



EU-Japan Centre
for Industrial Cooperation

日欧産業協力センター

Seminar Report

Building a 'Bridge' between the Asia Pacific and the EU – *The Strategic Significance of the EU-Japan FTA/EPA*

Wednesday, 10 February 2016



Event co-organised with

JETRO

Japan External Trade Organization

Summary and major issues discussed

This EU-Japan Centre / JETRO Paris seminar looked at the strategic significance of the EU-Japan FTA/EPA from a variety of standpoints – what its likely impact will be both on individual sectors and on global value chains; the importance of establishing effective regulatory cooperation; the relationship between TPP and the FTA/EPA and even why FTAs are important.

Links to available presentations can be found on the event web page:
<http://www.eu-japan.eu/events/building-bridge-between-asia-pacific-and-eu>

Seminar Outline

- **Date:** Wednesday, 10 February 2016
- **Venue:** Amphithéâtre de Business France, Paris, France
- **Programme:** for the full agenda see the [event webpage](#)



Welcome remarks – Akio Ikemori, Director General, JETRO Paris

Mr Ikemori noted that the last few years had seen a growing number of regional trade agreements and of bilateral agreements. The EU-Japan negotiations are now in a final phase. The EU and Japan have big expectations for both customs issues and trade and investment rules. The EU and Japan are ‘important players’ and the FTA/EPA will have major repercussions on the drawing up of rules and the creation of a seamless business environment.

The TPP talks came to a successful conclusion in October 2015. The Asia-Pacific is the driving force in the world. An EU-Japan FTA/EPA will be a gateway linking the two regions.

Keynote Speeches

Takayuki Ueda, Vice-Minister for International Affairs, Ministry of Economy, Trade and Industry, Japan (METI)

The [presentation](#) of Mr Ueda emphasised that the impact of FTAs (be they plurilateral, regional or bilateral) and coordinated rule making will have on global economic activity.

Mr Ueda explained the need for global rules to cover all sectors of global economic activity (including standardisation) given the development of 'global value chains'. With fast changes, two outcomes are possible – establishing an open and innovative system based on market mechanisms and contribute to global sustainable development or a fragmentation of the global system. The EU and Japan share values and have a common responsibility to integrate the global economy and lead sustainable growth.

Japan's EPA network will strengthen its position in global flows of trade and investment. Trade liberalisation requires both WTO (global) and FTAs/EPAs (bilateral/regional) accords. The [Declaration on the Expansion of Trade in Information Technology Products, agreed in December](#), at the WTO's 10th Ministerial Conference shows that a sector-specific plurilateral negotiation can be effective. FTAs / EPAs are an integral part of Japan's strategy (it aims to raise the FTA ratio to 70% by 2018 compared with 19% now). TPP on which an 'agreement in principle' was reached last October is an 'epoch-making agreement' incorporating emerging economies and comprehensive trade and investment rules and will boost economic growth throughout the region (including in Japan). Japan's network of factories across Asia contributes to the global value chain. c. 40% global GDP will be covered by the TPP that will eliminate tariffs on goods; liberalise trade in services and investment; and will establish 21st century rules on IPR, e-commerce, state-owned enterprises and the environment. Building on the success of the TPP negotiations, the [Regional Comprehensive Economic Partnership](#) (RCEP) would enlarge the geographical coverage of the free-trade zone to cover half of global GDP including China and India.

The EU-Japan FTA/EPA would provide the missing link to connect the Asia-Pacific and Atlantic regions, improve mutual market access and Japanese access to third markets in Africa and the Middle East and would enable the EU and Japan to design a progressive economic rule 'model'. Both sides are committed to high-level rule making. Any agreement should be ambitious and comprehensive. Although negotiations are still on going, some 'fruits' have already appeared (e.g. Germany and Japan have tabled a joint proposal for self-driving car safety standards). Given the rapid growth of the global value chain and political situation in both Japan and the EU, the pace of negotiations should be sped up so as to reach an agreement in principle 'at the earliest possible time in the course of this year'.

Marco Chirullo, Deputy Chief Negotiator of EU-Japan FTA/EPA, DG Trade, European Commission

*The speech of **Mr Chirullo** focussed on the FTA/EPA negotiations – what an agreement would bring; which issues it would cover; and the challenges that must first be overcome before any agreement.*

Last November, EC President Juncker and PM Abe reaffirmed their willingness to finalise negotiations with a high level of ambition. The potential gains from an FTA/EPA are immense (as big as those of [TTIP](#)). An EU-Japan FTA/EPA would mean a lot to both sides – Japan would gain full access to the world's largest economic zone. It is in the interest of both sides to go beyond a traditional FTA by addressing services, investment, etc. By showing leadership and setting standards we can determine the way global production will be structured – if not, we will have to follow standards set by others.

The objective is to conclude the discussions this year. The negotiations are 'mature' – both sides know the other's sensitivities. All 'gaps' have been identified, but must be narrowed. Challenges remain. In May, the EU and Japan restated a willingness to conclude the discussions in 2015, but negotiators' resources focused on TPP. Talks must speed up if we are to conclude them in 2016. TPP was ambitious, whilst it can be a natural benchmark; Japan and the EU have different interests to other TPP members.

The EU's 'price' for the concessions it is offering relate to Japan's processed agricultural products sector so it can 'sell' the agreement to its stakeholders. The EU realises there are sensitivities on the Japanese side, but does not feel these should extend to EU wine or pasta. Addressing non-tariff measures (NTMs) is fundamental. Good progress is being made, but there is still considerable work to be done (e.g. car annexe, food additive approval). Services is an important issue for both sides. On public procurement and railways, the EU is ready to 'offer the whole single market' in return for reciprocity. Geographical indicators are a key EU demand, but could safeguard high-quality Japanese products.

If we stop seeing the FTA/EPA in terms of 'TPP+' or 'TPP-' an agreement within the timeline is feasible. If we miss an agreement in 2016, complications may appear – constituencies who did not support the idea of talks may awaken; 2017 will see elections in key member-states and trade policy is not publicly popular. We should therefore take the current opportunity to conclude the negotiations. The EU-Japan FTA/EPA would be a key element in the EU's strategy for Asia – it has already negotiated a number of FTAs with the region¹, is about to launch negotiations with the [Philippines](#) and is negotiating an [investment agreement with China](#). Thus, FTAs are both part of that strategy and part of a strategy for the EU to show leadership on regulatory cooperation – the setting of bilateral and international standards.

Ken Ash, Director of Trade & Agriculture, OECD

Mr Ash considered the perspective in which the EU-Japan FTA/EPA negotiations are taking place. Market access is important, but so is regulatory cooperation and reform of regulations on services.

Our economies are collectively more inter-connected than ever before. The emergence of global value chains has changed the business that we are in – most trade in the world is now in the form of intermediate or capital goods (<25% of global trade is in final consumer goods). The nature of trade is that businesses import inputs into their production processes and add value, to become more competitive, grow their business and do business domestically and abroad. So trade should not just be about growing exports. Instead, you should also want to grow access to input markets – to the most competitive source of intermediate inputs you can find – that is why trade matters in both directions. Trade opening and investment opening can provide an untapped economic stimulus at no cost (no expansion of government debt). How do you open markets? Multilaterally is the best way. But in the absence of WTO progress, governments are turning to regional and plurilateral market opening as complements to the multilateral system so long as they are ambitious (go further than a multilateral approach) and are open to other countries willing to meet those standards. Over the last decade we have seen RTAs that are 'WTO+' (go further than existing WTO disciplines) or 'WTO beyond' (addressing issues not covered by WTO). More and more countries are addressing more and more issues in ambitious ways.

Japan has tripled its position in Asian value chains over the past 15 years. EU companies doing business in Japan access the fourth largest consumer market and a strong supply chain and *vice versa*. Tariffs can be seen as a mathematical exercise – what goes, how fast and with what sequencing. The EU-Korea FTA should not be seen as a benchmark – as much ambition should be brought to tariff reduction over whatever period as possible. In the long-term, improving regulatory cooperation in a systemic way could give a much bigger benefit than addressing tariffs. The domestic right to regulate should of course exist and be protected, but imposing costs unnecessarily on business should be eliminated. With services accounting for 80% of the EU and Japanese economies, failure to address services will mean that unnecessary restrictions remain and benefits are not maximised. As trade in services is by its nature distance-sensitive, current restrictions (on the movement of people or capital) should be removed.

Patrick Messerlin, Sciences Po Paris (IEP)

The [presentation](#) of Prof. Messerlin focussed on the impact of TPP on an EU-Japan FTA/EPA and what an EU-Japan FTA/EPA would mean for France.

Japan is not a protectionist country – it is a difficult country. We should be trading more with Japan. The signature of TPP, liberalising US-Japan relations, changes things through trade distortion: e.g. customs duties on pork imports to Japan are 150% - if you give duty-free access to US pork producers, they gain a 150% advantage over their Danish competitors.

Vested interests in France are divided – some in favour, some opposing the FTA/EPA. The rail sector is a sensitive area for the negotiations. Japanese companies (JR East, JR West and JR Central) can apply under EU procurement rules but have to meet the rules that apply to state companies. Europe's share of imports into Japan is higher than Japan's share of imports into Europe – Japan is more open than Europe. The challenge for Government is to defend the global interest – if it defends the interest of railway equipment then it will jeopardise other interests (agriculture – processed / non-processed – and services).

¹ [EU-Korea FTA](#) (provisionally in force), [EU-Vietnam FTA](#) (text being revised) and the [EU-Singapore FTA](#) (awaiting ratification)

Antoine d’Espous, Vice President, French Federation of Industrial Deli Meat Producers, Delicatessens and Meat Processors (FICT)

The [presentation](#) of **Mr d’Espous** addressed the fact that trade rules may fail to recognise industry standards and seek to impose unworkable rules on exports of food culture.

The French deli-meat industry does not manufacture ‘protein’ (mass-production), but sells 2,000 years of ‘culinary culture’ with a great diversity of products. There is a difference between treaty commitments and reality – French producers meet [International Food Standards requirements](#), but IFS is not recognised by France or the EU. Italy, France, Spain and Japan have culinary culture (true ancestral know-how). Japan represents just 60 tonnes of exports by 8 French companies. 450 products are strictly codified to guarantee their higher quality. This usage code is not part of the international negotiations. Each charcuterie is an expression of a *terroir* (and a method of historical preservation).

The Authorities fail to support companies and undermine the norms and quality standards. Japan fails to understand our standards. Mr d’Espous gave two examples – firstly, his dry sausage meat produced exclusively for Japan had to be accredited by a Japanese authority, his storage space needed to be accredited by another Japanese authority and his product had to be edible for 180 days – although dry sausage keeps quite well, it does not last 180 days. Similarly, under Japanese rules, tins of *foie gras* need to be cooked for 4 minutes at 120°C to be exportable to Japan but that will destroy the contents.

Round Table Discussions and Q&A Session

Dr. Françoise Nicolas, Director of Centre for Asian Studies, Institut Français des Relations Internationales (IFRI)

Moderator

Dr Nicolas felt that the EU-Japan FTA/EPA was of very little interest to the public as it gets little newspaper coverage – whereas the TTIP negotiations raise huge interests and concerns. The amount of trade between the EU and Japan is substantial, but declining, and needs boosting.

Panel discussion included

- ***Why is the FTA/EPA so low profile?***

Mr Chirullo felt that given trade policy has been controversial in Europe if it is not the case for these negotiations it is better that way. Japan and the EU went through more turbulent trade relations in the late 1970s/1980s. We now share values and cooperate (including at the WTO) so it is less newsworthy. Similarly, it comes after the EU-Korea FTA so is seen as being less ‘scary’.

For Prof. Messerlin, the EU’s relationship with Japan is much less confrontational than its relationship with the USA. Vested interests in Japan are very different to those in the USA.

For Mr Ueda, there is a similar situation in Japan where TPP has got more attention (partly because it is largely a ‘Japan-US’ FTA and partly because it addresses how to deal with China).

Mr Ash thought it is a shame that there is not positive support for the benefits the FTA will bring.

- ***The impact of TPP on the EU-Japan FTA/EPA. TPP address NTBs, a degree of regulatory cooperation and harmonisation so even if it does not set a benchmark it can provide a ‘direction’ to follow.***

For Mr Ueda, the nature of negotiation between TPP and EU-Japan FTA are completely different – the interests of both sides are completely different as are the structure of the negotiations. The rules of TPP – including on investment – are of high standard and could act as a reference for the EU-Japan FTA/EPA. We can aim at a comprehensive and ambitious FTA that is as much a reference as that of TPP.

For Mr Chirullo, of course TPP is one of the tools that any responsible negotiator would use as a reference. That reference cannot become a ‘straightjacket template’ for our negotiation given the different interests, starting points, objectives and possible gains. TPP is ambitious in terms of the range of issues covered – the FTA/EPA will do the same.

For Prof. Messerlin, tariffs are a key issue – under TPP, many agricultural tariffs will be cut in the long run. We have to achieve the same level of trade liberalisation as TPP. On the automotive industry we could do better – the EU has a tariff, Japan has regulatory measures but Japanese carmakers have been much more forthcoming – taking up European norms opening up the SE Asian market. On a separate issue – regulatory cooperation he cited the case of [spotted-wing drosophila](#) which is killing French berries and suggested ‘importing’ Japanese regulations to address the issue and would reinforce public opinion about the EU-Japan relationship.

For Mr Ueda, on regulatory cooperation – Japan has adopted 41:47 UN regulations on cars. Perhaps we could cooperate on a new regulatory framework for the setting of regulations for electric cars or fuel-cell cars (Japan and Germany are already working on this). Safety standards may come from scientific evidence but also reflect cultures and traditions – a Japanese equivalent to the *saucisson* issue is *katsuboshi* (a smoked fish used as a soup stock) – small Japanese producers have to pay €800 to be able to export it to Europe, so many give up. Therefore, safety standards reflect culture and traditions of each country.

- ***Reactions to Mr d’Espous’ speech***

For Mr Chirullo, we understand that this happens. Market access is one aspect (and will be on the list of the tariff negotiators – Denmark would be very upset if it were not on the list). It can also be addressed through the SPS chapter and NTMs on SPS issues (e.g. food additives). With Japan, the aim is to harmonise these regulatory issues as much as possible. GIs are a mantra for any EU negotiator.

For Mr d’Espous, the EU is a free market that has completely opened up on the countries within the EU with standards that existed in industrial products but not in food products. Each country adopted regulations, overseen by mass retail companies who set up the ‘international food standard’. Currently in Europe, only companies with a high-level of IFS can supply European supermarkets. IFS is objective – his company is inspected each year and all his products have traceability. He could not understand why Europe does not take this on. Japan buys the biggest volume of red tuna from the Mediterranean, and although they have high levels of heavy metals, they are consumed without any difficulty.

Mr Ash was unable to offer a short-term solution. It is very hard to converge existing regulations after they exist. Regulatory cooperation is about a new way of making regulations that take account of all these considerations before a new regulation is made (define ‘what is science’, ‘what is precaution’) – but that is a long-term solution.

Prof. Messerlin is sceptical about the possibility of the FTA pushing for regulatory cooperation in a big way. Regulations evolve as the business changes. Europe has the most harmonised regulations in the car industry but it collapsed when Daimler and a Japanese car company rejected new air condition pollutants. Why? The firm is responsible of its own acts and Daimler felt that the new pollutant was a fire hazard. Regulatory cooperation must be pushed on a one-by-one basis, putting regulators in the driving seat, not trade negotiators. It is a learning process – regulatory cooperation means building trust.

For Mr Ueda, a 2-track approach could be tried, but would have to be agreed ultimately as a single undertaking.

Mr Chirullo explained we are already doing this to a certain extent, regulation by regulation. Europe has much to gain – Japan has few tariffs on industrial goods. NTMs are important to get to a level playing field then tariffs can be addressed. The next step will be to use the trust that the agreement will bring, to build for the future.

Q&A included

- *Much work has been done by combining the norms. So what will the FTA's real impact be on car sales?*
- *Is it not possible to see mutual recognition as a solution – Japan and the EU have comparable measures to protect their consumers instead of searching for new regulations?*

For Prof. Messerlin, car specialists argue there will not be a major impact on car sales. Mutual recognition is the regulatory cooperation of the future – but you need to trust your partner that his norms are different, but equivalent.

For Mr Ash, mutual recognition is the gold standard to aspire to – but we are a long way from a well-functioning MRA – the most-functional MRA is that [between New Zealand and Australia](#). Before that you have 'conformity assessments' (you recognise the process by which something can enter your market); before that you have issues of do you even understand the regulations – are they retroactive or published with notice.

For Mr Chirullo, negotiating MRAs is particularly cumbersome. We do have [sectoral-specific MRAs with Japan](#)² and the person who negotiated it is the lead negotiator for the FTA/EPA and says they are not easy. It can be the ultimate target but sounds easier than it is in practice.

Mr Ueda felt that given many Japanese automakers already have factories in Europe, the impact of the FTA/EPA will not be major.

Concluding Remarks

Aiko Higuchi, Director, EU-Japan Centre for Industrial Cooperation

Aiko Higuchi thanked all the participants, noted the importance of the regulatory cooperation issue and invited participants to work with the EU-Japan Centre to strengthen EU-Japan industrial cooperation.

Report prepared by the EU-Japan Centre for Industrial Cooperation

² See also <http://www.mofa.go.jp/region/europe/eu/agreement.html>

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