

JOINT STATEMENT
47th U.S.-Japan Business Conference
U.S.-Japan/Japan-U.S. Business Councils
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Business leaders from the United States and Japan meet each year at the U.S.-Japan Business Conference to identify common business interests, promote bilateral cooperation, foster mutual understanding, and enhance business relationships. This year, the U.S.-Japan Business Council and Japan-U.S. Business Council (“the Councils”) focused on opportunities in the Asia-Pacific region and on the importance of innovation to both economies. The Councils hereby agree and declare as follows.

1. U.S. Economy

The fundamentals show the U.S. economy still has not fully recovered its strength after the financial crisis of 2008. The employment situation remains severe, as reflected by the high unemployment rate. As the largest economy in the world, activation of U.S. demand is very important for world growth, but demand in other economies is also critical for growth that is balanced and sustainable, as called for by the G-20. While recovery measures taken by the U.S. Government have mitigated the situation, continued efforts to achieve more sustained growth are required, particularly the enactment of tax, regulatory and trade policies that boost private investment, production and trade.

2. Japanese Economy

The Japanese economy is not yet on a self-sustaining recovery path, and a difficult situation remains with the unemployment rate still at a high level. The growth of the economy largely depends on exports, thus raising the risks that an appreciating Yen will depress growth and add to deflationary pressures. The Councils welcome the New Growth Strategy announced by the Japanese Government. It is meaningful that the Government laid out measurable targets with concrete timeframes. While the private sector continues to endeavor for growth upon private initiative and activity, the Councils count on the Japanese Government to promptly put into place the strategies as planned. It should also be noted that the comprehensive tax, fiscal and social security system reform is essential to implement this strategy.

3. U.S.-Japan Economic Cooperation in the Asia-Pacific

The Councils recognize that as two of the largest economies in the dynamic Asia-Pacific, Japan and the U.S. can play leading roles in helping shape the future growth and economic architecture of the region. The successive chairmanship of APEC by Japan in 2010 and the U.S. in 2011 presents a tremendous opportunity to set a path that will accelerate and achieve substantial regional economic integration and promote more open trade and investment, regulatory and standards harmonization and technical cooperation in key industries such as life sciences, ICT, energy and environment, finance and transportation. Such a path would revitalize Japanese and U.S. businesses and boost economic growth in the APEC economies.

To those ends, the Councils welcome the commitments by both Governments to actively pursue the realization of a high-standard, WTO-compatible Free Trade Area of the Asia Pacific (FTAAP). In particular, the commitment by the Government of Japan in its June 2010 New Growth Strategy to create an FTAAP by 2020 was a positive development. The Councils urge Japan and the U.S. to lead the discussion on the scope of an FTAAP so that it can be as comprehensive as possible in

addressing not only the border issues such as tariffs, export/import restrictions, immigration procedures, etc. but also “behind the border” issues such as regulatory reform; liberalization of foreign investment; harmonization of technical standards; protection of intellectual property rights under a harmonized, predictable and balanced system; and establishment of rules on network-based ICT services.

The Councils urge the Japanese and U.S. Governments to build support for an FTAAP by focusing on achieving interim steps, or pathways. The most meaningful pathways should include the Trans-Pacific Partnership (TPP) encompassing the U.S. and Japan and a high-standard Japan-U.S. EPA by no later than 2015. The Councils recommend that Japan join the TPP negotiations on the same terms as other countries as soon as possible and that a building block approach be put in place for the negotiation of a high-standard Japan-U.S. EPA. In either case, work would have to start now in order to meet the deadline.

The proliferation of unique or non-uniform regulations and standards in the various APEC economies raises the costs to businesses by requiring them to manufacture products to comply with or conform to multiple regulations and standards. Here, too, Japan and the U.S. can lead by addressing regulatory and standards harmonization issues in the bilateral context first through an updated economic dialogue (including a renewed U.S.-Japan Regulatory Reform Initiative), and the Councils strongly urge both Governments to commence immediately on this. Greater harmonization of regulations and standards would provide significant benefits to Japanese and U.S. companies in the short term by lowering production and compliance costs while representing a significant step toward greater economic integration of the Japanese and U.S. economies. This in turn would provide a critical platform and model for regulatory and standards harmonization among like-minded countries in APEC, thus serving as another critical pathway to FTAAP.

4. Entrepreneurship, Innovation and U.S.-Japan Collaboration

The Councils approve the perception of the U.S. Government underlying its paper “A Strategy for American Innovation: Driving Towards Sustainable Growth and Quality Jobs”; that innovation was what made the U.S. lead the world’s economies in the past and that innovation will be even more of importance for the U.S. to make progress in the future. The Councils believe that entrepreneurship and innovation is equally important to Japan. In this regard, the Councils welcome the opening of the dialogue between METI and the U.S. State Department to promote innovation, entrepreneurship and job creation. The Councils wish to watch keenly on the outcome of this dialogue and look forward to any creation of new methods of support from both Governments in the private sector’s entrepreneurial ventures and innovation challenges.

The Councils regard information communication technology (ICT) as a key to accelerate entrepreneurship and innovation that enhances economic growth and competitiveness. The Councils call for the U.S. and Japanese Governments’ active involvement in the effective utilization of ICT. For example, recent development of cloud computing has potential to generate new services through the active use of enormous data in every field, so the Governments’ support in the security and dependability of advanced utilization of ICT, such as cloud computing, is expected. International harmonization of standards is also vital.

5. Energy and Environment

The Councils support the progress made in recent years by the Governments of Japan and the U.S. in their adoption of sound public policies for the development of clean and efficient energy technologies, and their commitments to improving the global environment. We regard clean and efficient production and use of energy as the key

to sustainable growth, and believe that business has a central role to play in developing technologies for a low carbon society. The Councils approve the Japanese Government's highlighting of Green Innovation in its New Growth Strategy as well as the U.S. Government's emphasis on clean energy in its Strategy for American Innovation. The two Governments are uniquely positioned this year and next, during their APEC years, to chart a new course leading to a 21st Century energy and environment policy, and the Councils urge action on priorities highlighted below, and spelled out in greater detail in the Supplement.

The Councils regard that the diffusion of advanced technologies is vital for the global reduction of CO₂, and encourage both Governments to support the development of green technology by funding collaborative programs which leverage the strengths of the two countries' private sectors. Moreover, both Governments are urged to promote policies that support the use of technologies which will reduce costs and GHG emissions, and encourage more efficient generation, transmission, distribution and use of electricity.

When it comes to green house gases' emission regulations, the Councils alert the Governments that regulatory levels should be based on international fairness. Should a country enforce excessive standards whereas others go without any substantial obligations, the private sector of the former would be deprived of its global competitiveness and consequently lose its vitality needed for the innovation. The Councils therefore call on the U.S. and Japan to cooperate and play leadership roles in the continuing climate change negotiations for a fair and effective post-Kyoto international framework in which all major economies participate.

The Councils recommend that both countries continue to collaborate to promote the peaceful use of nuclear energy as a baseload power with virtually no GHG emissions, and to lead together in bringing safe, proven nuclear technology to emerging markets.

The Councils fundamentally support the adoption of new rules that promote trade in environmental goods and services based on the Doha Round through the elimination and/or reduction of both tariff and non-tariff measures. Robust intellectual property protection is also a necessary component to facilitating trade in this area.

All these efforts will cast a wide net of benefits to all industries that have increasing energy demands, as well as create local jobs for large energy product manufacturers and small businesses for the delivery of a wide range of energy services.

6. Financial Services

The Councils are encouraged by steps taken in the U.S. and Japan to restore confidence in the financial system. As the two countries continue working toward a full recovery, the Councils welcome financial sector measures designed to protect consumers and investors, promote market discipline, support competition and innovation, and avoid protectionism.

A global effort to strengthen financial system oversight is being led at the G-20 and Financial Stability Board, with an eye toward reaching a consensus at the G-20 Seoul Summit. The Councils support this effort and hope that the U.S. and Japan will continue to exert strong leadership in this area. At the same time, the Councils are concerned that some proposals for substantial new regulatory capital requirements for financial institutions could inhibit sustainable economic recovery, including in their impact on small and medium enterprises. The Councils continue to believe that, where appropriate, financial regulation should also respect country differences.

The Councils welcome the U.S. commitment to improving financial regulation. As implementation of the Dodd-Frank Act moves forward, the Councils hope that

providing protection for consumers and investors, fostering innovation, and enabling adaptation to changes in the financial markets will be emphasized, while avoiding measures that could inhibit economic growth. In addition, efforts are needed to further modernize U.S. state-based insurance regulation and ensure that reinsurance regulation is consistent with global best practices. In Japan, the Councils welcome the FSA's continued commitment to improving the quality of financial regulation by enhancing dialogue with financial institutions, dissemination of information, and research functions to promptly grasp both domestic and international market developments, and improving the transparency and predictability of its regulatory actions.

With regard to the Japanese postal financial entities, the Councils continue to believe that ensuring equivalent conditions of competition is essential in determining whether the postal financial entities broaden their range of products.

7. Healthcare Innovation

Improving the regulatory environment to foster innovation and speed up evaluation of new drugs is important to the welfare of the human being. In this regard, the Councils acclaim the reform of the Japanese Pharmaceutical Pricing System in April 2010 that provide for price stability over the life of a patent or an exclusivity period. The Councils encourage the Japanese Government to adopt these measures permanently in 2012. Furthermore, the Councils urge the Japanese Government to review other rules in the Pricing System that hinder innovation. The Councils also continue to support the U.S. and Japanese Governments' programs for drug development process improvement and measures to enhance intellectual property rights protection by extending data exclusivity terms.

Innovation in medical devices can boost the quality of medical care, contribute to economic growth, and improve the global standard of well-being. Yet, in Japan, there exists a device-lag and device-gap problem as well as a risk of unstable device supply. To solve these problems and to achieve innovation, the Councils call for an innovation rewarding reimbursement process, clarification of rules for clinical research promotion, facilitation of review processes, cooperation between U.S. and Japan administrations, and the increased use of information communication technology.

Prevention and early detection are also essential parts of medical treatment. The Councils believe it is important to promote faster product reviews to support the use of innovative imaging and in vitro diagnostic testing as well as promotion of vaccines.

8. Other important Measures to improve the U.S. and Japanese Business Environments and Global Competitiveness

Taxation: The Councils urge both Governments to implement tax measures to enhance the competitiveness of U.S. and Japanese companies in the global economy while increasing the attractiveness of Japan and the U.S. as investment locations.

- **Reduce Corporate Tax:** At 40%, corporate tax rates in the U.S. and Japan are much higher than the 2009 average of 25% in Asia and 26% in OECD countries. Lowering the corporate tax rate in both countries will help level the playing field with players outside the country, thus encouraging more investment and increasing the competitiveness of both economies. However, bringing down the corporate tax rate upon the condition of raising other corporate costs such as social welfare contributions will not have the right effect if the impact of the latter outweighs the former.

- Extend Japan's carry-forward period for Net Operating Losses (NOLs): Extending Japan's carry-forward period for NOLs to OECD standards – at least 20 years, as in the U.S., if not on an unlimited basis – would encourage further investment in Japan by domestic and foreign corporations, but also SMEs who typically show losses in their early stages. In aligning with most developed economies in this way, Japan should also ensure that eligible losses include those incurred over the past several years to provide a strong stimulative impact for companies attempting to manage through their current loss positions.

Export Controls: The Councils urge both Governments to undertake fundamental reform of export control regimes with the objective of creating an improved export control system that enables limited resources to be focused on truly sensitive items and technologies, levels the playing field, and keeps both countries competitive, while safeguarding national security. A reformed and robust export control system will enhance national security, strengthen the industrial base and foster competitiveness of U.S. and Japanese companies. To achieve this, the Councils call for the following significant reforms in both countries: overhauling the existing list of controlled items and technologies based on a systematic review focusing on foreign availability; streamlining and harmonizing control standards and the licensing process, such as through the introduction of a license free zone for exports to and from key allies and a license exception for intra-company transfers; and increasing global outreach to the countries outside the regimes, among other measures.

With regard to the U.S., we applaud the Obama Administration's leadership in launching the Export Control Reform Initiative and believe it is critical for the Administration to remain focused on transforming the current system. As the Administration continues to work on the phased reform process, we encourage strong outreach to and input from industry on the proposed reforms outlined by Secretary Gates in April 2010. The abolishment of re-export controls needs to be a part of these reforms in order to minimize the burden on industry as well as to avoid "design out" of U.S.-made components. Additionally, we believe reforming the Technology Release process within the Department of Defense will be critical in ensuring the full lifecycle of defense exports are accounted for in the reform process.

In Japan, the so-called "Three Principles on Arms Exports, etc." policy should be also amended to allow for more international joint research and development. Further reforms needed include: applying a more consistent application of existing policy; defining a clearer treatment of "dual use" materials and technology; and establishing a process for cooperation on programs that are in the pre-requirement stage (e.g, a defense program that is not yet an official MoD requirement).

Labor Policy: The Councils continue to urge both Governments to take a comprehensive approach and work with U.S. and Japanese companies and labor organizations to develop smart and competitive labor policies and rules that balance worker protection and social needs with employer flexibility and productivity needs. The Councils urge both Governments to start formulation of such labor policies immediately since it is requisite for sustainable economic growth. It is important that both Governments consider carefully the real impact of policies aimed at supporting employment as there can be counterproductive effects unless the measures are constructed carefully. For example, while the Japanese Government's recent policy discussion based on the need for more rigid rules of dispatched worker's regulation, definite term employments and minimum wage policies are intended to help workers and boost incomes, such policies would instead further discourage investment and business expansion in Japan – the critical engines of sustainable job creation – because they would make it more costly to hire Japanese workers.

Competition Law: The Councils urge the Government of Japan to revise the Anti-Monopoly Act to better comply with global fair standards of “due process” in the investigative and appeals processes of the Japan Fair Trade Commission. The Councils welcome that a new act to abolish the current appeals process was proposed to the ordinary Diet of 2010 and continue to support it in hopes it will pass the Diet and come into effect very soon. The Councils welcome the Japanese Government’s commitment to review the merger control regulations of Anti-Monopoly Act within FY2010 to encourage businesses to reorganize and enhance its competitiveness in the global market.

Aviation: The Councils applaud the significant progress made by the U.S. and Japanese Governments toward an Open Skies Agreement and encourage the Governments to take the final steps to conclude this Agreement. Aviation liberalization under Open Skies will facilitate enhanced air services, and in turn support trade, investment and economic growth for both Japan and the U.S., further enhancing the relationship between the two countries and Japan’s position in the Asia-Pacific region.