

**Recommendations of the
EU-Japan Business Dialogue Round Table
to the Leaders of the EU and Japan
Tokyo
June 20-21, 2004**

*“Giving a New Impetus to EU-Japan Relations
and
Addressing New Sectors”*

**Part I
Summary of Recommendations**

The EU-Japan Business Dialogue Round Table (BDRT) held its annual meeting in Tokyo on 20 and 21 June 2004 in the presence of Mr. Nakagawa, Minister for Economy, Trade and Industry, Mr. Tabata, Senior Vice-Minister for Public Management, Home Affairs, Posts & Telecommunications, Mr. Aisawa, Senior Vice-Minister for Foreign Affairs, Commissioner Lamy, and Commissioner Liikanen, under the co-chairmanship of Mr. Viscount Etienne Davignon and Mr. Yotaro Kobayashi.

The BDRT is pleased that good relations in trade and investment have been maintained between the EU and Japan. Particularly, the EU and Japan are important partners of FDI, respectively, and further strengthening mutual investment is the key to economic development for the EU and Japan, as stressed by both leaders at the last Summit meeting.

The BDRT welcomes the 1 May 2004 EU enlargement which is an event of great significance for Europe and also may bring important trade and investment opportunities for the EU and Japan.

However, the EU-Japan economic relationship has not reached its full potential, particularly in the field of foreign investment. In 2004, a lot of the new items are being added to last year's Recommendations. The BDRT requests that more fruitful efforts be made by both the EU and Japanese Authorities to implement the Recommendations, although some positive response has been noticed in the past.

The BDRT had a general discussion on the world economic situation and spent a significant time on the recent developments in China and East Asia.

The BDRT participants underlined the rapid expansion of the Chinese economy which makes it not only an important market but also a determining factor of the global economy, notwithstanding the issues this country still has to overcome.

The EU and Japan's bilateral cooperation with China could result in the sustainable development of that country. Nevertheless, among others, the most important in the near future in the relation with China would be the way in which China complies with WTO commitments.

Regarding East Asia, the BDRT noticed that the sense for the importance of community building has emerged for the first time in history through the academics, politicians and citizens.

In this sense, 50 years' history of the European Union represents experience and lessons from which a lot could be learned with a view to building an Asian community.

The BDRT hopes that the Authorities will take account of those new developments.

1. Highlights

(1) Trade and Investment – Call for a Joint Statement on FDI

The BDRT proposed in its Recommendations for 2003 that the Authorities of the EU and Japan negotiate an FDI Enhancement Agreement establishing a framework for mutual efforts to promote and facilitate an increase in foreign direct investment, focusing on the following four areas of issues:

- a) Eliminating tax-related barriers to investment such as withholding taxes on dividend payments between parent and subsidiaries and on interest and royalty payments among affiliated companies;
- b) Facilitating business development through the smooth movement of human resources;
- c) Facilitating tax-neutral cross-border corporate reorganisations; and
- d) Promoting regulatory reform.

Although many promotional activities have taken place since the last BDRT meeting, tangible progress is still pending in terms of the substantial items mentioned above. Therefore, the BDRT repeats most of the Recommendations made in 2003 with respect to the enhancement of mutual direct investment between the EU and Japan.

The BDRT understands the numerous political and practical difficulties involved in developing a formal agreement on FDI and ask this year that, as a first step, the heads of both Authorities commit themselves to the principles and general direction of a framework for a policy to promote mutual direct investment. Such a joint declaration should explicitly refer to the priorities in policy-making that were raised by the BDRT last year.

The BDRT takes note of the real progress made during the past year. However, it considers that it is important to accelerate the implementation of all the Recommendations in order to eliminate the numerous outstanding structural barriers to an increase in mutual direct investment between the EU and Japan.

(2) Accounting and Taxation

The BDRT stresses the importance of the adoption of common international accounting standards - as early as possible- for the development of international comparability and transparency. These standards will be implemented in the EU in 2005, with a few exceptions.

The BDRT notes that the Japanese Government and the EU are presently negotiating on this matter, taking into account the question of timing and quality of standards.

From the industry's point of view, the BDRT asks that the European Commission and the Government of Japan strive to remove obstacles in capital market rules as quickly as possible for promotion of mutual investment between the EU and Japan.

The BDRT asks the European and Japanese Authorities to take all necessary steps to achieve convergence of international standards of accounting, auditing, and disclosure.

The governments of the USA and Japan reached an agreement in November 2003 to revise the Tax Treaty between their two countries. The main feature of the revision is the reduction or elimination of certain withholding taxes. We welcome this decision and hope that it can be replicated in relations between the GOJ and the EU in order to realise fully the benefits of the single market.

(3) ICT – Information and Communication Technology

The BDRT is pleased to find that the development of broadband infrastructure environment has been addressed by both the EU and Japanese Authorities. In 2004, the new Recommendations focus on the utilisation of broadband applications for all society as well as new, but long-existing issues such as cyber security, protection of intellectual property rights and the development of Voice-over IP (VOIP) services.

In Europe, the rate of broadband penetration in fixed networks has progressed but has not allowed to catch up with Japan yet. Both Authorities should accelerate their activities to achieve goals on broadband penetration, and should revise their goals ceaselessly for broadband subscription to a higher level.

The BDRT considers that both the EU and Japanese Authorities should promote further development of the ICT environment aiming at effective and increased utilisation of the broadband networks and applications. Especially, in areas such as employment and labour, medical services, education and public services, the Authorities' role is critical to enhance broadband utilisation. Europe and Japan are confronted with a problem of an ageing population, which will require an increase in productivity in the years to come. These productivity gains will not be possible without massive use of ICT centred around broadband networks and applications.

Both Authorities should cooperate towards the establishment of a secure and reliable network environment. To confront cyber terrorism and other new challenges due to the expansion of networks, cooperation on a global basis is indispensable. Both Authorities should cooperate to address immediately not only technological issues but also institutional issues, while respecting the law related to the freedom of communications.

Regarding VOIP, given the non-geographic nature of any IP-based services, it raises a number of policy and regulatory questions that could be usefully addressed by both the EU and Japanese Authorities in a coordinated fashion.

(4) WTO

The BDRT submitted a policy statement in December 2003 calling for an early resumption of the WTO Doha Round, following a similar recommendation at the last BDRT meeting in May 2003.

The BDRT welcomes the renewed political will of WTO Members to take advantage of the window of opportunity that has opened in the last months to reach a basic agreement on the framework modalities for further negotiations by July 2004. This coming WTO General Council in Geneva in July is possibly the last chance to launch the new negotiation under the original timeframe.

This negotiation needs to build on the lessons learned in Cancún and on the work performed and the progress made since then.

The EU and Japan should demonstrate their strong political will to achieve successful and meaningful negotiations by showing the need for flexibility in the core areas of negotiation. The BDRT hopes that all other WTO members will also equally adopt a positive and open attitude to ensure the success of the negotiation.

(5) New working fields

The BDRT is pleased to report that two new Working Parties, “Life Sciences and Biotechnology” and “Sustainable Development”, commenced and presented their Recommendations, which should greatly contribute to the expansion of business relations between the EU and Japan.

A. Life Sciences and Biotechnology

Biotechnology is a key technology, which can contribute considerably to the healthcare, industrial, environmental and agriculture sectors. Prior to the BDRT meeting a workshop was held in December 2003 in Tokyo with the active participation of both the EU and Japanese authorities.

The BDRT recommends implementation with urgency of the Action Plans of the Strategic Guidelines issued by the EU in 2002 and also by Japan in 2002 through strong initiatives by both Authorities. Continuous follow-up and amendments of these Action Plans are essential to catch up with the progress of LS&BT and to meet the changes of society.

The BDRT recommends a continuous dialogue at regular intervals among four parties representing each government and industry of the EU and Japan to discuss issues and implement the resulting Action Plans.

The sectorial recommendations covering LS&BT for Health, Industrial/ Environment Uses and Plants are areas where urgent solutions are desired. Particularly, promoting public acceptance towards biotechnology, including the GM-technology in the EU and Japan, is critical to enhance the related business. The BDRT encourages concerted actions to be taken by the four parties.

B. Sustainable Development

The BDRT considers that Sustainable Development and Corporate Social Responsibility aim at setting the right balance between economic, social and environmental goals in a true “win-win” relationship with every stakeholder. The BDRT (1) stresses the importance of voluntary actions from both industry and individuals above any additional regulations and (2) requests the Authorities to consult with the industries if any new regulation is considered.

Joint research projects in some sustainable development areas, including technology development of alternative energy, should be supported by the Authorities. Implementation of the current Kyoto Protocol and Post-Kyoto protocol should receive special attention to secure the competitiveness of the industry, especially if countries like the USA and Russia do not ratify the Protocol.

Finally, education to sustainable development and aid for developing countries require more attention from the Authorities.

(6) EU Enlargement

The BDRT welcomes the enlargement of the European Union, which will provide new substantial mutual trade, investment and economic opportunities for the EU that will also benefit its trading partners, including Japan.

In order to realise these opportunities, transparency during the transition period relating to regulations that affect business activities should be maintained.

Also, industrialists from new EU Member States should be invited to all events that the BDRT will organise in areas such as ICT, Life Sciences & Biotechnology, and Sustainable Development, where new business alliances are expected.

In order to avoid situations where the enlargement may hamper non-EU traders and investors including those of Japan, the EU Authorities should monitor the process in accordance with WTO rules, and in close cooperation with non-EU members.

2. Assessment of progress made on the BDRT's 2003 Recommendations

The BDRT thinks it is important to assess past Recommendations made by the BDRT in order to remind all parties involved of the current situation after receiving the Progress Reports from both the EU and Japanese Authorities.

The implementation of the Recommendations by the Authorities has progressed steadily but not at a sufficient speed. The BDRT considers that a greater and more intensive effort should be made by both Authorities to address these issues.

Hereafter some of the major implementations:

Trade and Investment

- Adoption of the directive aimed at exempting withholding taxation on payments of interests and royalties between affiliated companies (1-E-1)
- Political agreement to extend the totalisation of basic pensions to non-EU nationals when moving across the EU Member States (1-E-2)
- Reasonable settlement of tariff classification (1-E-4)
- Promotion of economic growth (1-J-1)
- Championing business activities at local government level (1-J-2)
- Legislation allowing foreign lawyers to form partnerships with Japanese lawyers and to employ Japanese lawyers as associates (1-J-4)

Accounting and Tax Issues

- Adoption of consolidated tax system with 2% surtax eliminated (2-J-2)

Information and Communication Technology

- Development of new business models through linkage between telecommunications and broadcasting (3-EJ-1)
- Establishment of a competitive environment to stimulate investment in broadband (3-EJ-4)

3. EU-Japan Centre for Industrial Cooperation

In this context, the EU-Japan Centre is expected to continue to support the EU-Japan Business Dialogue Round Table and to keep adapting its activities to address the new challenges.