28th Expert Committee Meeting of the Japan Investment Council
Naikakufu Special Meeting Room #4 (406)
March 24, 2004
10:00-12:00

Summary of presentation given in Japanese by:

Richard Collasse,
Chairman, European Business Community in Japan.

Thank-you Mr. Shimada for allowing the EBC to speak to the JIC Expert's Meeting today.

My name is Richard Collasse and I am the chairman of the European Business Community in Japan, an organization of the European chambers of commerce in Japan. The EBC, with 300 active members in 27 committees represents approximately 3,500 European companies in Japan.

I am also the President of Chanel K.K., which has been in Japan for more than 20 years, with a staff of 1,300. I would like to share with you my thoughts not only as the chairman of a European business organization, but also as an active investor in Japan. I can tell you first hand that there are many difficulties for investing in Japan, even for a company like Chanel that is committed to the Japanese market.

First of all, I would like to say that the EBC very much supports the Government's goal of doubling FDI in the next five years. FDI brings new blood to the body, boosting its energy. I always like to say that FDI is like a "Regain" stamina drink for the Japanese economy!

The EBC has been very active in helping to promote Japan as a good place to invest. Last year, Shimada-sensei and I visited Europe to talk about the Japanese investment environment to European executives. Now, in addition to being chairman of the EBC and working for Chanel, I have become a salesperson for foreign investment in Japan!

But a salesperson will only be successful if it has a good product to sell.

Japan has many excellent qualities. It is a big market and a regional economic hub of Asia. We foreigners based in Japan learn a lot from doing

European Business Community in Japan
Sanbancho POULA Bldg. 2 Fl.
6-7 Sanbancho, Chiyoda-ku, Tokyo 102-0075, Japan
Tel: 03-3263-6222 Fax: 03-3263-6223; E-mail: ebc@gol.com; Web: http://www.ebc-jp.com

business in Japan, such as the kaizen process that has helped so many foreign companies to recover and become excellent in their field.

But it appears that Japan is having difficulty applying the kaizen process to itself!

Last year, I met with Prime Minster Koizumi twice to talk about FDI. The issues that I will talk about today are exactly the same issues that the EBC has stressed to the Prime Minister.

Japan will not be able to attract more foreign investment unless:

1. The Government takes decisive action to address the numerous structural problems with the Japanese economy. PR is not enough! Foreign investors want to see action.

2. More regulatory reform. Not only deregulation, but also increased clarity. Foreign investors do not like to hear: "Just try it see what happens", as I have heard with my own ears. When you are investing billions, and sometimes trillions, of yen an investor wants to know exactly what to expect from the regulators and the tax office.

3. Legal and tax structures that support M&A. Mr. Benes and Mr. Asakura of the ACCJ will talk in greater detail about cross-border stock swaps and cash mergers. The EBC supports the ACCJ's views on this issue: M&A is the single largest component of FDI into Japan and tax rules should not discriminate against foreign investors.

4. Finally, the EBC supports more decentralization, one of the pillars of the Prime Minister's "Trinity Reforms". With more decentralization, the EBC is hoping that more local governments will privatize public services and really "champion" business development through tax and regulatory incentives.

For more information on the EBC's requests, I suggest you look through the EBC report that is sitting in front of you. The report shows very clearly the issues facing European firms in Japan and the progress (or lack of progress!) that has been made to solve these problems.

What is obvious to me is that many of the proposals that the EBC have been making over the past few years relating to FDI are exactly the same as the JIC proposals endorsed by the Cabinet on March 27 last year.

You have called for better promotion efforts to encourage FDI in Japan, something the EBC supports.

But as I said before, promotion is not only about effective PR: Japan will be judged by its action as much as its words, and in this sense, I see some troubling developments.

For example, the decision to introduce factor-based criteria to the corporate enterprise tax and the recent decision to allow Kampo to expand its product line were not viewed favourably by foreign investors.

You have called for smoother mergers & acquisitions, including a review of tax measures for corporate restructuring, which the EBC supports. The Corporate Revitalization Law was amended last year to allow for "triangular mergers", but to my knowledge no foreign company has used this law to purchase a Japanese firm.

The biggest problem, which Mr. Benes and Mr. Asakura will talk about in more detail, is that there is no tax deferral on cross-border corporate reorganizations. This is discriminatory, as tax deferral is possible on qualifying reorganizations between wholly Japanese entities.

You have called for more private sector involvement in public services, which the EBC supports.

But the use of PFI is still not well developed in Japan, which we as European business find difficult to understand as most local governments are losing money. European firms have a lot of expertise in PFI in areas such as waste management, water treatment and welfare services, and I am sure investment from Europe would increase if more opportunities existed.

You have called for increased regulatory transparency, which the EBC supports.

But a lack of transparency continues to be one of the issues most frequently cited by European businesses as inhibiting investment in Japan. My own company is involved in a complicated M&A deal, and we keep getting different answers from different people in the NTA. It is impossible to plan a business this way.

In other words, most of the key issues preventing foreign investment in Japan have already been identified by the JIC.

The big question is: how will these proposals be implemented.

I am happy to see that beside each of your proposals you have listed the Ministry or Agency responsible for its implementation. I am also happy to see many representatives from these Ministries and Agencies here today, many of whom I know personally.

Shimada-sensei, while I understand that today I am being asked to make the presentation and that the senmon-bukai members may wish to ask me some questions, but if you don't mind I would also like in return to ask some questions to our friends in the Ministries and Agencies that are represented here today.

Our list of issues, as can be seen in the EBC's report, is quite long, and if we were to go through each one we would be here for a very long time.

I would like to take this opportunity instead to focus on three issues: M&A, PFI, and regulatory reform.

To our friends in the Ministry of Finance, I would like to hear what you are doing to eliminate discriminatory tax treatment on cross-border corporate reorganizations. I hear the Ministry of Justice is currently revising the Commercial Code to make it easier to do cross-border M&A, and perhaps you can tell us what sort of dialogue you have been having with your colleagues to help solve this problem.

To our friends in the Cabinet Office, I am curious to hear your frank opinion on the prospect for the implementation of the regulatory reform proposals released on March 19th by the Council on Regulatory Reform. The EBC feels that there is an important linkage between regulatory reform and investment, but I have heard that there have been a number of difficulties convincing the Ministries and Agencies to commit themselves to extensive deregulation in sensitive areas such as health care and financial services.

Finally, to our friends in MPHPT and MLIT I would like to hear your opinion on why PFI is not used so much in Japan, and what else could be done to open up the public procurement market to foreign investment.

In closing, I would like to reiterate something that I say on many occasions. The purpose of the EBC recommendations contained in the EBC Report is not "gaitsu", but rather "naiatsu". We European companies based in Japan are rowing in the same boat as our Japanese colleagues as we want to attract investments from our headquarters to Japan instead of going to other countries such as China.

Thank-you for your attention.

European Business Community in Japan
Sanbancho POULA Bldg. 2 Fl.
6-7 Sanbancho, Chiyoda-ku, Tokyo 102-0075, Japan
Tel: 03-3263-6222 Fax: 03-3263-6223; E-mail: ebc@gol.com; Web: http://www.ebc-jp.com