on main agenda items including a tariff reduction formula (referred to hereafter as "formula"), the elimination or harmonization of sectoral tariffs, and consideration for the needs of developing countries. At the Hong Kong Ministerial, although it was agreed to adopt the so-called "Swiss formula" for tariff reduction, which stipulates larger reductions for higher tariffs, with regard to the ultimate tariff levels differences of opinion remained as large as before between developed countries and a number of developing countries which are aiming for a more ambi-

tious outcome, and other developing countries which emphasize consideration for the needs of developing countries. Japan possesses a high degree of competitiveness in the area of industrial products, and will continue to make efforts in the negotiations toward the realization of substantial improvements in market access.

(3) Services

Under the "July package" of framework agreements it was expected that member countries would submit high quality revised offers⁵ by the end of May 2005, however, both quality and quantity of these offers proved to be unsatisfactory. In response to this situation, Japan asserted that common objectives can be set up and pursued by all or interested member countries as a method of services negotiations, in addition to the bilateral request-offer negotiations which had been conducted so far. Although some developing countries objected to the proposal, substantial negotiation objectives, methods and timelines⁶ were agreed at the WTO Hong Kong Ministerial Conference, which provided a foothold from which to launch full-fledged negotiations in 2006. Japan played a leading role in introducing these outcomes.

(4) Development

Developing countries account for more than four-fifths of the total membership of the WTO, and development issues are a central theme of the current round of negotiations. Issues on which vigorous discussion has taken place include special and differential treatment for developing countries, the cotton initiative,⁷ the Integrated Framework (IF),⁸ and technical assistance, among

3. Sensitive products are those for which expanded market access is difficult to achieve from perspectives separate from trade (non-trade concerns), such as food self sufficiency, each country's geographic limitations and environment. In the 2004 July Framework Agreement (see note 4) it was decided to treat sensitive products separately from the normal tariff reduction formula.

4. The July Framework Agreement was adopted by the General Council in July 2004 and covers the following points: (i) a decision of general agreement on negotiations over market access for agricultural and non-agricultural products; (ii) launch of negotiations aimed at trade facilitation that carries out reform and other measures for customs procedures; and (iii) many references to the concerns of developing countries, given that development is a central issue in negotiations.

5. The submission of offers is required for member countries to fulfill their undertaking to improve their pledges toward liberalization of the trade in services. As of December 2005, of 149 member countries and regions a total of 54 member countries and regions had submitted offers (Japan made its submission in June). Since the initiation of the negotiation on the trade in services in 2000 this was the second occasion for the submission of offers, following on from the initial offers in June 2002.

6. Points of agreement at the Hong Kong Ministerial Meeting on services: specific objectives to be set for improvements to trade liberalization commitments (promotion of liberalization of foreign equity participations, etc.); introduction of plurilateral request-offer negotiations in addition to the bilateral request-offer negotiations pursued to date; and the submission of a second round of revised offers by 31 July 2006 and final draft schedules of commitments by 31 October 2006.

7. Cotton was raised as an issue by four West African LDCs (Burkina Faso, Benin, Mali and Chad). According to these four countries, although their cotton industry was originally competitive enough, given that a number of developed countries were providing subsidies to their own cotton industries, the four countries were being greatly affected by this barrier to export, and therefore requested the elimination of subsidies and the provision of compensation while the subsidies remained in place.

8. The Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (IF) is an initiative through six organizations: the WTO, UNCTAD, ITC, UNDP, IMF and the World Bank, with the aim of efficiently implementing bilateral and multilateral trade-related technical assistance. With the aim of eliminating poverty and achieving sustainable economic development through LDCs' participation in the multilateral trading system, and as an initiative designed to address the supply-side constraints for LDCs, LDCs and the international community place high expectations on the IF.

others. In particular, with regard to special and differential treatment, discussion has revolved around a number of proposals submitted by the group of Least Developed Countries (LDCs) and these proposals were adopted at the Hong Kong Ministerial.

The “Development Initiative for Trade” announced by Japan prior to the WTO Hong Kong Ministerial Conference is a comprehensive assistance package that aims to contribute to development in developing countries through the promotion of trade. This initiative implements comprehensive and detailed assistance that combines duty-free, quota-free market access for essentially all products originating from all LDCs and a variety of assistance that reaches ordinary citizens in developing countries through Official Development Assistance (ODA) in the constituent components of trade, namely “Produce,” “Sell,” and “Buy.” The initiative aims to provide financial assistance totaling US\$10 billion in trade, production and distribution sectors including infrastructure, and an exchange of a total of 10,000 experts and trainees in these fields, over a period of three years.

(5) WTO Dispute Settlement System

The WTO Dispute Settlement System serves to support the credibility and security of the WTO system as a whole. The dispute settlement system is actively utilized by the WTO members, including Japan, and since the WTO was established in 1995, over the ten-year period to the end of December 2005 a total of 335 disputes had been brought under the system (an average of 33.5 a year).⁹

In 2005, Japan filed a complaint, under the dispute settlement system, against certain US anti-dumping measures (so called “zeroing procedures”¹⁰), claiming that they are inconsistent with the Anti-Dumping Agreement. In the same year, the dispute between Japan and the US over Japan’s phytosanitary measures on imported apples (fire blight disease of apples)¹¹ was resolved after Japan amended the related measures. With regard to the Byrd Amendment of the US,¹² given the US failure to bring this measure into compliance with the WTO Agreement, Japan imposed retaliatory measures against US imports in September.

2

Promotion of Economic Partnership Agreements (EPAs)

For Japan, the basis for external economic policy has come to mean the promotion of global trade liberalization centering on the WTO. Japan is also promoting rule-making appropriate for the diverse range of economic relations that exist among countries through Economic Partnership Agreements (EPAs) as a means to complement the functions of the WTO.

While economic globalization advances, international economic relations whose constituent unit used to

be the state have changed in character, and we face a new economic and social reality in which the people of different countries have more direct and broad relations.

Economic relations between Japan and East Asian countries in particular have deepened and developed rapidly, and given the necessity for the formation of a legal structure commensurate to these new relations, Japan has moved to promote EPAs. EPAs surpass the scope of Free Trade Agreements (FTAs), which have

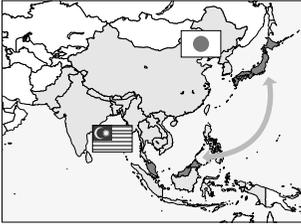
9. Under the GATT, from 1948 to 1994 the total number of disputes brought for settlement was 314 (averaging 6.7 a year). Of the 335 disputes that have been brought before the WTO, up to the end of December 2005, 26 cases involved Japan as either a complainant or a defendant. (All the cases listed in the WTO Secretariat’s annual report are counted as one case.)

10. When calculating dumping margins (the price difference between the domestic price of a product in an exporting country [“normal value”] and the export price of the product, in the event that the latter is lower than the former), the US Department of Commerce: (1) first compares the normal value with the export price to the US for models or transactions of the product, and (2) then aggregate the result of these comparisons to determine an overall dumping margin for the product under investigation as a whole. At the stage of aggregation, if the normal value is higher than the export price in the comparisons conducted at the stage of (1) above, the results would be negative. “Zeroing” occurs when these negative results are disregarded or treated as zero at the aggregation stage mentioned in (2). In this way anti-dumping margins are unjustifiably inflated.

11. Japan’s phytosanitary measures against fire blight disease had set certain conditions for Japan’s removal of an import ban on apples (the conditions included the element of creating a buffer zone of 500 meters for orchards in the US). The US submitted a case to the WTO Appellate body that these measures were inconsistent with WTO Agreements and the Appellate body found in favor of the US. Japan revised the related measures and the case was resolved in August 2005. Fire blight is a disease that infects apples, pears, and other fruits as well as flowering trees and shrubs such as hawthorn. There has never been an outbreak in Japan.

12. The Byrd Amendment is a US law (enacted in October 2000) that obliges the administration to distribute the revenue from anti-dumping and countervailing duties imposed on foreign products to US domestic companies that supported the anti-dumping or countervailing petitions. In January 2003, the reports of the panel and the Appellate Body, which concluded that the Byrd Amendment was inconsistent with the WTO Agreements were adopted by DSB. Japan’s application for retaliatory measures was approved by the WTO in November 2004.

Japan-Malaysia EPA (An Overview of the Agreement)



Significance of the Japan-Malaysia EPA (JMEPA) — signed on December 13, 2005

- Provision of a framework for expanded and liberalized bilateral trade and investment
- Symbol of cooperation in a new era in which the “Look East” policy has developed
- Provides great momentum to promoting other EPA negotiations in East Asia

Tariff elimination of about 97% in the bilateral trade of goods



No tariffs for
approx. 99% of exports

No tariffs for
approx. 94% of imports



Export of industrial products from Japan to Malaysia

→ Tariffs will be eliminated on essentially all goods within 10 years

Iron and steel: Tariffs will be eliminated on essentially all goods within 10 years.
Tariff exemption for products subject to agreed conditions

Autos: Tariffs on auto components and parts for assembly in Malaysia to be immediately eliminated
For other components and assembled vehicles (passenger vehicles exceeding 2,000cc) tariffs will be eliminated by 2010 and by 2015 for all other vehicles in a phased manner

Agricultural, forestry and fishery products

- Market access improvement by Japan
 - Tropical fruits:** Immediate tariff elimination for mangos, mangosteens, durians, papayas, and rambutans, etc.
 - Bananas:** Tariff Rate Quota (TRQ) (no tariff for up to 1,000 tons of imports per year)
 - Forestry products:** Renegotiation concerning plywood when EPA is reviewed. Other than plywood, immediate tariff elimination for all forestry products
(Note) Declaration on efforts to cooperate on the issue of illegal logging
- Market access improvement by Malaysia
 - Fruits:** Immediate tariff elimination on apples, pears and persimmons.

Promotion of comprehensive partnerships in other areas

Investment: General commitments on national treatment, most favoured nation treatment, prohibition of performance requirement.

Trade in Services: Commitments on market access, national treatment, most favoured nation treatment with respect to sectors specified by each country.

Intellectual Property (IP): Commitments on the promotion of transparency in administration of IP protection system, protection of well-known trademark, enforcement of IP rights and bilateral cooperation.

Competition: Commitments to take measures against anti-competitive activities and cooperation in the field thereof.

Improvement of Business Environment: Establishment of a Business Environment Sub-Committee and Liaison Office.

Cooperation: Cooperation in the field of Agriculture, Forestry, Fisheries and Plantation, Education and Human Resource Development, Information and Communications Technology (ICT), Science and Technology, Small and Medium Enterprises, Tourism, and Environment.

traditionally focused on the trade of goods presupposed on the existence of national borders, expanding their scope to incorporate a broad range of areas, including investment, trade in services, intellectual property and cooperation.¹³ EPAs have such a comprehensive nature that a great deal of effort is required in negotiations, and the government as a whole has devised a number of approaches to accelerate the negotiation process.

In December at a summit meeting held in Kuala Lumpur, Malaysia, between Prime Minister Junichiro Koizumi and Prime Minister Abdullah Ahmad Badawi of Malaysia, the Agreement between the Government of Japan and the Government of Malaysia for an Economic Partnership (JMEPA) was signed. The JMEPA, which

provides a framework for expansion and liberalization of bilateral trade and investment and encompasses cooperation between both countries in a wide range of areas, gives a significant boost to ongoing EPA negotiations with other countries in East Asia.

Negotiations with both Thailand and the Philippines are progressing (Note: With regard to the EPA with Thailand, at the beginning of February, the text of the agreement was mostly finalized).

With respect to Indonesia, based on the report of the Joint Study Group, which met on three occasions, at the time of the summit meeting held in Tokyo in June between Prime Minister Koizumi and President Susilo Bambang Yudhoyono of Indonesia, the two leaders

13. The effects of the EPA are growth in both trade and investment. For example, since the launch of the Japan-Singapore EPA in 2002, the total sum of mutual investment has increased by approximately 60% (figure is for FY2003 based on a year-on-year comparison). Likewise, since the entry into force of the Japan-Mexico EPA in April 2005, in addition to mutual trade volume increasing 30%, there have been a number of large-scale investment projects initiated.

agreed to launch bilateral negotiations. The negotiations were initiated in July and are still ongoing.

In parallel with these bilateral negotiations with Association of Southeast Asian Nations (ASEAN) countries, Japan and ASEAN as a whole have started negotiations on the Comprehensive Economic Partnership Agreement, and at the Japan-ASEAN Summit Meeting in December, Japan and ASEAN leaders agreed to make the utmost efforts to conclude the negotiations within two years from the commencement date in April. This agreement will open a new horizon for Japan's EPAs and negotiations are being accelerated.

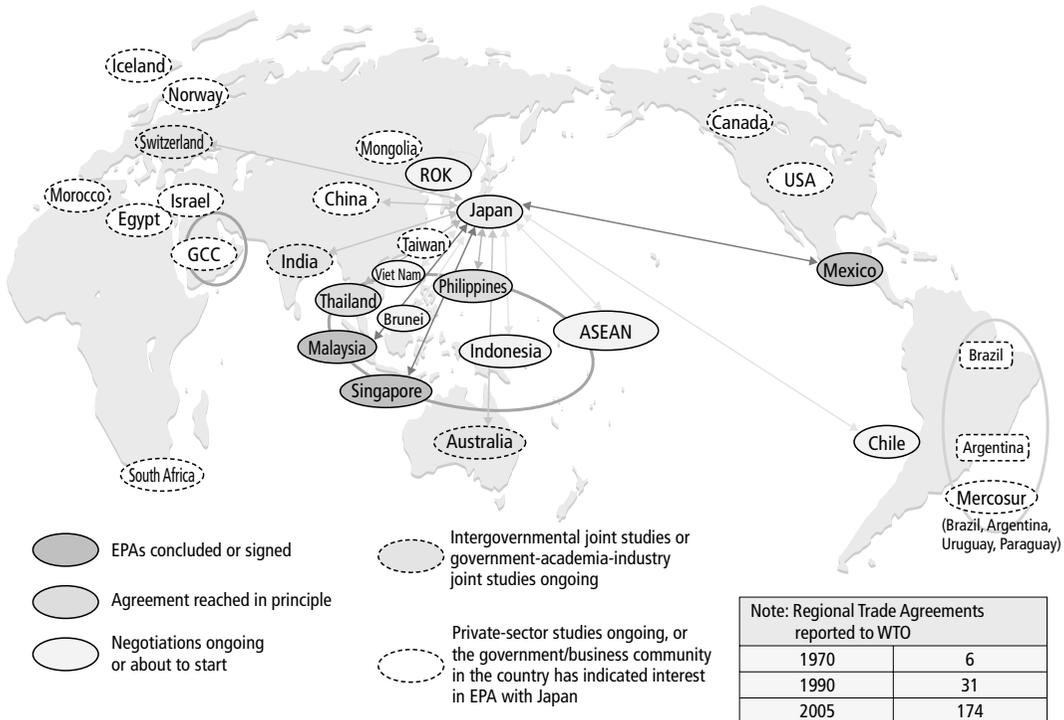
With respect to Viet Nam and Brunei Darussalam, as part of negotiations with ASEAN as a whole bilateral consultations were also initiated in April, and at bilateral summit meetings held between Japan and both countries in December, it was agreed to initiate preparatory discussions with a view to launching negotiations for a bilateral

EPA respectively.

Since the first round of negotiations with the Republic of Korea (ROK) in December 2003, six rounds of negotiations have been held, but the ROK maintains its cautious stance concerning initiating negotiations on the elimination of tariffs on goods. Japan has been consistently urging the ROK to come back to the negotiating table at an early juncture.

With regard to investment, at the summit meeting held among Japan, China and the ROK in November 2004, it was agreed to establish the following two inter-governmental consultation mechanisms: Trilateral Consultations on the Possible Trilateral Legal Framework on Investment and on the Improvement of Business Environment Concerning Investment among Japan, the People's Republic of China and the Republic of Korea. These consultations began in 2005 and have been held on four occasions to date.¹⁴

Japan's Efforts toward Strengthening Economic Partnerships (as of February 2006)



14. At the Japan-China-ROK Summit Meeting held in October 2003, based on a proposal from Japan, the leaders agreed to launch a joint study on the possible modalities of trilateral investment arrangements. The joint study was implemented in 2004 and based on the ensuing report, at the Japan-China-ROK Summit Meeting held in November 2004 it was agreed to establish intergovernmental consultative bodies. The fourth meeting of these bodies was held in November 2005. With regard to an FTA, at the Japan-China-ROK Summit Meeting held in November 1999, it was agreed to initiate a joint study among research institutions regarding the strengthening of trilateral economic cooperation, and this joint study subsequently went ahead. From 2003 the study on the possible economic effects of an FTA, and from 2004 the study on the effects by sectors was initiated.

With regard to India, a joint study was initiated in July, to engage in comprehensive consultations on the modalities for strengthening economic relations between Japan and India, including the possibility of an EPA. The report of the Joint Study Group is scheduled to be announced in June 2006, and the group is looking positively at the possibility of launching EPA negotiations with India. In addition, Japan is accelerating work toward the early initiation of negotiations on an FTA with the Gulf Cooperation Council (GCC), which is important from the perspective of energy security.

In addition, intergovernmental joint studies are currently underway with Australia and Switzerland, concerning the modalities for strengthening economic

relations.¹⁵

Looking toward Latin America, following the entry into force of the EPA with Mexico, from January the Joint Study Group on the Japan–Chile EPA/FTA held meetings on four occasions through the year, and at the summit meeting on the occasion of the APEC Economic Leaders' Meeting in November, Prime Minister Koizumi and President Ricardo Lagos Escobar of Chile agreed to launch negotiations for concluding the Japan–Chile EPA. Chile is a country rich in mineral resources, including copper, and has enjoyed success in terms of democratization and modernization of its economy. In concluding the EPA with Chile it is expected that Japan would secure a base in the South American region.

3 International Efforts in Response to Globalization

Overview

Under the new international environment after the terrorist attacks in the US in 2001, the international community has been urged to respond to global challenges, such as sustainable development, poverty reduction, counter-terrorism, and non-proliferation of weapons of mass destruction (WMD) and their delivery means, in addition to global economic growth. Japan has been tackling these issues by active participation in efforts to create basic rules at the Group of Eight (G8) Summit, the Organisation for Economic Co-operation and Development (OECD), and other fora.

(a) G8 Summit

At the G8 Gleneagles Summit from July 6 to 8, 2005, in addition to the major agenda items of Africa and climate change, leaders exchanged opinions on the global economy and regional issues. Prime Minister Junichiro Koizumi contributed actively to the discussions. His contribution concerning Africa was based on Japan's successful experiences with support to Asia. With regard to climate change, he shared Japan's experience of overcoming environmental damage, achieving energy conservation and improving energy efficiency during Japan's high economic growth period. With regard to the global economy, leaders agreed to make efforts to



Participating G8 leaders at the G8 Gleneagles Summit (July 8, Gleneagles, UK; Photo: Cabinet Public Relations Office, Cabinet Secretariat)

implement structural reforms, improve energy efficiency and improve transparency in the oil markets, among others, and the issue of intellectual property rights was also brought to the table by Japan's proposal. Discussions also covered issues including the Middle East peace process, North Korea, and United Nations (UN) reform, and a total of 12 separate documents were issued, including ones on Iraq, Sudan, non-proliferation, counter-terrorism, and the Broader Middle East and North Africa Initiative. Although during the Summit a series of terrorist bombs struck London on July 7, the G8 leaders maintained their stance of not yielding to

15. With Australia, at a Summit Meeting in April 2005 it was agreed to initiate a two-year intergovernmental joint study for enhancing economic relations and the first meeting of the study group was held in November. With Switzerland, at a Summit Meeting held in April 2005 it was agreed to initiate joint governmental study for strengthening economic relations between Japan and Switzerland, and the first meeting of the Study Group took place on October 31 and November 1.

terrorism and continued their discussion as planned, issuing an emergency statement, in which the leaders expressed their firm resolve to unanimously stand up against terrorism.

Dialogue with non-G8 countries also took place, with leaders of African countries and leaders of emerging economies invited to the Summit, for discussion on the major agenda items.¹⁶

(b) OECD

The OECD¹⁷ is an intergovernmental forum promoting coordination and rule-making in the international community. Japan has led vigorous discussion in all areas, such as economy, trade and development. At the Ministerial Council Meeting in May 2005, Minister for Foreign Affairs Nobutaka Machimura emphasized that Japan was assisting developing countries struggling for nation building, attaching particular focus on the concepts of “people-oriented development” and “poverty reduction through economic growth.” The

foreign minister also proposed that the OECD strengthens its activities to improve the environment for investment in Africa, based on the belief that African development is imperative for achieving the Millennium Development Goals (MDGs). This proposal gained the support from the OECD countries. Moreover, Japan is actively contributing to projects for economic development in the Middle East and North Africa (MENA).¹⁸ With a view to increasing its global influence, the OECD has been holding discussions concerning reforms of the organization’s governance, prerequisites for expanding the OECD’s membership.

As a candidate to succeed Secretary-General Donald J. Johnston, whose term of office expires at the end of May 2006, Japan nominated economist Dr. Sawako Takeuchi. Ultimately, Mr. Angel Gurría was designated as secretary-general (for a five-year term), who served as both foreign minister and finance minister for Mexico, but Dr. Takeuchi has been highly praised by OECD countries for presenting her clear visions on the future OECD.

4	Strengthening Economic Security
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Overview

Japan depends on imports from overseas for many resources, which provide the foundation for stable economic and social life in the country, including primary energy sources such as crude oil, natural gas and coal, as well as fishery resources and agricultural products, among others. Securing a stable supply of these resources is indispensable for Japan to maintain and enhance the livelihoods of Japanese citizens. It is therefore very important in Japan’s foreign policy to strengthen efforts to this end and enhance international cooperation. As such Japan has been advancing the following efforts.

(a) Energy Security

In 2005, the price of many resources continued to rise following the trend of the previous year, given sharp increases in demand due to economic growth in developing countries such as China and India. In addition, the disruption of oil supply in the US due to the damage inflicted in the Southeastern US and the Gulf of Mexico by hurricanes, was one factor in the price of crude oil (West Texas Intermediate [WTI]: the world’s largest oil futures index on the New York Mercantile Exchange) reaching an all-time high of US\$70.85 per barrel on August 30. Concerning that the continued high price of oil would affect the global economy, Japan actively participated in the coordinated release of oil stockpiles (a

16. For discussions on Africa, the leaders of Algeria, Ethiopia, Ghana, Nigeria, Senegal, South Africa, Tanzania and the chairman of the African Union (AU) Commission attended. In discussions on climate change, leaders of Brazil, China, India, Mexico and South Africa attended. The heads of international organizations including the UN, International Monetary Fund (IMF) and World Bank were also in attendance.

17. The OECD was established in 1961 by 20 countries. Japan joined the OECD in 1964 and currently 30 countries are members. The OECD carries out policy coordination through analyses and policy recommendations in wide-ranging fields such as economic growth, trade, development, environment, and science and technology.

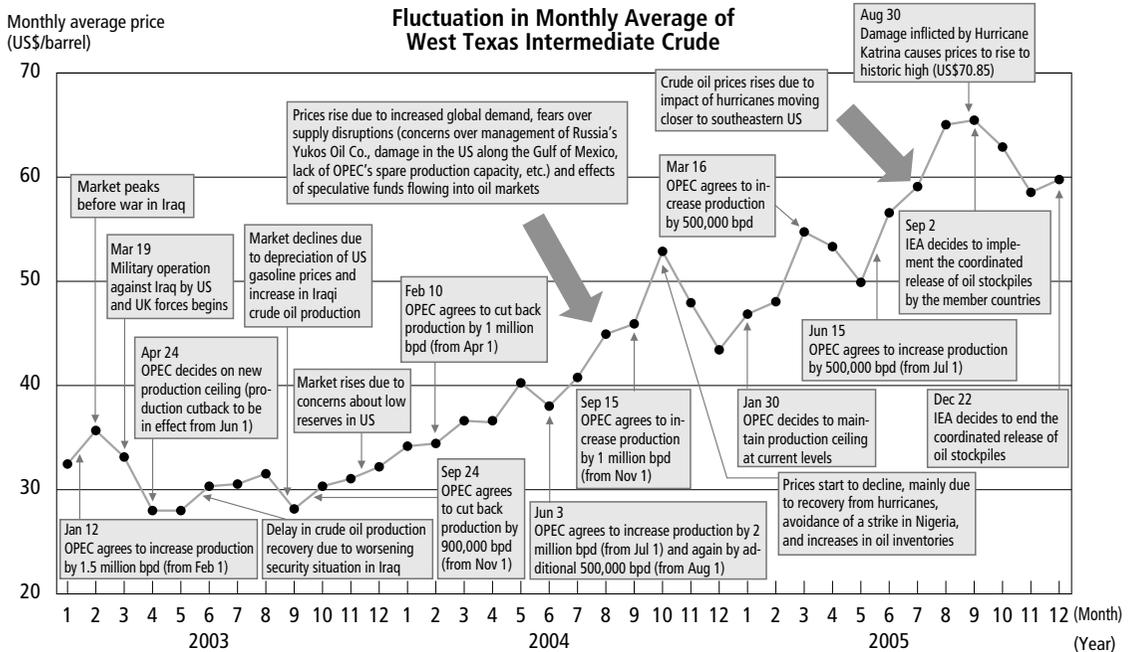
18. “MENA OECD Initiative” was designed to contribute to stability and development in the Middle East and North African region, by sharing OECD’s knowledge and experiences with the region. Since 2004, cooperations on “investment for development” and “public governance” have been moving forward.

total of 60 million barrels) by the International Energy Agency (IEA). In the Japan-GCC Foreign Ministers' Meeting held in New York on September 17, Foreign Minister Machimura urged GCC countries to increase oil production, and the same request was made to all oil producing countries through Japan's overseas diplomatic missions.

Japan continued to promote international cooperation actively in the areas of improving transparency in the energy markets, ensuring a stable and appropriate supply of oil, and improving energy efficiency and conservation. Japan has worked to strengthen international cooperation through the IEA, in coordination with other member countries. In addition, Japan has exchanged views on a number of occasions, including at the following fora; the IEA Governing Board Meeting

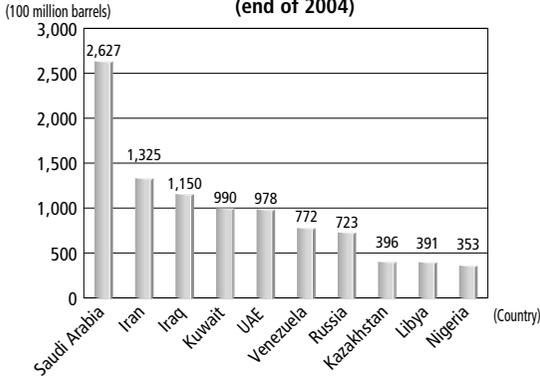
(Ministerial Level) held in May, the opening ceremony of the new permanent headquarter office building of the Secretariat of the International Energy Forum (IEF) in Saudi Arabia in November, the APEC Economic Leaders' Meeting in the ROK in November, and the East Asia Summit in Malaysia in December. At the Japan-Russia Summit Meeting held in Tokyo in November, both governments signed documents on energy cooperation concerning the construction of the East Siberia-Pacific pipeline, the promotion of energy conservation and energy efficiency, and the improvement of investment climate. Japan continues to promote active diplomacy in the area of economic security in order to improve energy security globally, as well as securing energy supply for Japan itself.

Trend in Crude Oil Prices

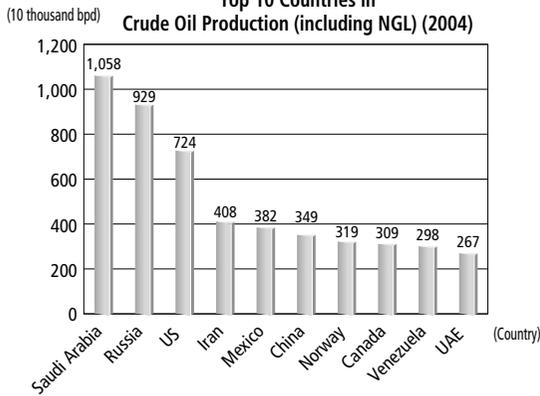


Top 10 Countries in Proven World Reserves and Production of Crude Oil and Consumption of Oil

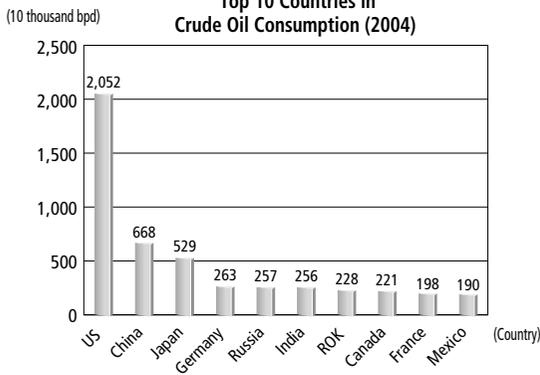
Top 10 Countries in Proven Crude Oil Reserves (end of 2004)



Top 10 Countries in Crude Oil Production (including NGL) (2004)

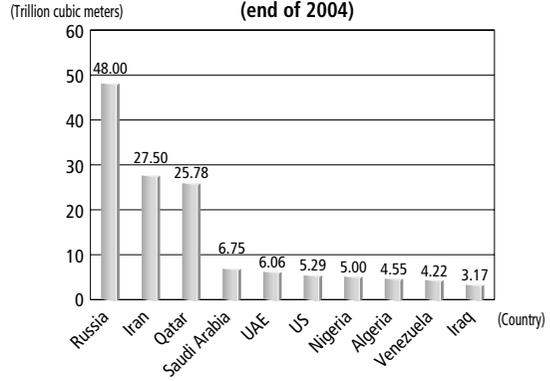


Top 10 Countries in Crude Oil Consumption (2004)

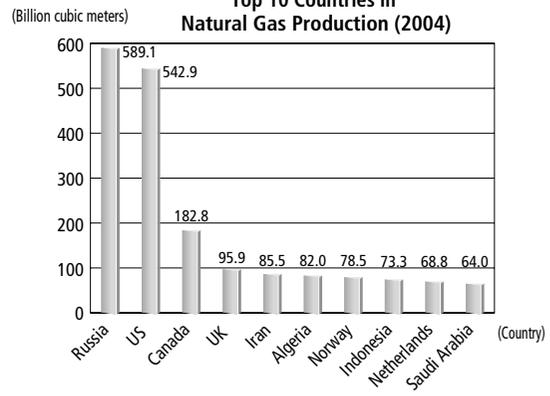


Top 10 Countries in Proven World Reserves, Production and Consumption of Natural Gas

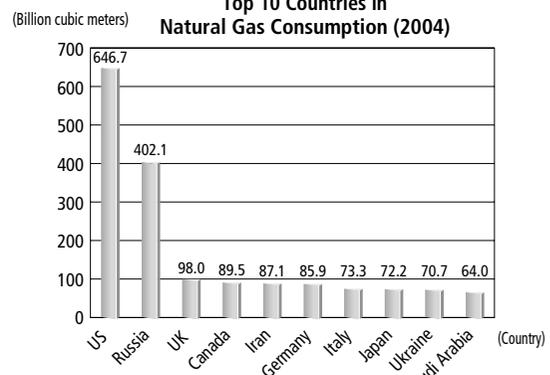
Top 10 Countries in Proven Natural Gas Reserves (end of 2004)



Top 10 Countries in Natural Gas Production (2004)



Top 10 Countries in Natural Gas Consumption (2004)



Source: BP Statistical Review of World Energy (2005).

Note: Natural Gas Liquid (NGL) is the generic name given to liquefied hydrocarbons that have been separated and collected from natural gases produced from an underground well. Under normal temperature and normal pressure it becomes liquid.

Source: BP Statistical Review of World Energy (2005).

(b) Piracy

Japan depends on maritime transport for imports of energy resources, including oil and minerals, in particular for nearly all oil imports arriving via sea routes in the Southeast Asian region. Maritime security in Asia is not only important for Japan's maritime transport, but also critical for the stability and economic development of the entire region.

Piracy incidents in Asia have risen sharply since the late 1990s. In 2004, 214 incidents, which represent approximately 65% of the 330 incidents worldwide, occurred in the Asian region, including East Asia and the Indian ocean (see the table, Reported Piracy Cases). In March 2005 an incident occurred in which a Japan-registered tugboat, the *Idaten*, was attacked in the Straits of Malacca and its captain and two other seamen were taken hostage.

Under the serious conditions of the piracy incidents occurring in recent years, at the ASEAN+3 Summit Meeting in November 2001 Prime Minister Koizumi proposed the creation of a legal framework to promote regional cooperation in response to the problem of piracy. In November 2004, the Regional Cooperation Agreement on Combating Piracy and Armed Robbery Against Ships in Asia was adopted after the series of negotiations under Japan's leadership (Japan concluded the agreement in April 2005). Through the early entry into force of the Agreement it is expected that anti-piracy measures will be promoted by the establishment of a

structure for sharing information on piracy and a cooperative network among the participating countries in the Asian region.

(c) Marine Issues

Japan is a maritime country surrounded by sea and therefore has profound interests in the appropriate operation and development of the law of the sea, centering around the UN Convention on the Law of the Sea.

With the expiry of the term of office of Dr. Soji Yamamoto, who has served as a judge of the International Tribunal for the Law of the Sea (ITLOS)¹⁹ since its establishment, Japan nominated Mr. Shunji Yanai, Professor of Chuo University, as a candidate for the election of a new judge of ITLOS, which was held at the Meeting of States Parties to the UN Convention on the Law of the Sea in June. With the broad support of the States Parties, Mr. Yanai was elected to the position (term of office to run until 2014).

In addition, since Japan is an island country with a small land area and few natural resources, marine living resources and other natural resources lying on continental shelves and in deep seabeds under surrounding waters are very important from an economic viewpoint.

The UN Convention on the Law of the Sea provides that the continental shelf of a coastal state comprises the seabed and subsoil of the submarine area up to 200 nautical miles from the base line, and that in the event the continental margin extends beyond 200 nautical miles, the outer limit of the continental shelf beyond 200

Reported Piracy Cases

Region	Year	1996	1997	1998	1999	2000	2001	2002	2003	2004
East Asia		133	109	100	173	257	178	175	193	173
Malacca Straits within East Asia		12	8	6	37	112	58	34	36	60
Indian Ocean		30	41	25	51	109	86	66	96	41
Africa		28	41	41	52	62	80	70	89	70
Latin America and the Caribbean		32	45	38	29	41	23	67	72	46
Others		5	16	6	4	2	3	5	2	0
Total		228	252	210	309	471	370	383	452	330
Number of incidents involving ships related to Japan		11	18	19	39	31	10	16	12	7
Number of incidents in East Asia involving ships related to Japan		10	12	14	28	22	4	12	11	7

Source: International Maritime Organization (IMO), *Report on Acts of Piracy and Armed Robbery Against Ships Annual Report 2004*; Ministry of Land, Infrastructure and Transport, *Maritime Report 2005*.

Note: According to the IMO, the reported number of incidents in 2004 decreased by 122 cases year-on-year from 452 to 330 cases. Of these cases, nine ships were hijacked, three were missing, 30 people were killed, 87 were injured, and 140 were taken hostage or remain missing. This demonstrates the increasingly violent tendencies of such acts of piracy.

19. ITLOS was established in 1996 as an institution to settle by peaceful means disputes concerning the interpretation or application of the UN Convention on the Law of the Sea, according to the Convention, which comprehensively provides for the law of the sea.

nautical miles can be established when the topography and geological features of the seabed meet certain conditions. In order for Japan to maintain its economic interests by securing a stable supply of marine natural resources, Japan has been conducting studies on the topography and geological features of the seabed in waters surrounding Japan with a view to extending the outer limit of its continental shelf to the maximum limit of 350 nautical miles in accordance with the Convention. Additionally, in the belief that sharing information on the extension of the outer limit of the continental shelf will help other countries prepare to extend the outer limit of their own continental shelves, at the time of the deliberations on the Resolution on Oceans and the Law of the Sea at the 60th UN General Assembly, Japan submitted to the UN Secretary-General a proposal requesting efforts to promote information-sharing by each country, and this proposal was incorporated into the Resolution.

(d) Food Issues

Japan depends on imports for most of its food supply (approximately 60% in calorie base) and Japan is actively engaged in international food issues, including hunger reduction, while promoting international cooperation necessary for securing its food supply.

Japan decided to make a US\$5 million monetary contribution to the Food and Agriculture Organization (FAO) for emergency assistance projects to Indonesia, Thailand, Sri Lanka and the Maldives, aiming to support the countries and regions affected by the tsunami in the Indian Ocean, on January 17, 2005. In these projects, assistance for self-help recovery efforts in agricultural and fishing villages was provided, through the delivery of grain and vegetable seeds and repair and improvement of fishing boats.

Also, Japan focuses on the self-help efforts of the people in developing countries, when providing assistance other than in emergencies for the agricultural sector. In February 2006, Mr. Etsuo Kitahara, Vice-President of Japan International Cooperation Agency (JICA), was elected as the Executive Director of the International Grains Council (IGC),²⁰ effective from February 1, 2006, making it the first time that a representative was elected from a food importing country.

(e) Fisheries (Tuna and Whaling, etc)

International concern is spreading that three-quarters or more of global marine fishery resources have been overfished.²¹ As a major fishing country and importer of marine products, Japan has been playing an active role in working to ensure sustainable use of living marine resources as well as international cooperation for fishery resources management and conservation of the marine environment.

In recent years, regional fisheries management organizations have made progress in dealing with illegal, unreported, and unregulated (IUU) fishing operations. In particular, the positive listing scheme²² was introduced at Japan's initiative in each regional fisheries management organization for tuna in the Atlantic Ocean, the Indian Ocean, the Eastern Pacific Ocean, and the South Pacific Ocean. These regional organizations stipulate rules for the conservation of resources, and recently in response to cases where rules have not been complied with, moves have been seen to impose strict sanctions, such as the reduction of fishing quotas, or import restrictions. In August, Japan concluded the Convention on the Conservation and Management of Highly Migratory Fish Stocks in the Western and Central Pacific Ocean, which aims to conserve and manage highly migratory fish stocks in the Western and Central Pacific, which yield approximately 80% of Japan's fishery production of tuna and tuna-like species.

As for whaling, there is still no prospect of the resumption of commercial whaling. At the 57th Annual Meeting of the International Whaling Commission (IWC) in June, although the countries that support the sustainable use of cetaceans were almost equal in number to anti-whaling countries, a resolution was adopted opposing Japan implementing whaling for research purposes (the resolution is not legally binding) and the proposals to establish quotas for the commercial capture of Minke whales in the Antarctic Ocean and the coastal areas of Japan were rejected. Japan supports the position in favor of the proper conservation of cetaceans to be protected and sustainable use of cetacean resources based on scientific grounds. Japan is working to strengthen its ties with member countries that share the

20. An international organization that aims to enhance global food security and stability in the international grain market by the promotion of international cooperation through the exchange of information on grain trade, among other issues.

21. FAO, "The State of World Fisheries and Aquaculture 2004," p. 32.

22. By creating a list of registered vessels and farming facilities that comply with regulations, imports from IUU fishing vessels and farming facilities that are not on this list can be excluded.

same position at the IWC and continues vigorously its efforts to cooperate with those countries that support the

principle of sustainable use.

5 Promoting Investment into Japan

Foreign direct investment brings new business models and management methods to Japan and thereby contributes to revitalizing Japan's economy as well as strengthening its competitiveness. Examples of this include the revival of Japanese automakers through tie-ups with foreign companies and the success of newly styled coffee shops and holiday resorts.

Under these circumstances, the Government of Japan has decided to take various measures to make Japan a more attractive market for foreign firms, with the aim of doubling the stock of foreign direct investment in Japan within five years beginning in 2001. The government has launched the "Invest Japan" Campaign²³ and is currently implementing the "Program for the Promotion of Foreign Direct Investment in Japan,"²⁴ which consists of five core areas: (1) reviewing administrative procedures, (2) improving the business environment, (3)

improving employment and living environments, (4) improving local and national structures and systems, and (5) dissemination of information within Japan and abroad. To date a variety of promotional activities have been undertaken, for example the opening of seminars overseas on the appeal of the Japanese investment environment, as well as the translations of Japanese domestic laws and ordinances into foreign languages.

The Ministry of Foreign Affairs, actively utilizing its overseas embassies and consulates-general, has cooperated closely with other related Japanese organizations in publicizing and promoting investment in Japan. It has also been engaged in various dialogues on investment with the US and the European Union (EU),²⁵ engaging in lively discussions and exchanges of views on a wide range of fields of improvement for the business environment, including regulatory reform.²⁶

6 International Science and Technology Cooperation

Overview

The international community attaches great importance to international cooperation that makes full use of science and technology to resolve various challenges, including those relating to sustainable development, the global environment, natural resources and energy, the realization of a safe and secure society, and disaster prevention. From that perspective, Japan is aiming for the further development and application of science and technology. It is promoting bilateral cooperation with other countries, while at the same time actively

advancing multilateral cooperation to expedite large-scale international science projects that cannot be implemented by one country alone.

Individual Cases

In order to promote bilateral cooperation in science and technology, Japan has concluded science and technology cooperation agreements with various countries, and it has also held exchanges of opinions on science and technology policy and on various issues as well as consultations on specific projects of joint research through regular intergovernmental meetings based on

23. The campaign is being jointly undertaken by the government and other related organizations under the common "Invest Japan" logo. It carries out active publicity campaigns such as airing TV commercials and newspaper advertisements featuring Prime Minister Junichiro Koizumi in the US. Also, thorough information and support are being provided to investors through the contact points set up at all relevant government ministries or the Invest Japan Business Support Center (a one-stop service center) of the Japan External Trade Organization (JETRO).

24. The stock amount of foreign direct investment in Japan has increased from ¥6.6 trillion at the end of 2001 to ¥10.1 trillion at the end of 2004.

25. The Japan-US Investment Initiative is one of the six initiatives/meetings set out under the Japan-US Economic Partnership for Growth, established at the Japan-US Summit in June 2001. The Cooperation Framework for Promotion of Japan-EU Two-Way Investment was issued at the regular Japan-EU Summit in June 2004.

26. The discussions under the Japan-US Investment Initiative cover the promotion of investment in the education and medical sectors, the facilitation of cross-border M&As, and labor mobility. The Cooperation Framework for Promotion of Japan-EU Two-Way Investment commits the two sides to enhance dialogue and cooperation between regulatory authorities, improve the investment environment on both sides, and cooperate on investment promotion.

the agreements. Such meetings were held in 2005 with Italy, the US, China, Canada and India. In addition, Japan is continuing negotiations with the EU and Switzerland on the conclusion of agreements and to promote enhanced cooperation.

Japan's efforts in such areas as natural resources and energy, space, earth observation, and non-proliferation are examples of large-scale international science projects that have been promoted.

In the field of energy, Japan has been promoting the ITER project, a joint international project that aims to demonstrate the feasibility of nuclear fusion energy, which is expected to come close to a permanent source of energy for mankind. In June 2005, the participating countries and organization in the ITER project agreed that the site for the experimental reactor would be located at Cadarache in France. Japan is currently actively engaged in intergovernmental consultations with the aim of concluding negotiations on the ITER Joint Implementation Agreement and the early launch of the ITER project.

With respect to the field of outer space, Japan has been participating jointly with various countries in the International Space Station (ISS) program to construct a laboratory for a wide range of experiments under the special conditions of space. As part of the ISS program, Japan's first-ever manned experimental facility called Kibo (meaning hope) is scheduled to be launched. In

addition, Japan is also engaged in the development of the H-II Transfer Vehicle (HTV), a supply ship to be used as a means of transporting items to the ISS.

In the area of earth observation, based on the increasing need for global-scale observation, Japan, in cooperation with other countries, has principally advanced such initiatives as the Argo Project (advanced ocean observation system)²⁷ and the Integrated Ocean Drilling Program (IODP).²⁸ In addition, in the Group on Earth Observations (GEO) that was officially launched in May 2005, toward the realization of the Global Earth Observation System of Systems (GEOSS) Ten Year Implementation Plan, Japan is actively taking part in the implementation of the plan as a member of the Executive Committee, which comprises 12 countries.

Regarding the area of non-proliferation, Japan, in a joint undertaking with the US, Russia, the EU, and Canada, manages the International Science and Technology Center (ISTC) which was established in 1994 in order to prevent proliferation of the technology related to WMD following the collapse of the former Soviet Union. And through the ISTC, Japan has been assisting in the provision of civilian employment for scientists and engineers who were engaged in WMD research and development in the former republics of the Soviet Union. As of 2005, Japan has so far provided approximately US\$60 million in assistance to the ISTC project.

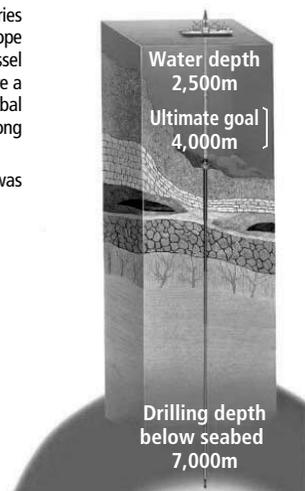
Integrated Ocean Drilling Program (IODP)

The Integrated Ocean Drilling Program (IODP) is a multinational cooperative project in which 15 countries are participating. The main partners are Japan and the US and other countries include those from Europe and also China. Drilling operations are mainly carried out by the Japanese Deep Sea Drilling Vessel CHIKYU and US drilling vessels, and with the addition of mission-specific vessels from Europe, there are a number of vessels engaged in seabed drilling. They are implementing research into changes in the global environment, the interior structure of the earth and also searching for life inside the earth's crust, among other aims.

CHIKYU is a scientific deep sea drilling vessel capable of drilling 7,000m below the seabed. It was completed in July 2005, and after operational tests it is scheduled for joint operations in the IODP framework from September 2007, beginning international operations.

Deep Sea Drilling Vessel CHIKYU
(Completed July 2005)

Length : 210m
Breadth : 38m
Gross tonnage : 57,100 tons
Height from water surface : 121m
Drilling depth (below seabed) : 7,000m



27. The project calls for the creation of an ocean observation system that consists of around 3,000 floats deployed over the world that collect and transmit data on water temperature and salinity at water depths of up to 2,000 meters.

28. The program seeks to survey deep into the earth using deep-sea drilling ships (capable of drilling up to 7,000 meters below the sea bed) provided by Japan.