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THE PRIME MINISTER

**SPEECH BY PRIME MINISTER GUY VERHOFSTADT
ADDRESSING THE BELGIUM-JAPAN ASSOCIATION**

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Ladies and Gentlemen,

2005 was an exciting year for relations between Belgium and Japan. Belgium took part in the wonderful World Expo in Aichi. Both countries also signed an updated social security agreement. As a result, Japanese expats in Belgium do not have to pay any social security contributions for five years. 2005 also saw a major trade mission to Japan led by Prince Philippe. And further initiatives are taking place in 2006. Last week a new museum for Japanese art opened in Brussels. And starting in September, masterpieces from our Royal Museums of Fine Arts will be on show in three Japanese museums. Meanwhile, for me personally the highlight of 2005 was my third visit to Tokyo, in November.

In Tokyo, I was warmly welcomed by Prime Minister Koizumi in his impressive new offices. During our talks we agreed there was an urgent need to establish a direct flight between Japan and Belgium. Indeed, the lack of such a connection is hindering mutual investment. We also agreed to perform a sweeping review of the tax treaty between Japan and Belgium. After all, that treaty is now forty years old and somewhat out of date. As a matter of fact, the current version contains **serious** constraints and barriers to trade and investment. Both from a corporate viewpoint and a withholding tax perspective I want to eliminate those constraints. And I feel certain that Belgian and Japanese businesses want this too. And what about the social security agreement between Belgium and Japan? Well, last week the Senate committee **unanimously** adopted it. And this week the Senate will take a vote on the agreement in plenary session.

Ladies and gentlemen,

When I was in Tokyo, I also had the pleasure of meeting many Japanese CEOs. The main purpose of my visit was to explain the numerous economic reforms that Belgium has adopted in recent years.

Over the past seven years we have cut a lot of taxes. These tax cuts are worth five billion euro in all. So for the first time the pressure on labour, the tax on labour, is decreasing. At the same time, Belgium has delivered a balanced budget year after year.

Likewise, researchers working for companies connected to research centres now benefit from a fifty-percent reduction on their withholding tax. This is a major incentive to promote R&D in our country. And last week we held a special Council of Ministers dedicated to innovation, where further incentives to boost our knowledge based economy were adopted.

Recently, we have also been working on flexibility in the labour market. A few months ago the Belgian government adopted sixty-six reforms designed to enable people to work longer and to work in a more flexible manner. And today the employers and trade unions have joined forces to moderate wage increases. As agreed, we will step up our efforts to boost competitiveness by further lowering taxes.

In addition, we have cut red tape. Two years ago it took an entrepreneur as long as fifty-six days to set up a company in our country. This was almost a world record. Soon, thanks to efforts made by the government, it will be possible to start up a company in just three days.

Several years ago we lowered corporate tax from forty percent to thirty three percent. And this year we introduced notional interest deduction. This unique measure provides for the deduction from tax of the cost of capital. The measure applies to Belgian and foreign investors. Notional interest deduction curbs discrimination between the tax treatment of debt-financing and the tax treatment of equity-financing. Belgium is the only country in Europe to offer investors such a major, innovative incentive.

Thanks to these reforms I feel it is fair to say that Belgium is on the right track. The question is this: Will these measures be sufficient? The economic boom in Asia shows that this is unlikely. Rates of economic growth in Japan, China and Southeast Asia are putting pressure on our economy. This is why in Europe I am arguing in favour of a joint socio-economic policy. That is also the main argument in my recent book, "The United States of Europe". Somewhat to my surprise, a pleasant surprise, many Japanese newspapers have taken a close interest in the vision I set out in the book.

But what only few people know is that the idea of the United States of Europe also has Japanese roots. The founding fathers of the European Community - Jean Monnet, Robert Schuman, Paul-Henri Spaak and Alcide de Gasperi - were all inspired by a book written in 1923 entitled "The fight for Pan-Europa". That book was written by Richard Coudenhove-Kalergi and called for a United States of Europe. It was also Coudenhove who first suggested that Beethoven's "Ode to Joy" might serve as a European anthem. Yet Coudenhove-Kalergi was not born in Europe, but in Tokyo, in 1894. His Japanese mother, Mitsuko, was a celebrated Meiji era-born woman, who has become a legend for Japanese xenophiles. And as you are no doubt aware, there are many books, plays and television series on Mitsuko, the grandmother of the European Union.

Ladies and Gentlemen,

Japanese investors are extremely important for Belgium. More than two hundred and twenty Japanese companies are already here. And about fifty of them have set up their European headquarters in our country. We are very pleased and proud about that. Economic relations between Japan and Belgium are indeed excellent, and both countries are on the friendliest of terms. In this regard I cannot stress enough the important role played by the Belgium-Japan Association and Chamber of Commerce in bringing our businessmen and citizens closer to each other. Allow me to underline how much we value this.

Be assured that we are doing all we can in terms of economic reforms and cultural exchanges to strengthen our partnership. May the special relationship between Japan and Belgium further flourish.

Thank you for your attention.