The new EU Japan EPA:

How can your company leverage on improved trade cooperation and market access?

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Welcome and introduction
Introduction of speakers

Famke Schaap
Director
Global Trade Advisory
Brussels (Belgium)

Tom Verbrugge
Senior Director
Global Trade Advisory
Brussels (Belgium)

Naoyuki Kano
Director
Global Trade Advisory
Tokyo (Japan)

Mitsuko Fukunaga
Manager
Global Trade Advisory
Tokyo (Japan)
Agenda

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EU-Japan EPA overview
EU-Japan EPA in a global context

‘The finalization of the negotiations on the EU-Japan EPA demonstrates the powerful political will of Japan and the EU to continue to keep the flag of free trade waving high’

Source: Joint Statement by the President of the European Commission Jean-Claude Juncker and the Prime Minister of Japan Shinzo Abe (December 2017)
Current trade relations EU-Japan

Top 5 EU imports from Japan (2016)

1) Machinery and appliances (€27,025 million and 40.6% in total)
2) Transport equipment (€16,234 and 24.4% in total)
3) Products of the chemical or allied industries (€6,101 and 9.2%)
4) Optical and photographic instruments, etc. (€5,536 and 8.3%)
5) Plastics, rubber and articles thereof (€2,988 and 4.5% in total)

Top 5 Japan imports from EU (2016)

1) Products of the chemical or allied industries (€13,835 million and 23.8% in total)
2) Machinery and appliances (€10,693 and 18.4% in total)
3) Transport equipment (€10,470 and 18.0%)
4) Optical and photographic instruments, etc. (€5,425 and 9.4%)
5) Foodstuffs, beverages, tobacco (€2,806 and 4.8% in total)

<table>
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<tr>
<th>Total trade data</th>
<th>EU -&gt; Japan</th>
<th>Japan -&gt; EU</th>
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Why a Japan-EU EPA?

**Japan interests:**
- **Eliminate high customs duties** (e.g. automotive 10%, chemicals (CH 28) max. 5.5%, electronic devices (CH 85) max. 15%)
- **Regulatory issues**

**EU interests:**
- **Eliminate high customs duties** (e.g. Beef: nearly 40%, chocolate: 30%, wine: 15%, cheese: 40%)
- **Non-tariff measures** on automotive, food safety, chemicals etc.
- **Government procurement**

**Key potential benefits:**
- The long-term GDP increase: for the EU +0.76% / for Japan + 0.29%
- Savings up to 1bnEuro in customs duties per year for EU companies

Source: EU Impact Assessment (SIA, 2015)
Negotiations timeline

1 January 2002
EU-Japan Mutual Recognition Agreement enters into force

1 February 2008
The Agreement on Co-operation and Mutual Administrative Assistance enters into force

25 March 2013
Negotiations for the EU-Japan trade deal were officially launched

7 July 2017
EU and Japan reach agreement on main elements

End of 2018?
Ratification of the agreement

16 June 2003
Agreement on Co-operation on Anti-competitive Activities is adopted by the EU Council

30 November 2009
Signing of the Science and Technology Agreement

3 April 2017
18th Round of the EU-Japan EPA negotiations

8 December 2017
Finalisation of the negotiations

2019
Provisional entry into force?
## Structure of the EPA

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<td>Trade and Sustainable Development</td>
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<td>Good Regulatory Practices and Regulatory Cooperation</td>
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Trade in goods: How will EPA impact?
Meeting the required origin conditions: crucial but challenging

The **origin protocol** contains the overview of the rules of origin, including details on, amongst others, the following topics:

- Wholly obtained products
- Insufficient working or processing
- Tolerance rules
- Product specific rules of origin based on the HS Headings:
  - Classification, valuation and origin determination come together
  - Master data Management is key!
  - Vendor declarations crucial for the exporter or record claiming origin
- Accounting segregation for fungible/interchangeable products

**Proof of origin** mainly through **statements on origin**, issued by the exporter; no use of certificates of preferential origin
Automotive sector

**EPA commitments:**

- **Tariffs:** On EU-side a gradual decrease over a period of 8 years.
- ** Preferential origin: origin rules such as:**
  - Maximum value of non-originating content e.g. 55%
  - Regional value content (RVC): 60%
  - In some cases origin can also be determined on the basis of where a certain production process takes place
- **Technical standard cooperation:** Included in Annex 2-C EPA.

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**EU – Japan trade in automotive products (In Million EUR)**

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<thead>
<tr>
<th></th>
<th>2013</th>
<th>2016</th>
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<tbody>
<tr>
<td>EU imports from Japan</td>
<td>9,217</td>
<td>13,036</td>
</tr>
<tr>
<td>EU exports to Japan</td>
<td>7,804</td>
<td>8,946</td>
</tr>
</tbody>
</table>

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**EU Import rights on passenger cars**

<table>
<thead>
<tr>
<th>Year</th>
<th>EU import rights on passenger cars</th>
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<tbody>
<tr>
<td>Y 0</td>
<td>10.00%</td>
</tr>
<tr>
<td>Y 0 + 1</td>
<td>8.80%</td>
</tr>
<tr>
<td>Y 0 + 4</td>
<td>5%</td>
</tr>
<tr>
<td>Y 0 + 8</td>
<td>0%</td>
</tr>
</tbody>
</table>
Consequences of the EU Japan EPA for the EU automotive sector:

• Japan wanted the EU to remove its tariffs on imports of Japanese cars and components. This would make imports of Japanese cars and components cheaper.

• More than 65% of all Japanese-brand vehicles sold in the EU are actually manufactured in the EU. Another 240,000 Japanese-brand vehicles made in the EU are exported to third countries.

• Japanese car makers have 14 production plants in the EU and 16 research and development centers.

• So removing tariffs could boost production and jobs in Japanese-owned car plants in Europe.
Electronics sector

**EPA commitments in electronics**

- **Tariffs**, a full or gradual tariff elimination depending on the product. Example of gradual elimination: export of lamps to the EU: 5.7% -> 0% in 3 years; export of LCD-screens to EU 14% -> 0% in 5 years.

- **Preferential origin**: Similar rules to the automotive industry (i.e. origin is obtained if non-originating materials do not exceed certain percentage of the ex-works price of the finished product OR the regional value content exceeds a certain percentage of the free on board price). Change of tariff heading (CTH) also grants origin.

- **Standard cooperation**, Reduction of TBT’s (Technical Barriers to Trade) via the harmonization of different industrial standards (IEC vs. JP) and the harmonization of the different approaches to Dual-Use regulations.
Electronics sector

Consequences of the EU Japan EPA on the electronics industry:

• **Simplification** of the **customs restrictions** for export shipments from EU to Japan and vice versa

• Reduction of TBT’s (Technical Barriers to Trade) via the **harmonization** of different **industrial standards** (IEC vs. JP) and the harmonization of the different approaches to **Dual-Use regulations**

• **Reduction** in **import customs duties** for electronic goods from EU to Japan and vice versa

• A reduction in NTMs (National Tariff Measures) would yield **export gains** and **increase employment**
Agricultural sector

EPA commitments in agriculture

• **Tariffs**, a full or gradual tariff elimination depending on the product. Example of full elimination: export of chocolate to Japan: 30% -> 0%; export of wine to Japan: 15% -> 0%; export of rice to the EU: 7.7% -> 0%. Examples of gradual elimination or reduction: export of beef to Japan; export of tuna to EU. Tariff Rate Quotas (TRQ’s) will still be used.

• **Preferential origin:**

  - General rule of ‘wholly obtained’ (i.e. a plant or plant product, grown, cultivated, harvested, picked or gathered there, a live animal born and raised there, a product obtained from a live animal raised there, …).

  - Derogations for some agricultural products (example in case of tuna fattened for 3 months).

• **Standard cooperation**: Protected Geographical Indications (PGI), sustainable development, safety, environmental and consumer protection (ex. regarding sanitary and phytosanitary measures, Agricultural Safeguard Measures).
Agricultural sector: phased tariff reductions

**Full tariff elimination**

Comprehensive tariff reduction package with tariff elimination on both sides for a majority of goods as soon as the EPA comes into force.

**Progressive elimination**

Both sides have negotiated that the tariff elimination for an extensive list of goods will be done progressively (up to 21 years) or after a transitional period.

- Export of beef to Japan: 40% → 9%
- Export of chocolate to Japan: 30% → 0%
- Export of wine to Japan: 15% → 0%
- Export of rice to the EU: 7.7% → 0%
- Export of electrical machinery to the EU: 14% → 0%
Key attention points for trade preference management and how Deloitte can support your business

- **General awareness** across the board within your company about the importance of the potential benefits to be realized due to trade preference management
- Basics on origin calculation **beyond your trade team**:
  - Procurement
  - Sales
- **Master data management** a key enabler for compliance
- **Bill of Material** (BOM) management
- Above all: **automated processes** for Trade Preference Management
- **Supplier management**:
  - Vendor declarations
  - Follow-up of changes of suppliers.
- Use of Binding Tariff and Origin Informations (BOI’s) (Advance rulings)
Services, investments and horizontal issues
Services (and investment) commitments under the EU-Japan EPA

Services trade is about barriers in market access and non-discrimination:

- **Positive listing**: exemptions in Annex I and II per country and industry (i.e., Business and professional services, Distribution services, Banking and insurance sector etc)

- **‘Right to regulate’**: no commitments in audiovisual services, air transport, public services

- **Digital trade: free flow of data** chapter within 3 years of time to be considered

- **Travel and stay of company staff**: improved visa entry and stay for EU and Japan staff (‘mode 4’)

![Figure 21: Trade in services (% of GDP) of Japan and other selected OECD countries, 2013.](source: OECD, 2014.)
Chapter Highlights: Transparency and regulatory cooperation

Current issues for importers in both markets:

- Very specific technical requirements for products to be released on the markets
- Unpredictable and arbitrary license regulations in certain sectors (automotive, chemical, food processing)
- Lengthy and non-transparent market access procedures

Transparency (Chapter XX)

- Obligation for both parties to be predictable, impartial and transparent in the requirements they impose on economic operators. This chapter applies to all other chapters in the agreement
- Transparent regulatory environment, incl. publication of measures, enquiry points, review and appeal

Good regulatory practices and cooperation

- Contains provisions that aim to promote transparent, compatible and predictable regulatory measures among both parties.
- Example: early notices on new measures; use of impact assessments; reducing regulatory burdens’, exchange of best practices (EU Better Regulation)
- Committee on Regulatory Cooperation

TBT/SPS (Chapter VI and VII)

- Reaffirmation WTO TBT and SPS agreements. These agreements ensure that Member States do not use technical requirements or rules on food safety as a means to impede trade arbitrarily
- Japan agreed to bring a number of its product rules and regulations in line with international norms (e.g. World Forum for Harmonization of Vehicle Regulations, acting within the framework of the United Nations and the Economic Commission for Europe as the relevant standardizing body)
Chapter highlights: government procurement, customs cooperation, sustainability

**Government procurement**
- Different sized procurement markets between the parties
- The access is sometimes limited for foreign companies due to lack of transparency and arbitrary requirements
- Example: EU interest to gain access to procurement on railways

**Customs cooperation (Chapter 4)**
- Building on WTO TFA and WCO and WCO commitments
- Work towards simplifications (trusted trader programmes), interconnected ‘Single Window Mechanisms’
- Advance rulings: tariff classification and origin
- Specialized Committee on Customs-related Matters and Rules of Origin

**Sustainability:**
- Labour rights (ILO convention)
- Environmental protection (Paris Climate Agreement)
- Biological diversity, sustainable agriculture, aquaculture, fisheries
- Example: timber
Next steps

• The EU Commission will propose the agreement as 'EU only' or as a 'mixed agreement'.

• The objective of the EU Commission is to sign the agreement in the summer of 2018.

• If it is an 'EU only' agreement it must then be approved by:
  • the governments of the EU's Member States
  • the European Parliament

• If it is a 'mixed' agreement it must then be approved by:
  • the governments of the EU's Member States
  • the European Parliament
  • Member State national – and possibly regional – parliaments

• In Japan it is the Lower and Upper Houses of the Japanese Diet that must approve the agreement.
Questions & Answers

**join our Brussels and Tokyo trade experts through the live chat box**

or:

contact the experts of today’s webinar
Deloitte’s Global Trade Advisory (GTA) services around FTA’s: From trade insights to customs compliance and strategic trade management

Over **400 trade experts** spread over **39 countries** (and 3 regional COE’s).

Our teams collaborate closely to provide companies with customs, trade and FTA related advise, with reliable and innovative solutions:

- To gain **insights** into actual trade flows
- To support FTA **eligibility**, spot **opportunities**, deal with **compliance issues** (product range, classification and origin conditions, as well as **Brexit** etc)
- To **simplify** trade management through trade automation (SAP GTS, Global Trade Radar)
- To enhance the quality of your **strategic trade management** at a global level, with regional/local teams and external stakeholders (incl customs administrations)

**In focus: Global Trade Radar (GTR)**

- Deloitte’s **Global Trade Radar**: 1 dashboard, **data analytics** sourced directly from customs authorities or customs broker.
- Output: high-level insights, and identification of compliance, financial risks and customs planning opportunities.
Thank you!

Famke Schaap
Director
Global Trade Advisory
Brussels (Belgium)

Tom Verbrugge
Senior Director
Global Trade Advisory
Brussels (Belgium)

Naoyuki Kano
Director
Global Trade Advisory
Tokyo (Japan)

Mitsuko Fukunaga
Manager
Global Trade Advisory
Tokyo (Japan)