

Presentation by EBC Chairman, Richard Collasse, to the Corporate Governance  
Committee of the Liberal Democratic Party

May 26, 2005

Dear Gentlemen,

It is a great honour for me to be able to stand in front of you all here today. My name is Richard Collasse and I am the Chairman of the European Business Council, the trade policy arm of the European chambers of commerce and other business organizations in Japan. The EBC, with 400 active members in 28 committees represents approximately 3,000 European companies in Japan. I am also the President of Chanel K.K., which has been operating in Japan for more than 20 years, with a staff of 1,300. Today I would like to talk to you in my capacity as chairman of the EBC, but am also willing to share with you my experience as an active investor in Japan through my work at Chanel K.K.

To take over where my American colleagues left, I would like to claim that as far as the EBC is concerned, rather than discussing defensive measures, **we should focus on how to improve the standards of Corporate Governance. This is basically about improving transparency, to make it more difficult for boards to abuse shareholder rights. I know that you are ambitiously studying international defensive measures to obtain ideas to introduce to Japan. Please let me tell you that in my own country, France, we have learned that the ultimate way to fend off hostile take-over bids is to increase shareholder value. We are not adopting the Anglo-Saxon law tradition entirely in all its part, I must say, but for us new concepts such as independent directors, performance-based pay and emphasis on value creation have served our companies well and are now spreading throughout the economy.**

The EBC does respect the desire to have mechanisms available to protect corporate value, but **without better protecting shareholders rights, we fear the array of defensive measures against hostile take-overs incorporated in the new Corporation Law can do much harm. We embrace in large part, the conclusions of the Corporate Value study group. But just as our American colleagues, we would like to see them become compulsory and fully integrated with other laws.** (The EBC is particularly concerned about the prospects of having “automatic” defense mechanisms established without making clear the responsibility of board members for launching

them. To prevent abuse, it is absolutely necessary for board members to be held directly responsible for measures when they are launched. )

**When we start to discuss how to defend corporate value from foreign hostile take-overs, it is easy to get lost in a discussion that is somewhat disconnected from reality.**

**I think we need to consider what foreign ownership really means.**

Investing in a foreign country normally means a commitment to participate in the management and operation of domestic companies. **Europe is the biggest investor in Japan with 5.3 trillion yen invested** between 1998 and 2003, surpassing the U.S with roughly 1.8 trillion yen. **We invest in Japan because we believe in the possibilities of doing business here. By bringing capital, know-how and business models to Japan, we create value and many jobs in Japan.**

When Renault bought 36.8% of the shares in Nissan 1999, it marked the start of a highly successful partnership that within four years took Japan's by-then fourth largest automobile manufacturer from the brink of bankruptcy to the most profitable firm in the global auto industry in 2003 (operating profit margin at 11%, compared to the 9% level for Toyota Motor and the 7% level for Honda)

An ambitious, culturally sensible and sensitive, integration on all levels of two highly complementary organisations proved to be a formula for success. The manufacturers were both, in their own rights, midrange in their respective markets, but now, together constitute the fourth biggest manufacturer in terms of sales in the global market, speedily approaching the number 3 ranking.

No one is worried about the French ownership in Nissan today (which is now close to 50%).

As Europeans, we recognise well the debate of foreign ownership now taking place in Japan. However, I am happy to tell you that **fears about FDI diluting local cultures have proved wrong in the European context.** The creation of an internal market and a

common currency has caused a **perpetual acceleration of cross-border M&A and FDI** (from both within Europe and from other parts of the world). **But national and business cultures have largely remained unaffected.**

My home Country, France, is a good example. The last 15 years have fundamentally changed the ownership structure of industry in France. Today, 30% of its GDP is generated by foreign companies and approximately 150.000 new jobs have been created by new FDI to France during the last 5 years. Contrary to the predictions of many, this has occurred with no fundamental change in the French way of life.

Dear gentlemen, when discussing these issues, I would like you to consider that we in Europe maintain a high degree of cultural diversity while enjoying the fruits of increasing FDI to our countries. **FDI has in many ways revolutionized our economies, but despite this, we have been able to keep many local industries and, with them, local cultures vivid. This is possible also for Japan.**

**I believe, furthermore, that this is not only possible but also indispensable if jobs and knowledge are to stay and be nurtured further here.**

**It is, for instance, difficult to imagine how the Japanese Pharmaceutical industry can survive in the long-run without further consolidation and partnership with foreign manufacturers.** According to a survey published by the *Pharmaceutical Executive* in May 2002, among the top 20 manufacturers in the world there are 9 European, 10 American but only one Japanese manufacturer (Takeda Pharmaceutical Co. on position no. 15).

*Although the recent merger between Sankyo Co. and Daiichi Pharmaceutical Co probably has added a second Japanese manufacturer just on top 20, the Japanese presence is still extremely weak.* The aggregate Japanese spending on R&D is equivalent to only 7.7% of total world expenditures and aggregate sales represent only 9.3% of world sales (compared to 39% in R&D and 34% of world sales for their European counterparts). For me, it is obvious that Japanese companies cannot survive global competition under these conditions.

**If the companies do not tie up with foreigners, you risk losing the whole industry.**

Finally, please allow me to make some comments regarding the recent debate in Japan on an anticipated “wave of foreign hostile take-overs”. The current debate in Japan gives the impression that foreigners are eager to engage in “hostile” take-overs of Japanese companies. As foreigners investing in Japan, we can only say that it is far from the truth.

Let’s start from the obvious - **friendly transactions are always preferable to hostile bids**. The diligence and cooperation of the management along with the good-will of employees and customers are essential to the success of any business. A hostile take-over would put all of these benefits at risk and is seldom advisable from a business perspective. **In Japan, these universal business concerns are even greater. Most European investors would not even consider attempting to manage a company in Japan without the co-operation of its Japanese management.**

We want to engage in friendly M&A, that’s why we were advocating the **triangular cross-border merger scheme slated for inclusion within the new corporation law**. **The EBC was disappointed about the postponement because we believe that without a triangular merger scheme in place, contrary to the prevailing views maintained in the debate, *we will have more not less, hostile take-overs*. Without friendly measures available, many potential friendly mergers will not materialise, only to the advantage of parties (both domestic and foreign) with a more hostile agenda.**

**On top of that, the timing of the decision was most unfortunate. Europe has just started to shift its focus back to Japan from China. Postponing the triangular merger scheme created much bad will for Japan in Europe.**

**Please let me finish by claiming that the best way to restore confidence is to introduce the triangular merger scheme and to swiftly deal with the crucial issue of tax deferrals. This, I believe, will be an important measure to bring “friendly” foreign capital, know-how and jobs to Japan.**

Thank you very much.