

Recommendations to the Leaders of the EU and Japan

EU-Japan Business Dialogue Round Table 9-10 July 2001, Brussels

The Members of the EU-Japan Business Round Table, having held their annual session in Brussels on 9 and 10 July and considering the importance of future EU-Japan relations, hereby submit the following joint recommendations to the leaders of the EU and Japan.

"Partnership for New Growth" Creating an Open Environment for EU-Japan Trade and Investment

The development of the global economy and the economies of the EU and Japan, has, in recent years, been brought about by an economic structural transformation to a knowledge-based economy, where innovations including information and communication technologies (ICT) are the driving forces behind new growth. In addition, the power source of global economic development is the cooperative tripolar relationship among Japan, the EU and the United States.

In this context, the economic relationship between the EU and Japan has yet to sufficiently realise its true potential. The BDRT pointed to the key role that structural reforms can still play to enhance market efficiency and secure long-term sustainable growth. Such reforms should loom steadily on public agendas. As of today, and reflecting the first steps in economic structural reforms, deregulation, corporate management reforms and business reorganisation that have taken place in both Japan and the EU in recent years, it can be seen that bilateral direct investment between the EU and Japan is increasing, although still a far cry from levels to be expected from partners of such magnitude and potential complementarity. This increased direct investment is further promoting structural and corporate reforms in both the EU and Japan. It remains of course the remit of our corporations to activate and implement the necessary restructuring of the corporate sector, including governance, best practice dissemination, management improvements to promote more efficient resource allocation and more flexible adaptation to technological and engineering changes. Nevertheless, the Round Table considers that a positive economic environment and structural reforms in both the EU and Japan would be instrumental in promoting trade and investment, thus providing a good opportunity to achieve a plus sum in a sustainable economic growth cycle in both regions. To this effect, it notes the importance of continued pro-active competition policies and strict enforcement rules across all sectors of the economy by authorities in the EU and Japan, which constitute an encouragement to achieve self-sustaining economic growth with positive effects on the world economy.

Points of the Round Table and its Recommendations

The Round Table submitted policy recommendations to the EU-Japan Summit, held in July 2000, which defined the priority issues of how to promote further trade and investment exchange and laid out policy proposals indicating directions towards the solution of these issues. There were also subsequent follow-up efforts to refine the content of the recommendations and in March 2001 an intermediate meeting was convened, at which evaluation was made of the Progress Reports published by the authorities of both sides, which incorporated the current state of the advancement of recommendations submitted in 2000. Members expressed their appreciation for the importance given by the authorities to these recommendations and called for an acceleration in the implementation of proposed measures.

In the 2001 recommendations, the Round Table first underlined that advances had been made in the actualisation and fulfilment of the contents of the recommendations, including the Mutual Recognition Agreement (MRA). It reiterated its continuous support for both the EU and Japan's ongoing efforts toward structural reform in the future.

The recommendations from the Round Table towards a "Partnership for New Growth" call for the creation of an open environment to promote EU-Japan trade and investment, taking into account the progress made to date. In addition, the Round Table issued a Policy Statement in which it strongly called for the launching of a new round of World Trade Organization (WTO) negotiations in the coming autumn.

Content of the Round Table Recommendations (Outline)

In order to realise in the near term an open and competitive market environment, the Round Table called for the Government of Japan and the EU to take the necessary measures as soon as possible. In particular, investment in recent years has been characterised by more and more cross-border mergers and acquisitions as corporations attempt to reorganize their global activities, and this has had an effect on the recipient countries of investment, promoting competition, and encouraging the spread of new management techniques, as well as new technologies, which are all expected to have a positive effect on the business environment.

In addition, as part of developments in the knowledge-based economic society initiated by a blossoming of innovation in recent years, both the EU and Japan share common challenges in their drive to create new businesses and markets in order to facilitate new economic growth. To this end, it will be important to create an environment that promotes innovation, focusing on important strategic sectors such as ICT, biotechnologies and the environment. In order to solve issues concerning the global environment, it is necessary for all countries around the globe to cooperate. Regarding the Kyoto Protocol, the participation of the US government is vital. To achieve this participation, the Round Table urges the authorities of Japan and the EU to cooperate. Indeed, for Japan and the EU to pursue such policies into the future, dialogue and exchange of information are of particular importance. Such activities require an appropriate mutual posture to be fostered that will provide the foundation from which EU-Japan cooperation can flourish.

To this end, the Round Table would like to request the EU and Japanese authorities to establish systems and rules that would function in synergy with corporate activities in the new era in Japan, the EU and the global market, and to create an environment that would promote the further development of knowledge-based economies.

Specifically, we submit the following three-level approach.

1 Improvement of Business Environments in the EU and Japan - To Promote Mutual Direct Investment and Trade

1-1 Improvement of Business Environments between the EU and Japan

1-1-1 Removal of barriers in mobilising management resources between the EU and Japan

Action Plan/Agenda and early implementation of the MRA (Mutual Recognition Agreement) and the expansion of its sectors (ex. medical devices).

Reduction of all remaining explicit barriers to trade and investment such as quotas and other restrictions and further reduction of tariffs.

Promoting the efficient global allocation of human resources.

Removing double payments of social security cost.

1-1-2 Harmonisation of regulatory environment between the EU and Japan

Increasing transparency and efficiency.

Promoting deregulation and establishing the principle of non-discriminatory treatment for foreign and local corporations.

1-2 **Improvement of Business Environment in the EU**

1-2-1 **Council Regulations on the statute for a European Company and other corporate laws**

Early implementation of Council Regulations on the statute for a European Company and participation of private limited-liability companies in the establishment SE through merger.

Review of the procedure of the investigations into associations of undertakings based on a Council Regulation on the control of concentrations between undertakings.

1-2-2 **Taxation**

Early realisation of a Council Directive concerning arrangement for taking into account by enterprises of the losses of their permanent establishments and subsidiaries situated in other Member States.

1-3 **Improvement of Business Environment in Japan**

1-3-1 **Improvement of corporate law system and regulatory environment**

Strengthening regulation on corporate governance by amending the commercial code in a non-discriminatory manner.

Increasing efficiency in the product approval process.

Increasing competition in the market (Telecommunication etc.).

1-3-2 **Taxation**

Action Plan for the early introduction of a consolidated tax system.

Securing the tax system to allow tax-neutral M&A and corporate restructuring on a global basis.

2 **Establishment of International Rules Promoting Global Business Activities**

2-1 **International Accounting Standards (IAS)**

The advantages of a single set of international accounting standards, which will result from the work of the International Accounting Standards Board, will be evident in its universal application.

The work of the recently established International Accounting Standards Board commands wide support in the EU, in Japan and internationally.

It will be mandatory for listed companies in the EU to comply with IAS in their reporting by 2005. As a consequence, it will be particularly important that the EU and Japan work together to ensure that International Accounting Standards are applied at the earliest possible date.

2-2 **Transfer Price Taxation**

Introducing standard rules based on the fundamentals of the common practices and a principle of international transaction, particularly worldwide introduction of an effective Advanced Pricing Agreement (APA) system.

2-3 **Taxation for e-Commerce**

Promoting worldwide fair taxation system reflecting the discussion at the OECD.

**3 Creating Environment for the Development of Knowledge-based Economy
- Promoting New Growth**

3-1 **Development of ICT Industry/e-Commerce: an essential component for growth**

3-1-1 Broadband Internet (fixed and mobile) will constitute one of the main engines to restart growth in the technology sector. The EU and Japan have already recorded a remarkable success by adopting a common standard, IMT-2000, for mobile Internet. IMT-2000 is becoming a worldwide success for 3G.

It is now recommended to extend this success to other fields of Broadband and Internet, such as xDSL, optics and Next Generation Networks (NGN), which will constitute the basic architecture of the network of the future carrying voice, data and video.

3-1-2 Acceleration of e-Europe/e-Japan initiatives with focus on:

- the rapid implementation of the new regulatory framework promoting fair competition.
- increased cooperation on network and information security including (1) accelerated deployment of authentication techniques including electronic signatures based on interoperable "key trust" infrastructures and mutually recognised Certificate Policies, and (2) close cooperation on standardisation of information security and digital rights management system to ensure robust IPR copyright protection.

3-1-3 Encouraging governments towards ICT based development model for developing countries to minimise Digital Divide

3-1-4 Cooperation for International Standardisation

- New Internet protocol and Broadband Access technologies.

- To address the WTO/TBT Committee in order to ask the observers in this Committee how they comply with the principles adopted during the second triennial review of the TBT Code in October 2000.

- To transmit to the EU-J BDRT the results of the EU-ASEM study of the state of implementation of various international standards, so that the EU-J BDRT can see whether there is any need for further action in this regard.

3-2 **Strengthening policy dialogue toward promoting innovation**

3-2-1 Establishing bases for innovation (EU-Japan cooperation between industry and academy, exchanges between EU-Japan research institutes).

3-2-2 Promoting technological innovation and industrialisation of biotechnology, ICT, environment (Smart Card, etc.).

3-2-3 Reforming employment system (regulation, career development, mobility).