



Political  
Economy

# TCI vs. J-Power: Who knows better?

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*“Ido-no kawazu, taikai wo shirazu.”*



# What's All the Fuss About?

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- |          |   |
|----------|---|
| mid-2006 | TCI makes a “pure investment” in energy co. J-Power   |
| Jan-2007 | Submits to Japanese government plan to lift its stake   |
| Mar-2007 | Calls for tripled dividends, and ups stake 9.4 to 9.9%  |
| Jun-2007 | J-Power measures defeated by 80% at AGM   |
| Dec-2007 | TCI submits J-Power letter requesting to be on the board  |
| Jan-2008 | TCI requests METI to allow stake increase, 9.9 to 20%   |
| Jan-2008 | J-Power rejects TCI’s board appointments, other demands   |
| Mar-2008 | TCI wants EU and UK sanctions against J-Power/Japan   |
| Apr-2008 | “Energy security concerns” from METI force rejection  |
| May-2008 | J-Power launches proxy battle; defeated in June AGM; backs down in July after government ruling (does not appeal) |



# Question

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**Following the TCI vs. J-Power  
incident...**

**Is Japan really a closed market  
economy that fears foreigners and  
foreign investment?**



# The Children's Investment Fund: Who are they?



**The marriage of business and philanthropy that is at the heart of the Children's Investment Fund and the Children's Investment Trust Foundation provides a great tool to effect serious change in the developing world.**

**-- Bill Clinton, 2006**



# The Children's Investment Fund

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## The Children's Investment Fund Management (TCI)

**Name:** Christopher Anthony Hohn

**Date of birth:** 27 October 1966 (42)

**Nationality:** U.S.A.

**Residence:** U.K.

**Function:** LLP Designated Member

**Experience:** Perry Capital (1996-2000)

**Education:** B.A., Southampton Uni.;  
M.B.A., Harvard Business

## The Children's Investment Fund Foundation (CIFF)

**Name:** Jamie Cooper Hohn (wife)

**Date of birth:** 14 March 1965 (43)

**Nationality:** U.S.A.

**Residence:** U.K.

**Function:** Non Profit Director

**Experience:** Shine Trust

**Education:** B.A., Smith College;  
M.A., Harvard University



# The Children's Investment Fund

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## The Children's Investment Fund Management (TCI)

**Established:** 5 June 2003

**Business:** Fund Management

**Business Office:** London, UK

**Subsidiaries:** 32

**Employees:** 17

**Overview:** Financial investment activities such as security broking, and a portfolio of fund management, and trust, fiduciary, and custody activities. The company is also active in Germany, Bermuda, Hong Kong, Netherlands, and Cayman Islands. Company is also held with approximately 50% ownership by Chris Hohn.

## The Children's Investment Fund Foundation (CIFF)

**Established:** 8 February 2002

**Business:** Non-Profit Charity

**Business Office:** London, UK

**Subsidiaries:** 1

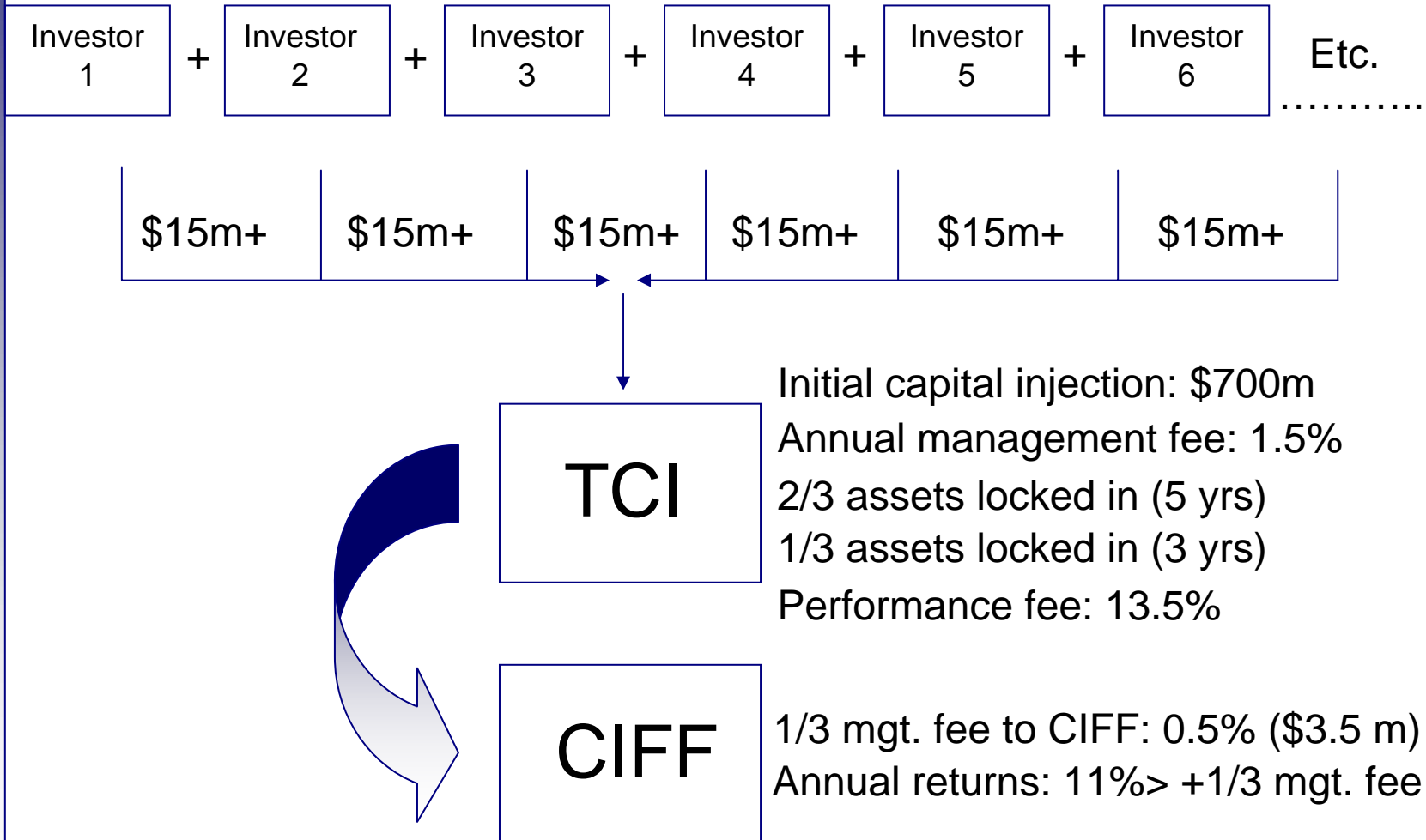
**Employees:** 2

**Overview:** Incorporated in the United States and United Kingdom for the purpose of funding AIDS programs that support children in poverty in developing countries. Main distribution sites: Ethiopia, Kenya, Malawi, Uganda, India.



# The Children's Investment Fund

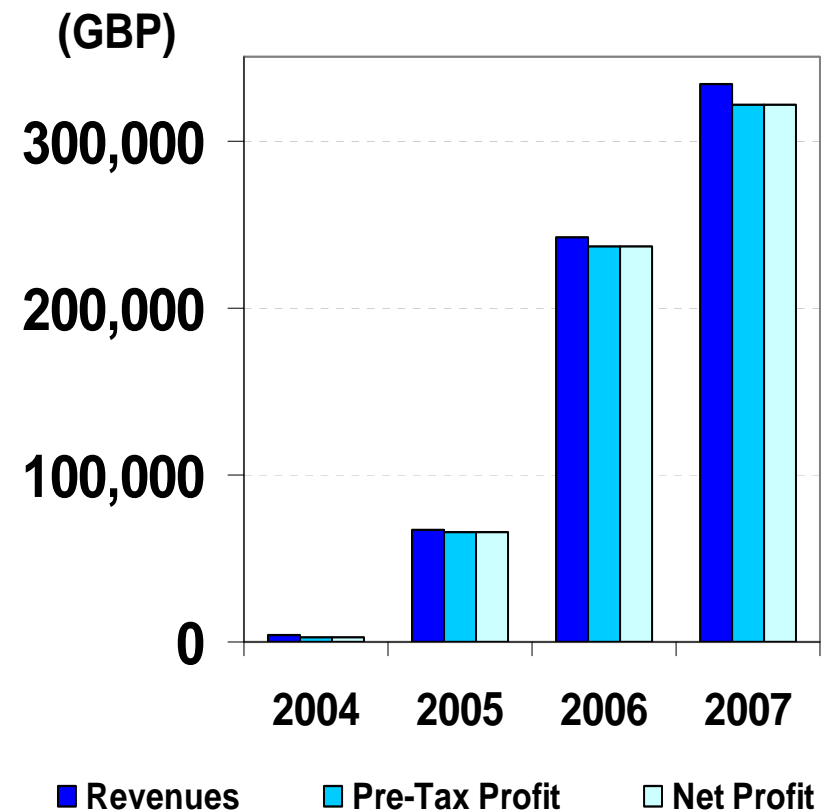
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# The Children's Investment Fund

- Deutsche borse
- ABN-Amro
- CSX
- Turned around companies
- Increasingly good performance
- High profit margins
- Low costs



Source: ORBIS

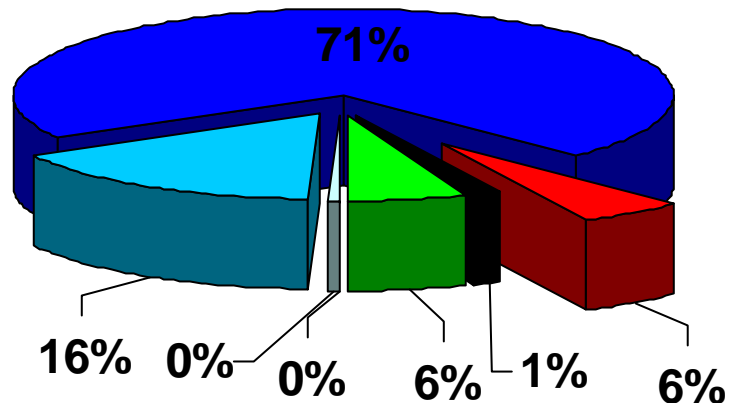


# J-Power: Who are they?



# J-Power: in context

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- 10 EPCOs
- J-Power
- JAPC
- Other
- Special Electrics
- New Entrants
- Self-Generation

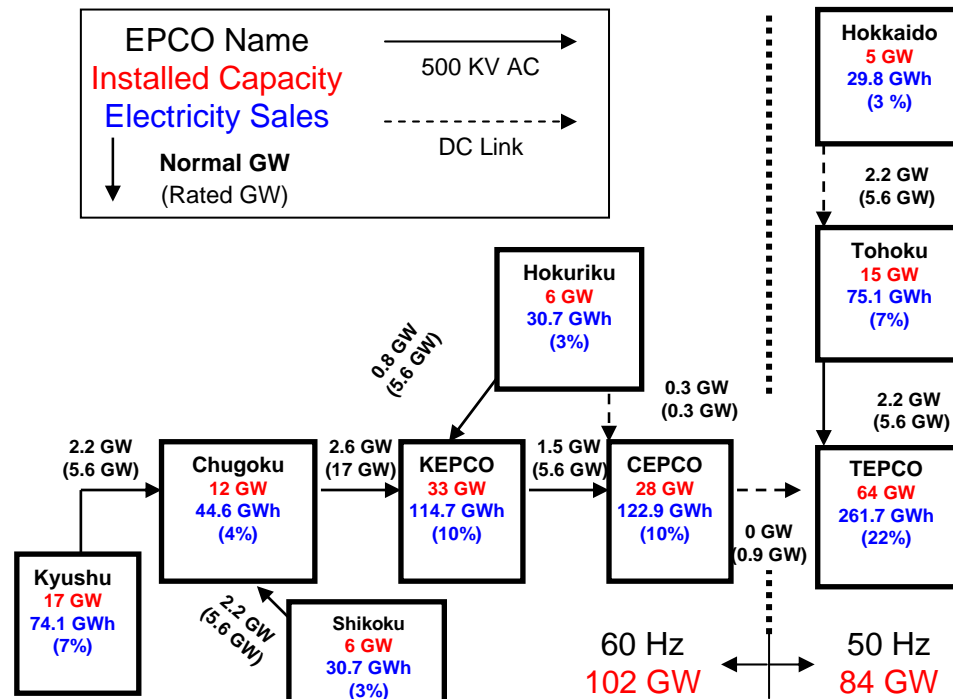
- Electric Power Development Corp (EPDC)
- Established: 1952
- 9<sup>th</sup> largest EPCO in revenues (517bn yen)
- 7<sup>th</sup> largest assets (1.9trn yen)
- 6<sup>th</sup> largest employees (6,500)
- Most profitable EPCO (7% net margin and rising)

Source: Electric Power Industry Handbook



# J-Power: at a glance

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- EPD law
- Only linked co. nationally
- Long-term contracts
- No real competition
- Privatized and listed

Source: MITI



# TCI vs. J-Power: the arguments

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## TCI

- Doubling J-Power's dividend per share from 60 to 120
- Restricting cross-shareholding and foreign investments
- Adding at least 3 external board members
- Blocking the reappointment of president of the board, Yoshihiko Nakagaki

## J-Power

- Dividend increase threatens CAPEX (e.g., power plants)
- Risks already legally contained (Commercial Code 241.3)
- 1 external board member \*might\* be forthcoming.
- Does a good job



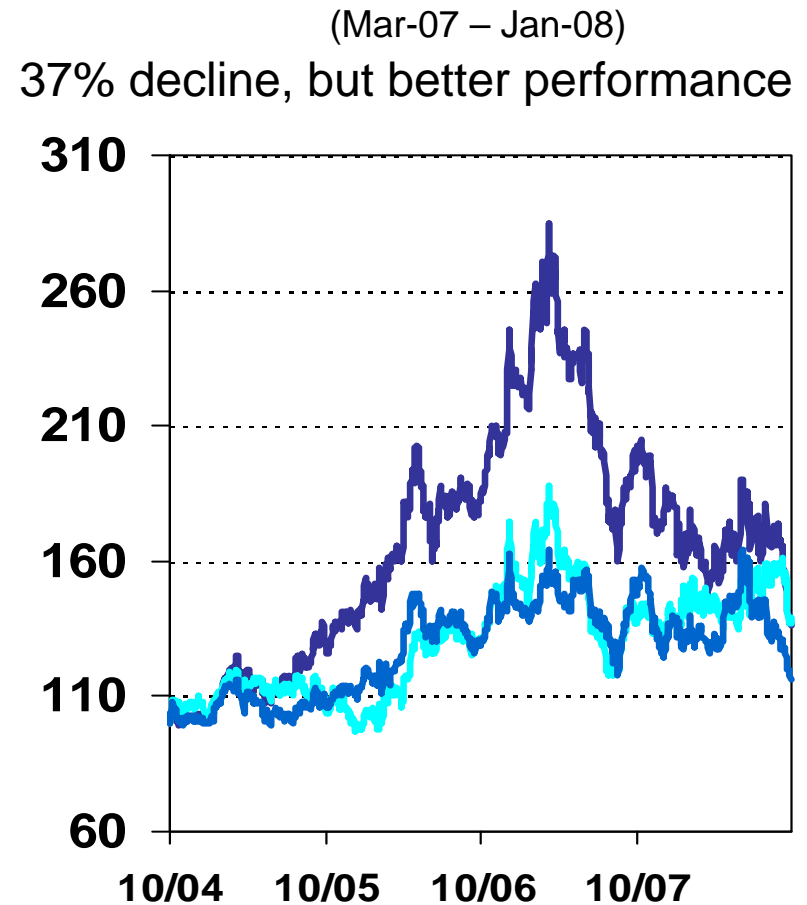
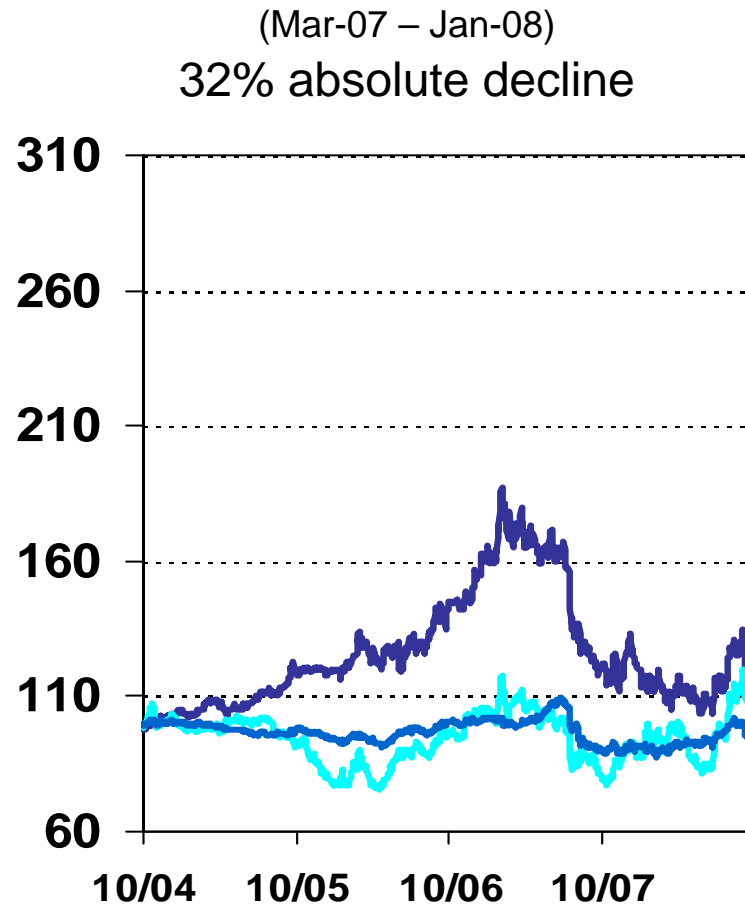
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# Analysis



# Analysis: share price performance

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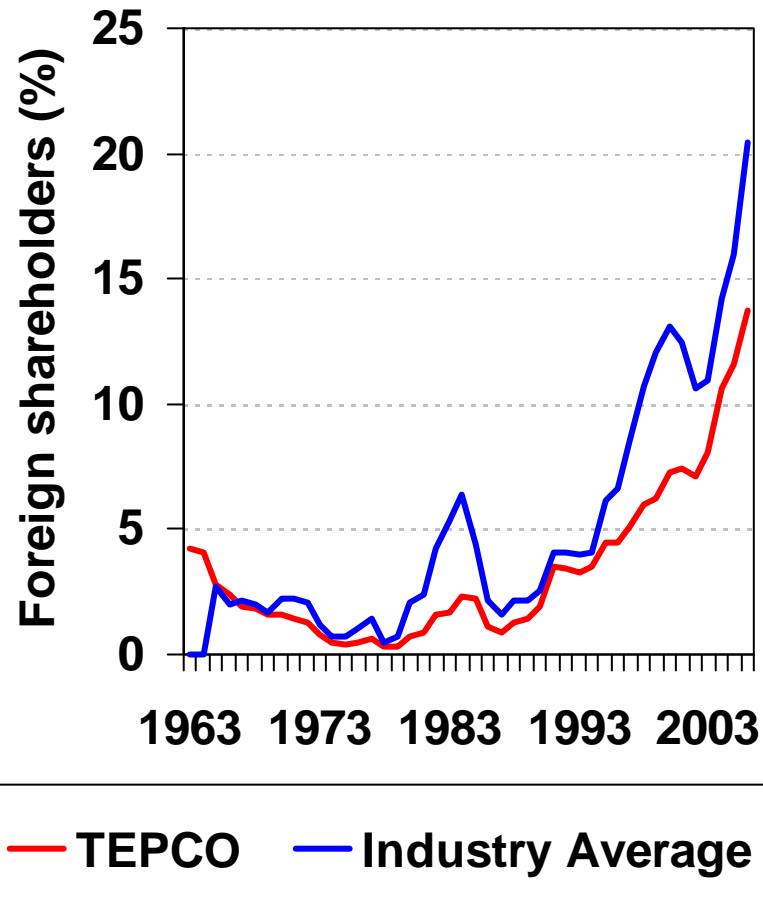
— TEPCO — Rel Mkt — Rel Sec — J-Power — Rel Mkt — Rel Sec

Source: Bloomberg; calculations by author



# Analysis: shareholders

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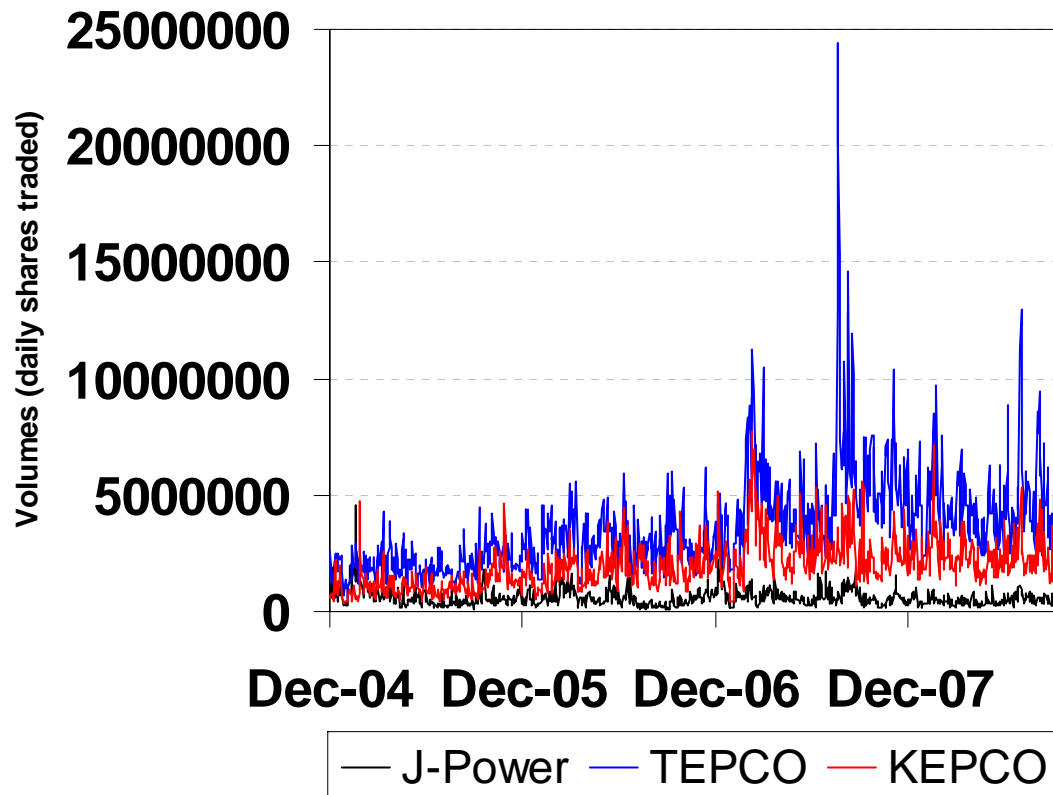
- Foreign Exchange and Foreign Trade Control Law
- 760 foreign cases approved (past 3 yrs)
- Rising foreign shareholdings in power industry
- J-power: 40% foreign ownership

Source: Electric Power Industry Handbook



# Analysis: liquidity

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- Liquidity risk
- Price volatility
- Short-term problems of increased shareholding

Source: Bloomberg



# Conclusion

- Traditional corporate governance – favoring ‘insiders’ over ‘outsiders’ – appears to be alive and well.
- Government actions neither xenophobic nor anti-Western
- The regulator’s post-1993 position – to favor ‘competitive principles’ – appears to be reverting to ‘natural monopoly’ thinking.
- Supply protection does not bode well for consumer welfare gains or increased shareholder value in the electric power sector.
- Another indicative sign of reversed thinking on Japanese (and worldwide) electricity deregulation.



# Final thoughts...

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- Who is the frog (*kawazu*) in this story
  - TCI or J-Power?