

Customs Flash

EU and Japan announce political agreement on bilateral Free Trade Agreement

Introduction

On Thursday 6 July 2017, Prime Minister Shinzo Abe of Japan, President of the European Council Donald Tusk, and European Commission President Jean-Claude Juncker announced that the two trading powers had reached a general political agreement on the EU-Japan Free Trade Agreement (FTA).

Negotiations for an EU-Japan FTA were officially launched in 2013. After a number of recent developments inside and outside the EU, the EU and Japan have accelerated the pending trade deal.

Both Japan and the EU organized a new set of negotiation rounds in 2017, resulting in the 6 July 2017 political agreement. The FTA will be the world's largest free trade agreement, covering almost 30% of the world's economic output.

What does this political agreement mean?

The fact that a political agreement has been reached does not mean that the EU-Japan FTA is set to enter into force any time soon. This milestone is more of an indication that more than 90% of the issues have been covered and that the agreement's conclusion is near.

Facts

The EU currently exports over EUR 58 billion worth of goods and EUR 28 billion worth of services to Japan. Japan exports EUR 66 billion worth of goods and almost EUR 20 billion worth of services to the EU.

The EU's exports to Japan mainly consist of vehicles, machinery, pharmaceuticals and medical instruments. The main exports from Japan to the EU are machinery, vehicles, medical instruments and chemicals. The value of tariffs paid

on European imports to Japan is currently up to EUR 1 billion per year.

No official agreement text is available yet, as not all the provisions have been agreed upon. The current information available originates from several sources released by the European Commission and the Japanese Ministry of Foreign Affairs.

The Economic Partnership Agreement, as the FTA will be called, will ensure and regulate the following areas between the EU and Japan:

- Market access for goods, services and investments in respective territories
- Protection of geographical indications
- Procurement rights
- Removal of non-tariff measures
- Harmonization of rules on intellectual property rights.

The EU-Japan FTA will remove almost all customs duties for imports on both sides. This will especially benefit European producers of food products, as Japan currently imposes import duties of nearly 40% on beef, up to 30% on chocolate, 15 % on wine and up to 40% on cheese. Additionally, under the agreement Japan will recognize and protect over 200 European foods and beverages as specially certified delicacies. These changes should give a significant boost to EU exports of processed foods.

The agreement will also cover non-tariff measures by making rules more harmonized and transparent, and by linking technical product requirements to international standards. The EU will aim, as much as possible, to use the same blueprint for these rules as that implemented in other recent FTAs with South Korea, Canada and Vietnam.

With regards to intellectual property protection, both the EU and Japan already have well-established rules. The agreement will, on the one hand, mutually recognize both protection systems, but on the other, it will make some amendments to bring rules more in line with international standards.

Issues implemented by the EU into other FTAs and expected to be included in the EU-Japan FTA are chapters on:

- Environmental protection and sustainable development rules (which are equally important topics for both parties)
- Ratification of the International Labour Organization's Convention
- Corporate social responsibility.

As with the EU-Canada Comprehensive Economic and Trade Agreement (CETA) and EU-Vietnam FTA, the Commission is working on including an investment court system in the agreement. The Court of Justice of the European Union has ruled that investor dispute settlement procedures are a shared competence between the EU and the Member States on the

European side. It is not yet clear how this system will be included in the final text, as this can determine whether the Commission presents the agreement as 'EU only' or 'mixed' (with a veto power for Member States).

What does it mean for you?

EU and Japanese economic operators with active or planned businesses in the other territory will be given a tool to optimize their supply chains and increase business opportunities between the two parties. Currently, FTA benefits extend far beyond the traditional lowering of duties and attempt to create a level playing field for companies operating in different markets. The benefits are a combination of monetary savings, increased competitiveness, and simplification of doing business.

What to do?

Deloitte's Customs and Global Trade team will continue to follow up on the latest developments regarding the EU-Japan FTA.

Companies can prepare with an FTA review. Deloitte can (re)assess the use of trade preferences, determine where the new FTA can add value to a company's trade processes, and address potential supply chain optimizations.

It should be noted that once the EU-Japan FTA enters into force, EU companies aiming to benefit from this agreement and issue preferential statements of origin for their exports to Japan will have to register under the new REX (Registered Exporter) system.

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