TOPICS

Postal Privatization Plan Revamped

Fears Voiced over Huge *Yucho* Funds

By Hiroshi OKABE

The planned privatization of Japan's postal system has changed course. At the end of April, the government of then Prime Minister Yukio Hatoyama, who doubled as president of the Democratic Party of Japan (DPJ), approved a bill to scale back the privatization process. The bill calls for reshaping the current five-company structure of the Japan Post Holdings Co. group into three companies on October 1, 2011. It also obligates the postal group to offer "universal" banking and insurance services throughout the country on top of mail services. With this, the government intends to revitalize flagging regional economic activities. Although the political situation is uncertain with the Hatoyama Cabinet stepping down, the review of the postal system reform appears to be on course. The realignment, however, invited criticisms that the postal bank will "oppress private companies" since it calls for raising the bank's deposit cap – the upper limit on postal savings subject to implicit government guarantee – to a level double the cap at private banks. Commercial banks are worried that a huge amount of *yucho* (postal savings) money could distort the flow of funds.

For a lengthy period, Japan's mail, postal savings and postal life insurance businesses had been run by the government, led mostly by the conservative Liberal Democratic Party (LDP). About a decade ago, however, Junichiro Koizumi, then prime minister and LDP president, spearheaded a privatization drive under the slogan: "Let the private sector do what it can." In line with this policy, the LDP-led administration in October 2007 adopted a management system under which four companies – Japan Post Service Co., Japan Post Network Co., Japan Post Bank Co. and Japan Post Insurance Co. – operate under the umbrella of Japan Post Holdings, which is fully owned by the government. This was meant in part to avoid enormous *yucho* and life insurance funds from being used for inefficient businesses. At that time, the government hoped a greater sum of *yucho* funds would flow into the private sector under the newly created financial framework. Yet, things changed dramatically with the birth of the DPJ-led government in September 2009. As the privatization progressed, concerns grew that regional postal services would be undermined if the privatization was pursued as initially projected, eventually leading to revamping the postal privatization program.

On top of the managerial reorganization of Japan Post Holdings, the bill calls for boosting the deposit cap and the life insurance coverage limit to 20 million yen and 25 million yen, respectively, from 10 million yen and 13 million yen. Further, the insurance unit is allowed to offer new insurance products such as cancer insurance. Moreover, the bill seeks to significantly ease requirements for Japan Post Bank and Japan Post Insurance to launch new services; all they have to do is to undergo examination by an independent panel of experts and simply report to the government, rather than seek its approval. The government will keep more than one-third of Japan Post Holdings shares for the time being while putting on hold earlier plans to fully privatize Japan Post Bank and Japan Post Insurance. The holding company will continue owning more than one-third of the equity in each of the two financial units, permitting them to keep operating under its wing.

Japan Post Bank and Japan Post Insurance are mammoth financial institutions, with their combined financial resources amounting to about 300 trillion yen. The assets of Japan Post Bank alone exceed the combined sum of two Japanese megabanks – Mitsubishi UFJ Financial Group and Sumitomo Mitsui Financial Group. Under the so-called payoff scheme, the government guarantees bank deposits of up to 10 million yen per person per bank in the event of bank failures. As for Japan Post Bank, depositors have a sense of security that the government will effectively guarantee deposits up to 20 million yen because it will remain the postal bank's major shareholder. This stirred deep concerns among commercial banks that the doubled postal deposit cap would prompt depositors to shift their money to the postal bank. The higher deposit limit is "absolutely unacceptable," said Masayuki Oku, chairman of the Japanese Bankers Association and president of Sumitomo Mitsui Banking Corp. Echoing the view, Tadashi Ogawa, chairman of the Regional Banks Association of Japan and president of the Bank of Yokohama, said such a step "could greatly affect smaller financial institutions and damage stability in the regional financial system."

Also, there are problems with ways of operating the huge postal funds. Currently, 80% of postal savings and 70% of postal insurance premiums are invested in government bonds, and thus *yucho* funds have played a certain role in ensuring stable market absorption of massively issued government bonds. However, this means that household financial assets are left unused for effective economic activities. To rectify the situation, the government is studying the possibility of appropriating *yucho* funds for three main areas: helping finance infrastructure improvement projects, largely abroad, such as construction of high-speed railway networks, purchasing foreign bonds, and extending loans to individuals.

Of these, however, foreign investments and loans could become irrecoverable, and investments and loans for public facilities in Japan may be criticized as the revival of the Fiscal Investment and Loan Program (FILP). Often called the nation's second budget because of its large size, FILP used to channel money from postal savings and public pension funds into public works projects and loans, some of which turned out unrecoverable. With a host of touchy issues in the background, the realignment of the postal privatization program was off to a rocky start.

*T*OPICS

Offshore Wind Energy Worth 10 Nuke Plants

Eyed under Japan's New Energy Strategy

A high-powered Japanese government panel has drafted a plan calling for the establishment by 2020 of massive offshore wind farms capable of producing at least 10 million kW of electricity, equivalent to roughly 10 typical nuclear power plants in Japan. This plan means more than 2,000 windmills, each with a large rotor 120 meters in diameter, will be in operation. It also envisages the development of energy technology such as power generation by oceanic waves and tidal current.

The plan, to be put into practice from 2012, is intended to reduce greenhouse gas emissions and reinvigorate economic activity in coastal regions. The panel – the Comprehensive Ocean Policy Headquarters headed by Prime Minister Yukio Hatoyama – is planning to work out financing aid and other specifics of the plan in about one year. Oceanic wind farms require technological expertise, including the development of large-scale windmills and specialty vessels for undertaking offshore construction. They are thought to have a far-reaching impact on a broad range of industries from steel to machinery and shipbuilding.

Offshore wind farms do not pose typical hazards such as low-frequency noise associated with windmills on the ground, but they are thought to cost much more in installation and pose technological challenges in working out measures against earthquakes and typhoons, and in ensuring stable operation. If they are to be built near a fishing ground, negotiations will also be necessary with local fishermen.

In Japan, 14 windmills are now at work in the town of Setana on the northernmost main island of Hokkaido and other locations. But their combined output is still at a low level of about 11,000 kW, leaving Japan far behind European nations with combined power capacity of more than 2 million kW.

The government's financing support will include subsidies and loans for research and development as well as for construction of power generation equipment. It may also envision a market for power companies to buy electricity from operators of offshore windmills. Also under consideration is a plan to obtain assistance from laboratories and businesses experimenting with power generation from waves and current.

The US government plans to increase the power generation capacity of offshore wind farms up to the equivalent of 54 nuclear power plants by 2030. The British government also has drafted an offshore windmill plan designed to create 70,000 jobs.

Racing for Asian "Beauty Markets"

Major Japanese Cosmetics Firms

Japan's cosmetics giants are advancing into emerging markets in Asia and other regions at an accelerating pace to gain a foothold for growth. By launching brands exclusively for local markets, they are striving to grab market share from European and US rivals that made earlier inroads.

Shiseido Co. has expanded its product portfolio for China. In March, the firm launched its *DQ* brand exclusively for the Chinese market and hair care products for beauty shops there. Shiseido earlier introduced moisture-rich products suitable for the dry climate in China, such as *Aupres* and *Urara* brands. These products, developed exclusively for the Chinese market, feature greater moisturizing effects than those for the domestic market. "We will go all out to make our cosmetics business in China a rock-solid one," Shiseido President Shinzo Maeda says. The company's plant in Vietnam got into full swing in April to become a manufacturing base for its products aimed at Asia.

Kanebo Cosmetics Inc. has also marketed brands intended exclusively for China and plans to increase sales there to 8 billion yen in 2010 from 5 billion in 2009. Similarly, Fancl Corp. plans to double sales in China and Hong Kong to 40 billion yen in fiscal 2012 compared with estimated sales in fiscal 2009.

Domestic sales in cosmetics dropped 8% to 1,385.4 billion yen in 2009 from the previous year, according to the Ministry of Economy, Trade and Industry. Given that the size of the domestic market is expected to shrink against the backdrop of population decline, it has become increasingly important to break into Asia's beauty markets.

It is in Russia that Japanese cosmetics companies are pinning hopes on a slice of the pie as foreign rivals have not come in yet, unlike in China where competition with European and US firms is intense. Pola Inc., which established a subsidiary in Russia in 2007, opened nine specialty stores there at the end of March. As a result, the number of stores handling Pola products has increased to more than 10. In addition, Pola began sales of luxury products in Ukraine in May. "As Russians and Ukrainians much care about skin as Japanese do, our skin care-minded cosmetics are accepted there," says a Pola executive.

Hiroshi Okabe is chief editor, Economic News Section, Kyodo News.