

(Tentative Translation)

Report from the Government of Japan

Concerning the Recommendations of

the Japan-EU Business Round Table (BRT)

August 2021

Note: The content of this report is based on the situation as of June 30, 2021.

This Progress Report is made in Japanese and translated into English. The Japanese text is the original and the English text is for reference purposes. If there is any conflict or inconsistency between these two texts, the Japanese text shall prevail.

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Working Party 1: Trade Relations; Investment and Regulatory Cooperation; Financial Services, Accounting and Taxation

WP-1 / #01* / EJ to EJ: Strengthening the EU-Japan Economic Relationship Post-EPA

Enhancing Regulatory cooperation

Japan and the EU will continue discussions on regulatory cooperation through the Specialised Committee on Regulatory Cooperation as stipulated in the Japan-EU Economic Partnership Agreement (EPA). The second Committee was held in March 2021.

Encouraging the use of EU-Japan EPA, particularly by SMEs

The Ministry of Economy, Trade and Industry (METI) and the Japan External Trade Organization (JETRO) are promoting the utilization of the Japan-EU EPA to private companies including small and medium-sized enterprises (SMEs) and using their official websites to provide relevant information, including information provided from the EU side, while also holding briefing seminars and workshops in Japan and abroad, setting up consultation centers, and publishing and distributing brochures and handbooks.

Joint investment in 3rd countries

The Government of Japan (GOJ) continues to support the efforts to enhance cooperation among institutions under the respective memorandums of understanding between the Japan Bank for International Cooperation (JBIC), the Japan International Cooperation Agency (JICA), or the Nippon Export and Investment Insurance (NEXI), and the European Investment Bank (EIB), and such initiatives as investment promotion in developing countries that meet funding demand from private sector. The GOJ also looks forward to the report of “EU-Japan Joint Study on Connectivity Cooperation”, which is currently prepared by both Japanese and the EU experts, funded by the EU’s SPA Facility, and will follow it up by working with the EU-Japan Centre for Industrial Cooperation, JETRO, and other organizations to promote joint investments in third countries.

Minimising the impact of Brexit

Regarding the negotiations on future relations between the UK and the EU, the GOJ has called on both sides to reach an early conclusion, and has provided information, individual consultations, and other support through its diplomatic missions abroad, government agencies, and the “Service Desk on Preparations for Brexit (METI)” set up in October 2019 to ensure smooth economic activities for Japanese companies in Europe.

The GOJ will provide appropriate support as necessary to ensure smooth trade

relations between Japan and the UK through steady implementation of the Japan-UK CEPA as well as minimize the impact of the UK-EU FTA on the economic activities of Japanese companies.

WP-1 / #02* / EJ to EJ: Recommendations for an ambitious multilateral trade agenda toward the next WTO Ministerial Conference in Kazakhstan

The World Trade Organization (WTO) is the cornerstone of the rules-based multilateral trading system, but the organization is facing a number of challenges due to its inability to fully address protectionist movements and digitalization amid the novel coronavirus pandemic. In light of this situation, Japan is actively participating in discussions at various WTO meetings, including the Meeting for Exploratory Work, ahead of the G7 Trade Ministers' Meeting to be hosted by the UK and the 12th WTO Ministerial Conference scheduled for the end of 2021. Japan will continue its active contribution to discussions on the modernization of the multilateral trading system and WTO reform that includes its Appellate Body, allowing the WTO to fully address the ongoing challenges in international trade.

WP-1 / #03* / EJ to EJ: Applying international standards and enhancing regulatory cooperation

General recommendations

METI and the European Commission Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG Growth) have promoted regulatory cooperation from an early stage. The opinions of industry have been taken into account to avoid future regulatory misalignments between Japan and the EU, and to facilitate the commercialization of new technologies.

As stipulated in the Japan-EU EPA, the second Specialised Committee on Regulatory Cooperation was held in March 2021 and Japan and the EU shared information on the mechanisms for assessing the impact of planned major regulatory measures and other initiatives. Japan and the EU will continue discussions on regulatory cooperation.

1. Create a common chemicals regulation

The EU and Japanese regulatory authorities share information and exchange views on regulatory cooperation at meetings of the Japan-EU Industrial Policy Dialogue Working Group on Chemicals.

Specifically, the two sides will continue information sharing and opinion exchanges on chemicals management through the sixth Chemicals WG meeting scheduled for September 2021.

Japan accepts the test results carried out in the EU based on the OECD Test

Guidelines, OECD Principles of Good Laboratory Practice (GLP), and Decision of the OECD Council Concerning the Mutual Acceptance of Data in the Assessment of Chemicals.

2. Create a common resource efficiency policy

Japan will continuously contribute to international cooperation on energy efficiency through organizations that include working groups introducing best practices in energy efficiency policies and regulations under the framework of the Energy Efficiency Hub initiated by the International Energy Agency (IEA), and other programs.

3. Expand the benefits of AEOs

To further simplify customs procedures for authorized economic operators (AEOs), GOJ will continue to explore possible improvement measures for specific issues facing the operators by collecting information and views exchanged between the public and private sectors.

4. Adoption of UN Regulations and promotion of regulatory cooperation in the automobile sector

The GOJ has cooperated in formulating international standards for autonomous vehicles and environmental regulations by participating in the World Forum for Harmonization of Vehicle Regulations (WP29) under the United Nations Economic Commission for Europe as well as holding regular bilateral meetings with the European Commission to mutually recognize the various challenges presented at WP29.

New UN regulations on the Worldwide Harmonised Light Vehicle Test Procedure (WLTP), Automated Lane Keeping Systems (ALKS), and Event Data Recorder (EDR) were recently adopted at WP29 with the cooperation of Japan, Europe, and other members.

In addition, the GOJ and the European Commission have actively contributed to ensuring the safety of autonomous driving by, for example, cochairing meetings of an expert panel on collision damage mitigation braking set up at WP29. With the international community expected to step up its efforts to achieve carbon neutrality, the GOJ will continue to promote the international harmonization of automobile standards at WP29 while working to ensure automobile safety and protect the environment in Japan.

WP-1 / #05* / EJ to EJ: Recommendation on BEPS Action Plan, Financial Transaction Tax and Other Tax Issues

BEPS Action Plan

Japan and the EU countries have played a central role in the Base Erosion and Profit Shifting (BEPS) Project to promote a level playing field and improve tax certainty. The BEPS Project is currently in the implementation phase, and GOJ is contributing significantly to expand the number of countries and regions participating in the OECD/G20 Inclusive Framework on BEPS (with roughly 140 jurisdictions joining the framework so far).

In response to the project's recommendations, the GOJ has given due consideration to the potential compliance costs for businesses as well as predictability for compliant taxpayers through hearings with the business community and relevant authorities when designing its domestic tax systems and relevant procedures.

The GOJ will continue to explore a system to prevent aggressive tax planning by multinational enterprises while seeking opinions from the business community in order to effectively implement the agreed measures.

Japan will also maintain cooperation with its international counterparts, including the EU, to fully implement the BEPS package in a timely, consistent, and comprehensive manner as it addresses the remaining challenges with a view to ensuring a level playing field.

The GOJ hopes to make continuous efforts to resolve advance pricing agreement (APA) cases effectively and efficiently through bilateral and multilateral negotiations, thereby avoiding double taxation between Japan and EU member states.

Financial Transaction Tax

There is no financial transaction tax in Japan.

Other Tax Issues

The GOJ recently lowered the statutory corporate income tax rate to its 20-percent target range following the FY2016 Tax Reform, and will monitor the effects of the reduction. In the FY2020 Tax Reform, the GOJ established a "Consolidated tax payment system" after simplifying and revising the consolidated taxation system, from the perspective of reducing companies' administrative workload and creating a business environment for companies to make group management more efficient and fully demonstrate their competitiveness.

The GOJ will also continue to actively expand its tax treaty network with the EU member states to further promote investments and economic exchanges between Japan and the EU by eliminating double taxation through the reduction of investment income taxation by the source countries and the introduction of arbitration proceeding.

To address the tax challenge arising from the digitalization of the economy, the OECD/G20 Inclusive Framework on BEPS has reached a "historic agreement" endorsed by more than 130 countries and jurisdictions, and approved at the G20 Finance

Ministers and Central Bank Governors meeting held in July. The GOJ considers it important to put this agreement into effect as soon as possible.

WP-1 / #06* / EJ to EJ: Recommendation on Rules of Origin

Under the Before Permit (BP) system, Japanese authorities request the submission of the necessary documents, in principle, within three months from the date of import approval. This period is set as a guideline to ensure the proper handling of incomplete procedures, and can be extended, if necessary, with importers allowed to individually consult customs authorities when certain circumstances prevent them from submitting the documents within the stipulated timeframe.

WP-1 / #07* / EJ to EJ: Retrospective application of the EPA

WP-1 / #13* / E to J: Retrospective application of the EPA

Under the EPA provisions, Japanese authorities request explanations (materials) from importers on whether their shipments meet the EPA requirements when submitting an import declaration, but importers who use the exporter self-assessment system are not obligated to provide explanations (materials) that are not available other than the exporter self-assessment text. In addition, importers unable to prepare the necessary documents to apply for EPA tariff rates due to time constraints can use the Before Permit (BP) system that allows importers to withdraw goods before paying customs duties on the condition of providing a certain amount of collateral.

WP-1 / #08 / EJ to EJ Commence negotiations on bilateral/regional agreements on personal movement under the COVID-19

WP-1 / #16* / E to J: Travel restrictions and quarantine under COVID-19

The difference between Japan and the EU in the treatment of Japanese nationals and non-Japanese residents was removed when the system asking foreign nationals with status of residence residing in Japan to submit their schedule for re-entry to Japan was abolished on November 1, 2020.

While the pace of COVID-19 vaccinations is increasing in both Japan and Europe, the infection situation remains severe with surges of the Delta and other variants of the coronavirus. To curb the spread of infections, careful decisions must be made according to the situation in each country as to whether businesspeople should be allowed to resume travel and short-term trips. The Government of Japan will continue to closely monitor the situation and take appropriate measures with a priority on safety.

WP-1 / #09* / E to J: Harmonisation & mutual recognition of standards and product certifications; acceptance of international standards where applicable

Automobiles

A transitional period up to seven years was agreed upon after years of Japan-EU EPA negotiations. Japan currently does not recognize the need to revise the content, but four UN regulations listed in the Japan-EU EPA Annex 2-C (Motor Vehicles and Parts) have made steady progress, with two regulations adopted as domestic standards early into the seven-year period.

In the fields of emissions and fuel consumption, a new regulation (UNR 154) of the Worldwide Harmonised Light Vehicle Test Procedure (WLTP), enacted in June 2020, grants reciprocal recognition of approval under the 1958 agreement from the date of entry into force.

Japan and the EU held a second meeting of the Japan-EU EPA working group on motor vehicles and parts in March 2021 and exchanged views on industrial policies and regulations. The Government of Japan hopes to continue its activities to promote the harmonization of international standards while making full use of the working group.

Railways

Railway safety standards are developed and maintained in each country based on its own transportation conditions and lessons learned from past accidents, and collateral policies are accordingly different between Japan and the EU. In Japan, the Government of Japan conducts conformity assessments of technical regulations, and has not established regulations that ensure product safety through third-party certification and other forms, as in Europe. Japanese suppliers are required to undergo the EU's conformity assessment for exported products, despite their products conforming to Japan's standards. In addition, the Government of Japan understands that both Japan and the EU allow railway operators to test whether products meet their own requirements.

The Government of Japan has established a ministerial ordinance on “Technical Regulatory Standards” and the nonbinding “Approved Model Specifications,” with specific and numerical interpretations provided. The English translation of these standards is available on the following website:

http://www.mlit.go.jp/english/2006/h_railway_bureau/Laws_concerning/index.html

In terms of standardization activities, Japan contributes to consensus building at the standards council meetings on ISO/IEC and other international standards, with the Railway International Standards Center playing a central role in participating in regular meetings with European organizations, including the JISC-CEN/CENELEC discussion

sessions, and exchanging views on activities related to the development of international standards.

Some Japanese railway operators publish a list of planned procurements. The Government of Japan understands that Japanese railway operators constantly seek safe and reliable products, and that they are willing to actively procure superior European products.

The Government of Japan has drawn up comparison tables between Japan's Technical Regularly Standards and the EU's Technical Specifications for Interoperability (TSI), and instructed the relevant railway operators to equally treat tests and experiments required of suppliers, and disclose the appropriate and applicable part of their implementation standards to European suppliers with a firm interest. The Government of Japan understands that Japanese railway operators will take concrete measures, and expects European suppliers to make specific approaches to Japanese operators.

Processed food

In Japan, the use of food additives is prohibited, except when the Minister of Health, Labour and Welfare designates harm to human health as unlikely under the Food Sanitation Act. The designation procedures for food additives (including enzymes) are, in principle, based on requests from business operators and other entities. The Government of Japan understands that the EU also takes a similar approach.

The data necessary for the designation of food additives (including enzymes) are derived from publications as well as evaluations by the Joint FAO/WHO Expert Committee on Food Additives (JECFA) and other bodies. Japan's standards and criteria for additives are established in harmony with international standards by referring to the regulations of the EU and other regions as well as the Codex Alimentarius.

Furthermore, since 2002 the Government of Japan has been in the process of designating 45 food additives (excluding flavoring agents) proven safe and used internationally, with 41 items having completed the procedures. Three of the remaining items were cancelled because they were no longer considered to fall under the category of internationally used additives after reexamination for exporters to Japan, and the last one item is under review by the expert committee of the Food Safety Commission of Japan.

For many items imported to Japan through the Agricultural & Livestock Industry Development Corporation (ALIC) under the WTO Agreement, the Japan-EU EPA has improved their market access without relying on ALIC by establishing tariff-rate quotas for private trade and other trade mechanisms. On the other hand, the Government of Japan will maintain ALIC's functions for certain imports that require handling by ALIC for stable domestic production and supply of imported products.

WP-1 / #10* / E to J: Self-verification and risk assessment

Regarding Japan's current technical standards certification systems for wireless devices, Japanese authorities have established systems for conformity assessment bodies to conduct the certification, and for manufacturers and importers to confirm the conformity of technical standards for wireless devices less likely to disrupt the operation of other radio stations.

In addition, authorities are expanding the scope of wireless devices that can be self-confirmed in line with technological advances and the usage situation of wireless devices, and will continue these efforts.

WP-1 / #11* / E to J: Automobiles

Tax incentives for Kei cars have been introduced as a social policy, taking into consideration Japan's specific circumstances such as dense population in narrow lands. The rationale necessitating such measures still validly exists. In addition, these incentives have broad social benefits, since they make it easier for people living in rural local areas, who are in need of cars for their daily life, to buy them.

Japan is of the view that the taxation system is an issue to be discussed through domestic tax reform process in each country.

As regards the Mini-Vehicle Tax Ownership Tax on Kei cars, a decision was made to increase it in accordance with the Tax Reform Plan in 2014, and has been implemented since April 2015. In addition, together with the increase in the consumption tax rate to 10% in October 2019, tax reductions for passenger cars were made for the first time on or after October 1, 2019. Through these reforms, the tax gap between passenger cars and Kei cars is narrowing.

WP-1 / #12* / E to J: Freight and logistics

Japanese authorities will continue to discuss possible improvement measures to further simplify customs procedures for authorized economic operators (AEOs). Information will be collected and views exchanged between the public and private sectors on specific issues facing these operators.

Working Party 2: Life Sciences and Biotechnologies, and Healthcare and Well-being

WP-2 / #01* / EJ to EJ: R&D under the new coronavirus situation

The Government of Japan will continue its all-out efforts to support the development and production of vaccines and drugs to counter COVID-19.

The Government of Japan has already established a relief system under the law to compensate for adverse reactions and side effects caused by vaccines and drugs, and will continuously ensure the proper management of the system.

The Government of Japan will continue to work on measures against antimicrobial resistance (AMR) in line with the National Action Plan on Antimicrobial Resistance.

WP-2 / #02* / EJ to EJ: Mutual recognition should be improved for Medical Devices

The Government of Japan considers it necessary to discuss the international harmonization of medical device regulations, including a quality management system (QMS), and will work to extend international harmonization to cover not only the EU but the U.S. and other countries as well through such activities as the International Medical Device Regulators Forum (IMDRF).

WP-2 / #06* / EJ to J: Reform of the pharmaceutical pricing system should provide a stable, predictable environment that rewards innovation

Japanese authorities recently implemented the 2021 National Health Insurance drug price revision for items with a price deviation rate exceeding 5 % as a measure to reduce the financial burden on the public.

Authorities plan to discuss the review of the drug pricing system, including off-year price revisions, at the Central Social Insurance Medical Council, while seeking opinions from industry groups and related parties. Necessary measures will be taken from the perspective of balancing the sustainability of the National Health Insurance system and the promotion of innovation, with consideration given to ensuring transparency and predictability.

WP-2 / #09* / EJ to J: Careful introduction of Health Technology Assessment (HTA)

Japanese authorities began operating the Health Technology Assessment (HTA) system in April 2019. The assessment results are not used for making decisions on health

insurance reimbursement but for adjusting prices after reimbursement. So far, 20 drugs have been selected for the assessment, with the prices of seven items adjusted.

Authorities will discuss the system review at the Central Social Insurance Medical Council after gathering the assessment cases, seeking views from the relevant parties, and considering how HTA is used by other countries.

WP-2 / #10* / EJ to J: A harmonized approach for integration of health-related data and construction of data health infrastructures

Japan has started to accelerate “Data-based Health Management Initiatives” to help extend each Japanese citizen’s healthy life expectancy and provide more effective and efficient medical and long-term care services. Examples include promotion of genomic medicine and AI technology, promotion of PHR which helps improvement in daily life habits, promotion of utilizing medical records in medical institutions and long-term care institutions, and promotion of effective utilization of databases.

WP-2 / #11* / EJ to J: Reviewing period for Plant Protection & Biotechnology products should be shortened

Japan is working to harmonize data requirements and dossiers with the OECD. However, review reports published in Japan must be prepared in Japanese, and the submission of dossiers required for the review in English may prolong the review period.

In Japan, the registration of pesticides requires safety assessments based on their domestic applications and amounts in food; accordingly, assessment results in other countries cannot be used as they are.

Japanese authorities require applicants to conduct confined field testing for the purpose of identifying the characteristics of crops growing under natural conditions in Japan. Abolishing confined field testing is inappropriate because data obtained solely from other countries with different natural conditions cannot determine the impact on Japan’s biodiversity. Corn and cotton, however, do not require confined field testing as long as they meet certain conditions based on scientific findings, such as the absence of wild species capable of cross-breeding in Japan and the alternation of generations not occurring in the domestic environment. Authorities will consider reviewing the testing as necessary based on their experience and scientific knowledge of biodiversity impact assessments.

Working Party 3: Digital Innovation and Mobility

WP-3 / #01* / EJ to EJ: Cooperation for Global Digital Trade Rule Making

The Government of Japan is reassessing the need for inclusion of provisions on the free flow of data into the Japan-EU EPA and holding preliminary discussions with the EU with the launch of negotiations in mind.

Japan, the U.S., and Europe have held multiple rounds of talks over the past years with the aim of establishing an international framework for personal data flows under the Data Free Flow with Trust (DFFT) concept. In addition, Japan has worked with the U.S. and Europe in leading the OECD discussions on addressing the challenges around personal data, thereby contributing to issuing Statement by the CDEP on trusted government access in December 2020, while continuing discussions on issues related to data localization. Meanwhile, Japan and the EU are in the process of reviewing the mutual data adequacy arrangement.

Under the “Osaka Track,” Japan will continue negotiations aimed at establishing international rules on e-commerce with more than 80 WTO members, including the EU. The negotiated outcomes were compiled into a consolidated negotiating text, and the outline was released in December 2020. Japan will accelerate the negotiations to deliver substantial progress by the 12th WTO Ministerial Conference (MC12).

The 26th Japan-EU ICT Policy Dialogue was held in February 2021, followed by the 11th Japan-EU ICT Strategy Workshop in April. The two sides recognized the importance of promoting free flow and better use of data, as well as of ensuring its adequate protection and reliability, and reaffirmed to continue the discussions.

Regarding ITA/ITA expansion, Japan will continue discussions with the relevant parties to increase the number of participants and expand the range of product coverage, and will appropriately respond to any trade concerns over the target items.

WP-3 / #02* / EJ to EJ: Deployment of AI

Japan will continue to examine ideal approaches to AI governance in Japan, including regulation, standardization, guidelines, and audits, conducive to the competitiveness of Japanese industry and increased social acceptance, for the purpose of operationalizing the AI Social Principles, taking domestic and international AI trends into account. To this end, Japan will actively participate in discussions on the implementation of AI principles at the Council for Social Principles of Human-centric AI, a new AI strategy Council to be launched later this year, and at meetings of international organizations such as the Global Partnership on Artificial Intelligence (GPAI) and the OECD.

WP-3 / #08* / EJ to EJ: Skill Development for Digital Economy

The Government of Japan recently began operating a system for certifying excellent AI-related educational programs (literacy level) at universities and technical colleges, and will also introduce a certification system for more practical, advanced literacy level programs. In addition, the Government of Japan will support various initiatives that include research and development programs undertaken by SMEs in cooperation with universities and public research institutes to enhance core manufacturing technologies; projects for creating new added value and improving productivity by sharing data with multiple SMEs and other entities as a collaborative body; and programs for supporting the digital transformation and IT utilization of SMEs.

WP-3 / #09* / EJ to EJ: R&D cooperation

The Government of Japan will promote strategic bilateral and multilateral win-win cooperation and collaboration in important cutting-edge fields under the sixth Science, Technology, and Innovation Basic Plan approved by the Cabinet in March 2021.

Working Party 4: Environment and Sustainable Development

WP-4 / #01 / EJ to EJ: Measures and policies of both authorities against global warming

Japan has announced its goal of achieving carbon neutrality by 2050 and formulated the Green Growth Strategy in 14 key sectors. Japan also announced its 2030 target of reducing greenhouse gas emissions by 46% from fiscal 2013 levels, but more ambitiously reaching 50%. Japan will mobilize all possible measures to encourage bold private sector investment and innovation, thereby transforming its industrial structure and generating strong growth.

WP-4 /#02 / EJ to EJ: Support for and issues in sustainable finance

The Government of Japan is working on the following three items with a primary focus on sustainable economic activities.

First, companies listed on the Tokyo Stock Exchange's first section (to be renamed "prime market") will be required to disclose their climate-related financial information based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Second, Japan's Basic Guidelines on Climate Transition Finance encourage private investments aimed at achieving the Paris Agreement goals. And third, Japan announced at the G7 summit its intention to provide financial aid worth 6.5 trillion yen to developing countries over five years and strengthen its support in applicable fields.

The Government of Japan participated in the International Platform on Sustainable Finance (IPSF) in November 2020, and is actively contributing to information sharing relating to the status of creation of taxonomies as well as discussions on the interoperability of existing taxonomies, such as by introducing its transition finance initiatives.

As for its circular economy-related initiatives, the Government of Japan will discuss the following four items to promote cooperation with the private sector to help achieve a sustainable society.

- Japan's fourth Fundamental Plan for Establishing a Sound Material-Cycle Society has positioned "resource circulation throughout the entire life cycle" as one of the key areas, and presents strategies for different materials, including plastics and biomass, with a view to society as a whole shifting to a circular economy.
- Japan is advancing the transition to a circular economy in a public-private partnership through the Circular Economy Partnership launched by the Government of Japan and the Japan Business Federation (Keidanren) in March 2021.
- Japan will disseminate excellent examples of government and corporate initiatives to

the international community at meetings collaborating with the World Economic Forum, the COP26 UN climate change conference, and other international conferences.

- Furthermore, the Government of Japan will promote resource circulation throughout the life cycle of plastic products, from design and production to end-of-life treatment, under The Plastic Resource Circulation Act for Plastics recently enacted by the Diet.

WP-4 /#03 / E.I to E.I: Utilization of digital technology for the realization of a sustainable society

The Government of Japan provides tax credits and other incentives for companies certified as business operators promoting companywide digital transformation (DX) to make digital-related investments using cloud computing technology. In addition, to encourage more active steps toward DX, the Government of Japan has compiled the Digital Governance Code that requires business operators to formulate and publish their management visions based on social transformation through digital technology, and introduced a system for certifying companies that meet the basic requirements of the Digital Governance Code (DX certification).

To implement the Data Free Flow with Trust (DFFT) concept presented at the G20 Osaka Summit, Japan and the EU are engaging in exploratory talks to establish international rules in the digital field under the Osaka Track, with an eye to initiating negotiations after reassessing the need to include provisions on free data flow in the Japan-EU EPA.

In Japan, the development of smart cities, or cities and communities that will serve as the foundation for the next generation, is positioned as part of the government plan, and the relevant ministries and agencies are working together to promote the initiative under public-private partnerships. Japan's smart cities are oriented toward free, trustworthy, and credible norms with respect for the DFFT concept.

As for AI utilization, METI published flexible, legally nonbinding AI governance guidelines on July 9, 2021, applying "Agile Governance" to avoid and mitigate negative social impacts without stifling innovation. With AI technology constantly advancing, the ministry plans to revise the guidelines with an awareness of the need for continuous discussions.