

4th International Conference

“Current Situation of Regional Finance and the Way Forward”

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[Session 1] The Experience and the Current Situation of the Japanese Regional Finance

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1. Special Thanks to Financial Services Agency

I would like to express my deep appreciation to Financial Services Agency, The Japanese Government on the Fourth International Conference being held for the purposes of discussing local community banks' role so that the banking corporations could contribute to revitalizing the local communities' economy, reviewing the case outside Japan.

Also, I would like to express my special thanks on such an honorable opportunity to state my opinion as a borrower since I should be a representative of top executives doing business in local cities.

2. My Profile

I was born in Ishinomaki, located in northern Japan in 1947, and served as a radio operator for International Ocean Liners for six years after graduating from National Radio High School of Sendai, Japan.

After working for a shipyard, at the age of 32 in 1980, I founded a vessel brokering company for used fishing vessels etc. and established a fishing company in 1988 in Seattle, U.S. to construct three longliner-fishing vessels to target pacific cod in Bering Sea. Currently I have expanded my business in a large variety of industrial sectors, which are residential house construction, leasing houses, apartments and buildings, assisted living homes, funeral service homes, hotels and wholesale of pacific cod etc. through operating 15 companies in Japan and U.S. The group companies have annual sales of approximately US\$80 millions at the end of fiscal year September 2007.

I have been concerning about stagnation in local cities' economy and therefore sent messages on how to breakthrough the situation.

I was one of candidates for mayor of Ishinomaki in 2000 and 2003 to realize his thoughts.

3. Macro Level

(1) Regional economic revitalization is essentially an indispensable requirement for the Japanese economy and for the balanced country development. Looking from a macro economic level, it is the most important issue to have a comprehensive economic revitalization measures by the government, which include finance, tax system and infrastructure improvement. For instance,

- a) Reform is necessary, however, local economic policy should be consistent, reviewing that the government is in a dilemma as there is an issue to give some helpful measures to “losers” resulted from Prime Minister Koizumi’s Reform which is aimed at making the most of market competition.
 - b) The case of Bulldog Sauce Co. Ltd’s M&A revealed closeness of Japan’s capital market, and foreign institutional investors and funds seem to be indifferent to the Japanese markets.
- (2) Under the current situation, it cannot be said that improvements to promote more opened financial markets in Tokyo and to create a favorable environment are irrelevant to regional cities. As the fundamental of the economy, a certain extent of flying geese pattern economy, which the metropolitan area with enormous energy leads the economy, may be unavoidable. On this point, we regional cities should welcome the “regional regeneration strategy”, which has now been formulated by the government and is supported across ministries and agencies.
 - (3) For the residents of regional cities, this gives dreams and aspirations and will lead to the promotion of new business start-ups including independence, and uplift of founder’s spirit. Prior to finance, it is first important to establish a bright outlook for the Japanese economy, and business managers including myself must move forward with a strong will.

4. Our Experience

- (1) Expansion into the U.S. was made about 20 years ago to seize on business opportunities presented by the 200 nautical mile issue and the establishment of Law of the Sea.
- (2) As can be represented by the tourism industry, businesses taking advantages of the regional characteristics and its own experiences has a high possibility of succeeding within the region. The location/environment of Ishinomaki is considered as a northern-sea fisheries Mecca, that is, it has rich human resources (experienced crews), fishing boat construction knowledge, established processors for catches of fish (northern-sea demersals) and a mature sales market.
- (3) Points considered as risk by financial institutions in regards to expansion into the U.S. marine products industry.
 - ① Construction capability in the U.S.
 - ② Is it possible to also hire good crew in the U.S.?
 - ③ Will the operations be possible?
 - ④ Will it be possible to catch fish and then to sell them?
 - ⑤ Will the resources last?
 - ⑥ What is the capability of management?
 - ⑦ Is it feasible to comply with the U.S. domestic Fisheries Act, taxation law, immigration law, employment law and other laws and ordinances?
- (4) Due to the brave loan decision and the support of a local financial institution within the prefecture, 40% of the investment fund was financed by S.B. L/C and the remaining 60% financed by the Seattle-based Norway Christiana Bank using the ship itself as collateral. That is a fruit of cooperation between Japan and the U.S.
 Total investment to commence pacific cod longline fishing operations in the U.S. with 3 vessels was 2.4 billion yen. At present, borrowing has been compressed down to 300 million yen and

with annual profit calculated at several hundred million yen, the project value has expanded up to 3 times the initial investment.

(5) This success was born out of the following three ripple effects;

- ① Effective utilization of local resources due to the expansion into the U.S. and the creation of local American employment (76 people), which led to the investment in the real estate in Sendai, Japan and Seattle, the U.S,
- ② Establishment of primary fish supply to marine product processors in Ishinomaki and Shiogama regions. Incidentally, Shiogama has achieved number one status in Japan for yield of pacific cod,
- ③ Strengthening a stable supply of pacific cod for winter *nabe* [hotpot] cuisine.

(6) This can surely be considered a wonderful success case for regional finance with regards to the following four points, ① investment expansion, ② creation of foreign exchange business, ③ revitalization of a regional economy through acquisition of foreign currency, and ④ contribution to business cultivation and asset construction.

5. Questions and Requests to the Financial Authorities

- ① Has it created a vicious circle where financing to small and medium enterprises shrank due to the reappraisal of security caused by falling land prices and deterioration of earnings stemming from increased loading? Flexible management and independence would be needed.
- ② There is some problem in the sales operations due to too much explanation on the risk for financial services provided to customers. Is sales attitude atrophied in view of compliance with internal regulations?
- ③ Biased tendency of Bank Management Resources
As a result of laying weight on coping with inspections by the Financial Services Agency, Bank of Japan, audit corporations, are the advices, revitalization guidance and consultation functions for companies becoming insufficient? Banking corporations should strength the consulting function, too.

6. Raising a question regarding the Ideal Finance Standards

- ① Appreciation of management nature
- ② Industry sector trend
- ③ Profitability
- ④ Contribution to regional revitalization
- ⑤ Increased forecast number of new employment, etc.
- ⑥ Security, guarantor
- ⑦ Financing activities by regional financial institutions should be the ones ahead of companies' expansion in order to support the growth. Financing should be done in timely manner to companies in need.
- ⑧ Conformity in interests operation should be corrected so that companies in reestablishment could be applied the lower rates of interest. The reality is contrary.

7. Example of CRA Proclamation in America

This law was enacted in the U.S. during the Clinton administration as a minority counter-measure. Namely, other than providing consultation for small and medium enterprises, target figures for the next fiscal year are released to the market, including loan-deposit and capital-to-asset ratios. In the case where the results, which are verified at the end of the period, do not achieve the goals, new branches will not be licensed. Regarding this, the question can be asked as to how capital gathered in the regions contributes to the regions in a form of financing. This law has been inherited by the Republican Party's Bush administration.

In Japan also, I would like to ask for the strengthened leadership of the Financial Services Agency.

8. Conclusion

Regional financial institutions should serve its role of nurturing small and medium enterprises with the enthusiasm and a sense of duty for the sake of regional development. On this point, compared to credit associations and industry credit unions, which make only around 200-300 million yen profits, local financial institutions make up to one-hundred times of this. Further, 20-30% of this yearly profit should be directed toward business revitalization with the simple thinking that it would be good if around 70% resulted in successful regeneration. Therefore, regional financial institutions should fulfill its role, or else, weak financial institutions will be left to bear the burden. If not, the only alternative left is to depend on the government-affiliated institutions. Protests against the pressures towards private sectors should only be made after fulfilling their own responsibilities. Whilst superfluous, we are a shareholder of several local regional financial institutions.

The recent announcement by the Financial Services Agency of a policy to ease general business stock holding restrictions for banks and insurance is one measure which should be welcomed.

Renewed bank loans should be something like stocks held by the banking institutions, and if those are switched to the investment in companies, both of them would be under tension. Such a relationship would bring the strength of consulting function, and furthermore, lead to the increase of corporate value, dividend and capital.

The "action program for enhancing the relationship banking function" was formerly announced. However, it is often heard that this has not been implemented. I believe that M&A should be an alternative to function regional financial institutions in a proper way if they could not afford to give high-risk loan to the small and medium enterprises.

Lastly, I look forward to the further enhancement of guidance towards regional financial institutions.