

Japan's Priority Proposals
For Regulatory Reform in EU
(Tentative Translation)



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Japan's Priority Proposals for Regulatory Reform in the EU
And Related Japanese Comments

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The List of Japan's Priority Proposals for Regulatory Reform in the EU

The GOJ has reviewed its requests that were submitted to the EU in November 2002 and in March 2003, covering 34 items in 12 areas, from the viewpoints of four areas: regulations concerning cross-sectorial issues, sectorial issues, the environment/food safety and fundamental matters related to the business environment. As a result, this list of priority proposals finally covers 29 items in 10 areas, including new items. Newly added proposals are marked with a star (*). At the end of this document, some other requests concerning the countries scheduled to become new member states of the EU are mentioned for reference.

Overview of the Japan-EU Regulatory Reform Dialogue

The Japan-EU Regulatory Reform Dialogue was launched under the original name of Regulatory Relaxation Dialogue in 1994 to promote trade and investment between Japan and the EU. The name was later changed to the current one, and the dialogue has reached its 10th session this year. Japan considers that during this ten-year period, initial confrontational character of the Japan-EU economic relations represented by trade friction receded, and as the progress of globalization was made, this dialogue has changed into a place where opinions regarding technical regulations and the business environment in general are exchanged from constructive viewpoints.

While the globalisation is rapidly progressing, various domestic regulations have become important issues that cannot be considered separately from other countries and the world, to maximize merits of globalization and minimize its demerits. As important poles of the world economy, the EU, the U.S., and Japan have the responsibility concerning their domestic regulations to minimize mutual disadvantages and inefficiency through closer exchanges of information and unreserved opinions, in order to build jointly mature economic systems, and to enhance social welfare.

This dialogue has been given importance in the Japan-EU Action Plan. From the viewpoint of deepening economic relationship, there are many things that can be performed within the framework of this dialogue. From this point of view, the GOJ would like to exchange information and opinions more closely before regulations are established, for instance.

Furthermore, to avoid deviation of this dialogue from the real situation of economic activities, which are the core element of this dialogue, it is necessary to continue to attach importance to the input of information from the private sector, which is the actual object of regulation. Thus, it is important to respect, as much as possible, the input from the business circle, consumers, and other private sectors, including the Japan-EU Business Dialogue Roundtable (BDRT).

With great importance attached to the two-way nature of discussion in this dialogue and interaction between this dialogue and the domestic/internal processes of both parties as in last year, the GOJ considers that discussion should be continued. The GOJ also believes that more efficient operation of high-level meeting of this dialogue should be examined, in view of the need to keep abreast with the recent pace of economic development, as well as the function of the dialogue to serve as an early-warning system against possible economic friction. Regarding the agenda, for example, it may be an idea to create a session focusing on a priority theme, such as the “promotion of two-way investment,” on an ad hoc basis. Furthermore, there seems to

be more efficient operation by utilising directors level meetings or experts meetings. From this viewpoint, more useful experts meetings were held last year by inviting persons concerned from the private sector.

The items stated in this document of Japan's priority proposals are basically selected for the purpose of discussions at high-level meetings. In order to secure sufficient discussion at the meetings, the items were selected more rigorously than before. There are items that, although stated in this document, are not suitable for discussion in details at high-level meetings. On the other hand, there are items that may not be worth mentioning as priority proposals but are important from the viewpoint of improvement of the business environment. These items are taken up as subjects for additional points.

Ten countries including Central and Eastern European Countries are scheduled to join the EU in May next year. As for the overall effects of the EU enlargement on Japan, the GOJ considers there will be many positive aspects from a medium- or long-term viewpoint. However, from a short-term viewpoint, the GOJ considers that economically negative impact exists and issues that arise from this are as follows. (1) compensatory negotiations for increased common external tariffs, (2) possible retrocession of GATS-based commitment for service, (3) possible automatic application of anti-dumping measures to new member states of the EU, (4) shrinkage of existing investment incentives, and (5) maintenance of the commerce and navigation treaties between Japan and newly acceding countries. For constructive solutions on these issues, Japan and the EU (including government authorities of these states) have conducted consultations twice, and the GOJ recognises the need to continue these consultations.

It is GOJ's basic policy to continue to reinforce economic and business relationships with these new member states in the future, and the GOJ would like to welcome the ten new member states' positive participation in the Japan-EU Regulatory Reform dialogue after their formal entry to the EU. However, the GOJ considers that, in adapting the domestic laws of the new member states to the EU standards, it is important to secure transparency and uniformity of the systems, and that opportunities for sufficient explanation by the EU will be needed in implementing revised laws. In this regard, the GOJ requests that the European Commission deal with these matters in an appropriate manner.

Because these countries are not yet formal member states of the EU this year, matters related to these countries are not discussed in this dialogue this year, but some requests from Japanese companies in these states are listed in Annex 2 for reference.

A. Cross-Sectorial Issues

1. Commercial Laws and Practices

(1) Early adoption of draft directive allowing offset of profits and losses across multiple EU member states

A draft directive allowing offsetting of losses incurred by branches or subsidiaries, in member states, with profits recorded by the parent company, was proposed in 1990, but the European Commission withdrew the draft directive in December 2001 because deliberations had hit hard going. The Commission said in its communication (IP/01/1468) announced in October 2001 that, after the retraction of the draft directive, consultations with member states on new policy would start in 2002, but no such consultations have been started thus far.

The GOJ understands that the EU considers the offsetting of losses incurred by branches/subsidiaries in the EU with profits recorded by their parent companies as important from a viewpoint of reinforcing the inner-EU market. It is also very important for enterprises of third countries, including Japan, engaging in business activities in the EU. Accordingly, the GOJ strongly hopes that consultations designed for early realisation of profit/loss offsetting will be carried out between the European Commission and member states of the EU.

(2) Legal framework at EU level allowing mergers across national borders

In the EU, the Statute for a European Company will be put into effect in October 2004, and it will become possible to establish SE (Societas Europaea), through which an enterprise will be able to operate throughout the EU region without setting up a subsidiary company in each member state. The GOJ will welcome the enforcement of the statute, however, most Japanese enterprises in Europe – particularly those in the U.K., Germany, and the Netherlands – take the form of non-public companies (private companies), and they cannot establish of SE through merger or conversion of existing enterprises unless they become public enterprises (corporations), because such SE establishment will only be permitted for public enterprises.

Meanwhile, taxation arrangements for mergers across national borders were achieved through the merger directive of 1990, but the EU-level framework in terms of corporate laws has been limited to the aforementioned Statute for a European Company designed for the establishment of SE (Societas Europaea). Consequently, the merger across national borders can not necessarily be smoothly attained by enterprises that have no juridical person status as an SE.

The draft company directive No. 10, aimed at forming a corporate law framework for enterprises mergers across the border, was proposed in 1985. It was, however, retracted in December 2001 for reasons of preparation of a new draft directive.

Many Japanese companies look forward to the establishment of the European Private Company Law as a legal means which makes the mergers across the border possible. However, the recommendation of the final report of the high-level corporate law specialist group published in November 2002 called for putting higher priority on the draft company directive No. 10, rather than on the European Private Company Law. Furthermore, the communication of the European Commission, announced in May 2003, declares that the Commission will conduct a feasibility study on the introduction of the European Private Company Law.

The GOJ supports the aforementioned report and the communication, which revealed the EU's intention to establish a system allowing mergers across the border. It also hopes for the progress of considerations for the early adoption and enforcement of the draft company directive No. 10 and the draft company directive No. 14 concerning the transfer of registration country after a partial modification through which the directives will cover not only public companies but also private companies. Furthermore, in terms of the feasibility study on the introduction of the European Private Company Law, the GOJ also hopes that the need for the introduction of the law will be recognised, and the law will be introduced accordingly.

2. Trade and Customs

(1) Change in tariff classification of digital video cameras (camcorders) and retroactive duty imposition

The EU tariff classification distinguishes between video cameras capable of recording not only signals from the embedded camera units but also signals from external equipment, and those incapable. Although these are almost all analogous products, the EU has set different tariff rates, 14% and 4.9%, respectively.

Among the digital video cameras which are manufactured by Japanese electronic equipment makers and exported to the EU, the models whose functions of recording signals from external equipment (DV-IN) are inactivated by software had been declared as products upon which the tariff rate of 4.9% is applied, according to the EU's tariff classification.

The EU announced in the Official Journal of the European Communities on 6 July 2001, however, that models with potential functions of recording signals from external equipment are also classified as video cameras subject to a 14% tariff.

Due to the classification, it has become possible that digital video cameras produced by Japanese electronic equipment manufacturers will be interpreted as models subject to the 14% tariff, although their DV-IN functions is nullified by software control before import customs clearance and these models are explained in catalogues, etc., to consumers as those without DV-IN functions. In fact, some member states of

the EU stated that the past import declaration was erroneous, and that they would collect unpaid tariffs retroactively for the past three years.

It is quite usual for electronic equipment manufactures to control by software the functions of digital products, essential for the spread of IT, and to measures against tampering with related software. In addition, these manufactures adopt steps to remodel hardware so as to exclude the possibility of reactivating DV-IN functions. Therefore, the GOJ requests the EU member states operate the tariff system at custom houses so that Japanese manufactures are not put at a disadvantage because of the present interpretation of the EU's customs classification for video cameras. The GOJ also requests the withdrawal of the claim by some EU member states for the retroactive collection of tariffs.

(2) Tariff classification of digital multi-function machines

Digital multi-function machines (designed to combine the functions of a printer, copying machine, scanner, and facsimile machine and to use such functions by connecting them with a network) represent information equipment principally aimed at output through connection with a computer. Originally, they should be classified as HS code 8471 (printers, which are output equipment for computers), and their tariff should be 0%. However, the EU classifies these machines as HS code 9009 (stand-alone analogue copiers, which are non-target objects of ITA), imposing a high tariff (6%). In Japan and the U.S., digital multi-function machines are classified as HS code 8471.

This problem has been continually deliberated at the HS Committee of WCO. The GOJ requests that the EU appropriately classify digital multi-function machines as HS code 8471 at a session of the WCO, scheduled for this autumn, and that customs of each member state take steps to reduce tariff .

The Information Technological Agreement (ITA) related to the HS code classification is designed to eliminate tariffs on IT products, and with regard to the products under the ITA, tariffs promised in that agreement should be imposed. The GOJ would also like to reiterate that products combining functions of the items subject to ITA, such as printers, scanners, and facsimiles, have more advanced IT functions than normal products and that their exclusion from the ITA target does not match the purpose of the agreement.

(3) Application of anti-dumping (AD) rules

Regarding anti-dumping measures for television camera systems, there were cases in which duties were imposed on imports of items, although they were determined to be exempt from the anti-dumping duty, for a period before the date of determination in some cases or before the date of the receipt of the application for exemption in other cases. The cameras subject to the AD duty are broadcasting cameras. Professional cameras that cannot be used as broadcasting cameras are exempt from the imposition of

AD duties. The GOJ requests cancellation of the duties imposed on professional cameras that were judged to be unable to be used as broadcasting cameras and determined to be exempt from the anti-dumping duty.

(4) The European Commission's proposal "obligating declaration 24 hours before customs clearance"

On 24 July 2003, the European Commission proposed a revision of the customs code, mainly designed to obligate exporters to declare the content of cargoes 24 hours before their transportation into the tariff area as part of safety reinforcement measures against terrorist actions. The proposal was aimed at strengthening the functions and risk management of capability custom houses, having them make the closer liaison and coordination with other organizations that are in charge of quarantine, security, etc., and there by enabling them to perform as a "one stop shop."

The GOJ recognises the importance of making efforts against terrorism, so it basically supports the European Commission's proposal to reinforce security by implementing uniform transport safety management in the entire EU. Even so, the planned step has a possibility of imposing excessive burdens on foreign exporters of goods to Europe, such as greater shipment costs, as well as increased complexity of procedures to be followed. For this reason, the GOJ requests that the European Commission give due consideration to prevent the occurrence of such excessive burdens, study further to shorten the period of the time between the timing by which to declare the content of cargoes in advance and the timing to import them, and introduce an exemption system.

3. Information and Intellectual Property

(1) Early implementation of the Community Patent System □

While the conventional intellectual property/industrial property protection systems of the EU remain to be based on each member state's system, unified EU trademark right/design right systems have been established in parallel. Regarding patent systems, a political accord on the establishment of the Community Patent System existing in parallel with the patent system of each member state was made at the Ministerial Council of the EU in March 2003. The Community Patent System, based on the political accord, can be expected to pave the way for the reduction of application and renewal costs. The GOJ welcomes the political accord for the creation of the Community Patent System and hopes for its early implementation.

(2) Membership for the Protocol Regarding the Madrid Agreement Concerning the International Registration of Marks

At the general meeting of the Madrid Agreement for the International Registration of Marks, held in September this year, an amendment of the “Madrid Common Rules” for the EC’s accession to the “Protocol Regarding the Madrid Agreement Concerning the International Registration of Marks” were approved and it is scheduled to take into effect on 1 April 2004. At the general meeting, Japan also strongly supported the amendment plan of “Madrid Common Rules”. As the preparations for the EC’s accession to the Protocol are presumably completed by this process, the GOJ requests that the European Commission becomes a member of the Protocol as soon as possible.

(3) Data Protection Directive

The EU has implemented government-led measures such as the Data Protection Directive, which requires the EU Member States to prevent the transfer of personal data to countries and regions that do not have sufficient regulatory provision for the protection of personal data.

With regard to this matter, the GOJ requested in its previous proposals that Japanese industry’s efforts, such as the formulation of an alternative to the “Standard Contractual Clauses” by the Japan Business Council in Europe (JBCE), be recognised because such an alternative may be effective to improve business efficiency of private enterprises that are engaged in the transfer of personal data for Japan, which has not yet received due recognition on the appropriateness of personal data protection. The GOJ requested that, if above-mentioned request is not met, the Standard Contractual Clauses or that the Standard Contractual Clauses be changed to those that are easier to use in accordance with the current business environment. The European Commission’s reply in June this year to these Japanese requests states, “the Commission has so far taken the stand of supporting the formulation of an alternative plan by the interested party, so far as the plan is in accordance with the Commission’s decision 2001/497/EC, but WG29 and WG31, which examined the content of the alternative plan, determined that the said alternative plan did not provide for protection measures of an acceptable level.”

However, part of “Standard Contractual Clauses” to be applied in line with the Data Protection Directive includes too rigorous clauses for use in actual execution of business. Accordingly, in light of smooth operation of business for private enterprises which transfer personal data, the GOJ requests that the European Commission conduct close examination of the alternative plan submitted by the JBCE to the Commission in September this year.

The WG has prepared a working document concerning the Binding Corporate

Rules (BCR) related to information transfer to third countries, and asked the persons concerned to submit their opinions. The BCR is expected to serve as a new tool for smoother transmission/receipt of personal data within an enterprise group performing business globally. The GOJ requests that the opinions of industrial sector be duly considered in formulating specific guidelines, so that the guidelines will suitably reflect actual business practices.

[ADDITIONAL POINT] Employment

Because improvement in the employment systems in Europe as a whole has the same degree of importance as that of Priority Proposals, it is taken up in this section of additional points. Regarding its specific problems they will be stated in the Supplementary Proposals.

Employment regulations and practices in Europe frequently bring about difficulties for Japanese companies operating in Europe in terms of dismissal, transfer of employees, work hours and wages. Particularly ensuring the freedom of transferring the work force is a fundamental issue related to the efficiency of all business activities. Seen from outside of the EU Member States, particularly from Japan, it is not only a problem for the companies already operating in Europe, but it is also an urgent issue for Japanese enterprises planning to move there hereafter, from a viewpoint of economic attractiveness. If there efforts for addressing this problem are successfully done, benefits will accrue not only for the companies operating in Europe but also to the entire European economy. The GOJ requests that the EU should strive to rectify the stiffening labour market in Europe from various angles.

Regarding country-specific issues, they include the followings: temporary labour contracts and the problem of redundancy pay in Spain; the dismissal system, the protection for representatives of employees, temporary labour contracts, wage system, and work hours in Belgium; residence restriction for member of the management board in Denmark; the last-in, first-out rule relating to dismissal and Employee's Right to Education Leave Act in Sweden; reduction of days of paid leave and flexible application of dismissal procedures in Luxembourg; relaxation of the employee protection system, the dismissal protection system, and the wage system in Germany; the relaxation of the dismissal system in the Netherlands; and clarification of the contents of the EU Directive (2002/44/EC) concerning the physical agents (vibration). Although these issues are detailed and specific, all of them are factors affecting the business environment, such that the GOJ views them as issues equivalent to our priority proposals. The GOJ intends to pursue improvements in these issues, utilising, among others, experts meetings.

B. Sectorial Issues

1. Legal Services

[General Comments]

In response to EU requests made during a past series of Japan-EU Regulatory Reform Dialogue, the GOJ has taken all possible measures, including the amendment of the law concerning foreign lawyers and the establishment of the Office for Promotion of Justice System Reform. On the other hand, it is regrettable that few improvements have been made on the EU side in response to Japan's requests. The situation cannot be justified from a reciprocal point of view in comparison with the status foreign lawyers enjoy under Japan's law concerning foreign lawyers.

In this connection, the GOJ expects a strong initiative taken by the European Commission, and requests that the laws and regulations concerned be revised so that Japanese lawyers will be permitted to provide legal services easily and extensively in the EU Member States.

(1)Permission of legal services pertaining home country laws by foreign lawyers in France

The GOJ has been requesting the EU side that France should establish a system which allows foreign lawyers to engage in legal services pertaining to their own countries' laws without passing any special examination, as is duly permitted in Japan under the Special Measures Law Concerning the Handling of Legal Business by Foreign Lawyers. The GOJ maintains this request.

According to a reply from France in June this year, the possibility of changing the French system for foreign lawyers is now under study. The GOJ requests France to provide information on the current status of the study. The GOJ also requests that France make its legal system open to foreign lawyers.

(2)Permission of legal services pertaining third country laws by foreign lawyers in Germany

According to a reply from Germany in June this year, Germany takes a position that it should not enter bilateral negotiations with foreign countries outside the GATS 2000 Round. However, we understand that the EU's sectorial commitments in GATS do not preclude each Member State from further liberalizing its national legal system beyond the commitments.

Third country laws mentioned in the Japanese request concern the laws which foreign lawyers do not have qualifications (excluding the destination country's laws and their mother country's laws), and in Japan, gaikokuho-jimu-bengoshi are allowed to handle such laws, under the condition that they receive advice from qualified people. In this respect, no rational explanation for excluding third country laws has been provided,

nor we have received a satisfactory reply regarding the GOJ request that Germany deregulate it so that foreign lawyers are also permitted to directly provide legal service concerning third country laws. Therefore, the GOJ continues to request the improvement of the system.

2. Telecommunications

(1) Transparency of procedures related to new directives (Telecom Package)

Under the Telecom Package, there are regulatory matters that are at the discretion of an EU member state, and it is necessary to secure the transparency in legal procedures harmonized among EU states. In the light of these, the GOJ requested that opportunities to submit opinions through procedures of public comments be secured in the process of revising domestic laws to implement the Telecom Package. The GOJ evaluates the invitation for public comments was made in the course of the legislative processes in Germany and France, so that opportunities for Japan to submit comments were secured.

On the other hand, the deadline for legislation to enforce the Telecom Package was originally set as July 24 of this year. However, many member states did not complete the legislation arrangements by the at deadline. Not only that, some member states have not yet initiated the legislation procedure.

The GOJ hopes the legislation procedures will be promptly completed in each member state and requests again that the European Commission ensure member states, undertaking the legislation, will establish the opportunities to invite comments on the legislation.

(2) Interconnection

(a) Article 9-2 of the Access Directive stipulates that a reference offer (RO) give a description of the offerings broken down into components according to market needs. The GOJ believes that the period required before the start of interconnection represents important needs in business for new entrants, and that the description of the said period on the RO must be made obligatory as a factor “according to market needs.”

If there is any disparity in bargaining power between operators with significant market power (SMP) and new entrants, there are motives and probabilities for SMP operators to delay connections based, on the strength of their SMP. In this sense, there is no sufficient reason that the period necessary for the start of interconnection is different from other factors and that it should be treated as a matter of purely commercial nature required to be left to ex post dispute settlement procedures. Also, we understand that the period necessary for the start of interconnection "will be subject to variations on a case by case basis according to the technical variables

involved” but seeking the standard period is an arrangement of a flexibility which enables proper dealing with this situation.

Accordingly, the GOJ continues to request that the European Commission confirm, as its interpretation of this provision, that the standard period of time needed for an applicant for interconnection to obtain service should be included in the market needs and that the Commission ensure that member states adopt necessary measures for the purpose. According to the “8th Report on the Implementation of Telecommunications Regulatory Package 2002,” by the European Commission, the current level of implementation of local loop unbundling in Europe is quite low, and this situation is considered to be hampering the progress of broadband development in Europe. The inclusion of the period required for interconnection in the RO will be a major step forward to improve the situation.

(b) Article 9-2 of the Access Directive stipulates that, where an operator has obligations of non-discrimination, national regulatory authorities may require that operator to publish a reference offer (former Interconnection Directive (97/33/EC), Article 7 had a similar provision). During the Regulatory Reform Dialogue of last year, we received a reply from the EU side that the obligation to disclose the RO is imposed only on fixed telecommunication operators with SMP, but the GOJ requests, that mobile telecommunication operators with SMP in each member state be also obligated to announce RO to secure transparency.

In this connection, the GOJ would like to point out that according to the WTO/GATS reference paper 2.4, the EU made a commitment to ensure that the major suppliers, including the aforementioned mobile telecommunication operators, make their RO or reference offer provisions publicly available. In addition, we hereby would like to point out that the EU stated in its reply made last year, “The EU has done its duty in that respect”. However, the EU has not made any explanation regarding how the EU has done its duty based on the reference paper 2.4.

(3)Increases in subscriber circuit basic charges

In some member states of the EU, there are tendencies toward raising basic charges for subscriber lines. In France, for instance, the charge was raised by 30% during the five years from 1997 to 2002. Furthermore, Deutsche Telecom obtained the approval of its proposed increases in the basic charges for analog subscriber lines from the Regulatory Authority for Telecommunications and Posts (RegTP) on July 29, 2003, so a price increase of 23.5% was implemented from the level of April 2002. Increases in basic charges, which guarantee a stable income for operators owning subscriber lines in a monopolistic manner, may hamper fair competition. In other words, if no appropriate examination of basic charges is conducted, and if basic charges are raised to such levels as substantially exceeding the cost, cross-subsidization an internal assistance from the monopolistic sector to the competitive sector may occur, by utilizing

the surplus income.

For this reason, the GOJ has a concern about the trend of basic charges, and requests that appropriate examination be conducted to secure fair competition.

(4) Governmental involvement in the management of telecommunication operators

As a result of the business deterioration of business environment surrounding telecommunication operators, there appears to be a stronger tendency for the governments of member states to the management of telecommunication operators as their shareholders. For instance, in July 2002, the Federal Government of Germany involved itself in the dismissal of the president of Deutsche Telekom, while in December 2002, the French Government gave financial support for the France Telecom to rescue it. Apart from such governments' involvement in the management of telecommunication operators as a shareholder, there was a case in which the Federal Government of Germany extended loans to Mobilcom in October 2002 to assist financially. Also in several member states of the EU, for some time there have been systems where governments involve themselves in the management of telecommunication operators through sending incumbent government officials to the boards of executives or auditors of such operators. Such governmental involvement in the management of telecommunication operators will distort competition in markets, despite the existence of "independent regulatory organizations" as often referred to by the EU. Accordingly, the GOJ hereby requests that the governments of member states of the EU refrain from being excessively involved in the management of telecommunication operators.

3. Financial Services

[General Comment]

Japan continues to request that the EU introduce a system that would make activities, products, licenses and others approved by one EU Member States, be automatically approved in the other Member States, with no additional procedures required, or only with reporting, because the introduction of such a system would be effective from the viewpoint of creating a single, attractive market for external nations. Regarding documents to be submitted to governing authorities in EU Member States, the GOJ requests that each Member State promptly prepare forms in multiple languages for foreigners, including Japanese, because such an arrangement is considered to be a fast effective step to improve the business environment within Europe. Because the GOJ believes it too troublesome to have to file reports different in content from country to country, and considers that the current arrangement requires improvement from the viewpoint of efficiency, it asks the Commission to harmonize contents of report items and its style. The GOJ hopes that EU efforts will bring progress to unify the financial services market. Although these matters may not be settled in a short period of time, the GOJ hopes for continual efforts by the Commission.

[Country – Specific Issues]

Analysis of the settlement of accounts of parent companies with regard to Japanese enterprise's transactions in Germany

Article 18 of the German Banking Law imposes, on German banks, the obligations of “obtaining the disclosure of financial statements from companies to which credits of EUR250,000 or more have been extended and determining their financial conditions.” In the category of the credit recipients, Japanese parent companies that are the top entities of consolidated Japanese companies are also included. Regarding parent companies of Japanese enterprises transacting with banks, the branches in Germany are obligated to obtain the disclosure of financial statements in German or English of their parent companies and carry out credit analysis of these financial statements in German or English. However, there are listed companies that do not formulate English financial statements, and annual securities reports to be submitted to financial authorities cannot satisfy the aforementioned requirement because these reports are written in Japanese. Furthermore, financial statements disclosed on the Internet are not regarded as formal ones that are acceptable under the law. For these reasons, the GOJ would like to make the following three requests.

- (a) Japanese-language financial statements should be accepted as they are.
- (b) Financial statements announced through the Internet should be accepted.
- (c) Regarding the credit analysis of a parent company, use of the results of analysis implemented by a transacting bank in Japan should be accepted.

4. Automobile

(1) Japan-EU cooperation in realizing international harmonization of regulations for pedestrian safety

Because regulations for the safety of pedestrians have effects on the basis chassis structure for automobiles, the international harmonization of these regulations is highly important. In this regard, European, American and Japanese governments are cooperating in establishment of the global technical regulations based on the 1998 Agreement of the UN/ECE/WP29. In the EU, the study of its draft directive for the protection of pedestrians is underway at the European Parliament and the Council of the European Union.

Since it is vital for the EU to adopt the global technical regulation into their regulation in order to realize the international harmonization of pedestrian safety regulation, The GOJ reiterates its requests for the EU's decision so that the EU will revise the regulation in line with the global technical regulation at the next phase.

(2) Adoption of ECE Regulation Nos. 94 and 95

The Government of Japan has already adopted ECE95 (side crash testing), and is scheduled to adopt ECE94 (offset frontal crash testing) in the next fiscal year. Having taken these steps, the GOJ understands that, with all the issues on non-conformance with related EU directives settled, there are no longer any problem. However, because the EU has not yet made the necessary adoption of these regulations, we cannot utilize certification based on these regulation in the process of the Whole Vehicle Type Approval(WVTA)system.

In order to promote mutual recognition between Japan and the EU, based on the 1958 Agreement, the GOJ requests that the EU promptly make necessary adoption of these regulations and revise the EC directive (70/156/EEC) to make these regulations usable within the WVTA system.

C. Environmental Regulations

Environment

[General Comment]

The GOJ appreciates the positive attitude of the EU in tackling environmental issues. Particularly with regard to the recycling issue, Japan attaches the same importance to it as the EU. Concerning regulations related to this matter, however, they should ensure a sound balance between the purpose expected to achieve in the field of environment and their effects on corporate economic activities, international trade and investments. Such regulations should not impose an excessive burden on enterprises, prevent sound economic activities, or create trade barriers. To prevent these, the GOJ requests that sufficient information be provided continually and that opinions of the Japanese Government and industries, including those on feasibility of regulations in the EU, be fully reflected.

(1) New chemical regulations in EU: REACH (Regulation, Evaluation and Authorization of Chemicals) system

[Note] Related laws/ordinances: 67/548/EEC, 76/769/EEC, 88/379/EEC, Regulation 793/93]

The GOJ understands that concerning the draft chemicals legislation presented by the European Commission in May 2003, the Commission received a lot of comments submitted by related industrial organizations and governments, including the GOJ, and that the Commission is formulating a formal proposal (Regulation) based on these comments.

The new regulation of REACH system may substantially affect not only European manufactures and importers of chemical substances but also Japanese and other foreign companies operating within the EU and companies exporting substances or articles to the EU. With strong interest in the new regulation, the GOJ, therefore, requests that sufficient information be continually supplied to Japan and meeting for exchange of views to be held, including the information about the contents of the formal proposal presented by the Commission and the future deliberation schedule within the EU.

The GOJ proposes to hold meetings separately for conducting detailed discussion on technical issues, and also requests EU's observation about the GOJ's comment dated July 10, 2003, as well as the reply to the Questionnaire attached to the said comment be provided on that occasion.

The basic view of the GOJ regarding the REACH system is as follows:

- (a) The REACH system should not impose excessive obligations or burdens on business operators to comply with the new legislation.
- (b) The REACH system should not impede exports to the EU market nor create unnecessary obstacles to international trade (in particular, with regard to the registration of substances contained in articles, and the provisions should not be

inconsistent with the principles stipulated in WTO agreements).

(c) The REACH system should be consistent with the international activities that aim to harmonize each country's regulatory schemes, enforced or studied at the OECD and other international organizations.

(d) Each Member States should ensure proportionality, transparency and fairness in the application of REACH system.

(2) “Directive on waste electrical and electronic equipment (WEEE),” “Directive on the restriction of the use of certain hazardous substances in electrical and electronic equipment (ROHS),” and “Directive of end of life vehicle (ELV)”

(a) The GOJ understands that WEEE and ROHS entered into force in February this year, and that the Member States shall bring into force the domestic legislations necessary to comply with these directives before August 2004. As Japanese industries concerned have strong interest in the contents of the domestic legislations, the GOJ reiterates that sufficient information should be provided throughout the legislation process in each Member States.

(b) Regarding products or equipments not subject to WEEE, the GOJ hopes for their exclusion from the targets of the ROHS directive. As Japanese industries have already requested that the European Commission exclude industrial-use large-scale establishment-type equipment and business-use large-sized installation-type air conditioners from the targets of WEEE, and the GOJ hopes that these equipments will also be exempted from the target range of ROHS.

(c) As for the exemption from ROHS application, the GOJ requests clarification by means of target example indication. If related industrial circles make additional requests for exemption of application items hereafter, flexible addressing is requested in that regard.

(d) Regarding the European regulation concerning the use of hazardous substances in products, including ROHS and ELV, the GOJ continue to request that realistic standards be established for the method of analyzing hazardous substances and their content volume. In setting the threshold values, there should be a balance between safety and economic considerations within the range of appropriate prevention of environmental conservation barriers, in view of the fact that the costs required for the evaluation and measurement of content are reflected in prices of products.

Speaking of the definition of the threshold values and inspection methods regarding ROHS, it is hoped that they will be unified with those for ELV. On that occasion, however, the GOJ requests that the use of the expression “intentionally introduced” stipulated in ELV not be used for ROHS and some clearer expression be

adopted instead. In addition, for both ELV and ROHS, the unification of inspection methods in Member States would be necessary to implement them.

(3) The Directive on Battery

As for nickel-cadmium batteries, research for alternative products is under way. In the course of such research, however, it has become clear that in some areas no other products can substitute Ni-Cd batteries. Especially, there are no batteries that can substitute Ni-Cd batteries in areas where instantaneous, high electric current is required or where minute current is necessary for a long period of time. As such, the GOJ reiterates that Ni-Cd batteries should be excluded from the restriction of the aforementioned directive as before.

D. Fundamental Matters Related to the Business Environment

1. Work and Residence Permits Systems

[General Comments]

The first step for the environmental improvement for businessmen from non-EU countries, including Japan, is to assure them and their family start and continue stable living to perform their appointed works. In member states of the EU, substantial periods are required for obtaining or renewing work permits, visas, and residence permits, and therefore Japanese companies that have advanced to EU member states have difficulty in transferring and employing their staff members in a planned and smooth manner. In some member states, furthermore, there are cases in which handling is different, depending on government officials; administrative procedures, such as issuance of standards, are unclear; and procedures are extremely complicated. In addition, there are cases in which much time is needed to obtain residence permits, so the persons concerned cannot follow various kinds of procedures required for living, after transferred to their new work location.

For these reasons, the problems of work permits and residence permits have become the largest issue for business administrators, employees, and their family members. In fact, related requests are the largest in number among all the requests made by these people. Although the GOJ evaluates the positive stance on the part of the EU in this field, it asks for further improvement with regard to the time required to issue permits, complexity of procedural documents, and other matters stated below (in regards to Italy, Spain, Greece, Belgium, France, Finland, Portugal, Luxembourg, the Netherlands, Ireland, Germany, and Austria).

Numbers of the transfer of persons from non-EU countries within Europe, including Japan, are increasing. If the acquisition of work permits before entry into a new country is made a condition, a great burden may occur in intra-corporate transferees; in some cases, the employees concerned must wait for a unspecified time before the actual issuance of permits, etc. The GOJ requests in this regard that the filing of applications for residence and work permits after entry to a country be allowed.

The GOJ understands that the European Commission is studying or formulating a draft directive aimed at the simplification and harmonization of the aforementioned procedures. Because the directive is believed to be beneficial for non-EU countries, including Japan, the GOJ hopes the EU will adopt the directive as soon as possible. The GOJ also requests the provision of information on the progress of the arrangement as well as the content of the draft directive.

(1) Proposal for a Council Directive on the conditions of entry and residence of third-country nationals for the purpose of employment and self-employed economic activities

(a) The GOJ understands that the European Commission submitted to the Council of the European Union in July 2001 a proposal for a Council Directive on the conditions of entry and residence of third-country nationals for the purpose of employment and

self-employed economic activities. The proposed Directive aims to simplify and harmonise application procedures for work and residence permits in the EU. The GOJ expects that the Directive would reduce the administrative paperwork for Japanese nationals who intend to work in the EU.

(b) The GOJ welcomes the development in which a modified resolution adopted in last February in the European Parliament proposed a reduction of the period required to handle general work permits applications and an arrangement for making the residence permit for intra-corporate transferees, issued by a certain member state of the EU effective in other member states.

(2) Proposal for a Council Directive related to the freedom to travel of third-country nationals in the territory

The Commission proposed a draft Directive related to the freedom to travel of third-country nationals in the territory in July 2001. The GOJ has been requesting that the draft Directive be carefully studied, believing that, if the proposal is implemented as it is drafted, it will have a significant impact on the trips to Europe by Japanese nationals. The trips have been made under the reciprocal visa waiving arrangements between Japanese and European countries. Currently, the GOJ understands that the discussion of both the European Commission's draft Directive and the Portuguese proposal at the Council of the European Union are blocked, and that they have not progressed. In this regard, the GOJ requests that the following arrangements be made.

(a) As Japan has been requesting, the new Directive should not undermine the reciprocal visa waiving arrangements between Japan and the Member States of the Schengen Convention, which had been made before the Schengen Convention entered into force.

(b) The GOJ has a great interest in the discussions on this issue in the EU, and, therefore, requests close exchange of views and timely provision of information by the EU.

(3) Issues of residence and work permits and visas in Italy

(a) The number of work permits Italy issues is quite small both for independent business operators including members of a board (*Autonomo*) and for dependent workers including managers (*Subordinato*). Furthermore, the announcement of the number of work permits tends to be substantially delayed every year. Such situations make it extremely difficult to implement a smooth change of representatives of Japanese companies. The GOJ requests an increase of the number of work permits and the early announcement of the number in the course of the year.

(b) Because no extension or renewal is allowed for the two-year work permit issued as a temporary measure for dependent workers, the holders of such permit must apply and obtain a new permit when the old one expires. In addition, since they are required to obtain a new entry visa for stay and work in Italy, those who wish to remain in the country after the expiration of the work permit are forced to return home temporarily. This creates difficulties in business activities. The GOJ requests the Italian Government to extend the term of work permits and make the renewal of work permits in Italy at the earliest possible date.

(4) Work visas in Spain

Work visa issuance in Spain is, by and large, getting less time-consuming than it used to be, and the GOJ appreciates the efforts made by the Spanish authorities. On the other hand, it still takes more than half a year in some cases and therefore it is difficult to predict how long it will take to obtain visas. To ensure smooth business operation, the GOJ requests that the Spanish Government further shorten the processing period and set as well as announce the standard processing period.

(5) Foreign business identity card (*la carte d'identité de commerçant étranger*) in France

(a) Non-EU nationals are required to obtain foreign business identification cards when they assume a position on the board of directors of a French company. However, the documents necessary for the application are numerous. The GOJ requests that application documents for foreign business identification cards be simplified.

(b) It takes three to four months to obtain foreign business identification cards in regular cases and as many as half a year in some reported cases. On the other hand, foreign business identification cards have to be renewed every year when renewing residence permits which is valid for only one year. Therefore, the GOJ requests that the situation be improved by simplifying the procedure for the renewal of foreign business identification cards and by extending the validity period of the cards to several years.

Furthermore, there are cases where renewed foreign business identification cards are required in applying for the renewal of residence permits, while renewed residence permits are required in applying for the renewal of foreign business identification cards. The GOJ requests the clarification of the procedures.

(6) Work and residence permits in France

The number of days required for obtaining work and residence permits is large, and this causes difficulties for Japanese business people and companies in moving to France region and arranging personnel reshuffles. The procedures also make it almost

impossible to address urgent and emergency situations. The GOJ continues to request a further reduction of processing time and simplification of the procedures. Moreover, France is also requested to extend the period of validity of work and residence permits from the current one year to two years.

(7) Work permits in Belgium

We recognize that the Belgian Government has been making efforts to improve procedures with regard to the issuance of work permits and professional cards, there still are cases where ways to process the applications differ depending on “communes” and a long time is required for the issuance. The GOJ continues to request thorough implementation of related rules by Belgian officials in a uniform manner and the shortening of the processing period.

(8) Residence and work permits in Greece

After the institution of a new immigration law in June 2001, revised procedures have not been completely followed at terminal offices, and confusion is still seen. As there have been reports on cases in which more than one year has passed before the issuance of residence permits, a long time is required between an application and issuance, and this situation causes serious difficulties as to business activities. The GOJ continues to request simplification of application procedures, thorough unification of processing practices and faster handling of applications. The GOJ also requests an extension of the validity period of residence and work permits from the present one year to three years.

(9) Work permits in Finland

The GOJ understands that, in response to work permit applications, one-year work permits will first be granted, and subsequently upon their renewal, work permits for one or two years can be provided in accordance with the scheduled residence period. In many cases, however, work permits only valid for one year are issued. Furthermore, renewal processing requires about three months, so this state of affairs imposes a significant burden on Japanese nationals trying to do business in Finland. Therefore, the GOJ requests the expeditious issuance of work permits that are valid for a period corresponding to the period of the applicants' stay.

(10) Work permits in Luxembourg

Procedures for obtaining work permits take a substantial length of time, and because necessary documents are diversified, the complexity of procedures for extending work permits has not yet been solved. Regarding work permits for Japanese employees recruited in Luxembourg, there were cases in which permission was refused after examination for two to three months for reasons of the applicant's having insufficient specialised techniques. The GOJ requests that in the EU reply made in

June this year, no reply from Luxembourg was made, so the GOJ continues to request Luxembourg to improve their system by simplifying the procedures and by shortening the processing period.

(11) Residence and work permits in Germany

About two months are required from the filing of an application for a work permit to its acquisition, after entering Germany. During this period, salary cannot be provided, so this state of affairs causes much difficulty for working and living of Japanese representatives. Furthermore, in the cases of applying for issuance or renewal of residence permits, responses by German officials concerned differ from person to person. The GOJ, therefore, requests simplification and faster issuance procedures for residence and work permits.

(12) Residence and work permits in Portugal

In Portugal, the periods required for the issuance or renewal of residence and work permits are varied, and there are reported cases of different way of handling depending on the officials concerned. Therefore the GOJ requests faster handling, the public announcement of standard processing periods, and other procedural clarification including disclosure of written guidance for processing procedures. Moreover, the application period for renewal of work permits is too short (application receipt begins only one week prior to invalidation). This hampers business trips, etc. To rectify this state of affairs, the GOJ requests an extension of the current period.

(13) Suspended application of the Intra-Company Transfer Scheme in Ireland

The enforcement of the Intra-Company Transfer Scheme, a work permit requirement exemption system introduced in April 1999, has been suspended since October of last year for reasons of abuse by entrants from certain countries. This has been the largest pending problem for Japanese companies. Currently, most Japanese employees of Japanese companies that have advanced to Ireland have entered the country based on the said system. Unless the enforcement of this scheme is resumed, Japanese companies will have to follow procedures for obtaining work permits, which will impose time-consuming (about 2 months after submission of application), pecuniary, and labour burdens on these enterprises. Such being the case, the GOJ requests prompt resumption of the system.

(14) Work permits issuance standards in the Netherlands

If a Japanese company is to employ a Japanese national in the Netherlands, the Japanese person must obtain a work permit. However, the issuance of work permits is limited, in principle, to cases in which recruitment activities for the post in question have been implemented extensively in the entire EU region, etc., and in which persons with an EU nationality cannot meet recruiting requirements. This imposes a serious

recruiting expense on the Japanese companies operating in the Netherlands. In addition, work permits can only be granted to managerial personnel receiving an annual salary of 50,000 Euros or more, so it has become difficult to employ young Japanese who do not yet possess advanced techniques. The GOJ, therefore, requests the Netherlands Government to improve work permits issuance standards.

(15) Restriction of work permits issuance in Austria

In the case of Japanese companies whose customers are mostly Japanese nationals, employment of Japanese staff members is necessary to provide expected services to Japanese customers. In Austria, however, the employment of Japanese staff members is conditioned on that of Austrians. Furthermore, regarding the hiring of Japanese employees would be Japanese staff has to earn a certain level of salary to be granted work permits. In this regard, the GOJ requests that Austria take flexible measures on work permits and improve issuance standards.

2. Driving Licenses

[General Comments]

The acquisition of a driving license is one of the most fundamental requirements for representatives of Japanese enterprises and their family members to reside and conduct business and other activities in Europe. It is desirable that Japanese driving license can be exchanged for to one of the member state of the EU. In addition, it is necessary for the representatives of the Japanese enterprises and their family members to be able to drive cars in Japan with their Japanese driving licenses, when they temporarily return home for business or private reasons.

From the viewpoint of preventing illegal actions arising from the possession of more than one driving license of the Community model within the EU region, the European Commission requires through the Council Directive on Driving Licenses (1991/439/EEC) that, in exchanging licenses issued by third countries (non-EU nations including Japan) for Community model licenses, the applicants to surrender their licenses issued by their home country. This has caused a problem where Japanese representatives and other Japanese nationals who have exchanged their driving licenses can not drive cars in Japan when they return home, as they have surrendered their Japanese licenses.

Concerning this issue, the GOJ intends to seek constructive solutions for both Japan and the EU, without taking measures that would impose a great burden upon Japanese, in light of the growing trend that many Japanese, including corporate representatives, are dispatched to stay in Europe.

Virtual ban on the exchange of the Japanese driving licenses for Greek ones

The GOJ understands that, based on the Presidential Order issued in March 2001, Japanese driving licenses can be exchanged for Greek driving licenses. As the exchanging procedures, Greece demands the submission of certificates of correct translation issued by the Greek Ministry of Foreign Affairs or by a lawyer registered in Greece. In fact, however, the Greek Ministry of Foreign Affairs does not handle the translation of the Japanese language into Greek, and there is virtually no Greek lawyer who can understand Japanese, so it is impossible to obtain a certificate of correct translation. Although there is a system for exchanging Japanese driving licenses for Greek ones, their actual exchanges are impossible.

The GOJ requests that the Greek Government solves the aforementioned problem by accepting certificates of correct translation issued by the Japanese Embassy in Greece or by some other means, at the earliest possible date.

[ADDITIONAL POINT] Social Security

Although the GOJ recognizes it as a field where Japan-EU cooperation is progressing, the burden of double payment for social security is a considerably large problem not only for companies already operating in Europe but also for companies planning to extend their business in Europe hereafter. As such, the GOJ hopes that both Japan and the EU will continue to make their efforts in this field. In the EU, the movements to expand the application of the Regulation on the Application of Social Security Schemes to Employed Persons and Their Families Moving within the Community (1408/71) to third country nationals and the formulation of a directive concerning the corporate pension plans are also underway. The GOJ appreciates these movements and also expects their further development, considering that they will lead to the promotion of labour transfer within the EU market.

(Annex 1)

Tax system

The following issues are introduced as matters pointed out by Japanese private companies, differing from other requests of the GOJ.

(1) The merger directive of 1990 to be applied to mergers, transfer of assets, stock transfer, etc.

The merger directive of 1990 to be applied to mergers, transfer of assets, stock transfer, etc., provides for taxation steps for deferring evaluation if reorganization of a body is carried out within the EU, but the range of such reorganization, which is the object of the taxation steps, is specified, so that the reorganization is rather difficult to implement. In particular, during the inner group reorganization, such as conversion of locally incorporated subsidiaries into branches, executed by many Japanese enterprises in Europe, it is difficult for these enterprises to carry out reorganization based on their needs.

Because unified handling is not implemented in connection with enforcement of the directive, enterprises considering reorganization of their groups in Europe must take the differences into consideration in the handling in related member states of the EU. This imposes a significant burden on them in terms of work and cost, hampering simplification of organizations. Specifically, some EU member states require maintenance of shares obtained in exchange for assets for several years. As a consequence, even when all assets are converted into shares, and the company becomes an empty company, it is necessary to maintain that company to hold the shares. In this case, not only are expenses needed to maintain the company, it is also necessary to give part of dividends from the European Head Office by means of the empty subsidiary, so that there is a possibility of having to pay excessive withholding tax on dividends. The GOJ, therefore, requests that their rules for obligatory possession of the shares will not become substantial obstacles for restructuring of companies.

According to the EU reply in last year, the European Commission was discussing with EU member states how to expand the scope and improve the conditions of the merger directive, and the Commission was scheduling to submit a modification plan in the summer of 2003, the current situation is expected to be explained.

(2) Harmonization of transfer pricing taxation

Although the GOJ understands that tax authorities of member states of the EU operate transfer price taxation in line with the OECD rules, enterprises recognize that work to observe the transfer pricing taxation is complicated and costly. It is true that the introduction of advance price arrangements is progressing gradually, but conditions

differ from one country to another country, so that enterprises are forced to take different steps depending on the country concerned. The tax system communication announced in October 2001 recognizes that the cost of observing the transfer pricing tax is high. It is hoped that a policy to virtually reduce the observance cost of the transfer pricing taxation will be formulated at an early date.

(3) Harmonisation of value added taxation

The procedures and operation related to value added tax (VAT) are greatly different among tax authorities of individual member states. This constitutes an obstacle to business operations conducted in recognition of the EU as a unified market. In this regard, we highly evaluate the efforts of the European Commission to simplify the entire VAT system, including shortening the waiting period for refund procedures and to make operations of current VAT rules more unified, and we hope the further initiatives of the European Commission in these matters.

(4) The tax imposition on transfer of goodwill beyond national borders

Among Japanese enterprises operating in Europe, it is not a small number of them which are tackling reorganization in order to adapt their structure to the single market. In making their structure pan-European, optimal placement of various functions is very important, and in many cases some management assets are required to be transferred beyond national borders. The merger directive provides for steps to defer tax imposition that may occur in such a transfer of assets beyond national borders.

In case of reorganisation of Japanese enterprises, there are many cases in which goodwill is required to be moved beyond national borders. However, goodwill is not included as objects of deferred taxation based on the merger directive. For this reason, there is a possibility that substantial tax imposition will occur, depending on the case. Because of the effects of this possible tax imposition, some companies have given up implementation of reorganisation. This situation constitutes an obstacle for reorganisation.

The European Commission indicated in the annex of a communication announced in October 2001, its recognition, as a problem, that tax imposition on goodwill transfer will not be an object of deferred taxation based on the merger directive. On evaluating the recognition consciousness of the European Commission, the GOJ requests that the Commission and member states of the EU promptly amend a tax system so that taxation on goodwill transfer on the occasion of reorganization will be an object of deferred tax imposition, with the tax imposition right remaining in the country that the goodwill is transferring from. The GOJ also requests that the Commission continues to study expanding the scope for objects of deferred taxation based on the merger directive include real estate transaction tax and other intangible

asset transaction taxes, that may often arise in the course of reorganization.

(5) Unification of the corporate taxation basis based on International Accounting Standards (IAS)

Under the regulation of the European Parliament and the European Council (Regulation /EC/1606/2002), listed enterprises in the EU are required to formulate their consolidated financial statements in accordance with International Accounting Standards (IAS) from 2005. Under the regulation, however, it is each member state of the EU that recognizes whether IAS will be applied to unconsolidated settlement of accounts or statement of accounts of unlisted companies, such as subsidiaries of many Japanese enterprises.

As a result, while listed companies will be able to formulate a single set of financial statements, based on the same accounting standards, while unlisted companies that operate in multiple countries, including those that do not recognise IAS, will have to formulate multiple sets of financial statements, based on multiple accounting standards. They will, therefore, be forced to bear larger financial statement formulation expenses. This means that different treatment will be made between listed and unlisted companies concerning expenses for preparing financial statements.

For many companies having world headquarters outside the EU, including Japanese companies, it is exceptional to have their European subsidiaries listed on stock exchanges in European countries. It is strongly requested that, within the single EU market, the companies, whether they are listed or not, be able to select the formulation of settlement of accounts based on IAS.

At the same time, the GOJ understands that the EU is currently studying the unification of the corporate taxation basis. Such an initiative shows the continual efforts of the EU to unify the market in the EU. The unification of the corporate taxation basis will signify great improvement in the EU business environment also for Japanese enterprises, so we look forward to seeing further progress in this domain.

Furthermore, the GOJ understands that it has been proposed to use IAS-based financial statements as the starting point for the corporate taxation basis. As stated above, under the present situation, it is up to the policy of each EU member state whether IAS-based financial statements are recognized for unlisted companies. It is pointed out that, as a result, there is a possibility that some of unlisted companies will be excluded from the benefits of the corporate taxation basis unification. Also in this regard, the GOJ would like to stress the necessity for acceptance of IAS-based financial statements for all companies, whether they are listed or not, within the EU.

(Annex 2)

Requests Regarding Countries Scheduled to Join the EU

Ten countries including Central and Eastern European countries scheduled to join the EU are expected to newly participate in the Japan-EU Regulatory Reform Dialogue from 2004. Therefore, the GOJ inquired Japanese companies in these countries about what requests they have at the present stage, and some of the findings are shown below. These will not be the objects of dialogue for this year, but the GOJ wishes the EU to examine them for next year's discussion.

1. Residence/Work Permits

Japanese companies hope for simplification of application documents and for ensuring the transparency of application procedures.

(1) Application documents

Because application documents are complicated, simplification is desired. What documents are required to submit are, in some cases, unclear. For instance, regarding health check documents, whether they should be those issued in the country concerned or in Japan is not clear, in some cases.

(2) Application places and applicants

Clarification is requested as to whether the place of application should be Japan or residence country, or whether it is possible to make an application from any other country. Clarification should also be made as to whether application should be submitted by the applicant or can be submitted by his or her proxy.

2. Exchange of Driving Licenses

Currently, driving licenses can basically be exchanged between Japan and member states of the EU. The GOJ requests that exchanges from Japanese driving licenses to licences of resident countries be permitted without any additional requirements in all new member states.

3. Faster Customs Clearance Processing at Local Custom Offices

Ensuring the unified interpretation and implementation of various laws concerned and faster customs procedures at local customs offices are required.