

UK-Japan 21st Century Group 32nd Annual Conference

Chairmen's Summary

The 32nd Annual Meeting of the UK-Japan 21st Century Group was held at Ditchley Park in Oxfordshire from 4-6 September 2015. The meeting was chaired by the Rt Hon Lord Howard of Lympne, UK Co-Chairman, and the Hon Seiji Kihara, Acting Japanese Co-Chairman.

The 18 British and 16 Japanese participants included parliamentarians and senior representatives from business, the media, academia, think tanks and the diplomatic service from both countries.

London programme

The Japan Society and the Japanese Chamber for Commerce & Industry hosted a luncheon meeting for the Group at the Cavalry & Guards Club on the 3rd of September. The discussion was chaired by Sir Graham Fry, British Ambassador to Japan from 2004 to 2008, and was attended by conference delegates, corporate members and other guests as a prelude to the conference discussions.

On the evening of the 3rd of September, a Reception to welcome the Japanese delegation was hosted by the Foreign & Commonwealth Office and presided over by Lord Maude of Horsham, Minister of State for Trade & Investment.

The London programme concluded with a dinner for both Japanese and British conference delegates, hosted by His Excellency Ambassador Keiichi Hayashi at his residence.

Ditchley Park Conference

In their opening remarks, the Co-Chairmen spoke of the many positive developments in UK-Japan relations since the last conference. The official opening of the new Hitachi train factory in North East England and the announcement of a major new investment by Nissan on the previous day were timely reminders of the important role that continued to be played by inward investment from Japan into the UK. It was also noted that both Hitachi and Toshiba had become key investors in new nuclear power stations in the UK and the recent purchase from Pearson of *The Financial Times* by Japan's *Nikkei* group added yet another dimension to the UK-Japan investment relationship.

The Co-Chairmen stressed the importance and topicality of the conference session themes and the opportunities that might be explored for future cooperation between the two countries. Given the great uncertainties that the world was facing, the conference would seek to identify issues on which the UK and Japan might work together to make a difference.

It was noted that a number of proposals from the 2014 conference had been acted upon and that the role of the Group in generating valuable recommendations was recognised by both governments.

Session 1: Latest Developments in UK Politics and the Economy

The Group discussed the current state of UK politics in the aftermath of the recent general election. Prime Minister Cameron had confounded the pollsters and the pundits by winning a majority, giving Britain its first Conservative government since 1992-97. The economy looked relatively strong and George Osborne, the Chancellor, had set out plans to eliminate the fiscal deficit. Meanwhile, the opposition parties have been in disarray. The Liberal Democrats, Mr Cameron's former coalition partner, had lost all but a handful of their seats while the Labour party was locked in a debilitating leadership contest.

Among the big challenges facing the new government was the continuing possibility of Scottish independence, against the backdrop of the election of 56 Scottish National Party (SNP) MPs out of Scotland's 59 Westminster seats. Mr Cameron also faced tough negotiations with European Union partners on changes to the UK's relationship with Brussels. While the polls suggest that he will win the promised referendum on continued EU membership, the political mood in the country remains febrile, with populists of right and left likely to advocate withdrawal.

The perspective of Japanese investors in the UK on a forthcoming EU referendum was discussed, with particular reference to the need for greater transparency in the government's approach to the negotiations. In the run-up to the referendum, Japanese companies were encouraged to voice their concerns on what Brexit might mean for their operations in the UK and Europe.

Session 2: Latest Developments in Japanese Politics and the Economy

The Group discussed developments in the current political, diplomatic and economic landscape of Japan. Politically, the leadership of Prime Minister Abe remained stable with his support rating resurging after the announcement on 14 August of the statement regarding historic issues. The Group considered that the statement was welcomed largely both within Japan and by Japan's friends abroad.

Diplomacy under the Abe government was considered to be very active, with possibilities of a trilateral meeting of the leaders of Japan, China and Korea in November on the fringes of APEC, and President Putin's visit to Japan on the horizon. The Group discussed those areas in which the UK-Japan relationship might be further strengthened in this climate. Areas such as defence and healthcare were identified along with the possibility of the development of more tangible US-UK-Japan trilateral cooperation to deal with new realities in the Asia Pacific region. With 11 bilateral ministerial meetings to take place in the coming months, the relationship between the two countries was certainly robust and it was acknowledged that if Japan won the upcoming election for non-permanent UN Security Council membership, there would be many instances for the two countries to work together.

Much interest was manifested in the progress of 'Abenomics' and in particular the status of the third arrow promoting deregulation. A range of opinions were expressed. Numerical

targets such as achieving 2% inflation level in order to exit the deflationary trap, along with whether GDP forecasts for both 2015 and 2016 would be realised remain important indicators. At the same time, it was pointed out that trends, such as Japanese companies focusing increasingly on ROE figures to measure their achievements while conducting robust M&A activities abroad, were also important to judging the success of Abenomics.

Reaching an agreement on TPP was considered vital not only for the economy of Japan but also as an important infrastructure for regional integration and development.

Session 3: The Future of Europe and the Eurozone

The Group discussed the future of the European Union, an issue that went beyond the UK's terms of membership to the wider situation of Europe and the politics of individual countries.

Most of the 19 member countries of the eurozone were enjoying economic growth, as were (more strongly) such non-euro members inside the European Union as the UK, Sweden and Denmark. However, this economic recovery was too mild and too recent to have had much impact on unemployment or to have generated rising living standards and a "feelgood" factor.

The result was that populist, anti-establishment, anti-EU, anti-euro and above all anti-immigrant political parties continued to prosper in most EU countries. The key dangers for Europe were the British referendum in 2016 or 2017, and the French presidential and parliamentary elections in 2017.

The rise of populist nationalism was trapping Europe in a vicious cycle: Europe's failure to gain control of crises such as the flow of refugees from Middle East/North Africa, or to build a full single market, or to agree a pact of regulatory convergence with the USA (TransAtlantic Trade and Investment Partnership) or to build an energy union to reduce dependency on Russia and lower costs, or to deal with sovereign debt burdens in the eurozone was feeding the anti-establishment, populist rise; but in turn that rise, with associated nationalism throughout domestic politics, was helping prevent Europe from achieving these goals.

In consequence, the 28-member European Union has a choice between three paths, none of them easy:

- 1) Muddling through, hoping economic recovery aided by cheaper oil would reduce unemployment enough to dampen populism, and then allow some form of re-launch
- 2) New initiatives for collective solutions to refugees, slow growth, energy and debt relief led by Germany, France and (ideally) Britain signalling a recovery both of the European economy and of the region's geopolitical position
- 3) The dismantling and eventual collapse of the European Union, a lengthy and disputatious process probably triggered by British withdrawal (though not immediately), and a return to national solutions

It was agreed that the planned EU referendum was of great importance to the UK and to the future direction of Europe. Structural problems were embedded in integration, with the result that the concept of 'ever closer union' was losing its appeal. The current European situation was cited as a clear example of 'trilemma', referring to the impossibility of having democracy, national sovereignty and deep economic integration at the same time. Given the significant divergence in views among member states on policy prescriptions to address the current economic malaise, the region's policy makers needed to reach a common understanding over the best combination of monetary policy, fiscal policy and structural reform.

The greater crisis in Europe was identified as a lack of leadership within the European Commission and member states. The refugee crisis - being handled by 28 countries separately when there was a need for a collective solution - was a dramatic case in point.

Session 4: Climate Change and Energy Policy Issues for the UK and Japan

The Group discussed the current global energy situation where the top headline was the decline of oil prices that had more than halved since its last meeting. This shift has had a positive impact on Japan in boosting its economy by fostering growth and reduction of the trade deficit, while for the UK as a supplier of oil, the drop in oil prices has had a negative impact, not only for companies in the industry but also for the government in terms of loss of tax revenue.

The official adequate energy mix for Japan in FY2030 has been decided with the proportion of nuclear energy targeted between 20-22% of the total energy supply. Deliberations in Japan have been driven by various factors including the necessity to establish a viable position in preparing for COP21 in Paris and the recognition that the current level of dependency on fossil fuels was neither desirable nor sustainable. Meanwhile the operation of nuclear reactors in Japan has been resumed at a few sites but national opinion on the issue remains divided and the focus of the debate is not solely about the economy but about winning the hearts and minds of those who are strongly opposed to the use of nuclear energy after the Fukushima Daiichi incidents.

There are many challenges in tackling climate change and implementing energy policies that will lead to low carbon emissions. As the two countries share these common goals, several areas where collaboration was vital were identified, namely (1) working towards the success of COP21 (2) working toward a decarbonised energy sector which includes among other elements technological cooperation for UK nuclear new build, decommissioning nuclear plants, waste management planning, and exchanging experience of regulatory frameworks and practices in the energy sector, including deregulation of the power market, and (3) expanding the market for renewable energy.

Session 5: Defence and Security Challenges for the UK and Japan

The Group discussed the defence and security challenges facing the UK and Japan. A fundamental issue for the UK was its position in the NATO Alliance that remains the cornerstone of its defence. The Security and Defence Strategic Review (SDSR) will focus geographically on Russia and the Middle East and on cybersecurity, seen as an increasingly important element in the UK's defence. It was hoped that the SDSR might also take into account the importance of the Asia Pacific region to Britain's security.

With respect to current security challenges from Russia and elsewhere, it was noted that the UK and Japan shared an interest in a rules-based system and could benefit from closer consultation and collaboration. The threat of ISIS and the collapse of nation states in the Middle East posed a further regional threat and the importance of NATO-partner countries in this context was stressed.

Japan has embarked on a number of reforms in the area of defence during the second Abe administration, including enacting a law to protect special secrets, relaxing the ban on the export of weapons in 2014 and, more recently, seeking to change the interpretation of Article 9 of the Constitution. The security-related bills are currently being debated in the Diet. These Japanese efforts, which enable Japan to play a larger role for the peace and security of the international community, are supported and welcomed by the UK.

The Group discussed the recent statement by Prime Minister Abe, which it also welcomed.

In the defence and security framework of both countries, it was agreed that international cooperation was key in addressing the challenges of rapidly-evolving technology and globalisation.

Session 6: Opportunities for UK-Japan Collaboration in Science & Technology Innovation

The Group discussed the ways in which science and technology innovation were being pursued by companies in the UK and Japan. Presentations by representatives of Hitachi Ltd and Rolls Royce Japan Co Ltd focused on the challenges of globalisation, such as overcoming corporate culture differences, and the opportunities for the business sectors of both countries. There was general recognition that the magnitude of the latter was much greater than the former, leading to greater potential for close collaboration in science and technology.

Various areas for further enhanced collaboration were identified, namely (1) gaining more widely from the technological strengths of universities, in particular, in the case of British companies in Japan (2) possible establishment of start-up incubation centres backed by

companies in both countries to foster entrepreneurship (3) for the Japanese government to emulate the policy of the British government in providing tailor-made close assistance to companies that they wish to attract for inward investment.

The Group also discussed the possibility of widening the scope of this agenda item to include enhanced collaboration between universities in the two countries and to augment the number of British students studying and researching in Japanese higher education institutions.

Session 7: Approaches to Social Security Issues in the UK and Japan

The Group discussed the challenges of demographic change facing both the UK and Japan and of social security provision for both the elderly and the disadvantaged. While Japan's economic success has contributed to its high longevity levels, its low birth rate and changes to the social fabric are having a great impact on health and social welfare needs and increasing social security costs for pensions, medical care and welfare programmes. A growing focus on healthy life expectancy is leading to the creation of state-of-the-art medical technologies and services geared towards a healthy ageing society. This has been a particular focus of government initiatives that have sought to generate new industrial activity in this realm.

Like Japan, the UK's population is ageing but at a less rapid pace. This has been balanced to some extent by the increasing birth rate. Nevertheless, the costs associated with greater longevity and social protection are similar in the two countries and have been subject to inflationary pressures.

The dramatic changes in the size and shape of the British welfare state over the 70 years since the Beveridge Report were outlined. Overall spending on social security had ballooned since the creation of the welfare state with significant changes over the years in the groups prioritised and the methods used to deliver support.

From the 1990s greater focus had been placed on benefits for families and pensioners, and there had been an increased emphasis on encouraging people to take up work. A wide-ranging package of welfare reforms were initiated under the Coalition Government, aimed at reducing social security spending and rebalancing incentives within the system.

Societal change has also seen an increasing proportion of pensioners in both countries engaged in post-retirement work, including voluntary work. Japan and Britain could usefully compare experience in these areas.

After-Dinner Speech: International Trade and the Global Economy

Debra Valentine of Rio Tinto made an excellent presentation on the importance of free trade, which led to a lively discussion on the need to educate and mobilise public opinion so that

some of the misunderstandings about the implications of free trade agreements were put into context and public concerns addressed.

Session 8: Chairmen's Summary Dialogue

Since the UK-Japan 21st Century Group's last conference in Hakone in May 2014, there has been significant progress in a number of areas.

On an official level, there have been visits to Japan by the UK Foreign Secretary; the Speaker of the House of Commons; the Lord Speaker of the House of Lords; the Scottish Secretary for Culture, Europe and External Affairs; the Permanent Under-Secretary for the Foreign & Commonwealth Office; the Commercial Secretary to HM Treasury; the Secretary of State for the Department of Culture, Media and Sport; and Ministers for the Department of Energy and Climate Change and for UKTI.

In addition to delegations from the House of Councillors and the House of Representatives, official visitors from Japan have included the National Security Adviser to Prime Minister Abe; the Foreign Minister; the Defence Minister; the Parliamentary Vice Minister for Foreign Affairs; and the Vice Minister for Foreign Affairs.

The first visit of HRH The Duke of Cambridge, to Japan in February 2015 was a particular highlight of the past year. The Prince's itinerary in Japan reflected the strong historic ties between the two countries and the strength of the business and cultural relationship. The Prince's stay also included a visit to the Tohoku region to show his support to the survivors of the Great East Japan Earthquake and Tsunami of March 2011, a gesture that was gratefully acknowledged by Prime Minister Abe.

A number of the recommendations made at the Group's 2014 conference have been acted upon.

Negotiations towards an EU-Japan Economic Partnership Agreement (EPA) have developed through eleven rounds, with steady progress most recently being made in the areas of services, non-tariff barriers and geographical indications and future rounds looking to the agricultural and automotive sectors. The EU-Japan Summit in May 2015 reiterated the target date of the end of 2015 for reaching agreement on an EPA.

The Group's recommendation that opportunities should be sought to cooperate in Africa on trade and investment as well as development had been followed up through high-level visits by British and Japanese counterparts to discuss specific areas for future collaboration.

The first UK-Japan Development Dialogue was held in 2014 and covered a range of issues, including cooperation between the two countries in the area of improving global health provision.

The inaugural 2+2 meeting (of Foreign and Defence Ministers) was held in London in January 2015 and agreed cooperation in such areas as disarmament, non-proliferation, and

conventional arms control, as well as export control of arms and dual-use items and technologies.

A Defence Equipment Cooperation Agreement between the two countries has provided a framework for the joint development of defence equipment, and an Information Security Agreement has facilitated the sharing of classified information. Both are serving to support an increasingly close defence relationship.

Meanwhile, UK-Japan government-to-government defence equipment collaboration is rising with two collaboration projects under way and more under consideration. Attendance by British and Japanese defence industry specialists at trade shows and exhibitions in both countries has become another feature of the potential for closer collaboration.

As part of Prime Minister Abe's visit to the UK in May 2014, a UK-Japan Joint Statement on Climate Change and Energy Cooperation was agreed. This outlined future activity in these areas and the promotion of cooperation in public and private sectors. Both countries are looking ahead to COP21 (the UN Climate Change Conference) in December 2015 and to working together to achieve a strong global deal on climate change.

There has been closer cooperation between the UK and Japan over the last year in the civil nuclear field and, in particular, in the areas of Fukushima Dai-ichi decommissioning and clean-up. An agreement signed in the presence of Prime Minister Abe in May 2014 between Sellafield Ltd and TEPCO's Fukushima Dai-ichi Decontamination and Decommissioning Engineering Company has resulted in a number of reciprocal visits and monthly virtual meetings to share experience. A further cooperation agreement between Japan's NDF and the UK's NDA has allowed for regular contact and discussion on tackling the strategies to meet decommissioning challenges. Exchanges of specialist researchers and academics have supported these efforts.

Following 2014 conference discussions on the role of women in public and corporate life, the Foreign & Commonwealth Office has been working on a project to bring together future women leaders from the UK, the Republic of Korea and Japan, using the Olympics as a theme, linking London 2012, Seoul 2018 and Tokyo 2020. There was high-level representation from the UK at the Womenomics meeting hosted by Prime Minister Abe in September 2014. A follow-up World Assembly of Women (WAW! 2015) took place in Tokyo, in August 2015, once again with UK involvement.

UK-Japan cultural collaboration has seen major touring exhibitions from the V&A, the Royal Academy, the Tate and National Museums Liverpool come to Japan in 2014/15 in addition to contemporary work from the British Council collection. In the performing arts, tours of a National Theatre production and visits to Japan by the Royal Liverpool Philharmonic Orchestra, the Royal Opera and the Royal Ballet have taken place or are planned.

Tokyo 2020 is providing an opportunity to draw lessons from the London 2012 Cultural Olympiad in planning an ambitious cultural programme.

In the area of higher education and research collaboration between the UK and Japan, the British Council has continued to play an active role. The Council co-hosted a roundtable on global research competitiveness with the British Embassy Tokyo, Elsevier and *Times Higher Education* in June 2015. The second Japan-UK Universities Conference for Collaboration in Research and Education is being co-organised by the British Council and Keio University in October 2015.

The Group welcomed such initiatives as the five-year Global Seminar Series (2013-17), funded by the Nippon Foundation and the Great Britain Sasakawa Foundation and carried out in partnership with Chatham House. Meanwhile, the Sasakawa Japanese Studies Postgraduate Studentship Programme (2014-19) continues to provide valuable support for Japanese Studies in the UK.

The launch of Daiwa Scholarships in Japanese Studies in 2015 by the Daiwa Anglo-Japanese Foundation, with the support of Daiwa Securities, has added to the Foundation's generous programme of UK-Japan grants and scholarships and given a further boost to UK nationals pursuing postgraduate degrees in Japanese Studies at universities in the UK and Japan.

The infrastructure for UK-Japan cultural and educational cooperation is well-established and robust in both countries. Plans for a Japanese government-led 'Japan House' development in London will bring a further dimension to the relationship.

The following recommendations emerged from discussions at the 32nd Annual Meeting of the UK-Japan 21st Century Group.

Recommendations 2015

Japan-EU Economic Partnership Agreement

- The Group recommended that the importance of EPA alongside TPP and TTIP be stressed to both governments to ensure the maximum impact of these new trade relationships, and to build momentum towards a global trade agreement.
- The Group recommended that governments should consider how best to improve public engagement and understanding, with efforts to explain the purpose behind and the impact of trade agreements.
- The Group hoped that the 2015 target date for conclusion of the EPA agreement would be met.

Trade and Investment

- The Group welcomed recent major investments by Japan in the UK and recommended that Japanese investors were given a clearer understanding of Britain's negotiating position within the EU and what this might mean for the future of Europe and the future of Japanese companies in the UK.
- The Group noted the strong views expressed by members of the Japanese delegation and members from the UK business community that the UK should remain a member of the EU.
- The Group noted the importance for Japan and the UK to have closer consultation on the implications of the AIIB in the context of the need for high quality infrastructure financing through transparent procedures.

Defence and Security Cooperation

- The Group recommended that the UK and Japan build on previous discussions in collaborating further on international cyber security.
- The Group welcomed the 2+2 talks that had taken place earlier in the year between UK and Japan Foreign and Defence Ministers and the opportunities for enhanced collaboration in the joint development of defence equipment and in other areas of defence and security. If the security legislation is passed by the Japanese Diet, the Group hoped that it would create further opportunities for the UK and Japan to work more closely together.

- The Group hoped that the UK and Japan would work towards a closer shared understanding of Russia's relationships with neighbouring countries.
- The Group recognised the rise of China and expressed their desire that the region will maintain its stability based on the principle of the rule of law.
- The Group hoped that the SDSR would take into account the importance of the Asia Pacific region to Britain's security
- The Group welcomed the regular briefings on defence collaboration received from the FCO and the Embassy of Japan London and recommended that these be continued.

Climate Change and Energy Policy

- The Group recommended enhanced cooperation between the UK and Japan towards the success of COP21 and the successful adoption of a post-2015 development agenda and sustainable development goals.
- The links between COP 21 and earlier summits in July 2015 on the New Development Partnership and in September 2015 on the Sustainable Development talks were noted. Both governments were encouraged to take a positive and integrated approach to these summits and their outcomes.
- The Group recommended enhanced cooperation between the UK and Japan in decarbonising the energy sector, particularly in the areas of decommissioning technology, renewable energy, energy efficiency and carbon capture and storage.
- The Group recommended that the UK share with Japan its experience of regulatory frameworks and practices relating to deregulation of the electricity market.
- The Group recommended closer collaboration between the UK and Japan in exploring energy efficiency measures and R&D and business models for the renewable energy sector.
- The Group welcomed the UK's willingness to enter into public debate on the reopening of nuclear power plants in Japan and recommended that both countries join in publicly addressing the science and the safety issues surrounding nuclear power in the post-Fukushima environment.
- The Group welcomed the involvement of Japanese companies in the UK nuclear industry and a deeper cooperation in the UK nuclear new build programme. It expressed the hope that UK companies will be encouraged to make a significant contribution to nuclear decommissioning in Japan.

Cooperation in Science & Technology Innovation

- The Group suggested that more could be done in the area of science & technology innovation to encourage UK universities to engage with Japanese companies and Japanese universities to engage with UK companies in seeking common areas for

collaboration. It was recommended that a future conference session specifically address this subject.

- The Group recommended that, in the run-up to Tokyo 2020, the UK work with Japan to share the London Olympics' experience of security and counter-terrorism measures and related technology.

Social Security Issues

- The Group recognised that the UK and Japan were facing some common issues in the area of ageing societies and meeting welfare needs. It was recommended that both countries seek ways to share experience to meet future challenges.

Education, Culture and Sport

- The Group welcomed the decision by the UK Government to postpone a decision to restrict exam board offerings in minority languages, such as Japanese. It strongly recommended the continuation of Japanese at GCSE and A-level.
- The Group recommended that the topic of 'Soft Power' be addressed at a future conference as plans for a Japan House in London and Tokyo 2020 progress.

Next conference

- The Group recommended that, if timing permits, its agenda for its next conference should be drawn up with a view to influencing discussions at the G7 Summit which is to be held in Ise-Shima, Japan on 26-27 May 2016.

UK Co-Chairman

- The Group noted with great appreciation the outstanding contribution made by the outgoing UK Co-Chairman, Lord Howard of Lympne, who had served in this role for the past five years.