

Bilateral trade deal with Japan – largest to date for EU

OVERVIEW

Following the signature of the EU-Japan Economic Partnership Agreement (EPA) in July 2018, and the conclusion of the ratification procedures by both partners at the end of 2018, the agreement entered into force on 1 February 2019. The agreement is the EU's largest bilateral trade agreement to date. It establishes a free trade area with a combined market of around 640 million consumers, accounting for roughly a third of the world's gross domestic product (GDP).

The European Commission's analysis of the economic impact of the agreement, published in June 2018, indicated that the EU's GDP could rise by approximately 0.14 %, and EU exports to Japan by around €13 billion by the time the EPA is fully implemented in 2035. The agreement will provide for significant economic opportunities for sectors such as agri-food and textiles, and it is predicted that no EU sector will be impacted by noticeable losses.

In addition to exploiting the untapped potential of bilateral trade and strengthening the EU's economic presence in the Asia-Pacific region, the EPA, together with the Strategic Partnership Agreement (SPA), will provide a platform for stronger relations between the EU and Japan. The agreement also conveys a strong message on the parties' commitment to promoting a free and fair trading system and to rejecting 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)
Rapporteur: Pedro Silva Pereira (S&D, Portugal)

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 standstill at the WTO due to the blockage of Appellate Body members appointment. 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. The ambitious outcome of the free trade agreement (FTA)

with Japan was already an objective of the EU's 2015 [Trade for All](#) strategy, which considered the conclusion of the EPA as a strategic priority, and the strengthening of the EU's presence in the Asia-Pacific region 'crucial to European economic interests'.

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 trade deal that replaced the TPP and [came into force](#) on 30 December 2018 for six countries, among them Japan.

[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 €129.5 billion in 2017, with a trade deficit on the EU side of €8.2 billion. Although Japan benefited in the past from significant surpluses in the trade

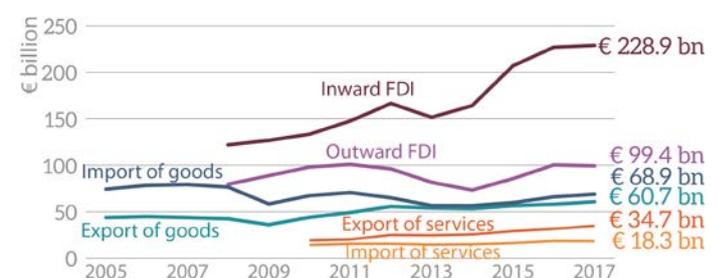
of goods with the EU, trade figures have recently become considerably more balanced, owing to EU export performance and an overall decline in EU imports.

In 2017, the EU exported €34.6 billion of services to Japan, and recorded a surplus of €16.3 billion in services trade, an upward trend from [€4.9 billion](#) in 2010.

As regards investments, the EU's outward foreign direct investment (FDI) stock held in Japan represented 1.3 % (€99.4 billion) of the EU total in 2017, although the EU was the largest foreign investor in Japan (approximately [40 %](#) of Japan's inward FDI stock). Conversely, Europe accounted for around a quarter of Japan's outward FDI stock in 2017, (representing Japan's second largest destination by share), a significant part of which (about 38 %) is in the UK.

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.

Figure 2 – EU trade with Japan (2005-2017)



Data source: [Eurostat \(goods, services, FDI\)](#).

In 2015, Japanese multinational enterprises (MNEs) accounted for [5 %](#) of foreign companies in the EU and employed 625 000 people. The revenues resulting from the turnover of Japanese firms in the EU were more than four times higher than the revenues from Japanese exports to the EU (€375 million and €75.8 million, respectively). In the case of the EU, these two figures did not differ significantly (€84.1 million from EU exports to Japan, and €86.1 million from turnover of EU companies in Japan).

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.

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 (the 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.

However, in some chapters, technical issues remained to be resolved. In the case of other chapters, i.e. regulatory cooperation and investment protection, further discussion was announced. After several technical discussions and the clarification 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.

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 EPA. As regards 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, the parties agreed to eliminate quotas and to abolish tariffs on both sides.

The EU and Japan 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 EPA will be one of the first FTAs to be covered by a new EU [horizontal safeguard regulation](#) which is currently under adoption. The latter [aims to](#) establish a more coherent and efficient procedure for the EU to react when imports under an FTA increase to the extent that will 'cause or threaten to cause serious injury to the Union industry'.

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 parties have agreed 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 (SMEs)**. According to the chapter on SMEs, both parties are to ensure that information concerning access to its own market is transparent. In 2015, [88 %](#) of the more than 64 000 European companies exporting to Japan were SMEs, accounting for 30 % of exports in value terms. 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. The EPA will 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 were conducted outside the framework of the EPA with the aim of recognising each other's data protection system as adequate and with a view to simultaneously issuing 'adequacy decisions', which would [facilitate](#) transfers of personal data for commercial exchange and at the same time guarantee the protection of the parties' high standards of data protection. The [conclusion of negotiations](#) was announced on 17 July 2018. On 23 January 2019, the Commission [adopted](#) its adequacy decision concerning Japan.

Investment. The EPA includes provisions on FDI liberalisation. 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

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 European Commission estimate published later 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 about €11 billion per year, with Germany, the UK, France and the Netherlands gaining the most in terms of absolute numbers.

An [economic impact assessment](#) of the EPA, published by the European Commission in June 2018, predicted that, by 2035, the concessions concerning tariff and non-tariff measures would boost EU GDP by €33 billion (an increase of about 0.14 %) and EU exports to Japan by approximately €13 billion. It stated that the business service sector would benefit most as regards absolute gains in terms of output. The few sectors that will suffer marginal losses include motor vehicles and cereals; a decrease of about 0.01 % in output is expected in each sector. The report also stated that, while bilateral exports in both cases will grow, the motor vehicle sector specifically will see a significant increase in imports from Japan. As regards exports to Japan, the dairy, textiles, apparel and leather sectors will experience the greatest increase, both in absolute and relative terms. Substantial export growth in absolute and relative terms is expected for processed food, motor vehicles and chemicals.

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. The US Department of Agriculture [has concerns](#) 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 fear adverse effects. There is currently [no bilateral trade agreement](#) between the USA and Japan. After its withdrawal from the TPP, the USA has put [pressure](#) on Japan to launch talks on such a deal, to reduce the [US trade deficit](#); negotiations are expected to start in [March or April 2019](#).

Stakeholders' views

The idea of an EU-Japan FTA met with [mixed reactions](#) from European industries. While the [automobile industry](#) feared an increase in imports of Japanese cars, other sectors, such as the [agri-food, chemical and pharmaceutical](#) industries supported the initiative to conclude the deal. In July 2018, the [European Automobile Manufacturer's Association](#) (ACEA) stated that the signature of the EPA 'is a positive signal for international trade'. In a common statement published in October 2018, 28 [European business organisations](#) called for quick ratification of the EPA. This call was reiterated in a [joint statement](#) published in December 2018 by European and Japanese business organisations. In a [joint press release](#), EU agri-food chain partners welcomed the ratification of the EPA, highlighting Japan's importance as an export market.

Criticism of the FTA was also voiced by NGOs and trade unions. For instance, in a [joint letter](#), several NGOs called on the European Parliament to suspend the approval of the EPA until further progress on the enforcement of the TSD chapter is achieved; the [European Trade Union Confederation](#) (ETUC) considered that the agreement jeopardises workers' rights, public services and social welfare. Following the ratification of the EPA, the animal welfare organisation [Eurogroup for Animals](#) stated that the EPA 'is a missed opportunity to advance the protection of animals'.

On the Japanese side, for instance, the farm lobby [opposed the elimination](#) of specific barriers to agricultural imports, and the [Japanese Trade Union Confederation](#) voiced concern about the lack of effective labour enforcement provisions and that two core ILO conventions have not yet been ratified by Japan. On the other hand, the [Japan Automobile Manufacturers Association](#) applauded the political agreement reached; the [Japan Business Federation](#) looked forward to the ratification of the EPA; and the [Japan Business Council in Europe](#) welcomed the agreement's ratification.

Signature and ratification process

The Council adopted the [decision](#) to sign the agreement on 6 July 2018, and sent the draft Council decision on the conclusion of the EPA and the agreement itself to the European Parliament for its approval ('consent'). The EPA and the SPA were [signed](#) at the EU-Japan Summit on 17 July 2018.

The EPA, which deals with trade and FDI liberalisation, was concluded as an EU-only agreement, and includes only provisions falling under exclusive EU competence. Therefore, it only required the completion of the EU ratification procedure in order to enter into force.

In the Parliament, the Council's request for consent was referred to the Committee on International Trade (INTA). On 5 November 2018, members of the INTA Committee [adopted](#) a [recommendation](#) to approve the agreement, together with the accompanying [report](#) on the EPA.

On 12 December 2018, the Parliament [gave](#) its [consent](#) to the agreement by 474 votes to 152, with 40 abstentions. It also adopted an accompanying [resolution](#), in which it lays out its expectations for the implementation of the agreement and the reasons for its decision to approve the deal. On the same day, the Parliament also backed the EU-Japan SPA, currently under ratification by EU Member States, and a large part of which will be [applied provisionally](#) as of 1 February 2019.

The two houses of the Japanese National Diet completed their [ratification](#) of the EPA on 29 November and 8 December 2018, respectively. On 20 December 2018, the Council [adopted](#) the decision to conclude the agreement. The EU and Japan [notified](#) each other of the conclusion of their respective ratification procedures on 21 December 2018. The EPA thus entered into force on 1 February 2019.

EP SUPPORTING ANALYSIS

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Third 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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