

The EU-Japan Business Dialogue Roundtable

Working Group One

(Creating an Open Environment for Trade and Investment)

Joint Report

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Introduction

Presented by:

**Mr. Iwao Toriumi,
Marubeni Corporation**

1. Preamble

In this day and age, companies are increasingly competing at the international level. Businesses are seeking to optimise the allocation of resources and becoming more and more involved in global M&A activity. All of this as information technology continues to revolutionise the world economy, forcing companies to respond with every increasing speed.

In this new global environment, each government will be required to overcome the various obstacles and problems that inhibit international business activity. Increasingly, the rules governing the whole economic system will have to be based on standards accepted by the whole international community.

In the EU and Japan, the trade and investment environment has been steadily improving, thanks to the continued effort of both the public and private sectors. Barriers to trade and investment have been falling due to deregulation and market liberalisation and opportunities have increased for both Japanese and European businesses.

However, much more remains to be done. We, the business community, have firmly committed ourselves to solve these problems. Yet, there are still many issues that remain to be solved at the government level.

This Joint Report was produced with this in mind – to provide constructive suggestions for improving the Japanese and European business environments for the benefit of all concerned.

2. Working Group One Mandate

This document summarises the work of Working Group One (WG1) of the EU-Japan Business Dialogue Roundtable.

Under the theme, “Creating an open environment for trade and investment”, WG1 has been asked to:

- Identify priority issues most damaging to the growth and development of European businesses in Japan, and Japanese businesses in Europe.
- Identify areas of common concern
- Suggest actions / recommendations to be addressed by the appropriate government authorities

In the spirit of the WG1 mandate, leaders Ms. Isabelle Hupperts (European Business Community) and Mr. Iwao Toriumi (Marubeni Corporation) are pleased to submit this joint report summarizing the priority issues for Japanese businesses in Europe and European businesses in Japan and establishing a common agenda to guide the creation of an open environment for trade and investment in the future.

3. Priority issues

Priority issues for Japanese companies doing business in Europe:

Regulatory environment:

1. Increasing **harmonisation** of rules and regulations within the EU to reduce the regulatory burden companies face doing business in the single European market.

Business facilitation:

1. Introducing a consolidated tax system to allow companies to **offset profits and losses** in operations throughout Europe.
2. Improving bilateral cooperation to **avoid the double payment of social security costs**.
3. Reviewing labour and immigration laws with the goal of improving the **efficient allocation of human resources** both within and across national boundaries.

Trade environment:

1. **Lowering tariff rates** so that European consumers can benefit from the introduction of **innovative products at competitive prices**.
2. Promoting **transparency, consistency and accountability** in the **anti-dumping appeal process**.

Priority issues for European companies doing business in Japan:

Regulatory environment:

1. Increasing **transparency** in the regulatory environment to make it easier for companies to predict the consequences of regulatory decisions, plan for regulatory developments, and efficiently allocate resources to comply with regulatory requirements.
2. Increasing **efficiency** in the product approval process to make it easier for companies to introduce **innovative products at competitive prices**.
3. Increasing the scope of **deregulation** and **re-regulation** to promote a truly **competitive market environment**.

Business facilitation:

1. Improving the tax system to allow **tax-neutral M&A and local corporate restructuring**.
2. **Strengthening the legal framework** to make it more consistent, efficient and effective in protecting economic rights.
3. Reviewing labour and immigration laws with the goal of improving the **efficient allocation of human resources** both within and across national boundaries.

Creating an Open Environment for Trade and Investment in Europe

Presented by:

**Mr. Iwao Toriumi,
Marubeni Corporation**

Although many Japanese corporations are planning to expand their investment in the European market, they face various problems, which can be basically divided into two categories. One relates to EU-wide business development and the other relates to agreements between the Japanese Government and EU member states. These problems are described below under the following topics: the regulatory environment, business facilitation, and trade environment.

1. Priority issues

The Japanese members of Working Group One have identified the following priority issues to help guide the creation of an open environment for trade and investment in Europe.

Regulatory environment:

1. Increasing **harmonisation** of rules and regulations within the EU to reduce the regulatory burden companies face doing business in the single European market.

Business facilitation:

2. Introducing a consolidated tax system to allow companies to **offset profits and losses** in operations throughout Europe.
3. Improving bilateral cooperation to **avoid the double payment of social security costs**.
4. Reviewing labour and immigration laws with the goal of improving the **efficient allocation of human resources** both within and across national boundaries.

Trade environment:

5. **Lowering tariff rates** so that European consumers can benefit from the introduction of **innovative products at competitive prices**.
6. Promoting **transparency, consistency and accountability** in the **anti-dumping appeal process**.

2. Regulatory Environment

In order to strengthen their competitive position in the European regional market, Japanese firms are forced to develop their business at an EU wide level. In order to do business effectively in the EU region, further unification of business rules and regulations is required. The harmonisation and unification of rules and regulations must be carried out based upon equal treatment between European and non-European firms. The following two issues are particularly required.

2.1 Early adoption of the Statute of the SE (Societas Europaea)

Challenges:

Due to the lack of a unified corporate law, business operations in the EU are subject to the company law of each Member State despite of the existence of a unified single market, resulting in higher costs and more burdens doing business.

Current Status:

Deliberations on the draft Statute of SE in the EU Council began again in 1997 and were voted on in 1998. However, despite the support of 14 EU Member States, this directive was rejected due to opposition from one country, Spain.

Proposals:

1. Persuade Spain to accept the proposal, and promptly adopt this draft Statute as soon as possible. If necessary, an opt-out clause for Spain should be considered.

2.2 Easing conditions on the 1990 Merger Directive

Current Status:

This directive aims to remove the immediate tax consequences of corporate restructuring by allowing for a tax deferral, but is limited in scope to “qualifying reorganisations”. “Qualifying reorganisation” does not include such intra-group reorganization as changing local corporation structure to branch structure under a European headquarters that many Japanese subsidiaries carry out in Europe.

In addition, even when benefiting from this directive, confusion sometimes emerges due to the differences among Member States in the treatment of such issues as capital gains tax and the duration of prohibition against disposal of shares.

Proposals:

1. The scope of the Merger Directive should be expanded in order to make the “qualifying reorganization” more flexible to include the above-mentioned type of intra-group reorganization.
2. Work towards the harmonisation of the tax system in areas such as the treatment of capital gains is required.

3. Business Facilitation

Taxation is one of the biggest problems facing further investment and business development in the single EU market. In addition, a number of employment-related issues between Japan and EU member states exist that will require EU involvement with each individual member state in order to be solved.

3.1 Early adoption of a draft Directive proposed in 1991 to introduce a consolidated tax system

Challenges:

The introduction of a consolidated tax system to offset profits and losses is a vital issue for companies operating in plural member states of the EU.

Current Status:

Currently, it is generally not possible for a company resident in one EU Member State to off-set losses incurred by subsidiaries in other Member States. A draft directive was proposed in 1991 to address this issue, but little progress has been made to date.

Proposals:

1. This issue should be dealt with in more detail by Working Group 2 (Accounting and Taxation Issues).

3.2 Employment

(1) Double payment of pension costs

Challenges:

Double-paying pension costs results in heavy financial burdens for companies operating overseas. While social security systems have yet to be harmonised within the EU, and therefore in the meantime this issue should be dealt with on a country-by-country basis, it is hoped that a common EU social security system can be established in the future.

Current Status:

1. Solved: The Japan-German Agreement on Social Security has been effective since February 2000. The Japan-UK Agreement on Social Security was signed in February 2000.
2. Under negotiation: In December 1999 Japan and France agreed to enter preliminary talks.
3. Yet to be negotiated: Agreements with the remaining 12 EU member states.

Proposals:

1. The Japanese and French Governments are requested to speed up negotiations and promptly come to an agreement.
2. The Governments of Japan and the remaining 12 EU Member States are requested to enter negotiations as soon as possible.
3. It is hoped that in light of the single European market, a common EU social security system can be established in the future.

(2) Visas and work permits

Challenges

The following issues concerning visas and work permits represent significant obstacles to the effective implementation of human resource strategies for companies operating in the EU.

While this issue is targeted towards individual EU Member States, it is also a theme for wider cooperation in removing regulatory barriers between the EU and Japan.

Current Status and Proposals

On the whole, time-consuming and complicated procedures to obtain visas and/or work permits are problems in many countries of the EU.

In particular, the following problems should be promptly solved:

1. Germany: Since the spring of 1998, only single-entry visas have been issued. Multi-entry visas should also be issued.
2. Greece: Companies operating in Greece are legally required to maintain a certain ratio between the numbers of EU and non-EU employees. This kind of discriminatory treatment should be removed.
3. Italy: The laws and/or regulations surrounding visas and work permits are complicated and frequently changed. This situation should be improved.

4. Trade Environment

As advanced, industrialised economies, there should be no restrictions or barriers to the flow of trade between Japan and Europe.

4.1 Tariffs

Challenges:

High tariff rates prevent the introduction of innovative Japanese products at competitive prices. Ultimately, this harms the European consumer.

Current Status

Tariffs on manufactured goods including consumer electronics products (14% for EU and 0% for most of the goods for Japan) and passenger vehicles (10% for EU, 0% for Japan, and 2.5% for USA) are very high in the EU compared to other advanced nations.

The intentional and arbitrary changing of tariff classifications with a view to raising tariff rates is also a problem. This kind of treatment is seen particularly often in the case of the products related to digital and multi-media technologies.

Proposals

1. Tariff rates should be lowered.
2. Tariff rate classifications should not be intentionally or arbitrarily changed.

4.2 Anti-dumping regulations

Challenge:

The application of anti-dumping regulations is very energy consuming and costly to the companies in question, even at the initial stages of an investigation. This inhibits the flow of trade and investment and has a serious effect on the companies affected.

In addition, the application of anti-dumping duties eventually harms European consumers.

Current Status:

The EU has launched a huge number of anti-dumping cases, next only to the United States and Australia.

The EU often arbitrarily expands the scope of anti-dumping regulations (e.g. the problem of “likely products”).

The EU has developed “counter measures against anti-dumping circumvention” which are not grounded in WTO rules (Japan has not developed such measures).

Proposals:

1. Anti-dumping regulations should be prudently applied.

2. The scope of the goods in question should be strictly limited.
3. Anti-circumvention measures should be withdrawn.
4. This issue should be dealt with in more detail by the WTO working group.

Creating an Open Environment for Trade and Investment in Japan

Presented by:

**Ms. Isabelle Hupperts,
European Business Community (EBC)**

1. Introduction

The Japanese economy is more open to European trade and investment than it was even ten years ago. Barriers to trade and investment are slowly falling, and opportunities increasing for European companies doing business in Japan.

Despite this improvement, European businesses still face numerous barriers to trade and investment at all levels of economic activity. It is easier to get products approved for sale, but it still takes longer and costs more than other industrialised countries. It is easier to obtain the licenses to do business, but it is still more difficult to set up a business than it is in other modern economies. In short, improvements have certainly been made, but much more needs to be done.

The Japanese investment environment is a case in point. Inward flows of foreign investment are certainly increasing, but they remain a fraction of the flows into and out of other large markets. On one hand, European investment in Japan reached record highs in 1999, increasing four-fold from the previous year. On the other hand, the total amount of direct investment in Japan remains extremely low compared to other industrialised nations. The ratio of FDI to GDP still remains less than 2% in Japan, compared to over 15% in the U.S., over 20% in the UK, and over 25% in France.

Entry costs remain high, the legal system is still not well equipped to deal with cross-border transactions, the tax system is not at all friendly towards global M&A and local restructuring, opaque financial accounting practices continue obscure company valuations and performance, and Japanese corporate governance practices are still biased against mergers and acquisitions.

The European members warmly support efforts by the Japanese Government to address the numerous structural deficiencies that continue to plague the Japanese economy. The restructuring process has not been easy. And it has only just begun. Many problems remain to be solved, and it will be up to the Japanese Government to make the goal of a truly open environment for trade and investment a reality.

2. Priority Issues

With the overriding goals of **improving market access, increasing transparency, and increasing accountability at all levels of economic activity**, the European members have identified the following priority issues to help guide the creation of an open environment for trade and investment in Japan.

Regulatory issues

1. Increasing **transparency** in the regulatory environment to make it easier for companies to predict the consequences of regulatory decisions, plan for regulatory developments, and efficiently allocate resources to comply with regulatory requirements.
2. Increasing **efficiency** in the product approval process to make it easier for companies to introduce **innovative products at competitive prices**.
3. Increasing the scope of **deregulation** and **re-regulation** to promote a truly **competitive market environment**.

Business facilitation issues

1. Improving the tax system to allow **tax-neutral M&A and local corporate restructuring**.
2. **Strengthening the legal framework** to make it more consistent, efficient and effective in protecting economic rights.
3. Reviewing labour and immigration laws with the goal of improving the **efficient allocation of human resources** both within and across national boundaries.

These priorities are discussed in more detail in *Creating an Open Environment for Trade and Investment in Japan*, which is being published by the European Business Community in Japan (EBC) in conjunction with the July 2000 meeting of the EU-Japan Business Dialogue Roundtable. Many of the issues, recommendations, and case studies in this publication were sourced from the EBC's premier policy report, *Issues for the New Millennium*. We are confident that these two publications will provide an excellent reference for the Business Dialogue in the future.

3. The Regulatory Environment

3.1 Increasing transparency in the regulatory environment

Challenge:

The regulatory environment should be clear and consistent. Companies should be able to predict the consequences of regulatory decisions, plan for regulatory developments, and efficiently allocate resources to comply with regulatory requirements.

Current status:

A lack of clarity and consistency in the Japanese regulatory environment makes it difficult for companies to predict the consequences of business decisions and plan for future regulatory developments. Despite recent attempts to reform administrative procedure in Japan, it still remains extremely difficult to receive written, binding guidance on issues of concern. Moreover, this guidance is almost never made available to the public in an anonymous format as a form of regulatory precedent.

A lack of transparency and accountability in the Japanese regulatory environment also makes it difficult for companies to confirm the validity of the regulatory process. Transfer pricing decisions, for example, are based on comparable transactions kept "secret" from the party being investigated. As a result, companies cannot confirm the accuracy of any transfer pricing adjustment, which is subject to an automatic non-waiveable penalty on any additional tax assessed. A lack of transparency and accountability has also resulted in bias in the regulatory environment. Examples of discriminatory regulation include one-sided squeeze out legislation, biased tax treatment of foreign stock options, and restrictions on foreign lawyers in areas such as third country law.

Proposals:

1. A formal rulings process should be established whereby companies would be able to receive written, binding clarification regarding a planned business transaction or a particular regulatory situation. These rulings should then be made available in an anonymous format on a regular basis to establish a written body of precedent in order to help companies navigate the regulatory process and provide a basis for recourse should disputes arise with the regulatory authorities.
2. The roles and responsibilities of government as the main regulatory of economic activity should be clearly defined. Regulatory independence should be increased in sectors such as telecommunications, transportation, and energy based on the model provided by the independent Financial Supervisory Authority already established in the financial services sector.
3. All forms of regulatory discrimination, such as the examples mentioned above, should be removed.

3.2 Increasing efficiency in the product approval process

Challenge:

The product approval process should enable companies to introduce innovative products at competitive prices in a timely and efficient manner.

Current status:

One of the stated goals of the Japanese Government's 3-year deregulation plan is to move from *a priori* to *ex post facto* product approval methodologies. The European members warmly support the principles behind these proposed changes and continue to look forward to their effective implementation. In sectors such as insurance and health science, the regulatory authorities still micro-manage the product approval process, preventing companies from introducing truly innovative products at competitive prices.

Many product approval procedures in Japan are duplicated (e.g. obtaining a certificate of non-combustible for construction products), redundant (e.g. the mandatory assay for biological products), outdated (e.g. the Quasi-Drug regulatory regime), or lack a scientific basis (e.g. the classification of *in-vitro* diagnostic products as drugs under the Pharmaceutical Affairs Law). This only serves to add to the time, energy, and expense required by companies trying to bring innovative new products to market.

Proposals:

1. “File and use” notification procedures should replace the current pre-approval needed for products in such diverse sectors as insurance, animal health and medical diagnostics. This would promote good corporate governance and ultimately better serve the Japanese consumer. It should be noted that increasing the use of *ex post facto* methodology does not necessarily mean a reduced role for the regulatory authorities. Rather, it means *refocusing* the product approval process on post-market checking instead of pre-market control.
2. Regulations that are duplicated, redundant, outdated, or lack a scientific basis should be eliminated, updated, or brought in line with international best practice. In principle, the European participants support the principle of “one standard, one test, and one approval” for all products regardless of origin, and urges the Japanese Government, in cooperation with regulatory authorities from around the world, to work towards an approval process that does not require per country approval.

The introduction of International Conference on Harmonization (ICH) guidelines stipulating ethnic factors in the acceptability of foreign data for use during the drug approval process, for example, has had a major positive impact on the time and energy needed to bring innovative new pharmaceutical products to market. Harmonisation could easily be extended to other sectors that require product approvals (e.g. medical devices, professional services, cosmetics, etc.). An important first step in this ultimate goal is the quick implementation of the planned MRA agreement between the EU and Japan.

It must be stressed, however, that harmonisation does not only mean the development of reciprocal agreements such as MRAs. There is much room in the Japanese product approval process for a unilateral reduction in the time and energy needed for companies to bring their products to market by applying regulatory practices already accepted by the international community (such as maximum residue limits developed by the CODEX Alimentarius Commission).

3.3 Increasing competition in the internal market

Challenge:

The regulatory framework should work towards promoting competition in the internal market.

Current status:

The Japanese regulatory environment unduly restricts business activity in sectors such as transportation, energy and construction, effectively eliminating competition, and therefore discriminating against European firms wanting to access markets in these sectors. In the shipping industry, for example, shipping lines are effectively prevented from seeking competitive bids for waterfront services due to restrictions to waterfront business practices.

Many markets in Japan are dominated by monopolies or oligopolies whose market position limits the ability of new comers to produce innovative goods and services at competitive prices. This ultimately harms consumers who are forced to pay higher prices for products and services.

Proposals:

1. The scope of deregulation needs to be increased in order to counter the inefficiency of managed competition in sectors such as shipping, civil aviation, and construction. For the shipping example mentioned above, shipping lines should be given the freedom to procure competitive bids for waterfront services. For other suggestions, please refer to the companion publications *Issues for the New Millennium* and *Creating an Open Environment for Trade and Investment in Japan*.
2. Dominant market positions in areas such as telecommunications need to be adequately monitored and effectively regulated to prevent possible anti-competitive practices such as predatory pricing, cross subsidies from monopolies to market based activities, and misuse of customer information. The best way to do this is to expand the scope of regulatory independence and endow authorities with the institutional capacity to effectively carry out a pro-competitive mandate.

4. Business Facilitation

4.1 Taxation

Challenge:

The tax system should be supportive of international business activities, especially in the areas of M&A and local corporate restructuring.

Current status:

The Japanese tax system is not at all friendly towards M&A, corporate restructuring, and the establishment of joint ventures. Corporate reorganisation through merger, acquisition, rationalisation, de-merger, intra-group real estate transfers, or the creation of a joint venture often results in large immediate tax costs for the parties involved. This acts as a major disincentive to investment and has prevented companies in Japan from making the structural changes needed to remain competitive in the global economy.

Some specific concerns include the following:

- Tax deferrals on share exchanges and transfers established as a result of changes to the commercial code in 1999 are not available to shares of foreign companies.
- Changes to the commercial code to take effect in October 2000 will make de-mergers and spin-offs easier. However, the tax consequences remain unclear.
- There is no consolidated tax system for taxing groups of companies in Japan. A planned consolidated tax system has now been on hold for over four years, and the timeframe for its implementation remains unclear.

Proposals:

1. Global mergers and acquisitions and local corporate restructuring should in principle be allowed without immediate tax costs.
2. Property transfer tax relief should mirror corporate income tax relief rules, in effect making it easier to make intra-group transfers of buildings and assets without large tax consequences.
3. Share-for-share and assets-for-share exchanges should receive tax deferrals when there is over 25% post-transfer participation.
4. There should be no discrimination between Japanese and foreign assets/shares.
5. A consolidated tax system should be implemented no later than 2002, taking the following into consideration:
 - The common ownership requirement under the proposed consolidated tax system should be significantly less than 100% in order to accommodate situations where it is

impossible for fully integrated companies to achieve complete ownership.

- Companies should be allowed to set acquisition financing costs against the profits of acquisition targets.
- Losses in joint ventures should be transferable to substantive shareholders.

4.2 Legal environment

Challenge:

The legal framework should provide companies with an effective means to protect their economic rights.

Current status:

It is difficult to rely on legal remedies to enforce economic rights in Japan, especially in relatively “new” areas such as M&A and shareholder right protection.

The commercial code lacks clarity and fails at times to provide adequate protection of economic rights and obligations. It is difficult to know in M&A situations, for example, what the rules are, which body is charged with their enforcement, and how to obtain appropriate recourse when a breach of rights is detected.

In addition, the Japanese court system often does not function well as a mechanism for dispute resolution. Disputes with tax authorities, for example, often take 5-10 years to make it through the court system. Furthermore, judges have little experience in handling complex tax cases and are far too willing to follow the line indicated by the tax authorities. As a result, the Japanese tax authorities have won over 90% of all tax cases that have gone to court.

Finally, it is difficult procuring comprehensive, integrated legal advice in Japan because of restrictions on the legal profession such as prohibitions on foreign-domestic lawyer partnerships and restrictions on foreign lawyers advising on third country law.

Proposals:

1. Targets for corporate governance, including protecting investor rights and freedom of structuring, should be developed, discussed and monitored in upcoming changes to the Japanese commercial code.
2. The commercial code should clearly and explicitly define what the rules are, which body is charged with their implementation, and how to obtain appropriate recourse should a breach of rights be detected.
3. The commercial code should be completely neutral, treating foreign and local firms alike. Squeeze-out legislation and share-swapping arrangements that apply only to Japanese companies, for example, should extend to all investors, regardless of national origin.
4. Barriers within the legal profession, such as the restrictions on foreign lawyers mentioned above, should be removed in order to ensure access to comprehensive, integrated legal advice in Japan.

4.3 Labour policy

Challenge:

Labour and immigration laws should enable companies to efficiently allocate human resources both within and across national boundaries.

Current status:

While the situation is gradually changing, the tradition of preserving life-time employment has seriously affected investment in Japan by making it difficult to transfer employees from one company to another after a merger, acquisition or corporate restructuring. This problem is further exacerbated by the fact that Japanese pensions are not very portable. The Japanese Government has taken steps to remedy this situation by preparing to introduce a defined contribution pension scheme modelled after the American 401(k) system. Unfortunately, this new pension system does not appear to adequately address the pension mobility issue, as the proposed law does not make it easy for companies to switch from a defined benefit to a defined contribution system.

Immigration laws are also a burden for companies operating in Japan and the foreign nationals that work for them. Some specific concerns include the following:

- The re-entry permit system requiring foreigners on valid long-term visas to apply for permission to leave Japan for short periods of time unnecessarily adds to the time and expense needed to fulfil immigration requirements in Japan.
- The two full-time employee requirement to obtain the manager/investor visa discriminates against small and medium sized firms setting up operations in Japan that do not necessarily need two full-time employees.
- The one-year intra-company employment experience requirement for the inter-company transfer visa makes it difficult for companies to send new employees to Japan for training.
- The ten-year experience requirement for engineers, skilled labour, and humanities specialists discriminates against young people with specialist knowledge, preventing companies from taking advantage of their special skills, enthusiasm and motivation.

Proposals:

1. The planned defined contribution pension scheme should be made more attractive for companies operating in Japan by including the following in its implementation:
 - Employees and employers should be allowed to make joint contributions.
 - Participants should be able to borrow from their pension reserves.
 - The maximum contributable yearly limit should be raised.
 - Relief and technical assistance should be provided to help companies make the switch from a defined benefit to a defined contribution system.
2. Japanese immigration law should make it easier for companies to efficiently allocate human resources on a global basis. Specific proposals include the following:
 - The re-entry permit system should be abolished. Foreign workers should free to come and go as they please within the period specified by the original visa.

- The requirement for two-full time employees to obtain the investor/manager visa should be abolished.
- Companies should be able to decide independently who is eligible as a transferee, and not be limited by time of employment.
- The ten-years experience requirement for engineers, skilled labour, and humanities specialists should be cut in half.

5. Concluding remarks

It must be stressed that the issues presented above in no way constitute the full range of challenges facing European businesses in Japan. Important issues in areas such as trade policy, border control and government procurement, for example, have not been mentioned. For a more comprehensive review of the Japanese business environment, please refer to the two EBC companion publications, *Issues for the New Millennium* and *Creating an Open Environment for Trade and Investment in Japan*.

Conclusions

Presented by:

**Ms. Isabelle Hupperts,
European Business Community (EBC)**

The members of Working Group One would like to conclude this joint report by restating the importance of an open environment for trade and investment to the future economic prosperity of both Japan and Europe.

An open environment to trade and investment is important for the following reasons:

- Companies benefit from increased access to the markets and resources of the global economy.
- Individual economies benefit from the economic stimulus of increased competition, productivity, and innovation.
- Consumers benefit from increased access to innovative products and services at competitive prices

Creating an open environment for trade and investment implies much more, however, than simply improving market access for foreign goods and services and removing discriminatory restrictions on foreign investment.

An open environment for trade and investment also implies the existence of a competitive internal market and the necessary economic infrastructure to do business efficiently. This is of concern to all businesses, regardless of national origin.

The members of WG1 agree that much more can be done to create a truly open environment for trade and investment in Europe and Japan. Based on the priority proposals presented in this Joint Report, the members of WG1 have developed the following joint proposals to help guide this process.

Business facilitation:

1. Consolidated taxation systems should be introduced in Japan and across the EU as soon as possible.

2. M&A and all forms of local corporate restructuring should in principle be tax-neutral.
3. Labour and immigration laws should be modernised to promote the efficient allocation of human resources both within and across national boundaries. The double payment of pension costs should also be avoided.
4. The legal environment should be strengthened to protect economic rights in a consistent, efficient, and effective manner.

Regulatory environment:

5. The product approval process should be improved to reduce the time and energy needed for companies to bring new products to market by increasing the harmonisation of international standards and improving the scientific basis of all regulatory requirements. The planned MRA between the EU and Japan should be implemented as soon as possible.
6. The principles of transparency, neutrality, accountability, consistency, predictability, efficiency and independence should guide the regulatory process.
7. Business rules and regulations should be further harmonised and unified both within the single EU market and between the EU and Japan based on the principle of equal treatment between domestic and foreign firms.
8. The scope of deregulation and re-regulation should be increased to promote a truly competitive market environment.

Trade and investment environment:

9. All remaining tariffs, quotas, and investment restrictions between Europe and Japan should be removed.