

JOINT STATEMENT
48th U.S.-Japan Business Conference
U.S.-Japan Business Council/Japan-U.S. Business Council
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This has been a momentous year for Japan and the U.S.-Japan relationship due to the Great East Japan Earthquake occurring March 11, 2011. In the face of this triple disaster, the opportunity for the United States and Japan to realize a strong bond – “*kizuna*” – has arisen. Through Operation Tomodachi and related public and private efforts, the United States has shown its strong partnership with Japan, as Japan has shown for the United States after natural disasters such as Hurricane Katrina. It is in this spirit that the 48th U.S.-Japan Business Conference was held in New York City December 1-2, 2011.

There was particular emphasis on Japan’s reconstruction and recovery at the Conference between senior executives belonging to the U.S.-Japan Business Council and Japan-U.S. Business Council (hereafter, “the Councils”), with a central theme, “From Recovery to Revitalization.”

1. JAPANESE AND U.S. ECONOMIC SITUATION

Although Japanese companies' activities have recovered sooner and more robustly than expected after 3.11, the Japanese economy is still facing a severe situation. Corporate activities, such as exports and production are weakening because of the global financial markets' turbulence triggered by the Eurozone sovereign debt crisis, the slowdown of the world economy and the continuing historic high yen. In addition to that, a severe employment situation persists. The Councils urge the Government of Japan to take quick and decisive action on all fronts.

The U.S. economy is showing some signs of modest improvement as indicated by third quarter GDP growth of 2.1% on an annualized basis, a significant uptick from the previous quarter. Increased consumer spending, inventory reduction and business investment are all positive signs and should be closely watched for sustainable trends. There are still significant concerns about the U.S. economy. Most notable is the need to address long-term debt and unemployment in a serious and balanced manner.

Both governments need to implement policies that foster economic growth while maintaining a good balance of financial discipline. The Councils continue to stress that comprehensive tax, fiscal and social security reform is essential in both countries. In this regard, the Councils welcome efforts by the Government of Japan to finalize the plan on comprehensive reform of taxes and social security by the end of this year, including consideration of a gradual increase in the consumption tax rate and other measures. The Councils encourage the U.S. government to continue to work diligently on means of reducing long term U.S. debt.

The Councils urge both governments to focus on measures that will create a more hospitable environment for domestic and foreign companies operating in the United States and Japan by establishing globally competitive corporate tax rates, a smart regulatory approach that ensures safety and smooth market functioning without imposing unreasonable costs or administrative burdens, and a firm commitment to open trade and investment.

Strong political leadership is required in both countries to ensure sound economic management, as well as the further enhancement of U.S.-Japan cooperation on global economic policy matters.

2. RECOVERY FROM 3.11

The Councils recognize that significant progress has been made on many fronts with regard to recovery in the Tohoku region, and commend the efforts by national and local officials, volunteers, employers and employees of private firms, and others to cope with the situation. Significant challenges remain. First and foremost is reactor and radiation containment and mitigation. The Councils encourage the Government of Japan to continue to cooperate closely with the U.S. and other governments in this area, including the dissemination of easily accessible and understandable information about safety standards and best practices for radiation levels to ensure human health and safety, and to prevent unjustified discrimination against Japanese products. Continued efforts to get accurate information about actual conditions in Japan into the public domain through media campaigns, advertising, and other means should also be made in order to accelerate the return of tourism, scientific, educational, and cultural exchange to previous levels.

The Councils urge the Government of Japan to immediately establish a new “Restoration Agency” – an entity with strong leadership that keeps various restoration activities under its firm and sole control.

As difficult as some of the challenges are, there are also opportunities for Japan to enact measures that boost short and long-term recovery.

- The Tohoku disaster highlighted the importance of Japanese suppliers in global supply chains for autos, electronics, chemicals and other industries, as well as the need for diverse and secure supply chains.
- The Government of Japan should place high priority on the important role that the private sector can play in accelerating recovery in Tohoku. To encourage Japanese and foreign companies to maintain existing businesses and/or invest in new ones in Tohoku, the Councils urge the Government of Japan to move quickly and decisively to set up a Reconstruction Special Zone System in the region. In general, targeted and unconventional measures are essential, and require appropriate support through tax, budget and regulatory measures. Regulatory measures that can expedite private activity such as fast-track permitting for reconstruction projects and new business licenses, and tax incentives for companies investing in new plants and facilities can and

should be approved quickly. The Special Zone System offers a significant opportunity to create an environment that can potentially invite a broad range of participants and investment in R&D, manufacturing and delivery from industry and institutions not only from Japan but from abroad, including the United States. To maximize this potential, the Councils urge the Government of Japan to make special efforts to consult with industry representatives in order to enact the most effective possible measures.

- The loss of personal data including patients' case records, family registers, and other information by many residents of Tohoku indicates a need for better electronic record-keeping methods as a protection against loss of such information in natural disasters. In order to minimize these risks, cloud data storage and electronic medical records will be effective and secure solutions. Therefore, the Councils urge the Government of Japan to take steps to promote cloud computing infrastructure for better e-government and online services.

While aid and special initiative are vital, achieving sustainable growth in the overall economy will ultimately be the best way to foster recovery in the Tohoku region. Accordingly, the Councils urge the Government of Japan to move swiftly ahead to implement key elements of the New Growth Strategy, as adjusted in the aftermath of 3.11.

3. US-JAPAN ECONOMIC RELATIONS AND COOPERATION IN THE ASIA-PACIFIC

The Councils believe that a stronger economic relationship between the United States and Japan is a critical pillar of the overall bilateral relationship, and that it is even more important after 3.11. At a time when both governments, as well as companies from both countries, look to emerging markets for growth opportunities and strategic economic advantage, solidifying trade and investment ties between the United States and Japan should remain a top priority for both countries. The U.S.-Japan economic relationship is a mature one, but there are still untapped market opportunities in both countries, as well as ways to strengthen the economic partnership. Accordingly, the Councils urge U.S. and Japanese government officials to renew their commitment to work together, and with the private sectors, to take the bilateral economic relationship into the 21st Century through more innovative, collaborative and proactive means of government-to-government and business-to-government engagement.

The Councils recognize that as two of the largest economies and closest partners in the dynamic Asia-Pacific, Japan and the United States can play leading roles in helping shape the future growth and economic architecture of the region, with Free Trade Area of the Asia Pacific (FTAAP) in mind as an ultimate goal. The Councils urge the U.S. and Japanese governments and private sectors to continue in their efforts 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. Japan's recent commitment to enter into consultation toward participating in the TPP negotiations is an especially important development in this regard, and the Councils commend the Noda government for making this bold decision. The Councils believe the TPP provides a

comprehensive platform from which U.S. and Japanese officials can address these and other issues within a regional context that will provide significant benefits to both economies, the Asia-Pacific, and global trading system.

The Councils believe that Japan's participation in a comprehensive, high-standard TPP Agreement will benefit the Japanese economy, as it will the other TPP economies, and strengthen the U.S.-Japan economic partnership. TPP is clearly the most viable path to FTAAP underway at present and the Councils urge both governments to devote maximum attention and energy to concluding this agreement as soon as possible.

The Councils look forward to working as constructive partners to identify and find solutions to the main issues, and to working with both governments to make the process for Japan's entry into TPP as smooth as possible.

4. ENERGY & ENVIRONMENT

The 3.11 disaster and accident at the Fukushima Dai-Ichi nuclear reactors had a severe impact on people in Fukushima. The first priority should clearly be to minimize the impact, and help the people in the vicinity of the reactors regain their former daily livelihoods. The disaster also resulted in a drastic decrease in electrical generation and the restart of nuclear reactors outside of Tohoku is delayed due to the lack of regulatory certainty and political consensus from local governments. Ensuring stable electricity supply is thus an urgent matter for the Japanese economy and people, as well as domestic and foreign companies operating in Japan.

The nuclear accident has also required a new look at Japan's medium- and long- term energy policy. As the Government of Japan evaluates the direction of energy policy going forward, the Councils respectfully suggest that the Government review priorities while considering each of the so-called 3Es -- energy security, economic growth and environmental protection -- with a focus on the following areas: 1) development of diversified and secure energy sources to ensure sustainable base energy production, including nuclear (with enhanced safety regulation), renewable, and fossil fuels; 2) technologies to improve efficiency of energy usage; and 3) international contributions to address energy security, climate change and nuclear plant safety among other global issues. The above areas contain issues of : 1) introduction of more renewable energies in an efficient manner, for example, through an open-standard smart grid that enables more efficient delivery of diverse sources and technology development of electric power storage; and 2) pursuing an efficient electronic power system. It is important that the revised policy, especially its objectives and targets, is realistic and doable. Given the fact that it takes time to establish new power plants and other energy supply, overestimated targets would directly cause a shortage of energy supply. The current Japanese climate policy and its mid-term emission reduction target should be reviewed thorough in accordance with the restructuring of energy policy.

The Councils recommend that the U.S. Government, in cooperation with the Government of Japan, promote development of low carbon technologies including clean coal, nuclear safety, and energy efficiency. In particular, upon thorough examination of Fukushima, and by sharing

the lessons learned, the U.S. and Japanese governments should cooperate in establishing improved safety measures and global safety standards for nuclear power generators and promoting nuclear technology development.

The Councils would also like to commend both governments for the green free trade agreement reached at the APEC meeting last month. This is extremely beneficial to the development of the energy market in a sustainable direction. The Councils respectfully request that the intended actions outlined in the agreement be implemented as soon as possible.

5. FINANCIAL SERVICES

The Councils are encouraged by steps taken in the United States and Japan to restore confidence in the financial system, including through their active participation in the formulation and implementation of the rescue plan to help stem the Eurozone sovereign debt crisis. More broadly the Councils support the global effort to strengthen financial system oversight currently being led at the G-20 and Financial Stability Board and hope that the United States and Japan will continue to exert strong leadership in this area. There is concern that some new regulatory capital requirements for financial institutions could inhibit sustainable economic recovery, including in their impact on small and medium enterprises.

The Councils urge governments of both nations to be cautious when considering and implementing new domestic regulatory measures so as to ensure the regulatory environment does not place unnecessary burden on the financial services industry, while at the same time creating new opportunities for regulatory arbitrage, and undermining the aim of achieving a more robust financial system. Furthermore, the Councils continue to believe that, where appropriate, financial regulation should also respect both country and sectoral differences and be applied on a non-discriminatory basis.

On the domestic front, as implementation in the U.S. 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, the councils welcome continued efforts 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.

6. HEALTH CARE INNOVATION

The R&D-based pharmaceutical and medical device industries contribute significantly to the health and welfare of the peoples of the U.S. and Japan as well as to their economies. At a time when economic recovery and sustained growth are essential in both countries the Councils encourage the U.S. and Japanese governments to actively pursue policies in these sectors that spur innovation and employment while increasing public health.

The Councils welcome Japan's focus on reducing the drug, vaccine and device lags while continuing to pursue reforms that aim to make Japan's markets more attractive and competitive. There has been a positive direction in pharmaceutical pricing policies as well as in drug approval times. The Government of Japan should take the opportunity of the 2012 cycle of reforms to solidify the positive trends in pharmaceutical pricing as well as build on the progress seen in pharmaceutical approval times.

The Councils appreciate recent decisions by the Japanese government to approve new vaccines that are important for public health and to support this decision with a supplemental budget for 2011. The Councils also appreciate the efforts by both governments for supporting in the Vaccine Policy Exchange to exchange views on best practices.

The ongoing efforts to amend the Pharmaceutical Affairs Law in Japan provide a good opportunity to revise the regulatory framework for Medical Devices. The Councils hope the regulations will become more transparent and reasonable through those efforts. The Councils also request that consideration be given to repealing the U.S. Medical Device tax commencing in 2013 so that it will not undermine the industry's activities for developing innovative products and therapies.

7. OTHERS

TAXATION

Given that Japan and the United States have the highest statutory corporate tax rates among OECD economies, bringing these rates in line with OECD averages should be a high priority for policymakers in both countries. As high-cost economies, tax policy is one important factor affecting business decision-making in the global economy.

Tax policy and incentives that promote innovation and entrepreneurship should also be a priority in the United States and Japan. In this regard, the net operating loss (NOL) carry forward period in Japan should be extended indefinitely in order to compare to world standards and encourage investment in new companies and new areas of the economy.

In further regard to tax policy, the Councils applaud the recent discussions between Japan and the United States to refine their bilateral tax treaty, so as to encourage deeper economic exchange between the countries, and to promote growth and efficiency along with economic integration. However, the Japanese Ministry of Finance abruptly proposed to introduce measures to disallow deductions for interest paid in connection with certain cross-border

funding to prevent "tax avoidance". As this proposal could have negative impact on normal operation of Japanese companies and foreign firms located in Japan, the Councils respectfully urge the Government of Japan to postpone this change until a more comprehensive impact analysis has been done.

MEASURES TO PROMOTE TRAVEL

To facilitate immigration processes at entry to a country promotes movement of people, not only enhancing efficiency of international businesses but also contributing to economic growth through such industries as tourism and transportation. From this point of view, the Councils encourage the U.S. and Japanese governments to facilitate travel between the two countries by streamlining pre-departure security procedures and cooperating on pre-approved traveler programs such as "Global Entry" and "Automated Gates."