

EU-Japan trade agreement: a driver for closer cooperation beyond trade

OVERVIEW

Negotiations on an EU-Japan trade agreement were officially launched in March 2013. Following the political agreement in principle reached in July 2017, a final accord on the EU-Japan Economic Partnership Agreement (EPA) was announced in December 2017. On 18 April 2018, the European Commission proposed to the Council of the European Union to sign and conclude the agreement. The Commission expects that the EU-Japan EPA can be signed in July 2018, and aims to have the agreement come into effect before the end of its mandate in 2019, following approval by the Council and the European Parliament.

The EU-Japan EPA will establish a free trade area with a combined market of around 640 million consumers that accounts for roughly a third of the world's gross domestic product (GDP). The 2016 Trade Sustainability Impact Assessment (Trade SIA) of the agreement indicated that EU exports to Japan could rise by up to 34 %, and according to a more recent Commission estimate, European companies would save up to €1 billion in customs duties per year as a result of the EU-Japan EPA.

In addition to exploiting the untapped potential of bilateral trade, the agreement is also of strategic importance, conveying a strong message of the parties' commitment to promoting a free and fair trading system based on rules, and to reject trade protectionism.



Economic Partnership Agreement between the European Union and its Member States, of the one part, and Japan, of the other part

Committee responsible: International Trade (INTA)
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Introduction

Figure 1 - Japan in figures



Data source: [World Bank](#), [European Commission](#).

The EPA is the '[biggest bilateral trade partnership](#) ever negotiated by the European Union', and 'the [most significant and far reaching deal](#) ever concluded by the EU in agri-food trade', in the words of the Commission. Negotiations intensified and were finalised against a background of growing uncertainty and protectionist trends in global trade. During this period, the EU faced [challenges](#) such as the outcome of the Brexit referendum, the EU-USA talks on the Transatlantic Trade and Investment Partnership ([TTIP](#)) put on hold, and the limited progress at the WTO. Within this context, the [Commission](#) emphasised that the EPA signals the parties' commitment to fair trade and open markets, and Japan's partnership with the EU in supporting multilateralism and strong international organisations.

On Japan's side, Prime Minister Shinzō Abe's economic programme of 2013, known as '[Abenomics](#)', identified three priorities, or

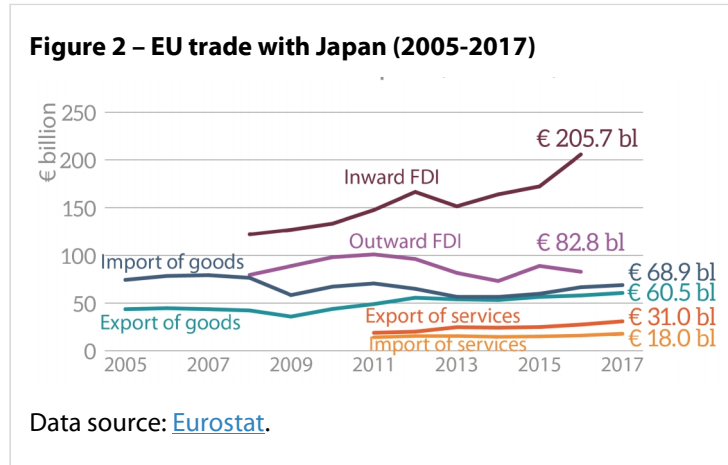
'policy arrows'. The third arrow aimed at enacting structural reforms, including the promotion of economic partnerships. To reach this objective, Japan pursued its interests in a number of bilateral and plurilateral [trade negotiations](#). In this context, it decided [to give priority](#) not to the EU-Japan talks, but rather to its participation in the Trans-Pacific Partnership ([TPP](#)) negotiations with 11 other countries, among them the USA. Following the withdrawal of the USA from this agreement in January 2017, the EU-Japan FTA, later termed by the Japanese prime minister as a "'[new engine](#)" under Abenomics', [regained importance](#), not only for the economic opportunities it offered, but also for its contribution to curb protectionist pressures. At the same time, Japan has also become a driving force behind the conclusion of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership ([CPTTP](#)), a mega-regional trade deal that replaced the TPP, and it is also aiming for its [swift implementation](#).

[Analysts](#) have also suggested that beyond the potential economic impact and strategic importance of the EPA, based on the rules and standards introduced in the agreement, the EU and Japan might play a [leadership role](#) in shaping the future of international trade, a [role](#) abandoned by the USA following the current US administration's shift towards a protectionist trade policy.

Existing situation

Even though their [relative significance](#) to each other in terms of total trade has tended to decline over past years, the EU and Japan remain important bilateral trade partners. In 2017, Japan was the [sixth largest](#) destination market for EU exports of goods and [fifth largest](#) market for EU agri-food exports. In the same year, the EU was Japan's [third largest](#) trading partner in goods. Total trade in goods between the EU and Japan accounted for €129.3 billion in 2017, with a trade deficit on the EU side of €8.3 billion. Although Japan benefited in the past from significant surpluses in the trade of goods with the EU, trade figures have recently become considerably more balanced, owing to EU export performance and decreasing EU imports.

In 2016, the EU exported [€31 billion](#) of services to Japan, and recorded a surplus of €13 billion in services trade, an upward trend from €4.9 billion in 2010. As regards investments, the EU's outward FDI stocks represented 1.1 % (€82.8 billion) of the EU total in 2016, although the EU was the largest foreign investor in Japan ([39.6 % of foreign investment stocks](#)). Conversely, Europe accounted for 22.5 % of Japan's outward FDI stocks in 2016, representing Japan's second largest destination by share.



The changing EU-Japan trade patterns can be explained by [various factors](#), such as changes in the traditional global trade flows, due to the economic rise of emerging market economies, the increasing importance of regional trade integration and the proliferation of intra-Asian FTAs. The decline in Japanese exports of industrial goods to the EU may also be due to [investments](#) by the Japanese automotive and electronic sector in Europe as a way to circumvent EU

tariffs. For instance, [more than two-thirds](#) of all Japanese-brand cars sold in the EU are EU-made.

Obstacles to trade and investment

Compared to the EU, the Japanese market has always been [more closed](#). This is partly [due](#) to the particular characteristics of the Japanese economy and society, such as the local business culture, and consumers with strong domestic preferences, but mainly results from the large number of regulatory and other 'behind the border' obstacles.

Average tariffs on goods are low in both the EU and in Japan. However, exports in agricultural products and processed foods are subject to relatively high EU and Japanese tariffs, and European exporters face particularly high tariffs for some type of products, such as [meat and dairy](#). In general, tariffs are relatively low for industrial goods. However, tariffs remain high for items such as clothing and footwear in Japan, and for automotive products and electronic appliances in the EU.

Negotiation objectives

EU interests in the negotiation were focused on a few specific areas. The reduction of regulatory and of non-tariff barriers was a significant issue, as these obstacles affect several key EU exporting sectors, including automotive, agri-food products, pharmaceuticals and chemicals, as well as telecommunications and financial services. Tariff liberalisation was also an important issue, particularly in sectors with high tariffs, such as processed foods, agricultural products and motor vehicles. In addition, the EU wanted to gain better access to Japan's public procurement market (including the railway sector), as well as to the services and investment sectors. Finally, protection of intellectual property rights, and geographical indications (GIs) in particular, were of great interest to the EU.

The [main areas of interest](#) for Japan were the elimination of high tariffs on industrial products, and the regulatory problems Japanese companies face in the EU. Import tariffs are comparatively high for the most important Japanese export items, mainly cars, car components and electronics. Japanese firms also expressed concerns about non-tariff barriers in EU markets, such as differences in the regulatory systems and technical standards, for instance in the automotive, chemical and food processing sectors. The [movement of persons](#) was another issue of interest for Japan.

Parliament's position

The European Parliament (EP) followed the scoping exercise and the negotiations closely from the very outset. In its [resolution](#) of May 2011 on EU-Japan trade relations, the EP stressed that it supports the idea of an FTA between the EU and Japan. In June 2012, the EP adopted a [resolution](#) on EU trade talks with Japan where it requested that the Council withhold approval to launch the negotiations until the EP adopted its position on the proposed negotiating mandate. The latter was adopted in October 2012 in a [resolution](#) in which the EP called on the Council to authorise the Commission to open negotiations for an FTA. The Parliament presented a series of recommendations on the Commission's negotiating directives, such as concessions on public procurement ensuring market access in strategic Japanese sectors including railways; a staggered schedule for sensitive tariff reductions in the EU; the protection of GIs for agri-food products; and an ambitious trade and sustainable development (TSD) chapter with core labour standards. In April 2014, the EP published a [resolution](#) including its recommendation on the negotiations of the EU-Japan Strategic Partnership Agreement (SPA), calling for the timely conclusion of the talks to provide a long-standing framework for a stronger relationship between the two partners.

Advisory Committees

In October 2014, the European Economic and Social Committee ([EESC](#)) adopted an [opinion](#) on the role of civil society in the EU-Japan FTA. The EESC was in favour of an FTA, but stressed that the economic, social and environmental impact in Europe should be assessed. It presented a series of recommendations, and requested the inclusion of a chapter on TSD, to ensure a key monitoring role for civil society.

Preparation of the agreement

In 2009, Ecorys and the Swedish Board of Trade both produced economic studies analysing the potential impact of trade liberalisation between the EU and Japan. The Copenhagen Economics [study](#) assessing the trade and investment barriers between the EU and Japan was published in 2010. The Commission published an [impact assessment report](#) in 2012, accompanying its request for a negotiating mandate from the Council. The 2016 [Trade Sustainability Impact Assessment](#), carried out for the Commission, analysed the agreement's potential economic, social, human rights and environmental impacts.

Negotiation process and outcome

It was [agreed](#) to begin preparations for both a bilateral trade agreement and a political framework agreement (Strategic Partnership Agreement, SPA) at the 20th EU-Japan Summit in May 2011. To this end, informal dialogues were conducted to define the trade agreement's scope and the level of ambition. The exercise was concluded in May 2012, and the Commission [asked](#) the Council to authorise the opening of the talks on the EU-Japan FTA the following July. Based on the [negotiating directives](#) adopted by the Council in November 2012, the negotiations were officially launched in March 2013, and the first round of negotiations was held in April 2013.

Following 18 rounds of negotiations and a number of further meetings at both technical and political levels, on 6 July 2017, at the 24th EU-Japan Summit, leaders reached a [political agreement in principle](#) both on the FTA and on the SPA. On this occasion, a [joint summit statement](#) was issued. The leaders of the EU and Japan stressed that the agreement in principle sends a strong message against protectionism and further promotes free trade.

However, in some chapters, technical issues remained to be resolved. In the case of other chapters, i.e. the chapters on regulatory cooperation and investment protection, further discussion was announced. After several technical discussions and the clarification of a number of minor remaining issues in several parts of the agreement, the consolidated text was finalised on 8 December 2017.

After the legal review and translation in all EU official languages, the Commission submitted the agreement for approval to the Council of the EU on 18 April 2018. Negotiations on the SPA were [concluded](#) in April 2018. It is expected that both the EPA and the SPA will be signed at the upcoming EU-Japan Summit on 11 July 2018.

Main elements of the agreement

At the agreement's entry into force, [86 % of tariffs](#) on EU exports to Japan (based on tariff lines) will be removed. The tariff elimination rate will rise to 97 % of tariff lines at the end of the final liberalisation step, i.e. 15 years after the entry into force of the agreement. In the case of the EU, liberalisation of imports from Japan will reach 99 % at the end of the staging period, a figure also based on tariff lines. Rice and seaweeds are the only items that both parties excluded from tariff liberalisation.

Trade in goods – tariffs. Better market access for agricultural products was a crucial issue for the EU, and in this area the negotiating results include the following points. Over time, around [85 %](#) of tariff lines covering agri-food products exported by the EU will enter Japan duty-free. In the case of pigmeat, the most important agricultural export product, with [19.7 %](#) of total agri-food exports in 2017, duties will be eliminated or significantly reduced over 10 years, with a distinction between high and low value cuts. For bovine meat, tariffs will be cut over 15 years. Pigmeat and bovine meat, during the above-mentioned periods of 10 and 15 years respectively, may be subject to volume-based safeguard measures. From day one, tariffs on wines and aromatised wines, the second most significant agricultural sector in terms of export (12.9 % in 2017), will also be eliminated. Hard cheese tariffs will be phased out within 15 years, while for other cheeses, such as [fresh and processed cheese](#), annual tariff-rate quotas (TRQs) will be opened. Over 15 years, TRQs will increase while in-quota tariffs will simultaneously be phased out. Some processed agricultural products will enjoy duty-free entry to the Japanese market over a transitional period, for instance pasta and chocolate in 10 years. As for fish, parties agreed to eliminate quotas and to abolish tariffs on both sides. Examples of Japanese agricultural exports to the EU that will receive full liberalisation from day one include green tea, soy sauce and beef. As a [study](#) pointed out, in the case of some agricultural products, such as dairy and processed foods, Japan offered the EU a higher level of liberalisation compared to the one offered in the TPP negotiations. At the same time, some sensitive items for Japan, such as rice, received more favourable conditions under the EPA compared to the TPP.

Parties agreed to completely remove tariffs on industrial products, after certain transition periods come to an end. This will benefit EU exporters in, for instance, the textile and clothing, chemicals and cosmetics sectors. For leather products and shoes exported from the EU, the quota system will be abolished at the entry into force of the agreement. For products such as shoes and handbags, tariffs will be eliminated over a 10-year period. As part of the trade-offs concerning the main interests of the parties, the EU will open its markets to Japanese cars and car parts after certain transition periods expire. This period is seven years for Japanese cars, and for Japanese car parts, the period varies from immediate tariff elimination to seven years.

The agreement also addresses a number of **non-tariff measures**. For instance, in the automobile sector, it ensures that the parties will accept products certified in line with certain international regulations as compliant with their domestic technical regulations and conformity assessment procedures, without requiring further testing or documentation. As regards sanitary and phytosanitary (SPS) measures, the EU and Japan have agreed, for instance, to simplify approval and clearance processes.

Services. The agreement also makes it easier for EU companies to provide services on the Japanese market, particularly in sectors such as telecommunications, transport and financial services, while safeguarding the right to protect public services. The provisions on cross-border trade in services do not cover some sectors, such as audiovisual services. Arrangements on the movement of natural persons for business purposes (i.e. 'Mode 4') include, for instance, the addition of two new categories for service providers and the opportunity for spouses and children to accompany service suppliers.

Procurement. The agreement grants non-discriminatory access for EU companies to government contracts in a number of large Japanese cities known as 'core cities', and allows the EU greater access to railway procurement at national level. The agreement will also protect more than 200 European geographical indications (GIs) for agricultural products on the Japanese market.

The EPA includes, for the first time in an EU trade agreement, a chapter on **corporate governance**. It also includes a chapter dedicated to **small and medium-sized businesses**. Among the 74 000 EU companies exporting to Japan, [78 %](#) are SMEs. The chapter on **TSD** sets out, among other things, civil society's involvement in the monitoring of this chapter through consultation of 'domestic advisory groups'. Moreover, it states that labour and environmental standards cannot be relaxed or lowered to attract trade and investment. It should be mentioned that Japan still has to ratify [two](#) International Labour Organisation (ILO) core conventions relevant for the agreement. The chapter also includes the parties' commitment to take action towards achieving the objectives of the Paris Agreement on climate change.

Regulatory cooperation. In addition to boosting trade, the EPA will also strengthen regulatory cooperation between the EU and Japan by introducing an institutional set-up for the already existing [policy dialogues](#), and by adding certain requirements, such as transparency. This cooperation mechanism, included in the chapter on 'Good regulatory practices and regulatory cooperation', is voluntary; parties reserve the right to regulate. Cooperation will also be covered by specific institutional set-ups in the area, for instance, of agriculture. As [pointed out](#), setting standards through regulatory cooperation is all the more important, as the EU and Japan account for more than 40 % of global exports and imports, a share reaching 70 % and beyond in increasingly relevant high-tech sectors.

Concerning **data protection**, the agreement includes a clause whereby the parties will review the issue of the free flow of personal data within three years of the entry into effect of the agreement. Negotiations between the EU and Japan are ongoing outside the framework of the EPA with the aim of simultaneously issuing 'adequacy decisions', which will facilitate transfers of personal data for commercial exchange and at the same time guarantee the protection of the parties' high standards of data protection. A [joint declaration](#) on this issue was published in July 2017, and more recently, a [joint statement](#) was released in May 2018.

Investment. As regards investment protection standards and investment protection dispute resolution, the negotiation process [has not yet been finalised](#). The main remaining issue concerns the mechanism for resolving investment protection disputes. While the EU pursues the setting up of an [investment court system](#) (ICS), already introduced in its recently negotiated trade agreements with Canada, Vietnam and Singapore, Japan favours the investor-state dispute settlement (ISDS) system, a mechanism [included](#) so far in its economic partnership and investment agreements.

The changes the agreement would bring

The three independent studies mentioned previously, and which analysed the potential impact of trade liberalisation between the EU and Japan, suggested that considerable benefits to the EU require significant reductions in non-tariff measures, in addition to reductions in tariffs. The 2012 impact assessment report estimated that, depending on the different FTA scenarios, EU exports to Japan would increase by 22.6-32.7 %, and Japanese exports to the EU would increase by 17.1-23.5 %. It predicted GDP increases for the EU of 0.34-1.9 %, again depending on the various FTA scenarios.

According to the 2016 Trade SIA, in the long term, the FTA is expected to boost the EU economy by 0.76 % of GDP, under a symmetrical scenario. In the EU, 55 % of all export gains would come from the food, feed and processed food sector, while in Japan, 47 % of all export gains would be registered in the motor vehicle sector. A more recent Commission estimate stated that EU companies would save up to [€1 billion annually](#) as a result of the removal of a vast majority of customs duties, and exports could rise by up to 180 % for processed foods. The 2017 [study](#) published by Bertelsmann Stiftung suggested a total income gain for the EU Member States of approximately

€11 billion per year, with Germany, the UK, France and the Netherlands gaining the most in terms of absolute numbers.

The Commission will carry out two further evaluations, one after the EPA is signed and another, five years after the FTA's entry into force.

Regarding the EPA's negative impacts, a [study](#) suggests that the European automotive industry will face increased competitive pressure from Japanese imports, while the greater market access granted to EU agricultural goods will affect the Japanese farm sector, particularly the dairy industry.

The EPA has also been discussed by many stakeholders belonging to the trade partners of the EU and Japan. For instance, the South Korean Ministry of Trade [expects](#) that South Korean automobile and auto parts industries will be significantly affected by the agreement. Due to the [EU-South Korea FTA](#) applied since 2011, South Korean exporters benefit from [cost advantage](#) in the automotive sector on the EU market; the EU-Japan EPA will introduce competition with Japanese cars. The US Department of Agriculture [expects](#) that the preferential market access granted for EU pork exports will have a negative impact on the US market share in Japan. US representatives of [other sectors](#), such as beef and dairy, also expect adverse effects.

Stakeholders' views

The idea of an EU-Japan FTA met with [mixed reactions](#) from European industries. While the [automobile industry](#) feared an increase in the import of Japanese cars, other sectors, such as the [agri-food](#), [chemical](#), [pharmaceutical](#) and ICT (information and communications technology) industries supported the initiative to conclude the deal. As the work of drawing up the agreement has progressed, representatives of [farmers](#) and [agricultural industries](#), as well as organisations covering trade in agricultural products, expressed their support for the EPA. The [automobile industry](#), although recognising that some of its recommendations were taken into account during the negotiations, remained cautious. [BusinessEurope](#), representing European national business federations, applauded the conclusion of the agreement. Criticism of the FTA was also voiced, for instance, reproaching the [lack of](#) transparency and social and environmental protection, and with respect to [animal welfare](#).

On the Japanese side, while farmers representatives [argued against](#) the agreement and [opposed the elimination](#) of specific barriers to agricultural imports, the [Japan Automobile Manufacturers Association](#) and the Japan Association of Corporate Executives, for instance, welcomed the EPA.

Signature and ratification process

Once the Council [adopts](#) the Commission's proposal for a decision to sign the agreement, the [signature](#) of the agreement will take place. The Council must send the agreement to the European Parliament for its approval. In the [Parliament](#), the request for consent will be referred to the Committee on International Trade (INTA). The INTA Committee will then submit its recommendation to approve or reject the agreement to the Parliament. The European Parliament will subsequently decide by a [single vote](#), regardless of whether the INTA recommendation is to approve or reject the act. If the majority required is not obtained, the agreement cannot be concluded. Once the Council receives the Parliament's consent, it can proceed with the conclusion of the agreement. The EU-Japan EPA, which deals with trade and FDI liberalisation, was concluded as an EU-only agreement, and includes only provisions falling within the EU's exclusive competence. Therefore, it only requires the completion of the EU ratification procedure in order to enter into force.

The Commission hopes that the EU-Japan EPA can be [signed](#) in July 2018, and aims to have the agreement [come into effect](#) before the end of its mandate in 2019. According to Japanese [media reports](#), the EPA could be ratified by the end of 2018 in Japan.

Both parties [aim to](#) have the EPA come into force before the end of March 2019 when the UK leaves the EU. In that case, the EPA could apply to the UK in a post-March 2019 transition period. This is

particularly important for Japan because, for instance, Japanese manufacturers based in the UK are responsible for [50 %](#) of UK car production, and in 2015, the UK was the destination of nearly [50 %](#) of Japanese FDI intended for the EU. Moreover, if the agreement were in force during the transition period, it would allow more time for Japan to negotiate a separate trade agreement with the UK.

EP SUPPORTING ANALYSIS

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[Second] edition. The 'International Agreements in Progress' briefings are updated at key stages throughout the process, from initial discussions through to ratification.

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