

## **Recommendations of the EU-Japan Business Dialogue Round Table to the Leaders of the EU and Japan**

Tokyo - 7, 8 and 9 July 2002

### **“A new Stage of EU-Japan Business: Promoting Foreign Trade and Investment while Reforming and Restructuring Domestic Markets”**

The EU-Japan Business Dialogue Round Table is currently holding its annual meeting in Tokyo from 7-9 July in the presence of Minister Hiranuma, Senior Vice-Minister Uetake, and Commissioners Liikanen and Lamy.

#### **Contribution to the Action Plan**

The Members of the Round Table and the representatives of companies invited as ‘Observers’ noted the wish, expressed by both the European and Japanese Authorities, to intensify and increase their bilateral relations. The Action Plan for EU-Japan Cooperation adopted in December 2001 is the concrete demonstration of this.

The Plan comes at a crucial juncture, when Japan and the EU face new problems and challenges, and they are undergoing significant structural changes. The Members of the Round Table are conscious that the degree of success in their objectives of the Action Plan will directly influence the scale of the development of economic relations between the two regions.

This Action Plan will deepen and broaden bilateral co-operation in several sectors, notably in economic and technological areas. The position of Japan and the EU as major players in the global economy, and measures they take to help less-developed countries and to promote sustainable development, will serve to strengthen their mutual links and will have a positive result at world level.

The EU-Japan Business Dialogue Round Table welcomes the launch of a new Round of WTO negotiations which should bring about further trade liberalisation and strengthening of WTO rules, and which is underpinned by commitments to strengthen substantially measures to increase capacity in developing countries. It confirmed the necessity of further cooperation between the EU and Japan in all aspects of the Doha Development Agreement.

The negotiations, which are entirely consistent with the multilateral objectives of the Action Plan, will also contribute towards sustainable development and environmental protection. In order to ensure the effectiveness of actions against global warming, it is indispensable to establish a global approach in which all countries participate.

Exchanges of experience and joint studies can but be of use to the two sides. The economic, trade and technological aspects of the Action Plan concern the private sector directly, since their success depends directly on the evolution of economic relations.

The EU-Japan Business Dialogue Round Table has designed its work programme to take account of progress already achieved by the implementation of its Recommendations to the Authorities in 2000 and 2001. It notes with satisfaction the progress made in most sectors to realise its Recommendations, but believes that one should not underestimate the risk that delays in certain sectors pose to the achievement of key objectives.

The Round Table therefore urges the respective Authorities to speed up the process, especially in regulatory reforms and increased transparency.

The Members are fully aware of the crucial role they can and must play in order to give real substance to the objectives of the Action Plan. From this viewpoint, the Round Table proposes to proceed to the assessment of the relevance of what it achieved in the past, and to identify relevant points for the successful implementation of the Action Plan agreed by the EU and Japanese Authorities.

### **Strengthening the EU-Japan Business Relationship**

There is a need to improve market accessibility and open further the markets to foreign competition, in particular foreign investment through deregulation, and to ensure smooth cross-border corporate activities between Japan and the EU. Specifically, special attention should be given to increasing transparency and to promoting foreign investment on an equitable and non-discriminatory basis.

The EU-Japan business relationship, however, has yet to reach its full potential. Our challenge is now to strengthen our relations and bring them to a new stage.

In this context, the EU-Japan Centre for Industrial Cooperation is expected to continue to support the EJDRT and, more importantly, to adapt its activities to address the new challenges.

Our Recommendations in the last two years have been centered on the trade and investment between EU and Japan, involving market accessibility issues. Quite recently there has been visible progress in the number of locally established companies on both sides, as well as the degree of their market presence. As the business development of these companies is the key to the growth of EU-Japan business, the regulatory reforms of domestic markets and the improvement of the domestic systems including corporate laws and taxation will be of increasing importance.

The Round Table stresses the necessity that from now on the EU and Japanese Authorities comprehensively implement both domestic and foreign measures. The aim being for a growth cycle where reforms in domestic markets promote further trade and foreign investment.

In the field of Information and Communications Technologies, the EU and Japan have unquestionably world class industries. The Round Table strongly encourages the Authorities to build upon this invaluable strength both for the benefit of future economic growth and to ensure long-term strategic technology leadership at world-wide level. In this context, the Round Table stresses the urgency to set up a policy environment favourable to the provision of innovative media-rich services on various telecommunications broadband networks and the need for a technology environment based on openness and interoperability.

This will represent the start of a new stage.

Reflecting these new developments, the Key Points of the Joint Recommendations of the Round Table currently being held are presented in the following Appendix.

## APPENDIX

### Key Points in the Joint Recommendations

Listed below are the key points of the Joint Recommendations of the EU-Japan Business Dialogue Round Table currently being held, which will be further completed reflecting the outcome of the discussions at the meeting. We submit these Recommendations to the attention of the Leaders of the EU and Japan for intensive actions towards providing precise and concrete answers before our next Annual Meeting in 2003.

The Joint Recommendations include cross-cutting issues that are of interest to all industries, irrespective of their sector of activity, as well as sectoral issues identified as the most urgent ones to boost economic activities between the two regions.

#### 1. Improving the business environment between the EU and Japan

##### Facilitating the free flow of goods and services:

Maximise and accelerate the elimination of explicit barriers to trade and investment such as tariffs, quotas and other quantitative restrictions. Abolish discriminatory regulations governing foreign investment.

Further promote the alignment of national standards and conformity assessment procedures with international standards and guides in order to eliminate the unnecessary duplication of product testing and approval. Foster the implementation of the Mutual Recognition Agreement.

Infrastructures should enable companies to be competitive and to conduct business activities efficiently. Our target is to create conditions enabling further optimisation of the distribution of manageable resources such as goods, money, labour, and information.

##### Facilitating the efficient allocation of human resources:

Re-evaluate visa and work-permit delivery procedure so that firms are better able to allocate human resources between their European and Japanese operations.

Eliminate double payments of tax and social security costs.

Facilitating increased flows of mutual direct investments:

Strengthen the tax and legal systems to facilitate cross-border corporate restructuring and tax-neutral M&A activity.

Intensifying the cooperation between regulatory bodies in order to accelerate the deregulation and re-regulation processes, in particular to foster the implementation of voluntary standards.

Enhancing the importance of broad band and multimedia for the general growth of the economies:

The convergence between telecommunications, media services and information technology is reshaping the entire global communications market.

The Round Table urges European and Japanese policy makers to ensure a regulatory and competitive environment which has the following objectives:

- to increase dramatically the level of service available to enterprises and residences: higher speed, more content, greater interactivity.
- to make the whole environment truly open and competitive at the level of the transport network, receiver equipment and conditional access.
- to ensure that the regulatory framework for traditional media is not extended to new services.
- to speed up implementation of the new internet protocol IPv6.
- to protect Intellectual Property Rights through technological measures and DRM.
- to promote the proliferation of the Smart Card System.
- to develop New Multimedia Services.

Furthermore, there is a need to launch promptly public initiatives to stimulate these new multimedia services and foster consumer demand, and to provide support for the establishment of a business environment, where there is no / not at present commercially sustainable business cases to deploy broad band infrastructure and content services.

European and Japanese industry and Governments must encourage the development of an open and interoperable technology environment. Initiatives such as the Open Mobile Alliance (which aims at promoting open, global standards, protocols and interfaces) paves the way towards seamless application interoperability and allows industry to compete through innovation and differentiation.

## **2. Improving the business environment in Japan**

### Regulatory reform:

Regulatory transparency should be strengthened to make it easier for companies to predict the consequences of business decisions, plan for regulatory developments and efficiently allocate resources to comply with regulatory requirements. In particular, written replies from Administrations should become the rule.

The product approval process should be improved to facilitate the introduction of innovative new products at competitive prices.

Within the changes currently under process in the Pharmaceutical Affairs Law, a notification system based on risk classifications should be introduced for In Vitro diagnosis.

Further and faster deregulation and re-regulation are needed to promote a truly competitive market environment. In particular, judicial reform based on the Final Report of the Judicial Reform Council should be implemented to remove barriers such as the prohibitions of the freedom of association between foreign and Japanese lawyers, and requirements for written advice for foreign lawyers when advising on third-country law.

### Legal and tax reform:

The legal and tax systems should be modernised to promote corporate activity and facilitate further investment in an era of increasing globalisation.

So far as tax reform is concerned, we note that consolidated taxation has recently been introduced but point out that, in our view, companies are unlikely to benefit from the initiative because of the imposition of a 2% surcharge. We recommend that this penalty is removed before the review period ends two years hence.

### **3. Improving the business environment in the EU**

#### Facilitating EU-wide business development:

Rules and regulations governing economic activity within the EU should be further harmonised to reduce the burden companies face doing business in the Single European Market.

The smooth implementation and further improvement of the European Company Statute are required to enable EU-wide unification of management and business restructuring.

The legal framework governing corporate structures in EU Member States should be extended to allow for an EU-wide company structure (Societas Europaea) for both stock and limited liability corporations.

An EU-wide consolidated tax system should be introduced to reflect the expansion of EU-wide business activities and the introduction of an EU-wide company structure.

In the context of the current tax policy discussions in the EU, careful consideration should be given to avoiding any measure which could hamper foreign investment.

#### ICT Environment:

Early and harmonised implementation of the EU's New Telecommunication Directive at the EU Member States' level should be sought.

Many of the provisions currently applying to television broadcasting programmes in Europe, such as production quotas and advertising constraints, cannot be applied to new content services.

### **4. Establishment of International Rules**

Since the last meeting of the EU-Japan Business Dialogue Round Table, the EU has decided that listed companies may use the International Accounting Standards (IAS) from 2005. The Government of Japan is undertaking a thorough review of the application of IAS. We warmly welcome both these developments.

We believe that it is necessary to continue the careful examination of the IAS in order to make it a truly useful international standard. For this to be achieved, IAS must reflect the actual needs of investors and corporate managers world-wide.

It is welcome news that the Government of Australia accepts the Financial Reporting Council's decision to adopt the IAS on 1 January 2005, the same date as implementation of IAS by the European Union. Following the recent problems in the USA, the reforms in accounting standards now in urgent review can be expected to conform to the IAS and to be implemented soon. We hope that the Government of Japan will reflect on these developments as it reviews the application of the IAS in Japan.

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