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Digital-Related Matters

The 8th Meeting on Digital Administrative and Financial Reform¹

(Cabinet Secretariat, November 12)

- In response to a society with a rapidly reducing population, the 8th Meeting on Digital Administrative and Financial Reform was held to review Japan's administrative and financial systems from a user-first perspective, and to maximize the use of digital technology to maintain and strengthen public services and revitalize local economies.
- With regard to public services that support local communities, the burden on those in the field will be reduced by unifying and standardizing systems, and digital technology will be utilized to improve the quality of services.

Developing a common digital infrastructure for the national and local governments

Challenges and achievements to date

- Approximately 1,800 local governments have established their own systems
- Basic policy has been established for the development and operation of a national and local digital common infrastructure, and the National and Local Digital Common Infrastructure Promotion Liaison Council and the Government Ministries and Agencies DX Promotion Liaison Conference were established last summer.

Future initiatives

- Each ministry and agency will review operations in its field and implement digital principles.
- Based on the basic policy, they will gradually expand the scope of commonization, starting with those that are highly effective and in high demand, and promote the use of SaaS and other services that can be used by local governments to reduce the burden on local governments and improve services.

- The panel discussed the need to maximize the positive effects of AI and data utilization, such as enhancing social welfare, increasing consumer benefits, driving economic growth, and stimulating innovation, while also preventing the negative effects, such as the risk of information leaks, encouraging discrimination, increasing social unrest, and the impact on democracy, and outlined the challenges and future initiatives as follows:

¹ https://www.cas.go.jp/jp/seisaku/digital_gyozaikaikaku/kaigi8/kaigi8_siryou3.pdf (in Japanese)

Data Utilization

Challenges and achievements to date

As data utilization to solve social problems becomes a more and more important issue, the EU and other countries are rapidly developing systems for data utilization in fields such as medicine, finance, and industry in a manner consistent with personal data protection legislation. However, no comprehensive discussions have been held in Japan.

Future initiatives

As part of the digital administrative and financial reform, a study group will be established within 2024, to formulate basic policy for Japan's data utilization system in approximately summer 2025.

Data Utilization : Digital legislation in the EU and Japan

	Data		Competition policy	AI		Cybersecurity
	Data protection	Data utilization				
EU	GDPR (2016)	Data Governance Act (2021) Data Act (2023) EHDS (2024) PSD3 (under consideration)	Digital Markets Act (2022)	Digital Services Act (2022)	AI Act (2024)	Cyber Resilience Act (2024)
Japan	Act on the Protection of Personal Information	Only partially implemented in Japan ※Act on Anonymized Medical Data That Are Meant to Contribute to Research and Development in the Medical Field, Banking Act, etc.	PF Transparency Act Act on Promotion of Competition for Specified Smartphone Software	under consideration Telecommunications Business Act	Basic Act on Cybersecurity, Guidelines	

English translation: November 12, 2024, 8th meeting, [Future Policy on Digital Administrative and Financial Reform Material 3](#), page 17

Takeaway: There is a possibility that data utilization systems will be introduced in Japan in the future. If basic policy is announced in summer 2025, we will be able to observe the implications of the types of data utilization systems introduced.

Japan to Roll Out \$65bn in Support for Chips, AI²

(Cabinet Secretariat, November 22)

- The Japanese government, under Prime Minister Shigeru Ishiba, has declared it will sponsor at least 10 trillion yen (\$65 billion) by fiscal 2030 for the semiconductor and AI industries.
- The purpose of this sponsoring is to attract public and private investment over 50 trillion yen over the next decade. It includes subsidies, investments through government institutions, and debt guarantees for private-sector loans.
- Rapidus Corporation, a Japanese semiconductor manufacturing company, aims to mass-produce next-generation chips by 2027. The Japanese government will also provide 920 billion yen in subsidies to support the company's fundraising efforts.
- The Japanese government plans to issue new bonds backed by its securities, including its stake in Nippon Telegraph and Telephone Corp., to support the country's semiconductor industry. The bonds will be issued with collateral provisions to maintain fiscal discipline, as Japan faces the worst fiscal health among major developed economies.

Study Group on Industrial Cybersecurity, Working Group 1 (System, Technology, and Standardization) Semiconductor Industry Sub-Working Group³

(Ministry of Economy, Trade and Industry, November 26)

- The semiconductor industry is likely to become a main target for ransomware attacks in light of responsibility in the supply chain. The sub-working group believes that (i) continuous semiconductor device manufacturing activity, (ii) cutting-edge semiconductor devices and related intellectual property, and state-of-the-art technical information etc. from semiconductor device manufacturers, and (iii) semiconductor design information disclosed by customers should be protected from cyber attacks in the semiconductor industry.
- The sub-working group proposes to (i) organize various measures required in the semiconductor industry, (ii) collaborate in investment promotion activities conducted by the Ministry of Economy, Trade and Industry, and (iii) participate in cybersecurity-related efforts such as encouragement to be involved in activities to establish international standards.

² <https://www.kantei.go.jp/jp/103/statement/2024/1122bura.html> (in Japanese)

³ https://www.meti.go.jp/shingikai/mono_info_service/sangyo_cyber/wg_seido/wg_semiconductor/001.html (in Japanese)

Industry

Act on Ensuring Proper Transactions Involving Specified Entrusted Business Operators (the “New Freelance Act”) takes effect on November 1, 2024.⁴

(The Small and Medium Enterprise Agency, November 1)

- The Japan Fair Trade Commission (JFTC), which acts as an enforcement agency for the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade, was the first to define the term “freelancer” in 2021. According to its guidelines, freelancers are “any self-employed persons or sole traders (sole business owners) who have neither fixed physical business premises nor any employees, and who earn income utilizing their own experience, knowledge, and skills.”
- In 2023, the JFTC’s definition became entrenched in law with the passage of the New Freelance Act, which became effective on November 1, 2024.
- The New Freelance Act adopts similar standards as the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors, and applies them to freelancers to protect their employment conditions. In effect, they acquire the status of “self-employed” subcontractors.

Basic Provisions of the New Freelance Act

The client is obligated to deliver a written document setting forth the terms of the contract, including:

- Prohibition on late payments and the practice of setting subcontract proceeds at a level conspicuously lower than the price ordinarily paid for the same or similar work (*kaitataki*)
- Establishment of a harassment consultation system
- Obligation to give consideration during childcare and nursing care
- Obligation to give 30 days or longer notice of termination

Takeaway: In European countries, the main concern regarding the abuse of a superior bargaining position is related to how a dominant market position is used. However, in Japan, the focus is on inequality in specific business relationships. Thus, the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors and the New Freelance Law together offer better protection for freelance workers than previously, using a distinctive Japanese approach to legislation.

⁴ https://www.chusho.meti.go.jp/keiei/torihiki/law_freelance.html (in Japanese)

Economic Security

The Cabinet Office Released a Draft Operational Standard and Related Government Ordinance for the New Security Clearance System on November 28⁵

(Cabinet Office, November 28)

- The Act on the Protection and Use of Critical Economic Security Information (the “Act”), which introduces a new security clearance system, was passed through Diet deliberations on May 10, 2024.
- The purpose of the Act is to strengthen Japan’s information security by granting only individuals with certain qualifications access to critical information concerning the economic security of critical infrastructure and critical product supply chains, and to facilitate the utilization of such information.
- The information protected under the Act (i.e., that subject to the security clearance system) is defined as “Critical Economic Security Information” (“CESI”). Each government agency will designate as CESI any information related to critical infrastructure and the supply chains for critical products, which is not publicly available and needs to be specifically kept confidential because its leakage may impede the security of Japan. This potentially includes information on measures to address physical attacks, cyberattacks, and other acts that disrupt the provision of services to critical infrastructure facilities and equipment.
- After the Act was enacted in May, discussions on the details of the operational standards and rules continued in the Cabinet Office and other relevant government agencies and expert committees. The public comment period for the relevant government ordinance and operational guidelines commenced on November 28.
- The draft operational standards primarily stipulate the following matters:
 - Designation of CESI, and requirements and procedures for designation (Chapter 2).
 - The effective period of CESI designation, and its expiration, extension, and revocation (Chapter 3).
 - Methods and processes for conducting security clearance assessments (“SCA”) on individuals to grant them clearance, as well as the management of personal data protection (Chapter 4).
 - Procedures, requirements, and evaluation methods for granting clearance to business operators receiving CESI (Chapter 5).
 - Measures to ensure proper implementation of the Act on the Protection and Utilization of CESI (Chapter 6).
 - Review of the operational guidelines (Chapter 7).

⁵ https://www.cao.go.jp/keizai_anzen_hosho/hogokatsuyou/shimon/kaigi_5/shiryou_3.pdf
(in Japanese)

- According to the draft standards, the SCA is carried out by the head of the respective government agency based on the Cabinet Office's survey results, taking into account the individual's specific circumstances. The following factors will be considered:
 - (a) Whether the individual will properly manage CESI,
 - (b) Whether the individual can perform duties in compliance with rules,
 - (c) Whether the individual is able to work with integrity in their duties,
 - (d) Whether the individual is likely to be involved in activities that may lead to information leakage,
 - (e) Whether the individual will carry out their duties with self-discipline,
 - (f) Whether there is a high risk of being in a state where the individual might comply if approached to divulge information,
 - (g) Whether the person has the necessary diligence to carry out their duties.

Takeaway: While the designated information is fundamentally limited to that held by government agencies, the specific types of information that could be designated as CESI by relevant authorities will depend on future operational decisions and are yet to be clarified. Similarly, the extent to which private companies and their employees will obtain security clearance under the Act remains uncertain at this stage. Nonetheless, if a business anticipates receiving information of particular importance from the government, it would be worth considering obtaining clearance as a business entity, provided the necessary requirements are met, following discussions with the relevant authorities. The government plans to implement the new system under the Act by May 2025.

Japan Aims for All New Vehicles to Use Biofuel by Early 2030s⁶

(Ministry of Economy, Trade and Industry, November 11)

- On November 11, the Advisory Council for Natural Resources and Energy discussed the expansion of the introduction of bioethanol into automobile fuel (gasoline), the environmental value certification and transfer system for next-generation fuels, and sector-specific investment strategies for hydrogen.
- The government has announced a goal of commercializing e-fuel, which is expected to help achieve carbon neutrality, by the early 2030s, and will promote the expansion of biofuel use until then.
- Securing a stable supply of biofuels for vehicles will be an issue as Japan mainly imports biofuels.
- While most vehicles can currently use biofuels at up to 3%, higher concentrations require new safety standards and carbon emission checks.
- The government has urged automakers to make newly developed vehicles compatible with biofuel, aiming for up to 20% biofuel content by the early 2030s to help reduce CO2 emissions.
- The Ministry of Economy, Trade, and Industry plans to collaborate with the private sector to create an action plan by the summer 2025.
- The ministry also aims to ensure a stable biofuel supply, with targets for fuel suppliers to provide blends of up to 10% by 2030 and 20% by 2040.

Takeaway: Developing sustainable vehicles using biofuel could be a potential solution for reducing CO2 emissions, but Japan faces challenges to secure a sustainable supply of biofuel. The industry remains open to alternative fuels, which could create new business opportunities.

Japanese Government Panel Suggests 60% Emissions Reduction Target for 2035⁷

(Ministry of Economy, Trade and Industry and Ministry of the Environment, November 25)

- On November 25, 2024, the Ministry of Economy, Trade and Industry and the Ministry of the Environment held a joint panel meeting to consider a target for cutting greenhouse gas emissions by 60% by 2035 compared to 2013 levels, an increase of 14 percentage from the current target.
- This proposed target is part of Japan's efforts to achieve net zero emissions by 2050.
- The target will be included in a draft plan for global warming countermeasures, to be finalized by the end of 2024.

⁶ https://www.meti.go.jp/shingikai/enecho/shigen_nenryo/nenryo_seisaku/017.html (in Japanese)

⁷ https://www.env.go.jp/council/06earth/1125daa_00001.html (in Japanese)

- Japan's current target is a 46% reduction by fiscal 2030.
- The U.N. climate panel has called for a 60% reduction in global emissions by 2035 compared to 2019 levels, to limit global warming.

Takeaway: This demonstrates Japan's strong commitment towards its goals for net zero emission. In the meantime, Japan depends on natural gas, coal, and fossil fuels as energy sources. A shift to cleaner energy is required to reach its goals.

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