

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

Brussels, 7-8 July 2005

*“A Continued Innovative Approach  
to Address New Common Challenges”*

**Part I  
Summary of Recommendations**

**I. A. Introduction**

The EU-Japan Business Dialogue Round Table (BDRT) held its annual meeting in Brussels on 7 and 8 July 2005 under the co-chairmanship of Viscount Davignon and Mr. Kobayashi, and in the presence of Mr. Verheugen, Vice-President of the European Commission and Commissioner for Enterprise & Industry, Mrs. Reding, Commissioner for Information Society & Media, and Mr. Lamoureux, Director-General of Energy & Transport DG; and from the Japanese Government: Mr. Onodera, Parliamentary Secretary for Foreign Affairs (MOFA), Mr. Yamamoto, Parliamentary Secretary for Economy, Trade and Industry (METI) and Mr. Matsui, Vice-Minister for Policy Coordination, International Affairs (MIC).

The participants were informed of the decisions of the last EU-Japan Summit held in Luxembourg on 2 May 2005. They appreciated the call for “a continued innovative approach to the Action Plan to address new common challenges”. Among others, issues on international accounting standards, regulatory reforms, REACH regulations, intellectual property rights, etc. are subjects on which the BDRT has been focusing. It was with those elements in mind that they drew up their new Recommendations to the Authorities.

The BDRT is pleased with the deepening relationship between the enlarged European Union and Japan and welcomes the positive business environment created to foster growth in two-way direct investment. Having noted some positive response to last year’s Recommendations, the BDRT requests that further efforts be made by both the EU and Japanese Authorities to implement pending or new Recommendations.

At this year’s annual meeting the work undertaken by the working parties was reviewed by the BDRT Members, and the general discussions focused on six major areas:

- *Competitiveness*: Europe and Japan share a lot of common concerns. They need in particular to tackle the issue of a growing ageing population and to answer two fundamental questions: how to sustain economic efficiency with a high level of environmental and social protection, and how to deal with the trends of delocalisation and the rise of new competitors. The BDRT participants called for close cooperation between the EU and Japanese Authorities on competitiveness issues and underlined the need to deliver on economic reform in order to speed up growth.

- *WTO*: The BDRT made a plea in favour of a successful completion of the Doha Development Agenda negotiations and urged the EU and Japan to reinforce their common views in the run-up to the Hong Kong WTO Ministerial Conference in December 2005.
- *Investment*: Even if the investment environment is improving, overseas capital still faces barriers. A continuous pressure from Industry is needed to make Europe and Japan more attractive places to invest, for the benefit of growth and employment. It is expected that the Government of Japan, the European Commission and the Governments of the Member States will pay particular attention to this issue. In that context, the BDRT noted the progress made since last year in implementing the recently set-up Investment Framework, as stressed by both Leaders at the last Summit meeting. However, further action is still needed to remove remaining barriers to trade and investment, particularly those identified by the BDRT “Trade & Investment” Working Party.
- *Importance of a harmonised market*: The EU as a single market, under which unified rules are valid throughout the Union, will benefit both European and third-country companies equally. However, there are quite a few fields in which rules remain independent and vary from Member State to Member State due to the nature of the Union. The BDRT Members take this opportunity to request that the EU Authorities pay prioritised attention to finding solutions for these shortcomings.
- *Energy issues*: Recognising the close relationship between energy and economic growth as well as the present volatility of the international energy markets, the BDRT underlined the need to forcefully address current energy challenges, including those related to security of supply, sustainability and competitiveness. The BDRT especially noted that a more rational use of energy should be pursued, as well as the need to develop close international cooperation, in particular between the EU and Japan, on energy efficiency and the role of each energy source.

In the present energy situation, BDRT Members consider that the International Energy Agency should play an active and important role. In this regard, the IEA should select as a priority the promotion of energy efficiency and the increase of cooperation between its members on these topics.

BDRT Members suggest cooperation between the EU and Japan in order to promote the use of clean technology, particularly in the coal sector. This cooperation could be implemented through a partnership between public and private sectors. The use of this technology should be utilised in the first instance in China and in India.

The BDRT considers that great effort should be made in the development of renewable energies, including in the need for the required incentives.

- *China*: BDRT Members noted with satisfaction the progress made by China’s economy. Indeed, such an evolution, provided it occurs at a steady pace, is a source of new business opportunities.

BDRT Members were, however, concerned by some of the various impacts of Chinese foreign trade on the world economy. Recent price hikes for primary goods, such as energy, and a sudden increase in Chinese exports have had negative consequences for some sectors or countries, in particular for Least Developed Countries.

A harmonious development implies for China a respect for all the obligations to which it committed itself, particularly those relating to IPR, when joining the WTO.

BDRT Members consider that every effort must be made to increase the efficiency of energy and other natural resources, including through cooperation between the EU, Japan and China.

The BDRT underlined that the EU-Japan economic relationship still has to reach its full potential and praised the continuous efforts made by both business communities to support the respective Authorities in strengthening the economic and trade partnership.

## **I. B. Highlights of main Recommendations**

### **Trade & Investment**

The BDRT Members welcomed the adoption of a "Cooperation Framework for Japan-EU Two-way Investment Promotion" by the heads of the EU and Japanese Authorities in June last year. They would like to emphasise, however, that the framework is only a first step and that it needs to be substantiated by concrete measures with substantial impacts on the two-way investment between Japan and the EU.

Optimising returns of investment is crucial in stimulating investment and trade flows between the two regions. BDRT Members would, therefore, encourage both Authorities to address continuously the important issues of avoiding double taxation, reducing compliance costs associated with transfer pricing and participation exemption. The new U.S.-Japan tax treaty could serve as an example for encompassing tax treaties to be negotiated also between the governments of the EU and the government of Japan. In order to give the efforts to reduce compliance costs associated with transfer pricing a fresh start, the Working Party recommends Japan and EU Member States to establish a joint forum, similar to the JTPF (EU Joint Transfer Pricing Forum) established between EU Member States. To expedite the negotiations on Social Security agreements, BDRT Members furthermore recommend the Authorities to consider utilising external resources.

BDRT Members are encouraged by the continuous close dialogue between the EU and Japan on regulatory reforms. Much more effort, however, is still needed if unreasonable authorisation procedures hindering the trade of products and services are to be fully abolished. In order to avoid the creation of a new barrier to trade when introducing new standards, a mechanism should be put in place to ensure standard convergence.

Forms of legal presence and merger measures allowed are of critical importance for the development of foreign business in Japan and the EU alike. BDRT Members therefore maintain that companies investing in Japan and the EU should be protected from sudden changes in rules governing the forms of legal presence. Improvements of Company Laws under way in the EU and Japan should, furthermore, be carried out in full to facilitate smooth cross-border reorganisations between the EU and Japan that involve the exchange of shares and transfer of assets.

The BDRT takes note of real progress made during the past year but maintains that it is important to accelerate the implementation of all Recommendations in order to eliminate the outstanding structural barriers to investment and trade between the EU and Japan.

### **Accounting & Tax Issues**

BDRT Members understand that the Committee of European Securities Regulators ('CESR') has been asked to give technical advice on the equivalence of IAS/IFRS and third-country

GAAP, and the European Commission will take a final decision after considering both the CESR's advice and the actual impact on the economy. They ask the European Commission to take a decision after careful consideration that minimises the cost and inconvenience to users and providers of J-GAAP following receipt of the final technical advice.

BDRT Members ask the public Authorities to observe closely the process of rule-setting and revision by the IASB and to have regard for the interests of companies and investors (whether European or Japanese) in the opinions they transmit to the IASB, in particular in its Performance Reporting project.

BDRT Members welcome the news that the European Commission intends to present in 2006 a Communication on the Member States' bilateral tax treaties and ask that the European Commission use this opportunity to encourage the Member States to revise those treaty provisions concerned with the reduction of certain withholding taxes and to enter into common agreements with the Government of Japan in order to realise fully the benefits of the single market.

### **Information and Communication Technologies**

The year 2005 will be a turning point in light of ICT policies for both the EU and Japan. The BDRT expects both Authorities to steadily continue and intensify their efforts to ensure achievements of the goals specified in policies, and to carry out an objective review of the achievements. Furthermore, both Authorities should create visions and lay out plans ranging to 2010, to promote advanced ICT societies that realise the "quality of life" of every citizen.

In the Recommendations for 2005, the BDRT expects both the European Commission and the Japanese Government to take remaining steps in view of the establishment of infrastructures, security of infrastructures, and efficiency through ICT, while developing a cooperative relationship for the realisation of a "quality of life" with ICT.

Both Authorities should address promotion of broadband usage, establishment of a seamless ubiquitous network environment between fixed and mobile, R&D for ensuring secure ICT infrastructures, and appropriate regulations. Especially in the area of information security, they should have continuous talks in forums consisting of industry, government and academia, for example, to ensure secure ICT infrastructures.

Members of the BDRT highlighted the need to tackle the digital divide. They discussed the importance of both Authorities creating a favourable environment, which acts as an incentive for investment in the dissemination of new ICT technologies.

Moreover, it is expected that both Authorities will realise a "ubiquitous network society", in which every citizen can enjoy the benefits of ICT, by promoting the study and analysis of effects of the rapid spread of ICT on citizens and societies, appropriate policies on IPR, and experiments and proposals on new work-styles with advanced utilisation of ICT, and lead the creation of a new stage of ICT utilisation.

### **WTO**

BDRT Members expect the European Union and Japan to work closely, together with other WTO Members, to ensure the achievement of a substantive agreement at the sixth WTO Ministerial Conference to be held in Hong Kong in December 2005.

Economic progress in developing countries should be pursued further at the New Round negotiation. Developing countries are essential players for a stable and prosperous global

economy, and liberalisation of multilateral trade and investment is truly beneficial for social and economic progress in developing countries.

The ongoing New Round negotiation is immensely important for all stakeholders in the multilateral trading system, in terms of economic growth, stability and development. BDRT Members request the European Union and Japan to pursue solutions, through close bilateral dialogues, to advance the negotiation at every opportunity, and to exert their maximum efforts for a successful conclusion of the New Round.

### **Life Sciences and Biotechnology**

The second joint bio-seminar was held in April 2005 in Lyon, France, in association with BioVision 2005, one of the three biggest bio-conferences in the world. BDRT Members were pleased to have the participation of EU Commissioner Mr. Verheugen, Member of the House of Representatives Mr. Omi, and government officials from Research DG, MEXT, and METI, as well as industry representatives from the EU and Japan.

The action plans for the promotion of LS/BT were issued by the Authorities in 2002. The BDRT acknowledges that some improvements have been made; however, insufficient progress has been seen in certain issues. The LS/BT Working Party requests that more attention be paid to the implementation of those, in particular with regard to plant technology. This year, the LS/BT Working Party proposes the continued implementation of those programmes and also the strengthening of functions for pre- and post-evaluation of R&D projects. In 2006, new mid-term plans for Research and Development will start both in the EU and Japan: Framework Programme 7 and the 3<sup>rd</sup> S&T Basic Plan; the Working Party calls for prioritised engagements of the Authorities with regard to the LS/BT field in those plans.

Although the understanding of the public is essential for the smooth realisation of LS/BT benefits for society, a holistic approach for this has been insufficient both in the EU and Japan. The BDRT proposes that both Authorities establish a “National LS/BT Understanding Promotion Plan” for a nationwide strategic approach to the issue. This will also encourage the proper implementation of the existing frameworks for GMOs, which is the top priority for Industrial as well as Plant Biotechnology.

In the fields of LS/BT, it is important that all stakeholders such as governments, industries, consumers and the public work together for the goals of realising a healthy and affluent society. In order to create awareness of common issues we are facing, communications between governments and industries are valuable and have to be strengthened by maintaining opportunities for constructive discussions on topics such as evaluation and pricing systems for innovative medicines, concrete plans for promotion of BT public understanding, and smooth and efficient implementations of BT strategic action plans.

### **Sustainable Development**

While confirming 2004 Recommendations, the BDRT focused its 2005 Recommendations on Global Warming issues. The Kyoto Protocol became effective in February, and discussions of the post-Kyoto framework (beyond 2012) will start this year. The BDRT stresses major greenhouse gases emitting countries such as the USA, China and India should participate not only to reduce emissions on a global scale but also to secure the competitive position of EU and Japanese industries. They also emphasise the importance of promoting technological innovation including public and private joint funding. Effective use of the Kyoto Mechanisms, such as CDM and JI, is also recommended for reducing emissions on a global basis.

The BDRT recognises that there is potential to reduce CO<sub>2</sub> emissions by developing energy-saving products and services and by diffusing them on a global basis. It is important to work together with participation of the Authorities, industry and the public for prevention of global warming, especially to educate and cultivate the population to contribute to greenhouse gases reduction. The BDRT recommends that technological development of renewable energy as well as hydrogen energy be promoted from a mid- to long-term point of view.

### **I. C. Assessment of the Progress Reports issued by the Authorities**

The BDRT Members think it is important to review how the past Recommendations are implemented or followed up by the relevant Authorities. In this context, the BDRT is very grateful for the Progress Reports in which the EU and Japanese Authorities provide a detailed status to every recommended item several months after the submission of the BDRT Recommendations every year.

Last year the BDRT submitted 89 Recommendations, including sub-items, of which 35 items (39%) have been assessed by the BDRT Members as progress undertaken. Implementation of the Recommendations by the Authorities has shown much better results than last year, and yet, further improvement is desired since the majority of the Recommendations are still awaiting action. This year even more Recommendations have been made by the BDRT Members.

Among the Recommendations which were assessed as ‘Progress Undertaken’, some examples of the major items are as follows:

#### **Trade and Investment**

- 1-EJ-1: Joint declaration on direction to enhance foreign direct investment between the heads of the Authorities of the EU and Japan.
- 1-J-4: Creating a strong competition regime.
- 1-E-1-3: Proposal on cross-border mergers of companies with share capital.
- 1-E-4: Personal Data Protection.

#### **Accounting and Tax Issues**

- 2-EJ-2: Close observation on process rule-setting and revision by the IASB.
- 2-J-1: Promotion by GOJ for consistency of Japanese accounting standards with IAS.
- 2-E-1: European Commission’s consideration to encourage Member States to allow Japanese companies to use Japanese GAAP after 2007.

#### **Information and Communication Technologies**

- 3-EJ-1: Revision of target number of broadband subscription.
- 3-EJ-2: Promotion of broadband utilisation.
- 3-EJ-3: Establishment of secure network environment.
- 3-EJ-4: Establishment of PDCA cycle for evaluation of IT policy development.

#### **Life Sciences and Biotechnology**

- 5-EJ-1: Expedited implementation and review of 2002 Action Plans.
- 5-EJ-2: Dialogue between the Authorities and industry on Action Plans including harmonisation of regulations, public understanding, best practice sharing.
- 5-E-7: Re-commence the process for market approvals of GM-technology products.
- 5-J-5: Establishment of standards for bio-materials such as biodegradable polymers.

5-E-4: Utilisation of Biomass as a sustainable resource.

**Sustainable Development**

6-EJ-1: Voluntary Actions.

6-EJ-2: Sufficient prior consultations.

6-EJ-4: Promotion of Technological Development of Alternative Energy.

<b>I. D. EU-Japan Centre for Industrial Cooperation</b>
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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.