

Japan-Latvia Bilateral Relations and Japanese Investment in Latvia
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In April of this year, Japan’s Marubeni backed fund MM Capital Infrastructure Fund 1 completed the acquisition of an interest in the Conexus Baltic Grid from the Luxemburg fund Marguerite. The fund now owns 29.06% stakes in the Conexus Baltic Grid.

I believe this is a momentous event in the history of Japan - Latvia bilateral relations. Today I would like to discuss the background of this acquisition and *then* the implications to our bilateral relations from my point of view.

The first thing I would like to touch upon is about who the Marubeni is.

Marubeni is one of the most celebrated Japanese Sogo-Shosha or what we call General Trading Company.

To understand Marubeni, I would like first briefly to go into some detail on the Sogo-Shosha.

Japanese large Sogo-Shosha, *or General Trading Company*, covers almost every fields in the economy. The business model is unique in Japan. They carry businesses on in all regions of the world, matching demand and supply by making use of their global information and business network along with expertise in IT (information technology), LT (logistics technology), FT (financial technology) and MT (market technology) as well as project management and risk management know-how.

Once they enter a country and keep stable business relations for a long

time, it would provide them with many opportunities to acquire information and network.

Marubeni Corporation is one of the largest Sogo-Shosha, General Trading Company in Japan.

Sales of Marubeni Corporation amounted to about 60 billion euros in 2019 roughly twice the nominal GDP of Latvia. It has 160 years of history and about 130 overseas offices are located in 68 countries and regions.

Marubeni Corporation, Mizuho Bank, Ltd, and Asset Management One Co. established MM Capital Partners Co., Ltd in 2018. It acts as a managing company for the fund. Marubeni has 90% of the ownership of MM Capital Partners Co., Ltd. It is worth noting Mizuho Bank as well because the bank is one of the 30 G-Sibs Global Systemically Important Banks in the world.

Although Marubeni handles a very wide range of products in all types of industry, energy is one of the most important areas it deals with. Speaking of energy, Marubeni is involved in the exploration, development and production of oil and gas. It already owns and operates a gas pipeline and gas distribution businesses in Australia since 2008 and 2011 and also in Portugal since 2016 respectively.

Marubeni, in addition to such energy as oil and gas, is also heavily involved in renewable energy. Furthermore, Marubeni participates in business activities in such industries as chemicals, IT, forest products, textiles, food products, agribusiness, metals and minerals, leasing and various types of machinery and such infrastructure as railways to name a few. This covers almost all the important economic sectors in Latvia.

I shall now switch to talking about the reason why MM Capital Partners and Marubeni decided to invest in the Conexus Baltic Grid.

Marubeni is a completely private company, and the Japanese economy is made up of private companies that are free to make their own decisions on how to maximize profits. I must admit that I am not sure the actual reason

for Marubeni's decision because I was not involved in that decision-making process.

However, my understanding is as follows:

The acquisition target, Conexus Baltic Grid, is accompanied by the infrastructure of great importance for the future of the Baltic region. As far as I am aware, the Incukalna Underground Storage is the largest and most important natural gas storage facility in the Baltic region and an integral part of the Baltic natural gas supply system. Therefore, I assume that Marubeni has found no difficulty in choosing it as the potential target of its investment.

To the best of my knowledge, the MMCP decided on the acquisition because the Conexus Baltic Grid fits quite well in the strategy of the fund that the MMCP established in terms of the sector, the nature of the revenue, the primary currency, and its location.

Namely, the Conexus Baltic Grid is an energy infrastructure company that already has yielded a stable cash flow, its currency is in Euros, and it is located in one of the OECD countries. All factors fit well within the MMCP target.

This explanation is simple, appealing and makes a lot of sense to me. We will say more about this in a few minutes.

We will now turn to the implications of this acquisition in terms of the economic relationship between Japan and Latvia.

The investment is a long-awaited large-scale investment by a Japanese Sogo-shosha. I was pleased to see the successful completion of the acquisition of Marguerita's shares by Marubeni following approval from the State of Latvia.

I would like to make *three points* concerning the importance of this investment.

First, the investment target is a company having the infrastructure of great importance not only for the Republic of Latvia but also for the future of the Baltic region. It is the sole Transmission System Operator in Latvia and owns all of the assets associated with the Latvian Gas Transmission System, and it is the sole Storage System Operator in Latvia, owns, and operates the Incukalns Underground Gas Storage facility.

Second, this transaction is substantial considering that Japanese direct investment in Latvia was just around 0.4 million euros before this acquisition. CBG's net worth is about 316 million euros, with about 40 million euros in capital, while the amount of investment MMCP makes per any one of the transaction is between 50 to 100 million euros. Therefore, I believe that this transaction too must be a considerable investment.

Third, Marubeni has expressed its preference to build long and stable relations with CBG. Besides, it positions this acquisition as the gateway for Marubeni's activities in Latvia.

Now, I would like to discuss the implications of the investment in the further broader context of the Japan-Latvia bilateral relationship in general.

Coming from more than 8,000 kilometres away from Riga, the most important task for me is to build stronger and more sustainable connectivity between Japan and Latvia.

Above all, strengthening relations in the economic field, that is, promoting investment, trade and tourism in both directions, is my highest priority.

I deem that the doctrine of the trinity holds for bilateral relations as well. The bilateral relations need to develop in a balanced manner in all the three fields of politics, culture and the economy.

I suppose most of you would readily accept these three following assertions.

First, there is no robust economic relationship without a strong political relationship.

Second, there is no close cultural relationship without a strong political relationship.

Third, there is no strong political relationship without a close cultural relationship.

Today, I would also argue that there is no strong political relationship without a robust economic relationship. And there is no close cultural relationship without a robust economic relationship.

I assume that our relationship is *strong* in the political arena.

Japan and Latvia share fundamental values and hold many principles in common, such as democracy, the rule of law, human rights and fundamental freedom. It constitutes the basis for the deep and long-lasting co-operation between us. On top of that, Japan is one of NATO's partner countries, with the longest relationship as a non-NATO partner.

I can also say that our relationship is *close* in the cultural arena.

The Cultures of both of our countries are rooted in nature and hence sustainability is our common principle. The Latvian people seem to love Japanese traditional culture. The Ukiyo-e exhibition held by the Riga Bourse Museum recently provides a notable example. I had the honour to invite H.E. Mr Levits and the First Lady to the exhibition in July. In addition, the Japanese movie "Samurai Cat" was very popular in Riga last year.

This is not the case in the economic arena, however.

I have to admit that the economic relationship remains fragile. Japanese GDP is 25% larger than Germany and three times that of Russia. Nevertheless, the direct investment in Latvia from Japan *before the recent acquisition of CBG* was paltry, *extremely small*, much less than 1 per cent of that from Germany or Russia. Moreover, there are no Japanese representatives of Japanese companies currently residing in Latvia.

I would contend that we would be unable to maintain the current strong political relationship in the future without a robust economic relationship.

Moreover, I would contend that we would be unable to maintain the current close cultural relationship in the future without a robust economic relationship as well.

To give an example, from 1993 to 2001 there was a public secondary school here called the Japanese Language and Culture Secondary School where Japanese language learning was mandatory. It merged into the Riga Secondary School of Cultures in 2001. Although it inherited the tradition of popularizing intercultural communication skills and experience in its learners, Japanese language and culture education became less significant. Japanese is just one of the languages that the students can choose as the third foreign languages.

I imagine that it is mainly because the opportunity to use Japanese is limited in Latvia. If you have limited opportunities to get a job using Japanese, the number of students may decline and meaningful Japanese education would diminish even if some Latvians adore Japanese culture.

Besides, if we had the support of Japanese companies here, we could organize more various large-scale and high-quality cultural events.

Moreover, if the economic relationship remains fragile, it might undermine the currently strong relationship in the future, and then discourage the support of politics for the cultural relationship.

Latvia's macroeconomic performance has been marvellous.

The growth of labour productivity is one of the highest, the effective corporate tax and the labour costs are one of the lowest in the OECD countries.

Today I am here at the request to speak on why Marubeni invested in CBG. To me, it is little wonder that Marubeni picked CBG as an investment target. Rather I had been puzzled why leading Japanese companies have not invested in Latvia well.

There are many attractive investment opportunities here. I would say that

Japanese companies are just missing these great opportunities to make a profit since they do not know Latvia well.

To put it the other way around, there is a great potential to have a much stronger economic relationship.

Truly, a company never invests in a country just because the macroeconomic figures are excellent. They need to understand more by being exposed to various types of information.

Now, I am pleased to point out that the situation has started to change due to this investment by Marubeni. At least Marubeni has begun to learn about Latvia through CBG from a business point of view.

To conclude, it is worth pointing out that there may be “no strong political relationship without a robust economic relationship”, and there may be “no close cultural relationship without a robust economic relationship”.

As we are not yet connected very well in the area of the economy, our bilateral relationship could be fragile. Our connectivity might be more vulnerable.

However, there is a great potential between us.

To build a stronger and more sustainable connectivity, strengthening and expanding economic relations are essential. I hope and expect that Marubeni's investment in the Conexus Baltic Grid spark interests not only from other departments of Marubeni but also from other Japanese businesses to Latvia.