

## Growth Strategy, Tax Reform, and TPP

Outlook for Abenomics and the Extraordinary Diet Session Autumn 2013

Jakob Edberg  
Managing Director  
GR Japan



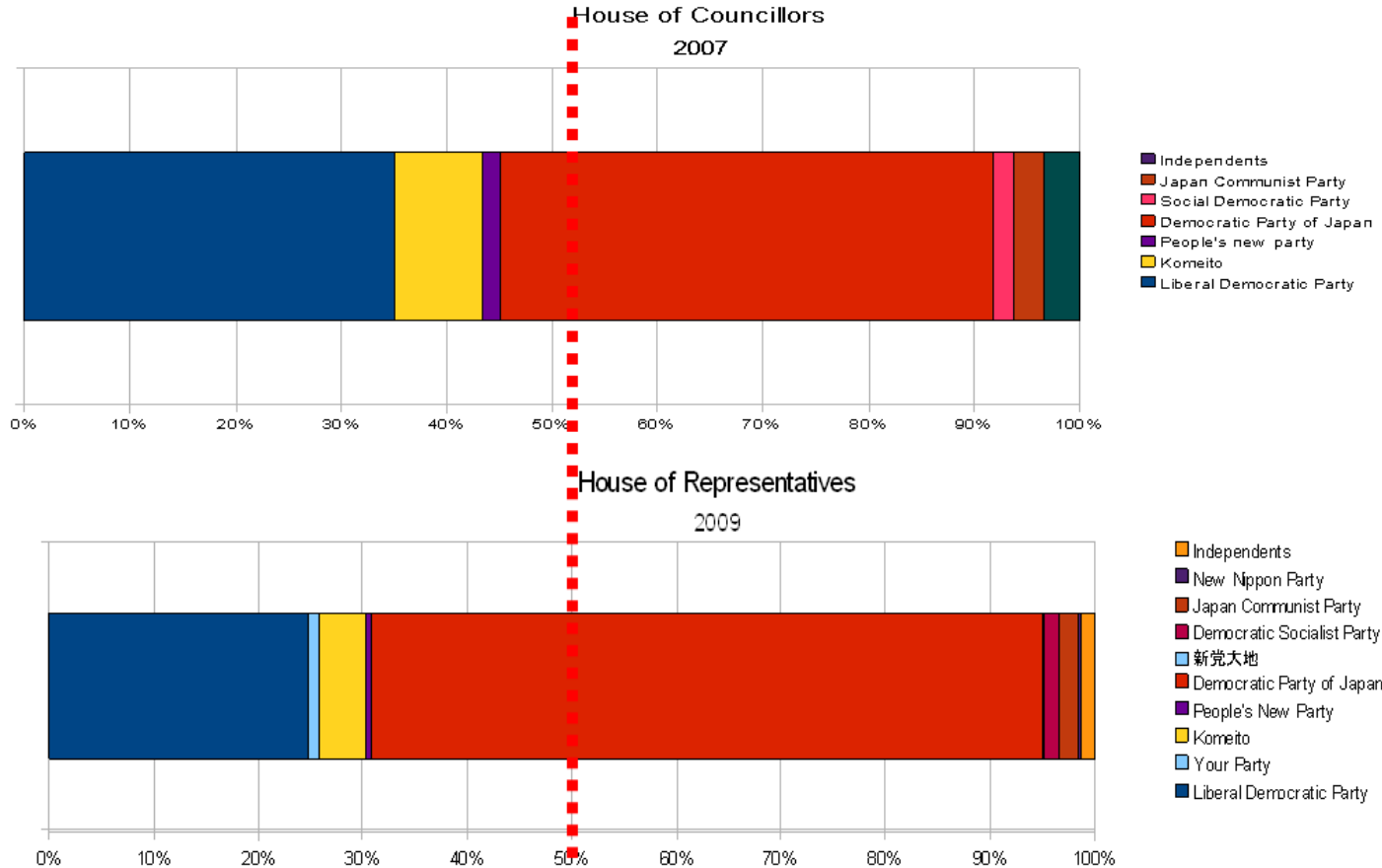
## Background

Key Issues for Diet Session

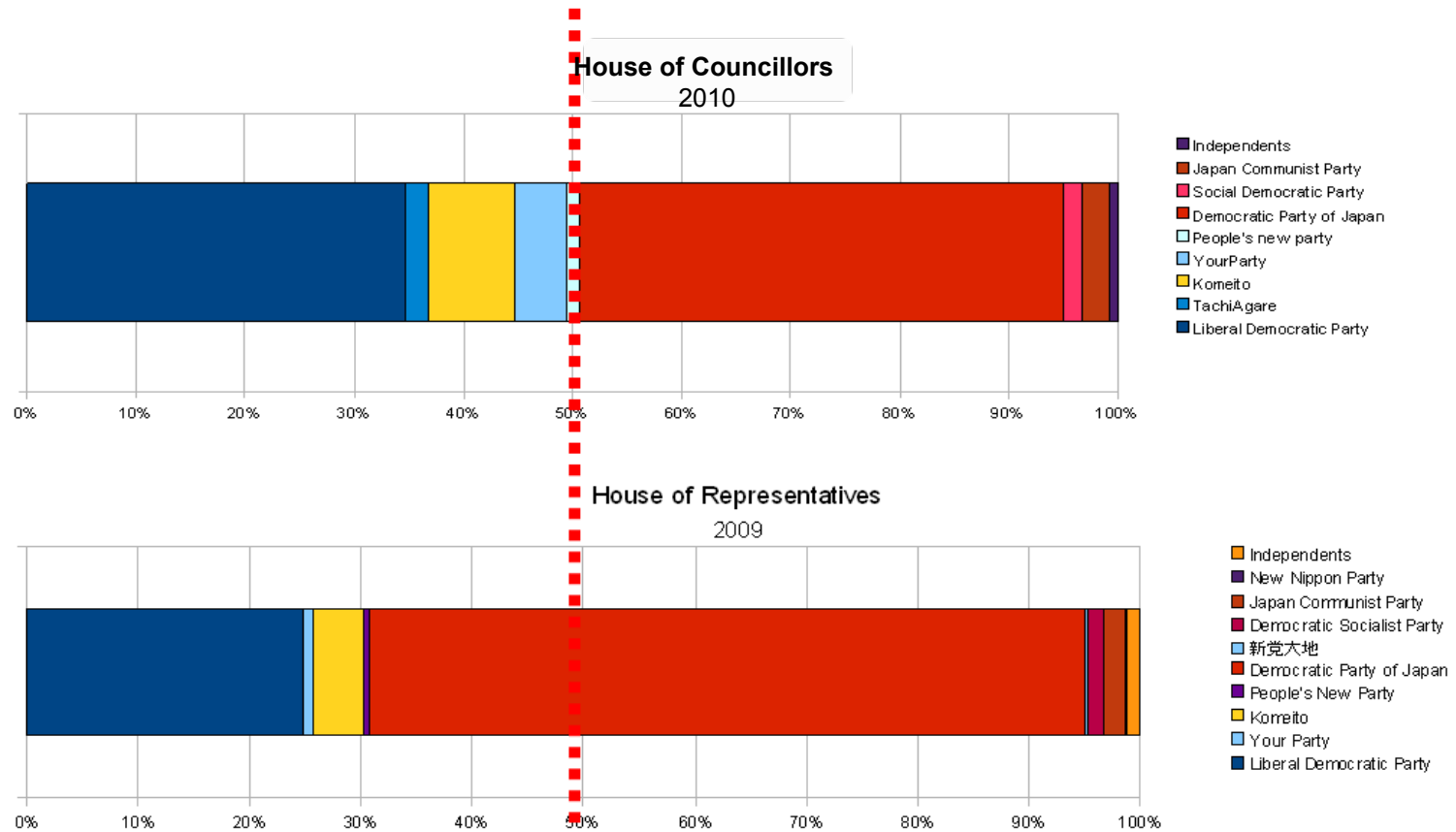
Potential Distractions

Implications

# Distribution of seats after House of Representatives Election 2009



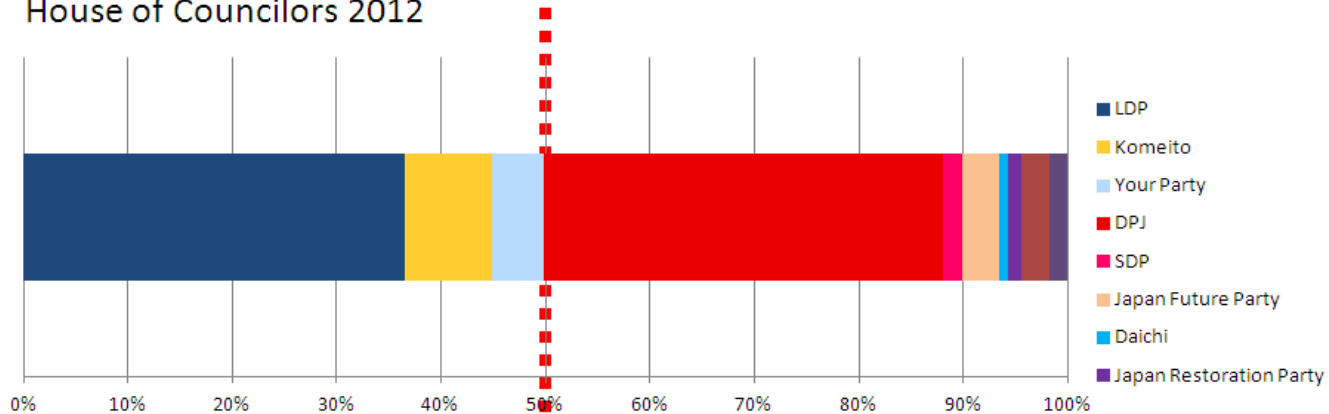
# Distribution of seats after House of Councilors Election 2010



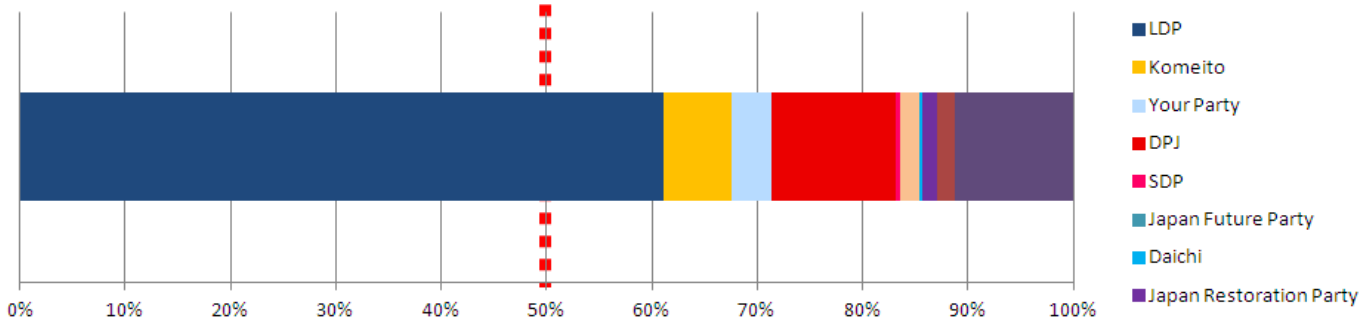


# Distribution of seats after House of Representatives Election 2012

House of Councilors 2012



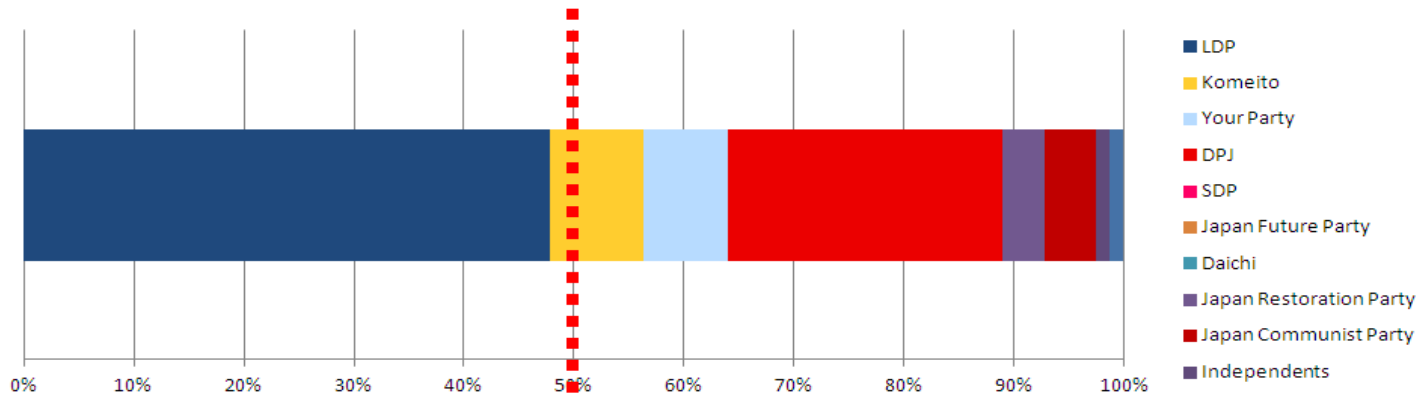
House of Representatives 2012



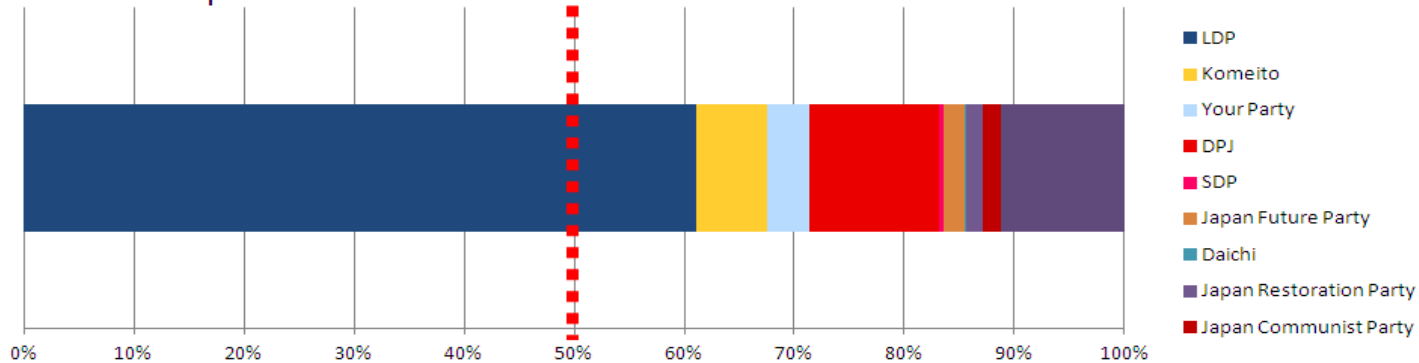
# Distribution of seats after House of Councilors Election 2013



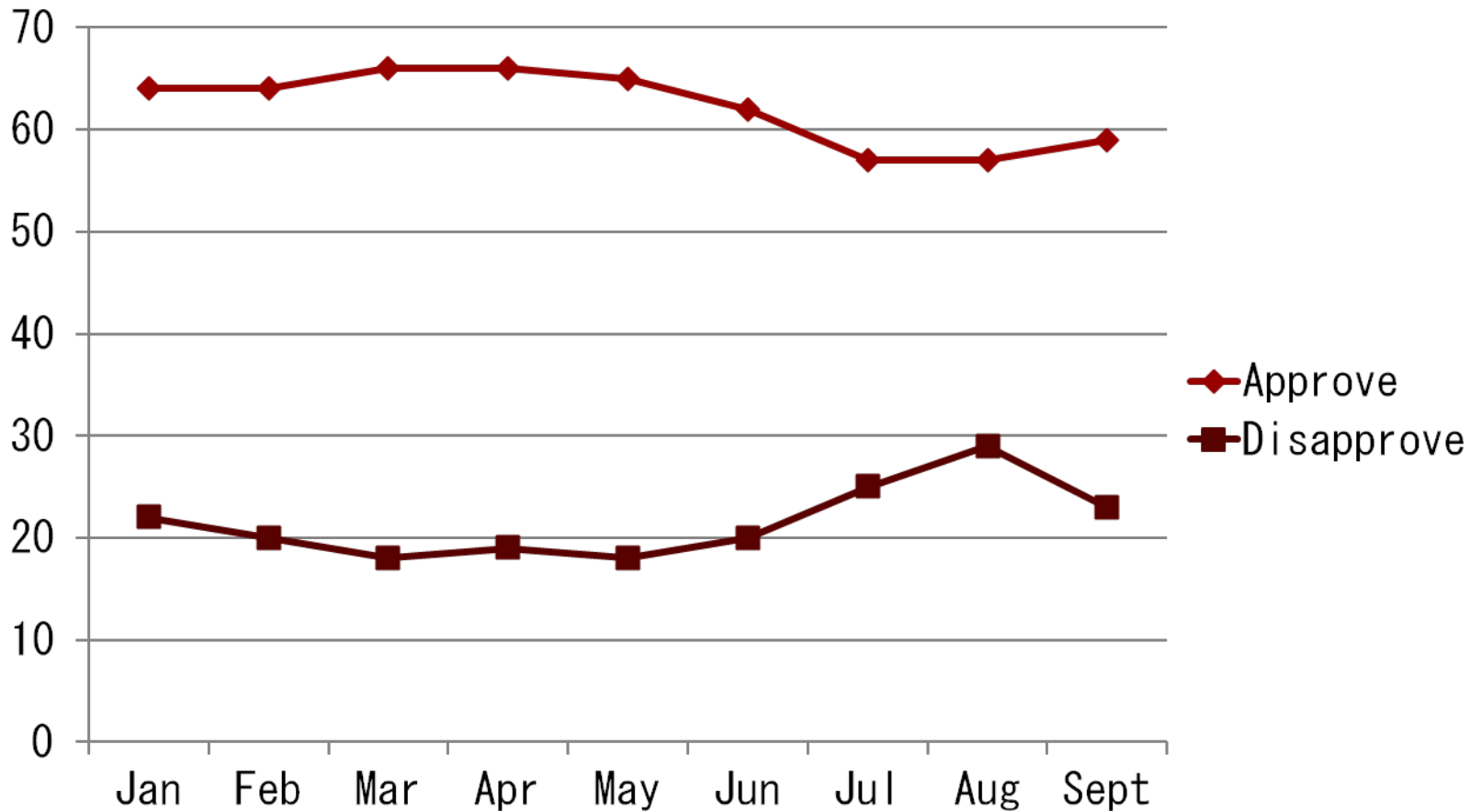
House of Councilors 2013

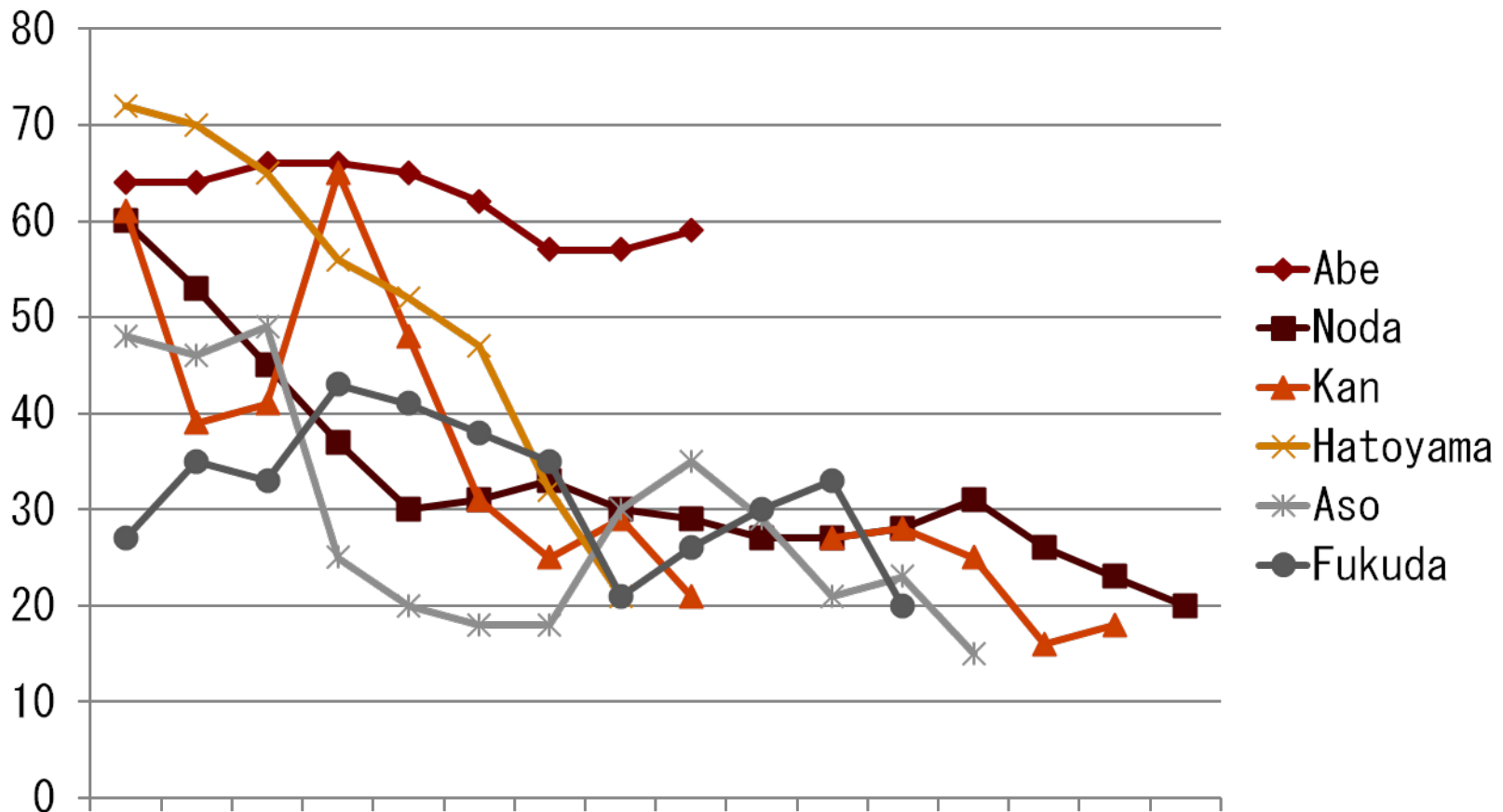


House of Representatives 2012



## Abe's Approval Ratings







Background

**Key Issues for Diet Session**

Potential Distractions

Conclusions

## Main bills considered for the 185<sup>th</sup> Diet session

- Industrial Competitiveness Enhancement Bill
  - Bill to Establish a Japan National Security Council (NSC)
  - Secret Protection Act
  - Social Welfare Reform Program Bill
  - Bill to Establish Joint HR Quarters for all Civil Servants at the Cabinet Office
- 
- Bill to create special “Growth Strategy Regulatory Zones”
  - Electricity Business Act
  - Company Law Revision
  - PAL + New Regenerative Medicine Law




# Main bills considered for the 185<sup>th</sup> diet session

- Industrial Competitiveness Enhancement Bill
- Bill to Establish a Japan National Security Council (NSC)
- Secret Protection Act
- Social Welfare Reform Program Bill
- Bill to Establish Joint HR HQ in the Cabinet Office for all Civil Servants

- Consumer Finance (?)
- Casino Legislation (IR)?



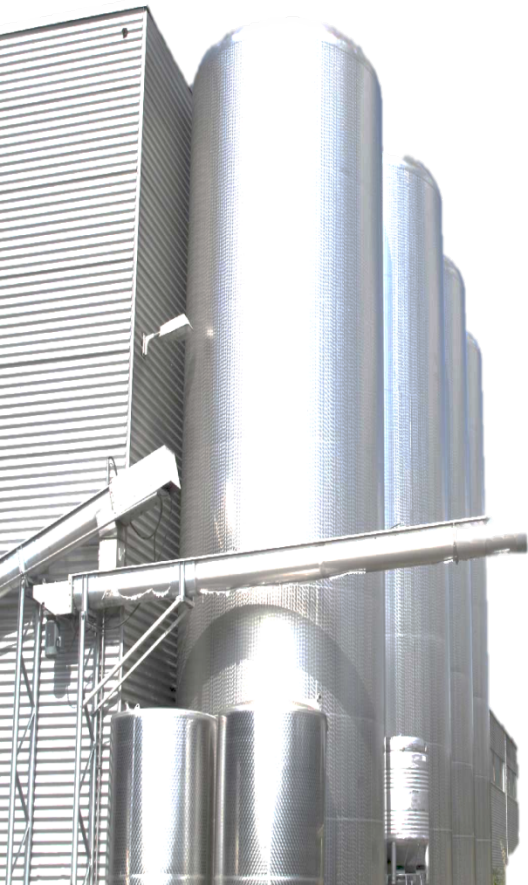
- 
- Bill to create special “Growth Strategy Regulatory Zones”
  - Electricity Business Act
  - Company Law Revision
  - PAL + New Regenerative Medicine Law

- Collective Defense Decision
- Fukushima Leakage
- Nuclear Restarts – TEPCO financial situation



## Aims of Industrial Competitiveness Enhancement Bill

- To push for re-consolidation of industry and establish the growth strategy as official government policy
- Improve competitiveness of industry through a combination of tax incentives, public funding schemes and regulatory reform
- Establish a scheme by which the government can classify mergers, acquisitions or spin-offs as part of a "special restructuring plan", opening the door to favorable tax treatment (including writing off investments as expenses and lower registration tax)
- Lower tax for new venture capital and tax deductions for investors in such firms, provided investment has gone through government recognized investment funds
- **Regulatory reform on a firm-specific basis !!!**
- **Regulatory reform on a geography-specific basis**
- **New No-Action Letter system and elimination of “grey zones”**
- Etc, etc.





## Dual schedule

### GROWTH STRATEGY

24 July – first meeting of the LDP Tax Committee

5 August – first meeting of Government Tax Committee

30 September Final LDP Tax Committee

1 October 3 pm General Affairs Committee

1 October Cabinet Decision

15 October Submission to Diet

October-November  
LDP Tax Committee  
Government Tax Committee

15 December Cabinet  
Decision

## Economic Measures for the Consumption Tax Increase (>¥5 tr)

- Industrial Competitiveness Enhancement Bill
  - Promotion of private investment (¥500 billion)
    - ① Decrease tax (¥300 billion)
      - Corporation tax cut for wage increases
      - Extend investment promotion tax system to SMEs and expand scope
      - Tax benefits for investments in cutting-edge equipment
      - Expand R&D tax incentives
      - Reduction of property tax on earthquake-resistant construction
      - Establish new tax system to promote business restructuring and venture capital
    - ② Subsidies (¥200 billion)  
Manufacturing subsidies increase up to two-fold
- Others – stimulus to counter impact of consumption tax increase
  - Discontinuation of special corporate tax for Tohoku reconstruction ahead of schedule (¥900 billion) – subject to negotiations with Komeito
  - Cash benefits to homebuyers, tax cuts on housing loans (>¥400 billion)
  - Low income cash handouts (¥300 billion)
  - Tokyo Olympics, public investment towards disaster prevention and mitigation (more than ¥1 trillion)



## Schedule and considerations

- August 22-23: TPP Ministerial Meeting  
Chief negotiators asked for “immediate concrete results” from sectoral negotiators. Detail not shared with Nagatacho.
- August 24-30: Chief negotiators and working groups held meetings to discuss market access, rules of origin, intellectual property, government procurement, environment, competition, financial services, investment, temporary entry and non-conforming measures.
- September 18: Meeting of chief negotiators in Washington, DC. View in Nagatacho that the Japanese government offer of tariff concessions would not be enough and that Japan will have to make further concessions at some point.
- October 7-8: APEC Meeting (Bali) viewed as key. Current sectoral negotiations being accelerated in time for the meeting.
- Widespread belief that conclusions unlikely to be reached soon.
- Just because Japan is in a weak negotiating position does not mean Tokyo will allow sacred cows to be slaughtered.



Background

Key Issues for Diet Session

Potential Distractions

Conclusions

## Electricity System Reform Timetable

### Phase 1

- Establish the Organization for Operations of Wide-area Electrical Grid
- Widen the scope of the supply-side orders and user restrictions that can be issued by the Minister of Economy, Trade and Industry
- Allow for wheeling services for in-house generated electricity (self-consignments)
- Stipulate the timing for submission of the draft law and measures in the second and third phases.

Diet Submission:

This session of the Diet

Implementation target:

2015

### Phase 2

Liberalize the electricity retail market

Diet Submission:

The Ordinary Diet session,  
January 2014

Implementation target:

Aim 2016

### Phase 3

Secure neutrality of the power transmission and distribution sector through legal structural separation, and liberalize electricity rates

Diet Submission:

Aiming for Ordinary Diet session, January 2015

Implementation target:

2018-2020

## Fukui



Issei  
Nishikawa



Oi 3,4 and Takahama

3,4



Oi 1,2;

Mihama 1,2,3;

Takahama 1,2; and

Tsuruga 1,2



## Hokkaido



Harumi  
Takahashi



Tomari 3

Tomari 1,2

## Niigata



Hirohiko  
Izumida



Kashiwazaki-Kariwa

1,5,6,7



Kashiwazaki-Kariwa

2,3,4

## Aomori



Shingo Mimura



Ohma and Higashidori

## Saga



Yasushi Furukawa



Genkai

3,4



Genkai

1,2

## Shimane



Zenbe  
Mizoguchi



Shimane 3



Shimane 2



Shimane 1

## Ishikawa



Masanori Tanimoto



Shiga 2

1,2

## Miyagi



Yoshihiro Murai



Onagawa 1,2,3

## Kagoshim



Yuichiro Ito



Sendai 1,2

## Ehime



Tokihiro Nakamura



Ikata 1



Ikata 3



Ikata 2

## Shizuoka



Heita Kawakatsu



Hamaoka 3,4,5

## Ibaraki



Masaru Hashimoto



Tokai Daini

## Fukushima



Yuhei Sato



Fukushima Daiichi 1,2,3,4,5,6



Background

Key Issues for Diet Session

Potential Distractions

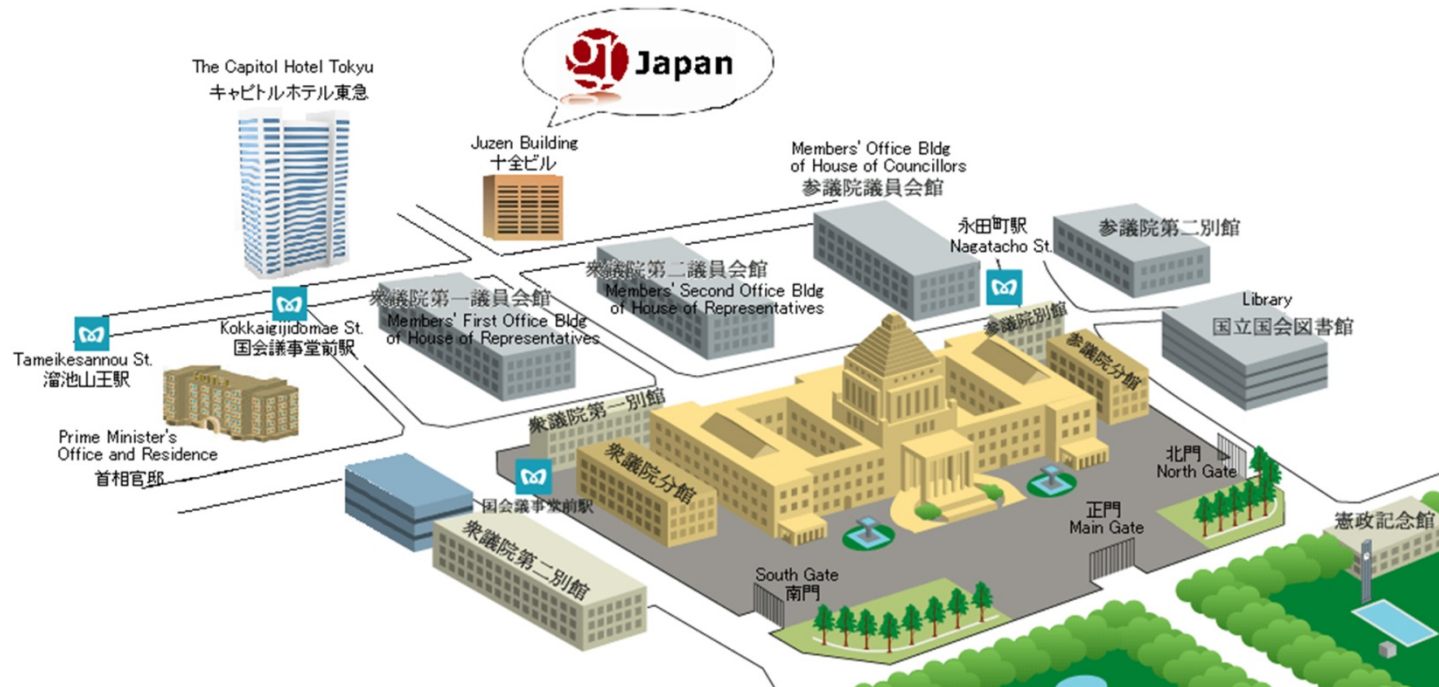
**Conclusions**



- METI to gain power through Abenomics – government-approved restructuring, government-approved funding, firm-specific regulatory reform, area-specific regulatory reforms, etc, etc.
- Nuclear restarts and TEPCO's financial situation could re-emerge as big political headaches, but the seriousness of TEPCO's financial problems might not crystallize until early next year
- The biggest risk to the Abe administration is market disappointment with the scope and scale of regulatory reforms. Could be offset with playing of attention-grabbing “wild cards”
- Increased friction with Komeito – abolition of the Tohoku reconstruction tax, push to allow collective self-defense, and draft law on the protection of secrets
- But emphasis on growth and tax reform likely to maintain sense domestically of political momentum. Short Diet session (two months) short enough to avoid major assaults on PM Abe







# About GR Japan

Juzen Bldg. 301, 2-9-6 Nagatacho, Chiyoda-ku, Tokyo 100-0014

Tel: +81 (0)3 6205 4205 | Fax: +81 (0)3 6205 4206

[info@grjapan.com](mailto:info@grjapan.com) | [www.grjapan.com](http://www.grjapan.com) | [jakob.edberg@grjapan.com](mailto:jakob.edberg@grjapan.com)