

Minister's Summary by Minister Ota



7th Meeting (April 8, 2008)

- (1) Demonstrating “Environmental Prowess”
- (2) Toward the “Basic Policies 2008”

Hiroko Ota here. Today, the Council on Economic and Fiscal Policy (CEFP) held its 7th meeting of the year and conducted discussions on demonstrating “Environmental Prowess” and toward the “Basic Policies 2008.”

On demonstrating “environmental prowess,” expert members suggested the need of economic assistance measures for enhancing “environmental prowess” and the need of maintaining the gasoline tax rate. Temporary Member Kamoshita (Minister of the Environment) presented a document related to the topic. The following comments were voiced:

Member Amari (Minister of Economy, Trade and Industry): (In response to the explanation given by Temporary Member Kamoshita based on his document) Though the idea of “sector-by-sector approach” on reducing greenhouse gas emissions has not been widely accepted initially, an increasing number of experts now appreciate the approach. There is a growing awareness of the need for an innovative technology roadmap among international communities.

Expert member: To facilitate the conversion to a “Low Carbon Society,” it is important to provide adequate economic incentives, such as subsidies and tax breaks, as we have seen in the experience in Europe. Under these circumstances, reducing the gasoline tax rate in Japan may go against the global trend. Another point of importance is the use of natural energy. Germany has successfully achieved remarkable expansion in the use of natural energy by encouraging electric power companies to purchase electricity generated by solar panels. The Japanese government should plan to launch similar steps.

Expert member: Considering environment issues from a viewpoint of the Economic Growth Strategy, we should point out three points of importance. The first point is technological developments for reducing CO₂ emissions. The second point is the use of nuclear power and the third point is the use of natural energy, particularly photovoltaic generation. Wind power generation is difficult to handle in Japan as its territory is mountainous. Sunlight-based energy is of more importance for Japan. Providing adequate incentives for technological developments in solar light generation is essential, as they will have significant ripple effects. Japanese are good at production techniques, and to make better use of their capacity for technological development, I

believe that encouraging the use of solar panels is one of the priorities, considering the situation up to 20 years from now.

Expert member: Why Japan has made remarkable progress in energy savings? That is because a series of environmental pollution took place following rapid industrialization. For this reason, providing economic incentives while setting lofty goals is essential to technological developments. In this context, technical development will surely profit from introducing greenhouse gas emissions trading scheme in Japan. In addition, the wider use of photovoltaic panels is important, and it is necessary to provide subsidies for photovoltaic panels, which will cause external effects.

Expert member: Speaking of measures against global warming, CO₂ emissions from households have increased rapidly. Accordingly, a nationwide campaign aimed to raise awareness of each person in energy savings should be launched. The Government and municipalities should seriously consider and lead the introduction of daylight saving time (or summer time) to curb energy consumption. Now that carbon pricing schemes are in place, Japan can no longer tolerate uncontrolled CO₂ emissions.

Member Nukaga (Minister of Finance) : Japan has cutting-edge photovoltaic technologies and we would also like to study this issue and make concrete proposals on how we should support the wider use of these technologies and how our support could result in actual development of new technologies.

Member Amari: Though subsidies for sunlight-based generation are essential, such subsidization policies have their drawbacks. Though Germany has seen remarkable development in the use of solar energy, costs that power companies incur in purchasing electricity generated from solar panels have been passed along to consumers. This has resulted in a considerably higher electricity price. This is because German power companies are obliged to pay a fixed tariff for each kilo-watt-hour electricity supplied from any solar generation for a period of 20 years, and as a result, a lot of solar electricity producers have been launched. IAEA's recommendation refers to this case, advising Germany to make the transition to more market-oriented policies.

Expert member: Basically, a mechanism providing incentives to users is more preferable for facilitating the wider use of solar light generation. Offering financial incentives to power suppliers may harm the competitiveness of industries.

The Prime Minister made the following statements:

I am also convinced of the need of Japan's own "Action Plan," as proposed by expert members, for realizing the conversion to a "Low Carbon Society." I would like the Council on the Global Warming Issue to discuss what kind of "Action Plan" should be worked out.

For enhancing Japan's "environmental prowess," determined measures should be taken. To realize the expert members' proposals, I would like Member Machimura, Temporary Member Kamoshita,

Member Amari and Member Nukaga to deliberate this issue.

On the “Basic Policies 2008,” expert members pointed out that it ought to present the Cabinet’s specific policies, indicating five points of importance. In addition to the expert members’ proposal drafted in January, they made new proposals concerning measures to deepen the discussion on macro economic policies, creation of a mechanism to eliminate the wasteful use of the budgets, the possible reallocation of earmarked revenues for roads and the tax reform. These new proposals were presented this time because situations had somewhat changed since “Issues 2008 for the CEFP” were drafted in January. The following comments were voiced.

Expert member: “Basic Policies 2008” should be more than just a list of governmental policies. It must be the one to demonstrate the governmental commitment and effort in resolving every problem one by one. It ought to accurately reflect the Prime Minister’s determination. We would like to point out two things. First, the problem of uninsured persons and persons in arrears in the basic pension plan remains unsolved. While raising the portion funded from the Government’s budget to 50% by Fiscal 2009 to stabilize this fragile structure is essential, stable financial resources for this portion is not finalized. The National Commission on Social Security has discussed this issue, and “Basic Policies 2008” should specify financial resources for this purpose in the most concrete form possible. Second, another point of importance is the need for policies aimed at enhancing Japan’s technological prowess, which is one of our nation’s strongest points.

Expert member: The forthcoming fundamental tax reform is extremely important from the viewpoints of social securities, the declining birthrate and the earmarked revenues for roads. Accordingly the Tax Commission will also have to discuss this issue ahead of schedule. In addition, “the basic bill on reforming the national civil service system” was submitted to the Diet. The submission of the bill represents a step forward in carrying out the civil servant system reform. I really would like to express my respect for the efforts of those concerning the bill. Whether the bill will be enacted or not is of great importance and is attracting a lot of national attention. The bill should be enacted during the current diet session. Otherwise, the Government will lose credibility for promoting the reform including decentralization reform and other policies.

Expert member: Speaking of an environment where people can raise children with a sense of security, equally important is how to secure safe pregnancy and childbirth. It is important to resolve shortage of obstetricians and to realize a society which creates a greater feeling of safety. In addition, issues of financial resources are going to be of increasing importance. The Government has to prioritize which ones should be first addressed by the national budget. What Japan ought to do at present should be discussed and what has to be done should be prioritized, partly for the purpose of achieving a surplus in the primary balance by Fiscal 2011.

Member Masuda (Minister of Internal Affairs and Communications): Given difficult circumstances

that many local communities are now facing, the New Economic Growth Strategy should be the one to enhance the growth potential in local economies. For that purpose, the existing economic structure needs to be fundamentally changed.

Member Nukaga: The Government has to demonstrate and give the priority to reformist policies to maintain fiscal disciplines. Accordingly, pursuing fiscal reform in line with “Basic Policies 2006” is important. Discussion over the taxation is also important from viewpoints of the earmarked revenues for roads and stable funding sources for social securities. Discussion on how to allocate financial resources to road construction should have a comprehensive perspective of the entire taxation system. The forthcoming “Basic Policies” should be satisfactorily persuasive and easy-to-understand for general public.

Member Amari: Globalization is an important subject. Encouraging the integration of more international viewpoints into Japan is necessary to help remove the impression that Japanese markets are not sufficiently open. Issues of our efforts toward internationalization should be thoroughly examined and discussed, including “Open Skies” or air liberalization policies, EPAs (Economic Partnership Agreement), acceptance of skilled foreign human resources and internationalization of Japan’s stock markets. Furthermore, given increasing risks concerning a downturn of the economy, all the ministries involved in this issue should combine their wisdom to enhance each industry’s productivity in addition to providing measures worked out for the benefit of local economies and small and medium-sized enterprises from a shorter-term viewpoint.

Member Shirakawa (Deputy Governor of the Bank of Japan): The latest *Tankan* (the Bank of Japan’s short term economic survey) clearly reflects the current tough economic climate being adversely affected by price hikes for raw materials and energy sources, and indicates diminishing profitability. At the same time, unlike past cases, presently there is no sign of excess of equipment, stocks and employment. That is what I find positive about the current economic climate. We should carefully watch what is really going on in economies today, including in G7 Meetings.

The Prime Minister made the following statements:

I will push forward the shift of the earmarked revenues for roads into general revenues. I would like this principle to be one of the issues addressed in “Basic Policies 2008.” As for the need of maintaining the gasoline tax rate proposed by the expert members, it is essential to give an explanation on how efficiently and effectively revenues from the gasoline tax are spent for the benefit of general public even if the tax rate is to be maintained. In this context, I would like to put my energy into eliminating waste in governmental works. The CEFPP should also exhaustively discuss administrative reforms.

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