

Major reforms in Japan Revitalization Strategy Revised 2014

*extracted from Japan Revitalization Strategy Revised 2014

I . Restoring Japan's Earning Power

○Drafting the Corporate Governance Code, etc.

Corporate governance is the system which supports companies making timely entrepreneurial decisions with transparency and integrity and with due regards to the views of shareholders as well as customers, employees, local communities and other stakeholders. Principles outlining key elements of good governance should help companies' initiatives towards sustainable growth of their corporate values and would thereby contribute to the prosperity of the companies themselves, investors and, ultimately, the whole economy.

The "Corporate Governance Code" will be drafted, specifying the principles of corporate governance to be applied by listed companies. The Code will be drafted by referring to, among other rules, the Tokyo Stock Exchange's existing rules and guidelines regarding corporate governance, and the OECD Principles of Corporate Governance. The Code will, while reflecting the circumstances of Japanese companies, aim to attain international reputation. To that end, a council of experts of which the Tokyo Stock Exchange and the Financial Services Agency will jointly act as a secretariat, will aim to prepare key elements of the Code by around this autumn so that the Tokyo Stock Exchange can newly draft the Code in time for the season of general shareholders' meetings in (June,) 2015. Effectiveness of the new Code shall be ensured through "comply or explain" approach. The listing rules of Tokyo Stock Exchange will require listed companies to either comply with the principles contained in the Code or explain the reason why they did not comply with such principles.

○Support by financial institutions for business management and promotion of business restructuring to achieve the renovation of industries

In order to promote improvements in business quality and business/corporate restructuring, financial institutions are expected to provide financing taking well into considerations not only the financial condition of debtor companies, but also the growth potential of the debtor's business, including their sustainability, as well as to cooperate with relevant stakeholders to improve the performance, productivity, and sustainability of businesses. Financial institutions are encouraged to strengthen their functions and capacities to support this, and the

Government will appropriately supervise and support financial institutions pursuant to the Supervisory Policies and the Financial Monitoring Policy from such perspectives.

○ Reviewing management of public and quasi-public funds, etc.

In terms of approaches to the management of public and quasi-public funds, including the GPIF, in light of the recommendations by the Panel, the Government will continue to take the requisite steps to ensure that the necessary measures are implemented swiftly and steadily, taking into account the need to ensure long-term soundness, according to the scale and nature of the funds in question.

As for the GPIF, it appropriately revise its policy asset mix as soon as possible to ensure the long-term soundness of pension finances, in line with the changes in the long-term economic and investment climate, including Japan's success in overcoming deflation and in transitioning to an environment with moderate inflation, based on the 2014 Actuarial Valuation of the Employees' Pension Insurance and the National Pension. In addition, the GPIF will, without delay, adopt a response based on the Japan's Stewardship Code, which the GPIF has accepted (*).

Moreover, in addition to the revisions of its policy asset mix, it is necessary to enhance governance system of the GPIF, so it will aim for more agile management by restructuring its risk management system with a forward-looking view at first. Furthermore, in accordance with the Basic Policy on Incorporated Administrative Agency Reform, etc. (approved by the Cabinet on December 24, 2013), the Government will implement without delay such initiatives as assigning some permanent members to the GPIF's Investment Committee and developing systems that will actually enable the Committee to make decisions about key policies on fund management, as well as securing highly skilled experts through the revisions of the remuneration system. In addition, in light of the Basic Policy and the recommendations made by the Panel regarding the management of funds, the Ministry of Health, Labour and Welfare will accelerate efforts to implement the necessary measures, taking into account the need to ensure long-term soundness of the fund according to its scale and nature. For example, the MHLW will hold discussions on the location of the main office of the GPIF, and the future legal reforms if it is necessary from the viewpoint of the whole pension system and its organizational structure.

*Management reforms are solely for the benefits of those insured on the national pension system. Such management reforms of the GPIF will consequently lead to investments in growth, benefiting the Japanese economy, contributing to the formation of a virtuous economic circle.

○ Improving the support environment by promoting participation in government procurement and other means

The Government will study support measures, including revising Act on Ensuring the Receipt of Orders from the Government and Other Public Agencies by Small and Medium-sized Enterprise (Public Agency Order Act), promoting participation by young companies (small and medium-sized venture businesses) in government procurement, setting targets for the allocation of research funds by public organizations to venture businesses, etc. and clarifying the handling of employment insurance benefits for people preparing for or considering business startup while engaged in job-seeking.

○ Improving the productivity of service industries

In order to improve the productivity of service industries, which account for around 70% of Japan's GDP, it is important to promote innovative business approaches, such as marketing using big data. To that end, the following measures will be implemented:

- Analyze best practices related to high-value-added service business models through an organization called Service Productivity & Innovation for Growth (SPRING) and disseminate these best practices by creating a Japan Service Business Award (tentative name) (to be launched in FY2015).
- Develop and popularize practical business management programs focused on service industries, to be adopted by graduate schools and universities aiming to nurture innovative service business managers, and practical education programs to be adopted by professional training colleges, etc.
- Establish a system to certify the quality of business support services by the end of FY2015.
- Formulate guidelines for specific methods and procedures that will enable small and medium-sized service businesses to improve productivity.

○ Corporation tax reform

The Government will seek both to strengthen Japan's own competitiveness as a business hub and to enhance the competitiveness of Japanese companies. As part of these endeavors, it will embark on growth-oriented reforms of the corporation tax system, with the aim of bringing the effective corporation tax rate down to a level comparable with that of other countries.

Accordingly, it will aim to bring the effective corporation tax rate down to the 20% range over a number of years. These reductions will begin in FY2015.

The Government will secure permanent revenues to fund this reduction through the broadening of the tax base, to ensure consistency with the target of achieving a surplus in the primary balance in FY2020, taking into account such matters as the fact that Abenomics is promoting structural improvements and enabling the Japanese economy to overcome deflation. As such, the Government will conduct discussions on this subject over the remainder of 2014 and will formulate a concrete plan of action.

As it implements this plan, the Government will check on progress toward the achievement of targets, in light of the need to bring the primary balances of both the national government and local governments back into the black in FY2020.

○ Fusion of knowledge through use of the cross-appointment system, etc.

The Government will actively seek to introduce and utilize the cross-appointment system (a system that allows researchers to carry out researches under the responsibility of both universities and other institutes by signing employment contracts with both of the entities respectively) across universities and Research and Development Corporations. This will help to enhance the mobility of personnel and technology between industry, academia, and government, and ensure Research and Development Corporations smoothly bridge the technology seeds created at universities to commercialization. Accordingly, the Government will make the necessary upgrades to the environment within FY2014, focusing on efforts to promote the introduction of the annual salary system, the handling of medical insurance, pensions, and lump-sum retirement allowances, and the management of trade secrets and intellectual property.

○Steady implementation of university reforms and initiatives aimed at further reforms

While steadily implementing initiatives aimed at achieving the targets in the National University Reform Plan, the Government will begin deliberations within 2014, with a view to the fundamental review of approaches to management expenses grants and evaluation during the third mid-term objective period (FY2016 onward), and will reach a conclusion by the middle of 2015. In doing so, the Government will flesh out the rules concerning focused and strategic allocation of funds based on new indicators, with a view to strengthening the functions of universities as bases for the development of world-class education and research, bases for nationwide education and research, and key bases for regional revitalization, taking into account the needs of both industry and individual regions. In conjunction with this, the Government will promote reforms of personnel and salary systems, such as the introduction of annual salary and mixed-salary systems. Moreover, now that a decade has passed since the National University Corporation Act entered into force, the Government will consider the composition of president nomination committees and other systems associated with the organization and running of national university corporations, and will take the requisite steps if action is deemed necessary. In doing so, in light of the School Education Act and paragraph (2) of the Supplementary Provisions Partially Revising the National University Corporation Act, which were enacted this June, the Government will take into account the status of the entry into force of the laws in question and changes in the socioeconomic situation facing national university corporations.

In moving forward with the National University Reform Plan, the Government will seek to strengthen the research capabilities of universities and develop outstanding, internationally-competitive graduate schools. Accordingly, ahead of FY2016, when the third mid-term objective period is due to begin, the Government will press on with efforts to strengthen governance functions and cultivate an environment conducive to constant reviews of the allocation of resources within universities, as well as considering new mechanisms for backing initiatives based on bold ideas from universities.

In conjunction with this, the Government will promote initiatives to ensure that universities become hubs for their regions (and for knowledge), contributing to efforts to resolve local problems, developing the human resources to support the local community and feeding back research outcomes into that community. It will also promote the development and implementation of professional programs based on mutual commitment between universities, etc. and industry, while moving forward with the appointment of and collaboration with personnel well-versed in management practices, such as business proprietors, and will seek to popularize and firmly establish corporate internships, including those at SMEs.

○ Strengthening of the employee invention system and protection for trade secrets

As well as aiming for prompt submission to the Diet of bills concerning improvements to the employee invention system (for example, attributing patent rights to companies), with a view to combining advantages for companies with incentives for inventors, the Government will consider highly-effective measures to prevent the leakage of trade secrets, based on initiatives undertaken via collaboration between the public and private sectors. Endeavoring to give concrete shape to these measures as soon as possible, it will aim to submit relevant bills to the next ordinary Diet session and to revise Trade Secret Management Guidelines within 2014.

○ Development of systems aimed at appropriate utilization of personal data

To promote the utilization of personal data while protecting personal information and privacy in the era of big data, the Government will put together policy outline concerning the content of legal reforms, concerning such matters as the development of an independent third-party authority system and the handling of data with reduced possibility of certain individuals being identified, based on the Directions on Institutional Revision for Protection and Utilization of Personal Data. Once this has been done, the Government will aim to take the necessary legal measures by the next ordinary Diet session.

○ Proactive use of the My Number system

The Government will accelerate initiatives focused on the use of the My Number system, which is scheduled to begin operating in January 2016, and the development of a system for disclosure of information access logs (dubbed “My Portal”), which is expected to launch in January 2017 or thereabouts.

The Government will consider initiatives aimed at ensuring widespread use by citizens of the My Number cards to be introduced in conjunction with the My Number system, by such means as integrating these cards with cards used to access public services or as proof of a qualification and will clarify the approach it intends to take by January 2016, when the My Number cards will begin to be issued.

Moreover, it will consider the approaches to the use of My Number in fields of a highly public nature, such as finance, health and medical and nursing care, family registers, passports, and vehicle registration, taking into account the need to protect personal information. In doing so, it will consider both the advantages of using My Number and the challenges posed by its use, and will clarify its approach to expanding the scope of use of My Number within FY2014.

In order to achieve the ambitious goal of doubling inward FDI stocks to ¥35 trillion by 2020, it is essential for the Government to develop the investment promotion system, including the establishment of the system required to improve the investment environment in Japan, taking foreign companies' needs into consideration. Therefore, with the Council for Promotion of Foreign Direct Investment in Japan as the headquarters, cross-ministerial efforts will be made to conduct activities focused on identifying and attracting investment projects, and carrying out the necessary institutional reforms.

Japan's diplomatic missions abroad and JETRO overseas offices will cooperate in strengthening overseas activities focused on attracting investment projects, such as encouraging the top management of foreign companies to invest in Japan, conducting public relations campaigns, and disseminating information. Regarding promotion of individual projects, JETRO will work with relevant ministries and agencies to strengthen its one-stop support functions, to create opportunities for Japanese SMEs to form investment partnerships with foreign companies, and so on. Moreover, the Government, in cooperation with JETRO, will provide full-scale support for active local government efforts to attract foreign companies. Strategic sales pitches will be conducted by the Prime Minister and Cabinet Ministers, in coordination with advanced initiatives by local governments (at least 10 sales pitches per year).

II . Cultivating Human Resources -- Promoting women's social participation and reforming working styles

○ Construction of a new legal framework for promoting active social participation by women

With a view to achieving the goal of 30% of leadership positions held by women in 2020, the Government will consider a new comprehensive framework for achieving steady advances, to ensure sustained initiatives to promote active social participation by women.

More specifically, the Government will consider how actors in the public and private sectors should respond, including ascertaining the current situation regarding the appointment of women by the national government, local governments, and private sector business operators, as well as setting targets for their appointment, formulating voluntary action plans for achieving those targets, and disclosing information about these. Furthermore, to encourage initiatives by the various actors, the Government will consider measures aimed at ensuring their effectiveness, such as accreditation mechanisms and the granting of incentives. The Government will aim to submit a bill to the Diet, after reaching a conclusion on these during FY2014.

○ Steady implementation of measures to secure nursery teachers

To ensure that the Plan to Accelerate the Elimination of Childcare Waiting Lists is implemented without fail, the Government will prepare the Plan for Securing Nursery Teachers, aiming to publish it within 2014. Having identified how many nursery teachers are needed nationwide, based on the plans of local governments under the Comprehensive Support System for Children and Child-rearing, this will stipulate numerical targets and time frames for the hiring of such teachers, and will also provide a roadmap for promoting human resource development and support for re-employment. In conjunction with this, the Government will make any revisions that are required, depending on the progress status of the Plan to Accelerate the Elimination of Childcare Waiting Lists at the end of FY2014.

○ Enhancing measures to prevent overwork

As the prerequisite for achieving a world-class employment environment, every possible effort will be made to prevent overwork. To that end, the Government will implement specific measures, such as strengthening systems of inspection and guidance to rectify the culture of long working hours at companies, etc., and enhancing Labor Standards Inspection Office inspections and guidance targeting companies suspected of engaging in illegal practices. In addition, in order to promote ways of working that encourage a good work-life balance, the Government will popularize a morning-oriented working style, in which workers go to the workplace early in the morning and leave in the late afternoon. Moreover, in order to improve Japan's culture of overwork, the Labor Policy Council will consider measures to curb long working hours and to promote the use of annual paid leave.

○ Introducing a system to evaluate not based on working hours but on performance

In order to meet the needs of workers who would like to be evaluated not based on working hours but on performance, a new working hour system to break the link between wages and the length of time spent at work will be created, while protecting workers' health and achieving a better work-life balance for workers who have a specific scope of duties and advanced professional skills, and meet a certain annual income requirement (e.g., a minimum of ¥10 million). After the Labor Policy Council has completed its deliberations and reached a conclusion on the system, the Government will take the necessary legislative measures during the next ordinary Diet session.

○ **Establishing a new framework for the discretionary work system**

A new framework for the discretionary work system will be established by revising the scope of workers eligible for the system and amending the relevant procedures, with a view to improving productivity, achieving a better work-life balance, and protecting workers' health so that workers involved in companies' core operations and R&D activities under the system can exercise their creativity, leading to improved corporate competitiveness. After the Labor Policy Council has completed its deliberations and reached a conclusion on the system, the Government will take the necessary legislative measures during the next ordinary Diet session.

In doing so, the Government will reform the discretionary work system in accordance with its primary purpose so that workers can actually work at their own discretion, taking into consideration the view that the existing discretionary work system does not diffuse enough and allow workers to work autonomously.

○ **Reforming the flextime system**

In order to further facilitate flexible and various ways of working in light of the needs of workers caring for children and elderly relatives, the Labor Policy Council will examine reforms of the flextime system, such as extending the settlement period for working hours so as to enable flexible allocation of working time across two or more months and the use of annual paid leave to avoid pay being reduced when leaving the workplace earlier than the prescribed time. After the Council has reached a conclusion, the Government will take the necessary legislative measures during the next ordinary Diet session.

○ **Analysis of cases dealt with via mediation, labor tribunal decision, and conciliation**

Regarding the analysis and classification of cases of mediation, labor tribunal decision, and conciliation, which are used to resolve labor disputes, the Government will clarify as far as possible the relationship between the amount of money paid to resolve disputes and various factors, such as workers' attributes in terms of employment, their wage levels, and company size. Based on the results of this analysis, the Government will develop a usable tool within one year.

○ **Establishing a transparent and objective labor dispute resolution system**

Given that major industrial countries have developed mechanisms for providing workers with pecuniary remedies through judgments in line with their respective employment

systems, the Government will analyze cases of mediation, etc. and conduct surveys and studies concerning relevant systems and their management in other countries by the end of FY2014. Taking into account the findings of these surveys and studies, the Government will promptly establish a forum for discussion of specific approaches to globally-accepted, transparent, fair and objective labor dispute resolution systems and conduct wide-ranging deliberations by the end of 2015.

Human resources and technologies are the greatest treasure left in Japan. In order to realize a “world-leading employment environment,” we must link education and labor area reforms and enhance career and professional education to create a system to turn out human resources who can win in competition with foreign countries. In order to allow new technologies and ideas to be commercialized instead of being left untouched, we must create an environment where all people willing to start up business, including from students to businesspersons, can take on the challenges to do so.

○ Promotion of comprehensive measures aimed at the employment and nurturing of the young people who will shape the future

To ensure that youth employment measures covering the preparatory stages of finding employment, job-seeking activities, and career development after being hired are promoted throughout society, the Government will consider comprehensive measures including those outlined below. Where legislation needs to be established to achieve this, the Government will aim to submit the relevant bills during the next ordinary Diet session.

- Enhancing careers education and promoting other measures to foster vocational awareness at the school education stage.
- Ensuring that information about conditions of job offers and the status of youth employment and retention is displayed appropriately.
- Fundamentally strengthening the ‘Announcement of Corporations Supporting the Youth’on project, thereby supporting efforts by superior SMEs to disseminate information and hire young people.
- Supporting entrepreneurship and relocation to hometowns or other regional cities (U-I-J turn), thereby allowing young people to contribute to regional revitalization.
- Promoting initiatives to improve employment management by companies.
- Enhancing and strengthening countermeasures targeting companies suspected of hiring young people as “disposable” workers.
- Enhancing efforts to support casual employees and those classed as not in education,

employment or training to start working and shift to regular employment through comprehensive revision of how the collaboration of Hello Work for Young People and Regional Youth Support Stations with regional areas and the private sector should be, among others.

- Helping young people to move up the career ladder by enhancing vocational education and training opportunities.

○ **Fundamental revision of the Technical Intern Training Program**

To ensure complete adherence to the program which aims at making an international contribution, the Government will not only make improvements to the program, but will also carry out fundamental revisions of the Technical Intern Training Program, including expanding the covered range of occupations, extending the internship periods, and increasing the number of admitted interns. In addition, bills required to comply with this objective will be submitted.

- Fundamental strengthening of the management and supervision system of the Technical Intern Training Program

In light of non-payment of wages, long working hours, and other misconduct under the Technical Intern Training Program, the Government will conduct a fundamental revision of approaches to the supervision and the management of the program by the end of 2014, and will aim to complete the transition to the new program during FY2015. The revision includes the establishment of an integrated system regarding the domestic management and operation of the program through collaboration of relevant ministries and agencies, as well as creating inter-governmental agreements with the interns' countries of origin, bringing external directors into the supervising organizations or making it obligatory to undergo external auditing, and establishing an organization of management and operation of the program based on new legislations. Also, as well as seeking to enhance guidance and supervision by the respective ministries in charge of industries concerned, the Government will develop a system to facilitate the information sharing regarding problems, through establishing regional councils (tentative) consisting of representatives of relevant organizations.

- Expansion of the range of occupations covered

Fields and occupations that are not currently covered by the Technical Intern

Training Program, but expected to be the subject of increasing demand for human resources both in Japan and abroad, will be added to the program, if the skills that can be transferred are deemed to be appropriate in light of the purpose of the program. In the case of the nursing care field, the Government will seek to examine the relationship among the program, the acceptance of candidates to become certified care workers under existing economic partnership agreements, and the granting of work permits to international students who have qualified as certified care workers, regarding which deliberations are already underway. In this regard, the Government will also take into account perspectives characteristic of the service industry, such as the need to guarantee quality via Japanese language requirements, etc., and will seek to complete deliberations and reach a conclusion by the end of 2014. Moreover, as well as occupations regarding which a uniform nationwide response is required, the Government will consider adding occupations based on an assessment of the industrial characteristics of each region.

- Extension of the internship period (three years → five years)

The Technical Intern Training Program currently permits interns to stay in Japan for a maximum of three years, but where the supervising organization and the accepting company are recognized as legitimate organizations due to satisfying certain clear conditions, the Government will permit highly-skilled interns to extend their training period for a maximum of two years, after returning home temporarily. Accordingly, the Government will put in place the requisite institutional measures, with a view to enforce them during FY2015.

- Increasing the admission quota

Under the Technical Intern Training Program in which the accepting companies are basically under surveillance of supervising organizations, accepting companies with no more than 50 regular employees are permitted to accept three interns, while those with no more than 100 are permitted to accept six, and the like. However, in the case where the supervising organization and the accepting company are recognized as legitimate, due to satisfying certain clear conditions, the Government will permit the expansion of the admission quota, as an incentive aimed at improving oversight of accepting companies by supervising organizations. Accordingly, the Government will put in place the requisite institutional measures, with a view to enforce them during FY2015.

○ Acceptance to Japan of employees from overseas subsidiaries of Japanese manufacturers

In light of fears about de-industrialization within Japan due to accelerating overseas expansion by Japanese manufacturing industry, the Government will consider developing systems that will enable domestic bases to function as mother plants, carrying out production activities based on a division of roles with overseas bases, and which will also facilitate research and development and capital investment based on this premise.

Therefore, with the involvement of the competent minister, the Government will allow greater flexibility in the acceptance to Japan of foreign employees on short-term transfers within the enterprise group in question for the purpose of acquiring skills, etc., where the employee in question needs to learn a specific professional skill such as new product development, as long as the company in question and its subsidiary will pay said employee a wage equivalent to that paid to a Japanese national with the same level of skill. Accordingly, the Government will design the specific institutional arrangements within FY2014.

○ Support for active participation by international students who have obtained national qualifications in the field of nursing care

To enable international students studying in Japan to continue to play an active role within the country after graduating from a Japanese higher education institution and obtaining a specific national qualification such as the certified care worker qualification, the Government will aim to design within 2014 the institutional arrangements for permitting them to work, including augmenting the status of residence categories.

○ Medium- to long-term considerations, etc.

Furthermore, the Government will undertake comprehensive deliberations regarding approaches to the acceptance of foreign human resources in the medium- to long-term, while seeking to shape the national consensus, taking care to ensure that this is not misconstrued as an immigration policy.

As it moves forward with initiatives aimed at utilizing foreign human resources, the Government will also seek to strengthen partnerships with countries that share the same basic values.

III . Nurturing industries to become new growth engines and support regional communities

○ rice production adjustment program

Regarding the reform of rice production adjustment program, the Government will create an environment that encourages farmers to choose their production based on the market demand and will strive to make it possible to produce agricultural products without relying on government quota allocation, with a view to putting into practice in five years' time (regarding production in FY2018). To that end, the Government will create an environment conducive to agricultural production that takes into consideration demand trends through such measures as providing detailed rice-related information, including market prices and information concerning supply and demand.

○ Integrated reform of agricultural committees, agricultural production corporations and agriculture cooperatives

The Government will implement the following reform measures in accordance with the Regulatory Reform Implementation Plan (Cabinet Decision on June 24, 2014).

A) Reforming agricultural committees

Agricultural committees will prioritize efforts to optimize the use of farmland, including the use of idle farmland, and will actively conduct relevant activities.

To establish a transparent process that ensures that only persons suited to carrying out the proper mission of an agricultural committee become committee members, the existing systems of election via voting, and appointment based on recommendation from local assemblies and organizations will be abolished in favor of a new unified system: appointment by the heads of municipalities subject to consent from municipal assemblies.

At the same time, the Government will make it possible for local communities to recommend candidates and publicly recruit candidates, and will require that a majority of a committee are certified farmers.

Moreover, a law will be enacted to provide a legal basis for the establishment of Farmland Utilization Optimization Promotion Committees (tentative name), which will be responsible for implementing – under the supervision of agricultural committees – regional measures to optimize utilization of farmland, including consolidating farmland into the hands of leading farmers, preventing farmland from being abandoned, reducing abandoned farmland and promoting new entry to the sector, as well as for supporting

training of skilled and diverse responsible farmers.

B) Reforming corporations permitted to own farmland (agricultural production corporations)

The Government will revise the requirements for corporations permitted to own farmland (agricultural production corporations) as follows, with a view to supporting corporations seeking to achieve successful agricultural production through collaboration among the primary, secondary and tertiary industries:

- 1) Regarding the requirements concerning executives, at least one executive must be involved in agricultural work.
- 2) In terms of the requirements concerning members, a majority of investors with voting rights must be persons involved in agriculture, while no restrictions will be imposed with regard to the minority of investors.

In addition, the Government will consider further relaxation of the requirements for agricultural production corporations and reform of the farmland system at the time of the five-year review of the Act on Promoting Intermediate Management of Farmland as a Business (as prescribed in the supplementary provision to the Act), taking into account the situation faced by companies which entered the agricultural market through lease arrangements.

In light of the fact that the restoration of leased farmland to the original condition is guaranteed through the cancellation of lease contracts if the land has been effectively deserted or converted into an industrial waste disposal site, the Government will seek to establish an equally secure method of restoring it to its original condition (e.g. confiscation by the Government) as a prerequisite when it considers liberalizing companies' entry into agriculture through the ownership method.

C) Reforming agricultural cooperatives

In order to enable regional agricultural cooperatives to play a leading role in converting agriculture into a growth industry through creative initiatives, the Government will encourage voluntary reform by designating the next five years as a period of intensive agricultural reform and will aim to submit relevant bills during the next ordinary Diet session, to facilitate smooth voluntary reform.

The Government will promote a shift from the Central Union of Agricultural Cooperatives system to a new autonomous system and will make it possible for the agricultural cooperative associations and agricultural economic federations to be converted into stock companies invested in by agricultural cooperatives.

Regarding municipal agricultural cooperatives, the Government will make it clear that they should seek to earn profits through proactive economic activities and return some of their profits to members while setting aside another portion for future investment. At the same time, the Government will promote business methods that reduce risks and the burden of paperwork related to financing businesses (credit provision and mutual insurance). A majority of board members will be required to be certified farmers and persons with professional expertise in the sale of agricultural products and management of farms.

Moreover, the Government will make it possible for municipal agricultural cooperatives and federations to be divided up or converted into stock companies and consumers' cooperatives, etc.

○ **Creating a non-profit holding company system (tentative name)**

Institutional reforms to promote the division of functions among regional healthcare and nursing care service providers and to encourage cooperation among them will be implemented to improve the efficiency and quality of healthcare and nursing care services, thereby providing an integrated community care system.

To this end, the Government will clarify that corporations can become members of a medical corporation under the medical corporation system, and then will create a non-profit holding company system (tentative name) that would allow a holding company to control multiple medical, social welfare and other corporations via a general meeting of members.

In designing the system, the Government will refer to the key points of an interim report (December 26, 2013) by the Healthcare and Nursing Care Subcommittee of the Industrial Competitiveness Council. It will also consider relaxing regulations on medical corporations, and other measures that would allow participation in the non-profit holding companies (tentative name) by various non-profit corporations (including local governments, independent administrative agencies and national university corporations), as well as enabling these holding companies to decide the ratio of voting rights on making decisions among participants in the non-profit holding companies (tentative name) at will and facilitating group-wide funding procurement, the efficient use of surplus funds, and close cooperation with for-profit corporations offering healthcare and nursing care services as part of comprehensive community care services as part of integrated community care system. The Government will seek to reach a conclusion on these measures by the end of 2014 and take relevant institutional measures in 2015.

In addition, the Government will consider utilizing the non-profit holding company system (tentative name) to allow university hospitals to become separate corporations from the university to which they are affiliated, to facilitate integrated management with other hospitals using the same system, on condition that steps are taken to maintain and improve the educational, research and clinical functions of university hospitals. Accordingly, the Government will formulate specific measures for securing the educational, research and clinical functions of university hospitals and design the systems required to establish these hospitals as separate corporate entities from the universities in question, taking into account deliberations on the non-profit holding company system (tentative name). The Government will seek to reach a conclusion on these measures and the system design by the end of FY2014 and implement the relevant institutional measures in FY2015.

The Government will also consider institutional measures for allowing public hospitals established by local governments, independent administrative agencies and the like to participate in the non-profit holding company system (tentative name).

○ **Incentives for individuals**

The Government will explicitly state that, under the health insurance laws, insurers can offer health services in which they selectively award healthcare points or cash benefits to insured individuals who meet certain standards, taking into account the results of a large-scale trial of a health promotion model using ICT. The Government will thus encourage more widespread provision of such services. In addition, the Government will consider introducing health promotion incentives, including the fiscally neutral differentiation of premiums according to individuals' efforts to promote their own health and prevent disease, while taking into account the purposes of the public health insurance system.

○ **Creating a new combination of insured and uninsured healthcare services (tentatively named “patient-proposed healthcare services”)**

Under the system for combining insured and uninsured healthcare services, the Government will create “patient-proposed healthcare services” (tentative name) to increase alternative healthcare services for patients by promptly enabling drugs awaiting approval in Japan or off-label use of drugs approved in Japan to be used in such a combination, in response to proposals from patients battling intractable diseases, while the safety and effectiveness of such drugs is being confirmed. At the same time, the Government will seek the preparation of implementation plans and reports aimed at offering insurance coverage for these drugs. To this end, the Government will seek to submit relevant legislation during the next ordinary Diet session.

○ **Pushing through the Electricity System Reforms**

The Government will continue to make preparations for the first-phase reforms, with the aim of establishing the Organization for Nationwide Coordination of Transmission Operators in 2015.

Regarding the second-phase reforms, the Government will put in place an environment conducive to full-scale deregulation of entry into the retail electricity sector.

The Government will move forward with preparations aimed at submitting the bill concerning the third-phase reforms (further securing the neutrality of the transmission and distribution sector through legal unbundling) during the next ordinary Diet session.

○ **Promotion of gas and heat supply system reforms**

The Government will conduct deliberations focused on building a gas system that ensures a cheap, safe, stable supply of town gas and offers consumers diverse options including new services. It will aim to conclude these deliberations promptly and move into the implementation phase without delay. Moreover, in conjunction with reforms of the electricity and gas systems, the Government will consider revising approaches to heat supply businesses, to facilitate the efficient supply of energy, including the integrated supply of heat and electricity. Moreover, with the additional objective of creating employment in Japan's regions, including at local authorities, the Government will focus efforts on the effective use of thermal energy, including unused thermal energy.

IV. Regional revitalization and innovation of small and medium-sized enterprises

○ **Backing for hometown specialties**

- 1) The Government will revise the Small and Medium Sized Enterprise Local Resource Utilization Act and promote efforts to develop and cultivate markets for hometown specialties that utilize local resources, as well as incorporating mechanisms such as thorough quality control, which will increase the inclination of consumers to purchase such products. In addition, the Government will encourage tourism initiatives that utilize local sights (nature, culture, industrial heritage, etc.), agricultural, forestry, and fisheries produce, and other local resources to attract consumers to each region. Improving the support environment by promoting participation in government procurement and other means.

Now that the goal of increasing the annual number of foreign visitors to Japan to 10 million by 2013 under the Japan Revitalization Strategy has been achieved, the Government aims to increase the number to 20 million by 2020 as a KPI, by taking advantage of the golden opportunity presented by the Games of the XXXII Olympiad and Tokyo 2020 Paralympic Games.

To that end, the following measures will be taken, based on the Action Program toward the Realization of Japan as a Tourism-Oriented Country 2014, which was approved at a meeting of the Ministerial Council on the Promotion of Japan as a Tourism-Oriented Country in June 2014.

- Promote tourism with an eye to the Games of the XXXII Olympiad and Tokyo 2020 Paralympic Games.

- Implement initiatives to drastically expand inbound tourism (increase the number of foreign visitors to Japan).
- Facilitate to visit Japan through such measures as relaxing visa requirements.
- Develop world-class attractive tourism areas.
- Improve preparedness to accept foreign visitors.
- Promote the invitation and holding of international conferences, etc. (MICE) and attract foreign business visitors.

○ Enhancement of the business environment, etc.

- The Government will make arrangements concerning the legal basis for the dispatch of civil servants to concessionaires, private sector companies, as well as verifying pioneering initiatives at Sendai Airport and other facilities and identifying private sector needs, and will take the requisite measures, as necessary.
- Regarding the handling of accounting in concession PFI projects, the Government will adopt a practical approach to the handling of expenses such as the depreciation of replacement investment, and taxes.
- With a view to the implementation of local government projects, the Government will issue notices and revise guidelines and manuals concerning such matters as the designated administrator system and the system's handling under the Local Public Enterprise Act in case of utilizing the concession system.
- In the field of water supply, the Government will consider mechanisms for applying the existing system to the concession system to ensure that it is placed on an equal footing with existing projects.
- With a view to introducing the concession system to toll road businesses owned by local road public corporations, the Government will take prompt legislative measures in accordance with the Guideline for the Government's Response to the 24th Set of Proposals for Special Zones for Structural Reform (approved by the Headquarters for the Promotion of Special Zones for Structural Reform on May 19, 2014).

V. Future Measures for Further Growth

○ Accelerated promotion of National Strategic Special Zones

The two years to the end of FY2015 have been designated as the period of intensive initiatives relating to the National Strategic Special Zones, which will open the way to reform of the bedrock of Japan's regulatory regime in general. In order to achieve this within what remains of this period, it is necessary to compile the Priority Issues and Schedule for Reforms of the Bedrock of Japan's Regulatory Regime without delay and accelerate various initiatives concerning the National Strategic Special Zones, including the following measures, ensuring a flexible and speedy response to the need for specific projects and proposals.

a) **Fleshing out and implementing projects without delay**

To ensure that initiatives in the National Strategic Special Zones begin to demonstrate results without delay, it is necessary to implement specified projects involving regulatory reforms in each zone without delay. To this end, Zone Plans detailing the specified projects and special measures concerning regulations must be prepared swiftly by the Zone Council in each zone, on the basis of cooperation and consensus between the national government, local authorities, and the private sector. Prompt authorization by the Prime Minister will then be required.

Accordingly, following on from the Kansai zone and the Fukuoka City zone, Zone Councils will be set up without delay in the other zones and efforts made to ensure their smooth operation, so that work on preparing the plans can begin in each zone. Moreover, the Government will conduct authorization procedures promptly, so that the earliest specified projects can get underway this autumn.

b) **Implementing further regulatory reforms**

In terms of the areas requiring regulatory reform specified in the Policy on Deliberations Concerning Areas for Regulatory Reform in the National Strategic Special Zones, the Government will use all available measures throughout the six zones to steadily implement powerful regulatory reforms in the areas of medical care, employment, education, urban regeneration and development, agriculture, and utilization of historic buildings.

Moreover, taking into account proposals from local authorities and the private sector, including those not adopted to date, the National Strategic Special Zone Advisory Council and the National Strategic Special Zone Working Group will consider the following regulatory reforms to be tackled in the National Strategic Special Zones, examining which should be added to the Act on National Strategic Special Zones, etc. Based on these deliberations, the relevant legislative measures will be taken without delay, including in the

next Diet session.

Furthermore, the Government will combine these with special measures to be introduced within the special zones, as well as regulatory and institutional reforms to be applied nationwide, with a view to achieving reforms either nationwide or at least within the special zones.

At the same time, the Government will, where necessary, proactively consider regions not designated as National Strategic Special Zones and regulatory reforms that have not yet been included, with a view to implementing them as regulatory reforms in Comprehensive Special Zones or Special Zones for Structural Reform, or as nationwide reforms.

Moreover, given that the Basic Policy on National Strategic Special Zones requires that proposals be solicited at least twice a year, the Government will solicit proposals from local authorities and private sector bodies nationwide this summer.

○ Accelerating reforms towards 2020

Tokyo was chosen as the host of the 2020 Olympics and Paralympics after the creation of the Japan Revitalization Strategy last year, setting a new momentum for reforms. It is important to interpret this development as an opportunity to accelerate reforms and recover a full-fledged growth path towards 2020 for the purpose of vitalizing not only Tokyo but also the whole of Japan.

Towards the previous Tokyo Olympics (in 1964), Japan accelerated public infrastructure development to restructure Tokyo and other locations, bringing about the so-called “Tokyo Olympic boom” and demonstrating vividly to the world that postwar Japan had returned to the international community.

This time, Japan, tackling those globally common issues caused by the declining birthrate and aging population, environmental problems, divides between rural and urban regions that are globally common, is expected to become a model for the rest of the world.

Given that these problems are structural ones that cannot be solved in one day, Japan is required to assimilate various cultures for its integration into global society and tackle thorough economic and social restructuring, instead of pursuing a temporary boom.