



**Presentation to the Japan Investment Council
Richard Collasse, Chairman,
European Business Community in Japan.
November 15, 2004**

Chairman Shimada,

Thank-you for the introduction.

My name is Richard Collasse and I am chairman of the European Business Community in Japan and President of Chanel K.K.

While this is not the first time I have had the privilege of addressing this Expert Council, this is the first time that I am speaking as a full-time member.

Let me say that I am absolutely delighted to have been asked to join this Expert Council, and I will try my best to make a meaningful contribution.

It just so happens that the European Business Community recently launched a major publication on trade and investment, the annual EBC Report on the Japanese Business Environment, which I would like to introduce to you today as my first input into this Council. Before going into details, perhaps I should first introduce myself and the work of the European Business Community in Japan.

My day job is President of Chanel, the French branded goods firm, which has been in Japan for more than 20 years, with a staff of 1,300.

We have been investing heavily in Japan recently... we will soon be opening a new building in the Ginza.

At the same time, I am chairman of the European Business Community in Japan, the trade policy arm of the combined European chambers of commerce and industry in Japan. The EBC, with 300 active members in 26 committees, represents approximately 3,000 European companies in Japan.

As you all know, Europe is a rather diverse society, and representing such a wide range of interests takes up quite a bit of my time.

I always like to joke that I work for the EBC and get my salary from Chanel!

Every year the EBC publishes a "Report on the Japanese Business Environment" containing all of the issues of concern to our committees.



Each year we give the Report a different title to reflect the overall theme of the Report.

This year, the Report has been entitled “Trade, Investment and the Reform Nexus” to highlight the importance of further reform for the creation of an open environment for trade and investment in Japan.

Each chapter contains a list of issues and recommendations, as well as an assessment of progress that has been made over the past year.

If you look through the document, you will see that we have marked quite clearly where there has been progress... and where there hasn't been any movement.

The EBC is a keen supporter of the Prime Minister's goal of doubling foreign direct investment into Japan.

But we also believe that foreign investment will not increase substantially into Japan until decisive action is taken to address the structural impediments to business developments.

This year's Report has four key messages:

First, Japan needs to convince foreign investors that it is serious about attracting foreign investment.

Second, there is urgent need for comprehensive measures designed to improve regulatory efficiency, reduce regulatory burden and improve regulatory clarity.

Third, more could be done to further liberalize the cross-border M&A environment to facilitate global corporate restructuring

Finally, the EBC sees outsourcing to the private sector as an excellent way in which to attract further investment into the economy.

Let's take a look at a few examples.

Investment ultimately flows to places where investors feel they will get the best return on their money.

Japan has a lot going for it. It is a large, sophisticated market, with world-renowned technology and manufacturing processes.

But start-up costs are high and it can be many years before one sees a return on investment.



As a result, investment is flowing into lower cost countries such as China.

In a way this comparison is perhaps unfair - Japan is a mature market compared to China. This will not change no matter what policies the Japanese Government implements.

But Japan has a reputation as “inward looking” and “slow to change”, which is not helping matters.

I’ll give you some examples.

First, foreign investors are worried about the pace of change. The food additives issue, which is described in more detail on page 58, is an excellent example of this. The Japanese Government promised in late 2002 to review what food additives it allows to better reflect the types of additives approved by the FAO, WHO, the US and the EU. 46 substances that are in wide use in the EU and the US were given priority, but so far not one of these has been approved, nearly two years later. If this keeps up, it will take over 20 years to have all of these substances approved!

Second, foreign investors are worried about the lack of international perspective in their regulatory reform efforts. The trust banking issue, which is described in more detail on page 28, is an excellent example. The Japanese Government has taken very positive measures recently to liberalize the trust banking market in Japan. The problem is, these reforms do not apply to branches of foreign banks.

Third, foreign investors are concerned that Japan is not serious about creating a competitive market environment. The recent fight between the JFTC and the Keidanren and the LDP on Anti-Monopoly act is an excellent example. When the Keidanren and the LDP forced the Japan Fair Trade Commission to back down on very modest proposals to strengthen the enforcement of competition laws, many foreign investors were left wondering: is Japan serious about creating an open environment for outsiders to do business?

Finally, investors are worried that domestic political motivations are getting in the way of business development. The debate over pre-paid cell phones, described in the insert in the section on telecommunications, is an excellent example. Certain members of the LDP have suggested banning pre-paid cell phones in response to the rise in “it’s me” telephone fraud. This is a gross over-reaction: no other country has banned pre-paid phones. The Internet is used for three times as much fraud crime as pre-paid phones, but nobody is suggesting that we ban the Internet!

The OECD has published a number of reports and documents recently highlighting the important link between regulatory reform and investment.



The Japanese Government seems to recognize the importance of regulatory reform... I am always impressed with the long list of proposals released by the Council for the Promotion of Regulatory Reform every March.

I also think that innovative measures such as the “special deregulation zones” are great ways to promote regulatory reform to the general population. But I am always frustrated that the Government of Japan produces such an excellent list of regulatory reform proposals but that it takes so long for these items to be implemented.

The EBC’s Report on the Japanese Business Environment also contains a long list of regulatory reform proposals, some new items, and some that have been on the books for years.

Here are a few examples.

The EBC has long advocated changes to the way in which tickets for international air travel are sold in Japan. If you go to a travel web-site in Europe, you can buy a ticket to Japan directly online, economy class, business class, no problem. In Japan this is not possible. Well it is possible, but you have to pay the official fare, not the market fare, which is about 500,000 yen for an economy ticket to Europe. Nobody is going to pay that amount for economy class! The reason is that Japan does not allow airlines to sell tickets for international travel at market prices directly to consumer. Airlines are forced to sell blocks of tickets to travel agents, who then repackage the tickets for sale to individual consumers. Very inefficient.

Alcohol licensing is another good example. Alcohol retail licensing has been liberalized substantially over the past five years. But then the Government introduced so-called “Urgent Adjustment Areas” to protect existing retailers from new competition. So this wasn’t really a reform at all. This has had a huge impact on foreign investment in the retail sector: a number of foreign retailers would like to expand their business in Japan, but cannot get a license to sell alcohol.

In the insurance sector, Japan would likely see more foreign investment if restrictions on the sale of insurance products through banks were completely eliminated. The Financial System Council has advocated complete liberalization in three years... The EBC asks: why not tomorrow?

I could go on for hours about regulatory reform in Japan. But time is limited, so I’d like to move on to another of my favorite topics: cross-border corporate restructuring.

This is one of those issues that has the potential to incite panic in the population.



“Foreign barbarians” “Foreign invaders”... these phrases were as common in the US 15 years ago as they are here in Japan today.

But the fact of the matter is: cross-border restructuring through M&A is one of the best ways to introduce new blood into the economy quickly and efficiently. In fact, most of the investment into Japan, around the world in fact, is already in the form of M&A.

Unlike in the US or in Europe, in Japan it is not easy for foreign firms to use their own shares to purchase a domestic company.

Revisions to the Commercial Code are expected to pass the Diet in an upcoming session that will allow foreign firms to use their own stock as consideration in a “triangular-merger” with a Japanese firm. The EBC supports this development. But it is important to realize that even if this reform is implemented, the types of cross-border reorganizations possible in Japan will still be significantly less than in comparable jurisdictions overseas.

Of even greater concern is how the Minister of Finance will treat the new types of cross-border share-exchanges that will be allowed under the revised Commercial Code.

The MOF has promised in this Council and in the press that it will consider changes to relevant tax laws to allow deferrals on cross-border share exchanges, but I am skeptical. I hope that promises to “kentou shimasu” are of the Kanto and not the Kansai variety, as we all know that in the Kansai, “kentou shimasu” means “no way!”

We’re also a little bit concerned about recent proposals to introduce a “poison pill” to help Japanese firms ward off unwanted suitors. It is not that the EBC is opposed to this in principle... after all, it is important to strike the right balance between the interests of management, shareholders, and other stakeholders such as employees, customers and the general public.

But Japan already requires 2/3 shareholder approval for major restructuring and I don’t see how a “poison pill” will help maintain this balance.

Perhaps my colleagues around this table have different views than I do on this subject, but I think that it is safe to say that most foreign investors are wondering if Japan really wants to liberalize its market for M&A.

Privatization is a hot topic in Japan right now, with the Japan Post issue making headlines on almost a daily basis.



The Prime Minister is also becoming well known for his phrase “Kan kara Min e”, which I think sums up the view of the EBC very succinctly.

First of all, the EBC supports the current Government’s drive to encourage more private sector involvement in government driven markets.

But old habits die-hard.

A number of European firms have been trying to access areas such as waste disposal, water treatment, etc., but with limited success. The main reason is that outsourcing in these sectors has so far been “half-baked”, consisting of piecemeal sub-contracting on short-term basis.

European experience has shown that PFI/PPP schemes have the potential to significantly improve cost management and service quality. This is only possible, however, through comprehensive long-term performance-based contracts with services providers.

With regards to the privatization of public entities, it is important the Government create a “level playing field” so that newly privatized entities do not use their size and new-found freedom to unfairly subsidize new business development.

I am talking of course mainly about Japan Post, and I think that most private sector members in this room share this view.

We certainly do not want to unleash a monster!

Before turning the microphone back to Professor Shimada, I would just like to note that this Report contains a number of other issues in areas such as taxation, human resource development, and intellectual property protection that also have an indirect effect on the Japanese investment environment.

I notice that many of these issues are similar to the proposals contained in the JIC’s Investment Promotion Program, and I look forward to pushing these issues in cooperation with the Council.

The EBC Report also contains a number of suggestions that are not contained in the JIC’s Investment Promotion Program, which I hope to present in more detail in subsequent Council meetings.

In the meantime, I would like to mention again how delighted I am to be a member of this Council and I look forward to making a meaningful contribution on a more regular basis!

Thank-you.