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COMMISSION STAFF WORKING DOCUMENT

IMPACT ASSESSMENT REPORT ON EU-JAPAN TRADE RELATIONS

Accompanying the document

Recommendation for a Council Decision

authorising the opening of negotiations on a Free Trade Agreement between the European Union and Japan

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1. PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES

1.1. Organisation and timing

The 2001 EU/Japan Action Plan – which set up the political and economic framework of the EU Japan bilateral relationship – is coming to an end in 2011 and has to be reviewed. The Japanese government has proposed to enter into a free trade agreement (FTA) with the EU.

The 28 April 2010 Japan-EU summit established a Joint High Level Group (JHLG) to identify "options for strengthening all the aspects of the Japan-EU relationship'. The JHLG reported to the summit held on 28 May 2011 with a full analysis of the current working arrangements, and the options open to the parties to enhance and improve their relationship.

At the 28 May 2011 Japan-EU summit the Summit statement concluded as follows:

" . . . Summit leaders agreed to start the process for parallel negotiations for:

- *a deep and comprehensive Free Trade Agreement (FTA)/Economic Partnership Agreement (EPA), addressing all issues of shared interest to both sides including tariffs, non-tariff measures, services, investment, Intellectual Property Rights, competition and public procurement; and*

- *a binding agreement, covering political, global and other sectoral cooperation in a comprehensive manner, and underpinned by their shared commitment to fundamental values and* principles.

Summit leaders decided, to this end, that the two sides would start discussions with a view to defining the scope and level of ambition of both negotiations. Such scoping would be carried out as soon as possible."

The summit statement echoed the conclusions of the European Council meeting of 25 March 2011, which referred to the 'potential launch of negotiations for a free trade agreement on the basis that Japan is willing to tackle *inter alia* the issue of non tariff barriers and restrictions on public procurement'.

The scoping exercise with Japan foreseen by the 2011 Summit in respect of a possible FTA/EPA is currently ongoing.

In advance of a decision to request a negotiating mandate, Commission services have undertaken an impact assessment of a possible FTA with Japan[1]. An impact assessment steering group (IASG) was created on 14 June 2010 for the purpose of this impact assessment and met on 24 June 2010, 29 September 2010, 14 January 2011, 18 July 2011 and 14 October 2011.

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[1] The Directorate-General for Trade is the lead service behind this impact assessment report. Other DGs and services involved in the preparation of the report were: DG Agriculture and Rural Development, DG Budget, DG Climate Action, DG Competition, DG Development, DG Economic and Financial Affairs, DG Employment Social Affairs and Equal Opportunities, DG Energy, DG Enterprise and Industry, DG Environment, DG Health and Consumers, DG Information Society and Media, DG Internal Market and Services, DG Maritime Affairs and Fisheries, DG Mobility and Transport, DG Taxation and Customs Union, European Anti-Fraud Office, Eurostat, the Legal Service, and the Secretariat-General. The External Action Service has also been involved.

The decision of the Commission flowing from this impact assessment would take the form of a proposed decision of the Council authorizing the opening of negotiations, as well as the public legal act nominating the Commission as the negotiator on behalf of the European Union, accompanied by negotiating directives, which provide guidance to the Commission as negotiator subject to ongoing review within the Council of the progress of negotiations.

The scoping exercise currently underway is designed to test the extent to which the parties agree on the scope of coverage of an FTA and the degree of shared ambition concerning their priorities. As such, it is destined to give both sides some reassurance that the negotiations, once entered into, will produce results which are likely to fall within an acceptable range of outcomes.

The scoping exercise is independent of the impact assessment but it has nevertheless been informed by the findings of the latter. It will not in any event affect the EU's own assessment of its priorities. The Council's decision to authorize negotiations is likely to be taken only after the Member States can see that the scoping exercise provides this reassurance. The negotiating directives that will give guidance to the Commission as the EU's negotiator, will, however, reflect the EU's goals rather than the indications of potential outcomes that the scoping exercise may deliver.

1.2. Consultation and expert evidence

Several economic studies on barriers to trade and investment between the EU and Japan were already available when the impact assessment was launched. Ecorys, the Swedish Board of Trade, and Copenhagen Economics each had produced a study analysing the potential economic impact of further trade liberalisation[2].

DG Trade commissioned a complementary study that supported the impact assessment by supplying additional factual information and economic analysis. The contractor was requested to compare the results of the existing studies and explain the differences between their findings; to look in greater depth at barriers to trade and investment in Japan in certain sectors; and to assess the likely social and environmental impacts of trade liberalization between the two economies. An executive summary is set out in Annex 1 including a table comparing the three pre-existing studies

The complementary study considers two possible scenarios for closer trade and economic cooperation: a limited liberalization scenario in key identified sectors, and a more ambitious scenario involving widespread liberalization of both tariffs and non-tariff measures. In order to complement the previous studies it provides *inter alia*:

- an updated inventory of Japanese non-tariff measures,

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[2] The three studies are:
The Swedish Board of Trade Study of October 2009:
Copenhagen Economics of February 2010
http://trade.ec.europa.eu/doclib/docs/2010/february/tradoc_145772.pdf
The Ecorys Study of December 2009
http://www.rijksoverheid.nl/bestanden/documenten-en-publicaties/rapporten/2010/03/08/report-the-impact-of-free-trade-agreements-in-the-oecd-the-impact-of-an-eu-us-fta-eu-japan-fta-and-eu-australia-new-zealand-fta/reportfinal1dec-edited1-2.pdf

- a more detailed analysis of the impact on trade and investment of the full removal of the cost of Japanese NTMs in the distribution (retail and wholesale trade), maritime transport, postal/courier services and business services sectors[3],

- an examination of Japanese tariff barriers which constitute market access priorities for EU industry[4],

- an analysis of the employment impact of trade opening between the EU and Japan,

- an analysis of the impact on CO2 emissions of a reduction of barriers to trade and investment between the EU and Japan.

The impact assessment has been prepared following extensive consultations with all interested stakeholders including representatives of civil society, industry and Member States. In addition, in the course of repeated and regular missions to Japan, DG Trade met a number of interested business organizations, such as the European Business Council in Japan, and other stakeholders.

An online public consultation was launched on 9 September 2010 on the DG Trade website and posted on "Your voice in Europe"[5]. It took the form of a web-based online questionnaire open to all interested parties. The consultation ran from 9 September 2010 to 5 November 2010 (with extensions granted in exceptional cases to stakeholders who requested them). In total, 87 exploitable contributions were received from representatives of industry and business associations, non-governmental organizations, trade unions, academic institutions, research centres, private companies and government departments.

The aim of the public consultation was to gather views and opinions from stakeholders on the future of the EU's trade and economic relationship with Japan. The responses to the online consultation have provided very useful information: in terms of the expectations of stakeholders concerning the economic relationship, as well as precise, detailed elements of a large number of issues. The summary of the results of the consultation exercise is set out in Annex 7.

The majority of respondents favour strengthened trade ties between the EU and Japan. In particular, many called for greater cooperation and economic integration via a comprehensive free trade agreement (sometimes labelled an "economic integration agreement"). However, European respondents tended to qualify this conclusion with the major caveat that, before the EU entered into negotiations for any such agreement, Japan should show goodwill by making progress on existing trade barriers.

In parallel to the online consultation, DG Trade organized or participated in a number of outreach activities designed to inform the public. First, two *ad hoc* civil society meetings took place in Brussels, on 8 June and 19 October 2010 respectively. Although the former was organized before the impact assessment process officially began and was only partially

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3 These sectors were included since they had not been fully covered in the previous studies

4 The top 25 HS6 items ranked by level of protection (from the WTO integrated data base), the level of trade and the total duties collected were correlated to show the importance of protection: complementary study.

5 The Consultation Report and the full list of contributions are available at: http://trade.ec.europa.eu/consultations/?consul_id=148

devoted to the future of EU-Japan trade, DG Trade used the opportunity to inform civil society about the upcoming public consultation.[6] The latter meeting was undertaken specifically with the aim of consulting civil society on the issue. The Commission presented an outline of current EU-Japan relations, and described recent developments which led Japan to advocate the negotiation of an advanced trade agreement with the EU. It also explained the reasons and aims behind the impact assessment process, and invited representatives of civil society to share with the Commission their views on what the priorities for future EU-Japan trade and economic relations should be. Many questions were raised and civil society representatives commented extensively on the issue. As a result, a number of opinions and recommendations were voiced about enhancing trade and investment with Japan, improving future bilateral cooperation, and tackling market access problems in various sectors more effectively.[7] These comments have been analysed and taken into consideration in the process of preparing the IA report.

In addition, DG Trade took part in the multi-sectoral social dialogue meeting on trade sustainability impact assessments and trade policy organised by DG EMPL on 15 October 2010. During this meeting DG Trade delivered a presentation on the public consultation procedure, and informed social partners about the ongoing online consultation process. Additionally, small and medium enterprises (SMEs) were informed about the public consultation through the weekly newsletter of DG ENTR, which is distributed to its network partners over the intranet.

DG Trade representatives also participated in a number of seminars and conferences dealing with EU-Japan relations, where they presented the Commission's views on the economic and trade aspects of the EU-Japan relationship. The events included a seminar[8] organized by the European Institute for Asian Studies; and the 13th EU-Japan Conference[9] organized by the Catholic University of Leuven and Brussels Free University, together with the EU-Japan Centre for Industrial Cooperation. Although not formally part of the IA process, these events supplied valuable information and insights on EU-Japan economic relations, and on the views of stakeholders in this respect. Their views have been taken into account, where relevant, in this IA report.

1.3. The opinion of the Impact Assessment Board

Following its hearing on 7 December the Impact Assessment Board delivered an opinion in favour of the impact assessment report but requiring a number of changes and additions to it.

This draft incorporates changes designed to take that opinion into account, notably by clarifying the nature of the Commission decision to be taken pursuant to the impact assessment, authorizing the negotiation of a Free Trade Agreement, and the relation between the process of impact assessment and the scoping exercise. The changes also clarify the area of public procurement, including the relation of possible FTA negotiations to the proposed horizontal initiative on access to third countries' procurement markets. The changes are intended to explain more clearly the various FTA scenarios, notably as concerns non-tariff

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6 The minutes of the meeting can be found at: http://trade.ec.europa.eu/doclib/docs/2010/july/tradoc_146285.pdf

7 For a report of the meeting see http://trade.ec.europa.eu/doclib/docs/2010/october/tradoc_146847.pdf

8 *EU-Japan Free Trade Agreement: Dead and Buried or Alive and Well?*, Brussels, 26 October 2010

9 *Japan - Europe: Preparing the third decade of intensified co-operation – convergence through values*, Brussels, 30 November 2010

measures, and to provide a clearer picture of the methodology and modelling choices leading to the estimated impacts. Within those estimates, varous effects have been clarified, notably the contribution of spill over effects and the impacts on certain sectors.

The revised draft also estimates the loss to the EU budget from the loss of tariff revenues following the implementation of an FTA but does not attempt to estimate increases in the EU budget arising from increases in GDP.

2. PROBLEM DEFINITION

2.1. Introduction

Both the EU and Japan are highly developed economies and major global traders and investors. The EU is the largest economy in the world, representing more than 25% of world GDP and 17% of world trade. Japan is the fourth largest national economy (the third largest national economy after the US and China) accounting for 8% of world GDP and 6% of world trade. Together, the EU and Japan account for more than 632 million people.[10]

The bilateral trade relationship between the EU and Japan is important for both partners. In 2011 the EU was Japan's third largest trading partner with 11.1% of trade in goods, while Japan was the EU's 7th largest trading partner with 3.6% of the EU's total trade in goods.

However, bilateral trade is in decline in both absolute and relative terms. The EU's exports of goods to Japan fell by 0.6% per annum over the 5 year period 2006/2010, while total exports rose by 3.8% over the same period. For Japan, exports to the EU fell by 3.2% per annum over the period 2006/2010, while Japan's total exports rose by 3.1% per annum[11]. The full figures for trade both bilateral and in a global context are set out in Annex 6. To confirm the longstanding downward trend, Japan's share in EU imports almost halved between 2000 and 2008 (from 9.3% to 4.8% of the EU total imports, and continued to fall thereafter. Likewise EU exports to Japan fell from 5.4% to 3.2% of total EU exports,

In 2010, the EU exported €18.3 billion of services to Japan, while imports of services from Japan amounted to €14.5 billion. EU exports of services to Japan declined slightly relative to total worldwide exports over the period 2008/3.8%, 2009/3.7% to 2010/3.5%. Japan accounted for just over 3% of the EU's total external trade in services[12].

EU outward FDI stocks in Japan grew at an average 5.5% over the period 2007-2010, amounting to 93.6 bn Euro in 2010. While this represented about 61.7% of total inward FDI stocks in Japan over the same period, it nevertheless amounts to only 2.3% of total EU outward FDI stocks (an average 3,592 bn Euro over that period). Moreover, FDI flows into Japan are generally considered very low in comparison with other developed economies and Japan was ranked the 6th most closed country in terms of restrictiveness of inward investment in the OECD's 2010 update on the FDI Restrictiveness Index.

Conversely, over the same period, Japanese outward FDI stocks in the EU, at an average of 127.3 bn Euro per year, represented around 4.8% of total EU inward FDI stocks (an average

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10 See: http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=E27,JP

11 Actual trends are harder to substantiate given the large dip in trade in 2009 and the even higher increase in trade in 2010. Economic recovery was set back once again following the earthquake and tsunami, but the reconstruction efforts have also provided a further source of economic stimulus.

12 http://epp.Eurostat.ec.europa.eu/cache/ITY_PUBLIC/6-26052011-AP/EN/6-26052011-AP-EN.PDF

of 2,660 bn Euro a year over the period) and 25.5% of total Japanese FDI outflows (an average of 498.4 bn) over the period.

Thus, even a cursory examination of trade and investment figures points at a relative decline and at flows of both exports and FDI from the EU that appear not in line with the relative weight of the EU and Japan in the world economy.

A number of factors have contributed to the decline in trade and investment between the EU and Japan. One major factor is the rapid rise of emerging market economies in developing countries. In the last decade, the emerging economies of Asia and Europe have been growing faster than the EU and Japan. The increased competitiveness, output and increased export volumes of new emerging markets have altered the traditional configuration of world trade flows, by reducing the share of global trade taken by traditional developed economies such as the EU and Japan. Japan's trade has followed these developments with its exports, for example, to China, India, Korea and ASEAN growing significantly faster than exports to established markets such as the EU[13]. Likewise, China has just moved to become the EU's largest trading partner, just ahead of the US, and is the EU's fastest growing export market.

Rapid regional trade integration has also played a role. The EU's enlargement to EU 27 and the EU's Neighbourhood policy has affected trade with the enlarged EU's neighbours, in particular Russia and Turkey, which have become major trading partners for the EU. China and Korea have become much more important for Japan, with China moving into position as Japan's largest trading partner ahead of the USA. There has also been a rapid expansion of FTAs within Asia.

The question arises, therefore, of whether this trend results from objective circumstances that render it unavoidable, or alternatively, whether there is unfulfilled potential in EU-Japan bilateral trade and investment. The Japanese authorities appear to firmly believe that the latter is the case (as demonstrated by the clear policy choice to seek a FTA with the EU). From the EU's point of view, the issue is rather more open, and it would be better framed as to whether the decline in bilateral trade ought to be attributed mainly to changes in global trade pattern or by disillusionment arising from the well-known difficulties in penetrating the Japanese market, or both.

Indeed, there are particular problems – some cultural, others structural – relating to trade and investment in Japan. In trade terms, a demanding consumer market with strong national preferences and tastes has rendered market penetration difficult. In terms of investment, historically, there has been a deep cultural aversion in Japan towards selling one's company; which made domestic mergers and acquisitions (M&A) rare and foreign takeovers almost unthinkable. In a similar vein, a cultural aversion to confrontation has made hostile takeovers rare. The continued existence of cross-shareholdings acquired and held on the basis of non-economic criteria restricts the amount of common stock available in the market. These factors have contributed to maintaining an imbalance in favour of Japan in respect of both trade and investment.

For many years Japan has enjoyed a strong trade surplus vis-à-vis the EU. At one level export-driven economies such as Japan generally have lower imports relative to GDP, and the particular macro-economic structure of Japan's economy (with high savings and investments) must also be taken into account. By contrast, the EU market has always been relatively more open to imports.

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[13] IBID. NB Treads are however hard to substantiate given the very large drop in Japanese trade in 2009 followed by a substantial recovery in 2010.

Nevertheless, the fact that Japan's trade and current account surpluses have remained high since 1995 is also a reflection of continuing market access problems for foreign firms in Japan. Trade figures have become less imbalanced recently, but Japan continues to be a country where, because of specific structural features in the Japanese economy, trading and investment are often particularly difficult.

2.2. The problem

A. Bilateral trade is not fulfilling its potential

However, even against the background of the cultural and structural factors highlighted in the preceding section, both the economic studies and the public consultation underscored that bilateral trade volumes are not as large as could be expected between large developed economies, cited the need to revitalise bilateral trade between the EU and Japan, and highlighted a perception of considerable unrealised economic potential.

The European and Japanese stakeholders responding to the public consultation exercise conducted for this impact assessment towards the end of 2010 all voiced concern that the bilateral trade relationship is failing to deliver results that live up to its potential. Almost all the EU respondents indicated that the Japanese market offers significant potential and that business interests and opportunities are limited by barriers in a number of areas. Most of the Japanese respondents also indicated that Japanese business interests go beyond current trade flows with the EU. These business interests involve both trade (for a variety of goods and services sectors) and investment. Specific issues were raised in relation to interests and opportunities in the public procurement sector.

For example, the EU agro-food, dairy and meat sectors reported that the current combination of high import tariffs and low tariff-rate quotas is restricting their market share. The leather and sports goods sector highlighted interest and opportunities that are limited by tariff barriers. Japanese respondents stated that EU tariffs on a number of products, such as cars, parts and components, home appliances and agrochemical products, should be eliminated

The majority of respondents also pointed out that NTMs are the major barriers limiting existing interests and opportunities. The EU food, automotive, pharmaceuticals and medical devices sectors all stressed that current Japanese regulatory barriers limit their business interests and opportunities.

A similar message, of business interests, ambitions and potential higher than the current level of trade flows, has also emerged from other consultation exercises, such as those within the EU-Japan Business Round Table. In that context, inter alia, the vast majority of respondents from the pharmaceutical, medical devices, healthcare, telecommunications and railway sectors emphasize that tariffs and especially NTMs limit business interests to a level that is below their potential.

Expert studies have also noted that business interests and opportunities are limited by the current level of tariffs and NTMs, and have highlighted the opportunities that might exist for the EU pharmaceutical, medical devices, processed food, motor vehicles and transport equipment sectors[14]. The Copenhagen Economics (2009) study for instance highlighted that three quarters of the firms they had surveyed perceived the Japanese market as more difficult

[14] "Assessment of barriers to trade and investment between the EU and Japan", Copenhagen Economics, 2009.

than other markets. For two thirds of these firms, the existing barriers reduce the variety of goods they supply to the Japanese market and increase the cost of exporting to Japan by 10 to 30 percent, depending on the sector. The studies further claim that Japan's imports of services are below their potential; and services import penetration of the Japanese market is certainly low when compared to those of other developed countries. The degree of penetration of the Japanese market is particularly low in financial services and communications (telecommunications and postal) services as well as in business services, transport and distribution.

The public consultation exercise also revealed that Japan represents an investment destination of considerable interest for EU investors. That impression is combined, however, with perceptions of unfulfilled potential and of the need for the EU and Japan to improve the situation. Independent studies also underline the high potential for FDI in Japan – set against a low current performance

The public procurement market in Japan is another area where European firms report serious difficulties. Japan's commitments under the WTO Government Procurement Agreement provide a theoretical level of access, if falling short of that of the EU. However, the implementation of the commitments has been restrictively interpreted to further cut back access. Examples of difficulties in the Japanese procurement market include: (i) the lack of a central access point for information about public contracts; (ii) the lack of clarity and transparency about eligibility and award criteria; (iii) extensive use of single or restricted tendering; (iv) Japan's "operational safety clause" has been used extensively to exclude foreign suppliers from even bidding for public contracts in the rail transport sector; (v) complex customer-supplier relationship requirements favour domestic bidders; (vi) new bidders may be deterred by requirements to demonstrate previous work carried out in the Japanese market, and previous experience of working with local partners. The Copenhagen Economics study referred to above confirm strong potential in Japan's public procurement market[15].

B. Why unfulfilled potential is undesirable

As highlighted in the document accompanying the Commission Communication "Trade, Growth and World Affairs", trade is a driver of prosperity[16]. Completing all ongoing free trade negotiations (DDA and bilateral agreements) would add more than 0.5% to EU GDP, and making further progress on services and regulatory issues with major trading partners could push this figure above 1% of EU GDP.

Thus globally, trade and investment are important for the welfare. Given that Japan represents 3.8% of overall EU trade, while the EU represents over 11% of Japan's overall trade (in 2010), the first consequence of unfulfilled trade and investment potential is a reduction of the possibility to increase the welfare of both sides. In addition, opportunities to increase the competitiveness and productivity of both EU and Japanese firms are lost. For example, opportunities for technology and knowledge transfer as well as research cooperation are limited in the absence of more intense trade and investment flows; and as a result, potential gains in competitiveness and productivity resulting from cooperation between two highly developed industrial economies with high levels of research and development are lost.

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15 http://trade.ec.europa.eu/doclib/docs/2010/february/tradoc_145772.pdf see e.g. Chapter 7.1, p 88.

16 Trade as a driver of prosperity ; COM(2010) 612}; {SEC(2010) 1268}

Accordingly, failure to harness the full benefits derived from trade and investment to economic growth must be considered to be another undesirable consequence.

C. The consequences of restricted access and choice for consumers

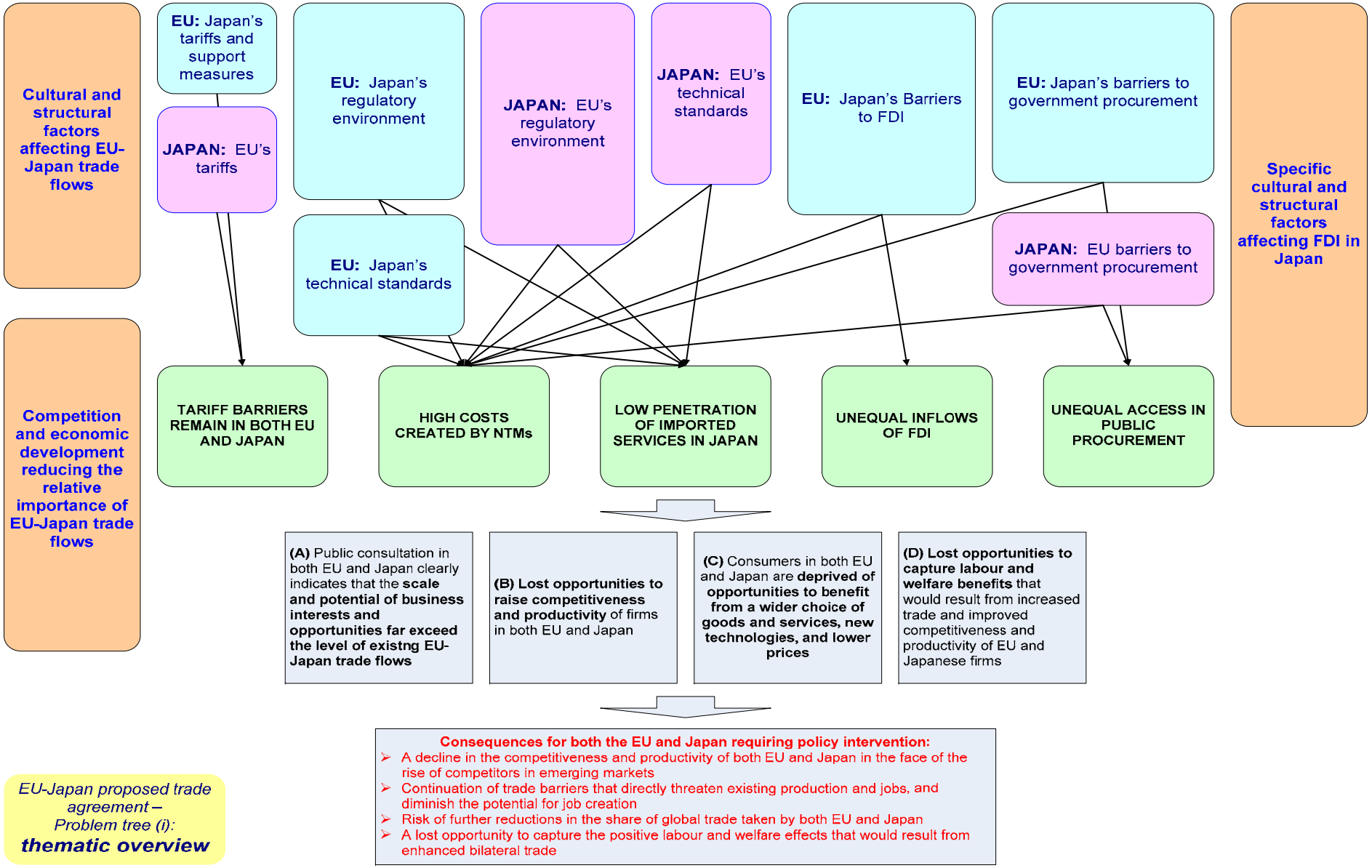
The Commission Communication "Trade, Growth and World Affairs" highlighted that trade brings a wider variety of goods and services to consumers and to companies, at lower prices. Consumer benefits alone are estimated at 600 Euro per year[17]. In the current state of affairs, both EU and Japanese consumers are deprived of the opportunities flowing from a wider choice of goods and services. For example, trade in the least environmentally harmful motor vehicles seems to be far below its potential. In a similar vein, consumers are deprived of choice and access to the latest technologies and treatments – for example, Japanese consumers in the healthcare sector. Moreover, EU and Japanese consumers face higher prices because of the reduced competition resulting from limited trade flows. NTMs identified in the expert studies increase the cost of exporting to Japan by 10% to 30%, depending on the sector. This in turn affects consumers and firms who pay the costs for many of these measures in terms of higher prices, reduced competition, and limited access to capital, know-how, or skilled labour.

D. Lost labour and welfare benefits

Stagnating bilateral trade and investment undermine the productivity and competitiveness of firms in the EU and Japan, and result in lost opportunities to capture labour and welfare benefits for both their citizens. 7.2% of EU employment depends directly or indirectly on exports. When all trade effects are taken into account (exports, imports, productivity and efficiency gains, income effects, etc), around 18% of EU labour force (36 million jobs) is dependent on our trade performance. Trade also generates a wage premium estimated at 7%. This figure results from a CGE model simulation aimed at quantifying the wage premium arising from the current EU trade patterns, which estimated that the average wage in Europe would be 7% lower if the EU did not trade internationally: see Commission staff working document "Trade as a driver of prosperity".The existing trade barriers depress wages for both lower-skilled and higher-skilled workers in the EU and Japan, and reduce output and growth. Opportunities to create new jobs are lost, and existing employment may also be threatened.

The underlying causes behind trade and investment flows between the EU and Japan being well below their potential are analysed more in detail in 2.3. The charts on the following pages relate the problems identified to the underlying causes, grouped thematically; and to the actual or potential consequences for both the EU and Japan, in the form of a 'Problem Tree'.

[17] A Broda and Weinstein study (2006) estimates the gains to American consumers from the growth on global variety during 1972/2001 to have been around 2.8% of GDP. Translated into an EU context, suggest average European consumer benefits in the range of €600/year.



EU-Japan proposed trade agreement –
Problem tree (i):
thematic overview

Competition and economic development reducing the relative importance of EU-Japan trade flows:

- China and Korea have become Japan's most important trade partners
- Russia and Turkey have become major trade partners for the EU
- Rapid rise of emerging market economies has reduced the share of trade taken by traditional markets
- Vertical integration throughout the value chain with the emergence of rapidly growing markets around the Pacific rim – regional trade is thus advancing at the expense of trade with traditional partners such as EU

TARIFF BARRIERS REMAIN IN BOTH EU AND JAPAN
Trade weighted tariffs are low (1.7 % in Japan, 3.4 % in the EU), but **tariff peaks remain in certain sectors** (eg, dairy products in Japan, cars and electronics in EU)

HIGH COSTS CREATED BY NTMs
EU exporters face NTMs that typically raise costs by about **13%** when trying to penetrate the Japanese market; while the EU's NTMs raise the cost of imports from Japan by about **13%**

LOW PENETRATION OF IMPORTED SERVICES IN JAPAN
Within OECD, Japan ranks **4th lowest** on services import penetration, **2nd lowest** for services trade as share of GDP, and **lowest** for share of foreign workers in workforce.

UNEQUAL INFLOWS OF FDI
Japan ranks **lowest** for stock of inward FDI as share of GDP: 2% (2008).
5% of EU inward FDI stock comes from Japan, but only 2.3% of EU outward FDI stock is in Japan (2009).

UNEQUAL ACCESS IN PUBLIC PROCUREMENT
Japan has opened just **3.8%** of its public procurement market to foreign suppliers under GPA. This is just **23%** of Japan's above-thresholds public procurement market; equivalent figure in EU is **70%**

(A) EU and Japanese companies confirm that the **scale and potential of business interests and opportunities far exceed the level of existing EU-Japan trade flows.**

- Interests in areas of trade in goods and services, FDI, and access to public procurement markets.
- Companies refer especially to NTMs as their greatest barrier

(B) Lost opportunities to raise competitiveness and productivity of both EU and Japanese firms that would result from greater co-operation, and technology and knowledge transfers, between two highly developed economies

(C) Consumers deprived of opportunities to benefit from...

- A wider choice of goods and services available in the EU and Japan (eg, increased trade in environmentally friendly goods).
- Access to, and a wider choice of, the latest treatments/technologies (eg, in healthcare).
- Lower prices for EU and Japanese consumers as a result of competition

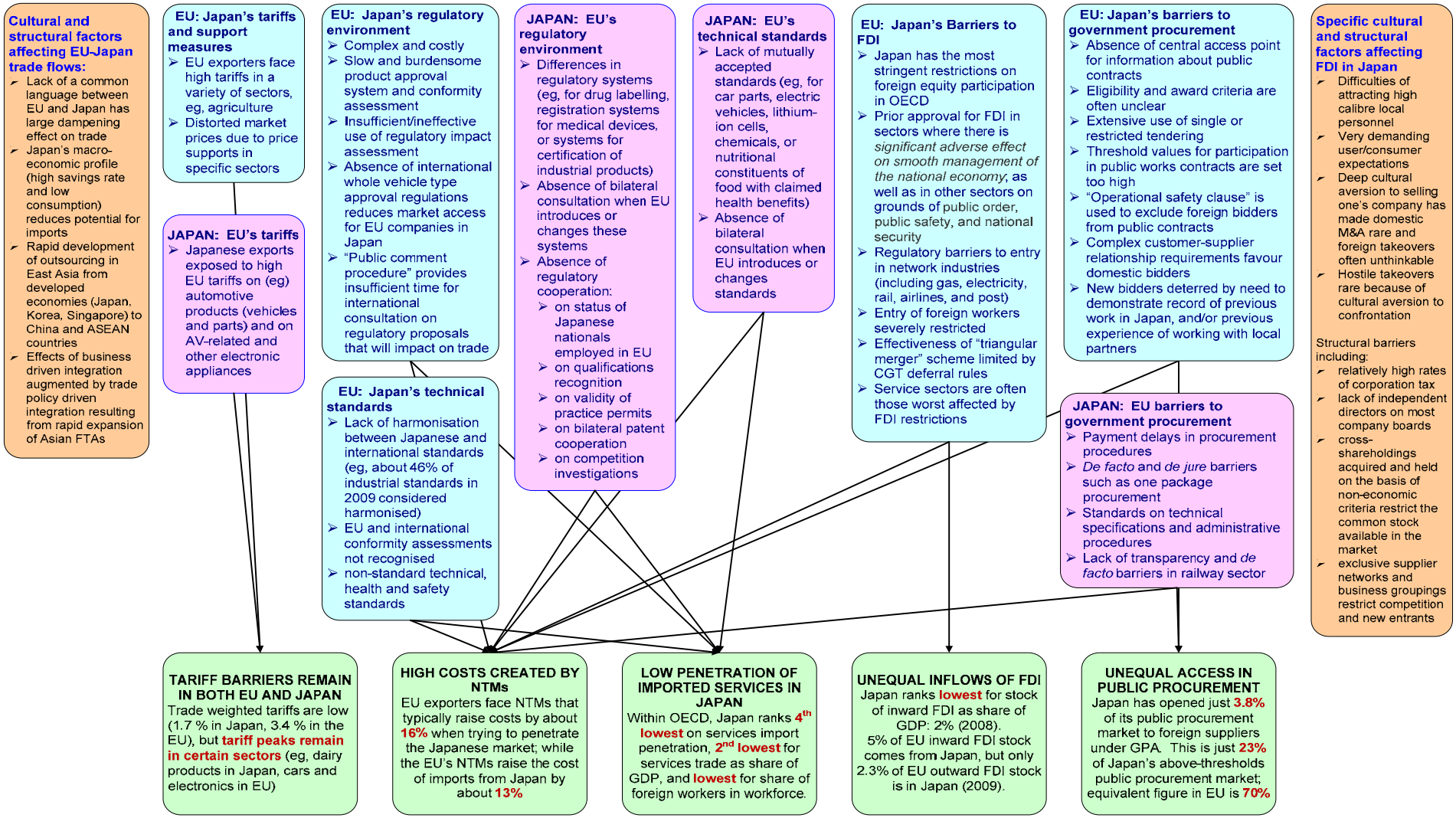
(D) Lost opportunities to capture labour and welfare benefits that would result from increased trade and improved competitiveness and productivity of EU and Japanese firms. The existing trade barriers …

- depress wages for both lower skilled and higher skilled workers in EU and Japan
- impact negatively on output and growth in EU and Japan

Consequences for both the EU and Japan requiring policy intervention:

- Economic threats to both EU and Japan posed by the rise of emerging markets are reflected in the weak evolution of bilateral trade, and are indicative of an on-going **relative decline in competitiveness and productivity**.
- Current tariff levels and NTMs create barriers to trade in goods and services, FDI, and access to public procurement markets that **directly threaten existing production and jobs**.
- This trend, if unchecked, will further threaten traditional trade flows between these two highly developed countries. It will also result in a further **reduction of the EU's and Japan's shares of global trade**.
- Failure to prevent an additional erosion of bilateral trade, and shares of global trade, will make it more difficult for Japan and the EU to capture benefits flowing from **positive labour and welfare effects in the future**.

EU-Japan proposed trade agreement – Problem tree (ii):
problems and consequences



EU-Japan proposed trade agreement – Problem tree (iii):

problem drivers

2.3. The problem drivers

There are a number of underlying drivers and factors contributing to the trade and investment landscape between EU and Japan. They can be grouped in two main categories: those that might be addressed by trade policy or domestic reforms, and those that are less likely to be affected by such measures.

In the former group are factors that cause trade to fall below its potential. In the latter group there are factors such as geographical distance, language/communication problems, consumer attitudes and preferences, and cultural differences, which contribute to determining the extent of the potential for trade.

The group of drivers susceptible to change through trade policy and/or domestic reform (which, in turn, may be prompted or facilitated by trade policy and trade agreements) is comprised of tariffs, non-tariff measures and, more generally, discriminatory or excessively burdensome features of the regulatory environment, which affect trade in both goods and services as well as investment and public procurement. Differences in regulatory approaches, particularly when the same regulatory objective and similar levels of protection of the public interests at stake are sought, is also an issue as these differences raise both the cost of compliance for business and the cost of enforcing regulations for public authorities at large to an unnecessary extent.

a) Tariffs

In general, both the EU and Japan have low tariffs on goods, with simple average MFN tariff rates of 3.8% for both partners. The trade-weighted tariff protection in Japan for EU exports is 1.7%, while the trade-weighted tariff rate for Japan’s exports to the EU is 3.4%.

Nevertheless, Japan's tariffs remain very high in the agricultural and processed food sectors and for beverages, in which the EU is a major global exporter. Japan's trade-weighted tariff on European food and beverage exports is on average 34.7%, with several **tariff peaks** above 500%; while the EU's trade-weighted tariff for Japan's exports in the sector is on average 12.4%. However, apart from the processed food sector, average tariffs applied to other principal EU exports are generally very low.

In contrast, EU tariffs applied to the main Japanese export sectors are higher, with the 8.66% average tariff for motor vehicles as the most visible example. In fact, the bulk of Japanese exports to the EU is concentrated in a small number of manufacturing sectors, mainly motor vehicles, electronics and machinery). It is not surprising therefore that Japan's offensive interests tend to focus on the elimination of tariffs. This issue has become a pressing matter for a number of Japanese exporters ever since the signing of the EU-Korea FTA, given the similarity in trade patterns towards Europe and the competitive relationship between Japanese and Korean exporters.

It thus becomes clear that EU tariffs drive the main problem for Japan, whereas Japanese tariffs do not drive the main problem for the EU as a whole, except in some product areas where the problem is more acute. However, the elimination of tariffs in Japan would allow EU companies to better integrate into the Japanese market and exploit regional integration, by avoiding barriers in the overall sourcing and supply chains in the region. As Japan

continues to outsource production within the region this aspect may become more important also for EU companies active on the Japanese market.

b) Non Tariff Measures (NTMs) [18]

b.1) In Japan

Japanese non-tariff measures constitute a leit motif in the factors identified as most impeding trade between the EU and Japan, whether in studies, surveys or by way of anecdotal evidence. NTMs exist across the board.

Several sectors of the Japanese market are almost totally closed to EU exports. This is the case for some agricultural products (e.g. beef) but also for certain types of transport equipment and aeronautic products. The motivations and instruments differ from one case to another, but with protection of domestic economic interests appearing to be paramount, accompanied in a number of cases by distrust of foreign practices and privileged relations with certain third countries, notably (for political reasons) the US.

EU exporters to Japan are confronted by distorted market prices in the agricultural sector due to Japanese price support, which is twice the level of the OECD average. In addition, state-trading activities regulate the import and distribution of leaf tobacco, rice, wheat, barley, and milk products; and prices for these goods tend to be higher than world prices. Opiates are also subject to state-trading.

Divergent standards and technical requirements – as well as other regulatory and administrative issues, both at the border and beyond – also limit current trade flows. They significantly increase the cost of compliance, and therefore of doing business. Respondents to the public consultation further report that unpredictable interpretation of the relevant regulations by authorities creates additional uncertainty for foreign companies.

A recent study examined 194 individual NTM issues in various sectors[19]. The most costly barriers stem from the dissimilarity of the regulatory structures in the EU and Japan, and include:

- Divergent technical standards and regulations, and a lack of harmonization with international standards,
- Complex, cumbersome and lengthy procedures (especially for conformity assessment), and problems with mutual recognition,
- A regulatory environment in Japan in services sectors and for FDI which results in relatively weak competition and a dominant position for incumbents.

The public consultations and the expert studies also highlight the lack of transparency in public procurement, and particular problems relating to IPR, as two other important sets of

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[18] The Copenhagen Study defines non-tariff measures as "all non-price and non-quantity restrictions on trade in goods and services. This includes border measures (customs procedures etc.) as well as behind-the border measures flowing from domestic laws, regulations and practices)".

[19] See Copenhagen study pre-cited appendix 3.

non-tariff barriers that make the Japanese market effectively inaccessible for EU companies.

Seven business sectors that cover the bulk of EU exports to Japan are those most affected by existing NTMs: chemicals (including pharmaceuticals), automotive, medical devices, processed foods, transport equipment, telecommunication and financial services.

In particular, as far as the **goods sector** is concerned: (i) EU pharmaceutical exports are severely impeded by a complex and costly regulatory environment, as a result, exports to Japan have grown much more slowly than those to other markets; (ii) the automotive sector suffers from divergent technical standards and regulations, as well as from differences in conformity assessment procedures; (iii) medical devices from the EU are restrained by costly and cumbersome procedures that affect the process of launching new products on the Japanese market; (iv) processed foods suffer from high costs for EU exporters, because of the combination of differences between EU and Japanese standards and technical requirements, as well as cumbersome border procedures.

There are substantial barriers in the **services sectors** as well. The results of the public consultation highlight the fact that providing services in Japan is – as a general rule – fraught with restrictions, delays, and inefficiencies. Local governments often impose their own procedures and/or their own interpretation of regulations, giving rise to discriminatory rules vis-à-vis foreigners or visibly preferential treatment for local service providers. Attractive sectors in Japan, such as financial services (in particular insurance and banking) and telecoms, remain relatively closed to EU investors because of the anti-competitive behaviour of dominant players and an insufficiently robust competition policy.

Other specific grievances raised by EU exporters include the non-transposition by Japan of most UN-ECE agreed standards as well as the absence of recognition of international accreditation systems more generally, thus depriving EU exporters of the possibility of simpler recognition procedures where the EU relies on such standards and avails itself of such systems of accreditation.. EU exporters also complain about slow and complex product approval systems and insufficient use of regulatory impact assessment. And Japan's "public comment procedure" may not provide sufficient time for international consultation on regulatory proposals that will have an impact on trade.

NTMs may also create a formidable barrier to **FDI**, and service sectors are prominent among those most affected. Examples include: (i) in general, the entry of foreign workers is severely restricted; (ii) there is a requirement for prior approval of FDI in sectors where there is (a risk of) a significant adverse effect on smooth management of the national economy, and in other sectors on grounds of public order, public safety, and national security; (iii) there are a number of regulatory barriers to entry in network industries (including gas, electricity, rail, airlines, and post); (iv) the effectiveness of Japan's "triangular merger" scheme[20] is undermined by rules governing the deferral of capital gains tax.

[20] The triangular merger scheme allows foreign companies to offer their stock as consideration in cross-border M&As, provided that the acquirer has an existing Japanese subsidiary with which the Japanese target company can be merged. However, the effectiveness (and therefore, the take-up) of

There are also significant barriers resulting from Japanese NTMs in the area of **public procurement** which can be grouped into four categories: limited coverage under the WTO Government Procurement Agreement (GPA), leading to restricted access in some strategic sectors; obstacles due to restrictive interpretations by Japan of its GPA commitments, such as the operational safety clause in the railway sector; difficult access to notices on calls for tender, due to the absence of a single point of access; and procurement practices that confer advantages for domestic suppliers.: see also Chapter 2.2 A.

b.2) In the EU

Japanese firms also face non-tariff barriers in Europe as a result of our regulatory environment and technical standards. In relation to the regulatory environment, Japanese companies point to differences between the EU and Japanese regulatory systems (e.g., for drug labelling, registration systems for medical devices, or systems for certification of industrial products). They also complain of insufficient bilateral consultation with the Japanese authorities when the EU introduces or changes these systems. They argue that there is insufficient regulatory cooperation between European and Japanese authorities (for example on recognition of professional qualifications, on validity of practice permits, on bilateral patent cooperation), as well as insufficient cooperation between competition authorities for investigation matters.

In relation to technical standards, Japanese authorities refer to a lack of mutually accepted standards (e.g. concerning automobile parts, electric vehicles, lithium-ion cells, chemicals, or the nutritional constituents of food with health-promoting benefits). And once again, they complain of the absence of bilateral consultation with Japanese authorities when the EU introduces or changes its standards.

The Japanese authorities complain about a number of non-tariff barriers in the EU's public procurement market, including payment delays in procurement procedures, *de facto* and *de jure* barriers such as "one package" procurement, divergent standards on technical specifications and administrative procedures, and a lack of transparency as well as *de facto* barriers in the railway sector.

More details on the identification of the NTMs and their trade cost is provided in Annex 3.

2.4. The need for EU policy intervention

The main objective of policy intervention would be to create more favourable conditions for trade and investment between the EU and Japan. Such objectives can theoretically be attained by both ad hoc policy intervention or by the use of comprehensive trade instruments such as deep and comprehensive FTAs.

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these new provisions – which were intended to promote FDI – has been undermined by strict tests of business relevance and viability (between the acquiring company and the target) applied by the Japanese authorities against claims (by the target company's shareholders) for deferral of tax on the associated capital gains.

EU policy, confirmed by political statements such as that at the European Council on 25 March 2011[21], favours deep and comprehensive FTAs, if the right conditions can be met. As referred to in Chapter 1, at the 28 May 2011 Japan-EU summit, Summit leaders then agreed to start the process for parallel negotiations for such and FTA between the EU and Japan together with a binding agreement covering political global and other sectoral cooperation in a comprehensive manner.Trade policy and the negotiation of international trade agreements are areas of exclusive EU competence pursuant to Article 207 of the Treaty on the Functioning of the European Union, which states that the European Parliament and the Council, acting by means of regulations in accordance with the ordinary legislative procedure, shall adopt the measures defining the framework for implementing the common commercial policy.

Thus, the principle of subsidiarity does not apply in this case. The proposal complies with the principle of proportionality, because even the most far reaching options do not extend beyond fulfilment of the stated policy objectives. These matters are more fully covered in the assessment of policy options.

3. OBJECTIVES

3.1. General objectives

In line with the Treaties, the overall objective of EU policy as regards economic and trade relations is to

- enhance and further develop bilateral trade,
- progressively abolish existing restrictions on trade and foreign investment, and
- to lower customs and other barriers.

The general objectives of European trade policy therefore include:

- promoting smart, sustainable and inclusive growth through the expansion of trade[22].
- the creation of job and labour opportunities and welfare gains[23].
- lower consumer prices and other consumer benefits.
- improving Europe's competitiveness in global markets.

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21 'Looking to the future, the European Council reiterates the strategic importance of the EU/Japan relationship. The forthcoming summit must be used to strengthen this relationship and bring forward our common agenda, including through the potential launch of negotiations for a free trade agreement on the basis that Japan is willing to tackle *inter alia* the issue of non-tariff barriers and restrictions on public procurement.'

22 COM(2010) 2020, "Europe 2020: A strategy for smart, sustainable and inclusive growth", March 2010. "Trade, Growth and World Affairs. Trade Policy as a Core Component of the EU's 2020 Strategy", 2010, available at: http://trade.ec.europa.eu/doclib/docs/2010/november/tradoc_146955.pdf

23 36 million jobs in the EU today depend directly or indirectly on trade.

3.2. Specific objectives

In respect of future EU-Japan economic and trade relations, the EU's general policy objectives set out above would translate into:

- Increasing the volume of bilateral trade in goods by reducing barriers
- Increasing the volume of bilateral trade in services by reducing barriers
- Increasing investment flows between the EU and Japan by reducing barriers
- Achieving balanced access to the government procurement markets of both parties[24].

3.3. The EU's operational objectives

Based on the expert studies and the public consultations, a number of more specific operational objectives that flow from these aims are identified and described below. Understandably, they reflect primarily the European perspective; however, this section concludes with a brief outline of perceived Japanese objectives. The operational objectives indicate the specific areas in which negotiations are likely to be concentrated, the results of which negotiations will then provide the basis for the improvements calculated by the study in terms of aggregated tariff costs.

(a) As regards **trade in goods**, we should aim to eliminate tariffs to begin with.[25] This would be particularly significant for those sectors (i.e., processed foods, agricultural products, motor vehicles) where tariffs still constitute a substantial barrier to trade. More importantly in this particular case, we should aim to eliminate non-tariff barriers, in particular those that discriminate against EU exports and those that are associated with excessively cumbersome regulation.

To the extent that non-tariff barriers stem from legitimate, non-discriminatory and proportionate regulatory measures, and from unavoidable differences in the regulatory environment, we should aim to eliminate or reduce as many of the existing differences as possible in order to limit the trade costs associated with them, making potential use of a number of methods, which are not mutually exclusive. These include the convergence of Japanese standards with international standards, the harmonization of standards and technical regulations between Japan and the EU and/or mutual recognition and equivalence of standards and technical regulations.

(b) With regard to **trade in services**, we should aim at:

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[24] Potential to improve access exists within the FTA negotiations and will be enhanced by the eventual adoption of the MASP instrument.

[25] Tariffs would be greatly reduced by the conclusion of the Doha Development Agenda negotiations. Nevertheless, they would continue to have an effect on bilateral trade and both the EU and Japan drive a general policy of tariff elimination, where appropriate, through bilateral FTAs.

- Effective opening of key services sectors to European providers, including through addressing all kinds of non-tariff barriers, as described above for trade in goods;

- Ensuring more open competition and establishing a level playing field for EU industry in the services sector, especially with regard to existing regulatory barriers;

- Ensuring effective national treatment and non-discrimination;

(c) In general, concerning both trade in goods and services, another important objective is to encourage Japan to improve the transparency of its regulatory system, as well as to implement simpler, more flexible administrative procedures and to provide a mechanism that prevents the emergence of new non-tariff barriers.

(d) The operational objectives as regards **investment** are similar to that for trade in services and entail inducing Japan to address regulatory measures which create *de jure or de facto* barriers for EU investors. In particualr, we should aim to:

- Provide better market access and effective non-discrimination both before and after establishment;

- Eliminate all quantitative limitations on EU investment, eliminate investment controls based on unclear and excessively wide definition of the national interest, and ensure as transparent as possible an application of controls such as those based on national security considerations;

- Persuade Japan to implement regulatory reforms designed to facilitate cross-border mergers and acquisitions;

- Persuade Japan to fully implement the *Five Recommendations toward the Drastic Expansion of FDI in Japan* promulgated by the Japanese Expert Committee on FDI promotion[26].

(e) Furthermore, in order to facilitate cross-border flows of services and investment, another aim should be to persuade Japan to carry out a process of reforming and strengthening its competition law. In this context the EU should aim to:

- Persuade Japan to strengthen its antitrust rules and their enforcement;

- Encourage more co-operation and co-ordination in competition matters between EU and Japanese authorities.

(f) Linked to this topic is the issue of corporate governance in Japan. In this regard, the EU should aim to persuade the Japanese authorities of the need to:

- Encourage transparency about Japanese companies' practices for blocking hostile takeovers;

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[26] The text may be found in the Copenhagen Study, p. 110

- Introduce the possibility for a company's shareholders to reverse decisions taken by its board on takeover bids;

- Require shareholder consent for other decisions concerning company ownership.

(g) Finally, in respect of **public procurement** we should aim to improve EU firms' access to public procurement opportunities in Japan inter alia by:

- Persuading Japan to progressively eliminate trade barriers to cross-border procurement, particularly as regards tendering, by using international standards and best practice;

- Persuading Japan to put in place unified challenge procedures;

- Ensuring that Japan grants access to procurement information relating to all Japanese procuring entities via a central portal;

- Eliminating market access restrictions in the railways sector related to excessive use of the Operational Safety Clause;

- Ensuring compatibility between the EU's and Japan's e-procurement systems.

3.4. Japanese operational objectives

Keeping in mind that the bulk of Japanese exports to the EU is concentrated in a small number of manufacturing sectors, mainly motor vehicles, electronics and machinery, it is clear that there are substantial gains to be had for Japan from a removal of tariffs in these sectors.

Japan's offensive interests therefore tend to focus on the elimination of tariffs, particularly in the car, components and electronic sectors, because such tariff elimination would constitute a major part of the gain from an FTA[27] .

As regards Japan's other objectives, a substantial number of issues can be identified from ongoing bilateral dialogues and exchanges of documents. The list of major items requested by Japan for the enhancement of bilateral trade and economic relations includes *inter alia* the following points:

- To further liberalise trade in services beyond the commitments in GATS;

- To introduce rules of origin better suited to current industrial conditions and practice;

- To establish a committee through which Japan could participate in the EU's process for setting standards, norms, and systems in a variety of fields[28];

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[27] Thus, the gains from greater bilateral trade liberalisation for Japan are, for the greater part, easier to identify and quantify than those for the EU, because the gains to be derived from NTMs reductions are harder to estimate.

- To establish mutually acceptable standards in the automobile sector, through prior bilateral consultations;

- To realize further simplification and acceleration of EU customs procedures;

- To aim for systematic harmonization of various regulations and systems regarding the distribution of pharmaceuticals within the EU, especially as regards labelling, while providing the Japanese authorities with consultation opportunities;

- To aim for unification of registration systems for medical devices within the EU, while providing the Japanese authorities with consultation opportunities;

- To ensure that Japanese nationals employed in the EU (including intra-corporate transferees, as well as their family members) enjoy a status equivalent to that of EFTA nationals employed in the EU and their family members;

- To introduce mutual recognition of professional qualifications, in particular for accountants, tax consultants and patent agents, and a unified practice permit valid in all EU Member States;

- To promote a more flexible implementation of regulations pertaining to chemicals, while ensuring clarity, fairness and international harmonization;

- To establish EU patent and an EU patent court, and to promote bilateral patent cooperation, as well as to expand the EU's grace period;

- To improve certain aspects of cooperation between the EU and Japanese competition authorities on investigation matters;

- To deepen bilateral cooperation in the field of environment and energy, in particular as regards standards and norms, and more specifically to collaborate on standards pertaining to electric vehicles and lithium-ion battery cells;

- To unify systems for the certification of industrial products.

In addition, Japan's particular objectives concerning government procurement can be summarized as follows:

- Implementation of legislation to combat the practice of late payments in government and commercial transactions;

- Lifting of specific *de facto* and *de jure* barriers to non-EU companies' participation in the bidding process (such as "one package" procurement, or strict requirements for bidders to be locally incorporated companies);

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[28] According to a Japanese proposal such a committee would engage, in particular, in the following areas: automobile, environment and energy, pharmaceuticals, medical devices, nutritional constituents of food with health-promoting benefit, systems to certify industrial products.

- Acknowledgement of the equivalence of EU and Japanese standards for government procurement purposes (for example, in connection with requirements for the use/supply of specific equipment manufactured in the EU, and in relation to quality assurance).

- Simplification of administrative procedures related to the government procurement bidding process (for example reducing the amount of documents required to participate in the bidding process).

3.5. Consistency of the EU's operational objectives with other EU policies

The EU's operational objectives described above are fully consistent with, and indeed stem from the principle that the European Union should "encourage the integration of all countries into the world economy, including through the progressive abolition of restrictions on international trade"[29].

The EU's operational objectives are also in line with the Europe 2020 Communication which announced that the European Commission would draw up a trade strategy in 2010 including "proposals for high-level strategic dialogues with key partners, to discuss strategic issues ranging from market access, regulatory framework, global imbalances, energy and climate change, access to raw materials, to global poverty, education and development" and referred to deepening the Union's relationship with Asia and, in particular Japan.

Accordingly, the Communication on Trade, Growth, and World Affairs highlights the priority of "finalizing all the ongoing negotiations (…) and making significant further progress in our relations with strategic partners." [30] Japan is considered as one of the EU's top strategic economic partners, with which deepening bilateral economic, trade and investment links is stressed by the Communication as being of major importance.

The Communication, while placing the multilateral process of negotiation, and particularly the successful conclusion of the WTO Doha Development Round, as the EU's primary policy, also recognizes the importance of deep and comprehensive FTAs. In addition, the latter can also usefully reinforce the benefits to be derived from the multilateral process, in particular by providing improvements in trading conditions, not just for the bilateral partners to an agreement but also by providing benefits via most favoured nation treatment to other WTO members, where this results from the agreement in question..

The EU's operational objectives within the negotiations for an FTA also allow for appropriate coverage of the trade related parts concerning the environment and sustainable development. They will thus also comply with the principle stipulating that the Union's policies and actions should "help develop international measures to preserve and improve the quality of the environment and the sustainable management of global natural

[29] Article 21 para 2 (e) TEU
[30] COM(2010)612/4, p. 2

resources, in order to ensure sustainable development"[31] in the manner set out in section 5.2.

4. POLICY OPTIONS

With a view to attaining the objectives set out in Chapter 3, this chapter outlines different scenarios: (a) a baseline scenario envisaging modest progress under a framework similar to the current one; (b) an ambitious scenario involving negotiations for a comprehensive EU-Japan FTA, which consists in fact of four scenarios – two 'conservative' and two 'ambitious' – that vary on the extent to which the cost of Non Tariff Measures (NTMs) can be removed; the chapter also briefly analyses an alternative option (the possible enhancement of the relationship through sectoral agreements) that was originally considered, but which has been shown by now as not being practicable .

In fact, a comprehensive EU-Japan FTA was indicated as the option of choice of the EU and Japan by the decision taken at the 28 May 2011 summit to begin the process towards FTA negotiations, provided that the right conditions for this could be created.

The impact assessment carried out in section 5 of the report will assess the opportunity and feasibility of these various options with a view to providing clear indications on what should be the best direction for enhancing the EU- Japan trade and economic relationship.

It is foreseen that in the coming years both the EU and Japan will probably conclude a number of FTAs with third countries. In particular, the agreements that the EU is currently negotiating with other trade partners (Canada, India, Mercosur and ASEAN countries) or has recently finalised (e.g. the EU-Korea FTA came into provisional application on 1st of July 2011) have been taken into account. The different scenarios are analyzed under the assumption that the Doha Development Agenda will be successfully concluded. However, wherever relevant, available data on bilateral trade liberalization starting from the current situation (that is without the impact of a future DDA deal) have been included and considered.

4.1. Policy Option A: No policy change (baseline scenario)

The first option would be to continue to operate under a framework similar to that found in the current 2001 Action Plan. This would entail maintaining the on-going bilateral economic dialogues and business cooperation programmes, such as the Regulatory Reform Dialogue, and the High Level Trade Dialogue and other sectoral bilateral dialogues (e.g.: Industrial Policy Dialogue, Financial Services Dialogue, IP Bilateral Dialogue), with possible incremental improvement of their functioning and effectiveness.

Under this scenario, the EU would also pursue cooperation in the sectors where the parties have already signed agreements. In this respect, the most important bilateral agreements include: the 2001 Mutual Recognition Agreement, the 2003 Agreement on Cooperation on Anti-competitive Activities, the 2008 Customs Cooperation agreement, and the 2011 Science and Technology Agreement. The coming years would possibly bring further improvements in the implementation of these agreements.

[31] Article 21 para 2 (f) TEU

However, given the very limited results achieved so far under the Regulatory Reform Dialogue and other bilateral dialogues it is reasonable to assume, that – in relation to reducing NTM trade costs – any effects achieved under this option would be marginal and would not translate into substantial growth of bilateral trade and investment volumes. Thus, no significant GDP gains could be expected in either the EU or Japan. While there might eventually be some progress with regard to the elimination of trade barriers, any such progress is likely to be slow and limited.

Thus the analysis of this baseline scenario is essentially based on the developments in the bilateral economic relationship that are likely to be generated by the evolution of the EU and Japan's economies as well as by the global economic situation.

4.2. Analysis of a possible enhancement through sectoral agreements

Within the process of an impact assessment of future EU-Japan economic and trade negotiations, the possibility of enhancing current relations purely through sectoral agreements was also considered.

Such an enhancement would have revised the current bilateral framework in order to set up more action-oriented objectives and to focus on actively pursuing the elimination of non-tariff measures that have the biggest impact on trade and investment (in particular, divergent standards, technical regulations and conformity assessment procedures).

In principle, a new EU-Japan framework along such lines could be adopted. This could take the form of a legally binding or a non-binding document, covering political and trade issues. This would entail maintaining the on-going bilateral economic dialogues, as described in the previous option, but at the same time would mean redesigning and refocusing them substantially in order to improve their effectiveness. Additional sectoral or "thematic" agreements of the kind mentioned under Part 4.1 could then be negotiated within this framework. This scenario was examined, in particular, by the Joint High Level Group set up by the 2010 EU-Japan summit.

However, this potential scenario was effectively discounted by the parties by their decision at the EU-Japan summit on 28 May to begin procedures for possible negotiation of two parallel agreements, comprising an FTA and a framework agreement, with no other alternatives in mind. As regards trade and investment relations, Japan had indicated in advance of the summit (including in the Joint High Level Group) that it was only prepared to negotiate an FTA, presumably because other alternatives would have focused largely on EU priorities with no possibility of lower tariffs in key sectors.

Given that the operational objectives of both parties can only be achieved by mutual cooperation and collaborative decision-making, any scenario discounted by Japan because it does not address key Japanese operational objectives cannot be considered a realistic policy option.

4.3. Policy Option B: EU-Japan Free Trade Agreement

Under this option, the EU and Japan would enter into negotiations for an EU-Japan Free Trade Agreement (FTA). In keeping with established policies both in the EU and Japan, such an agreement would be of a deep and comprehensive nature, and would involve, *inter alia*, a major effort to eliminate all tariffs, as well as liberalization of trade in services

under the conditions of Article V GATS and liberalization and facilitation of investment flows in both services and non-services sectors. A key component of such an FTA would have to be to address a critical mass of identified actionable NTMs, and achieve their elimination or at least a substantial reduction of their cost for traders and investors. Under this option, the analysis looks at four different possible scenarios proposing different degrees of trade liberalization: two "conservative" and two "ambitious" scenarios, with a "symmetric" and an "asymmetric" scenario in each case.

This selection of conservative and ambitious scenarios concerning cost reductions relating to NTMs is intended to provide a range of results in possible negotiations. The selection of 20% and 50% cost reductions was made to provide, at the lower level of 20% NTM cost reductions, a minimum substantially below the results in fact achieved in the negotiation of the EU/Korea FTA, while, at the upper level of 50% cost reductions, assessing the potential of what would amount to a very ambitious outcome concerning NTMs. Since results within this range are consistently positive, varying only in the degree of overall gain, the report provides an assessment of a range of potential outcomes within which it can be seen that a positive result will be achieved[32].

The selection of symmetric and asymmetric scenarios has been chosen to provide a more complete view of the ambitions and objectives of both parties. The symmetric scenarios provide a theoretical view of complete parity. The asymmetric scenarios recognize that while the reduction of the burden caused by NTMs is one of the EU's main priorities, Japan's main priority is undoubtedly EU tariffs in a number of key sectors for Japan. The EU would be bound to place much greater emphasis on reduction of NTM costs, and a degree of asymmetry may well be required to achieve an acceptable balance of the eventual negotiated outcome. In the asymmetric scenarios examined here, only one third of the amount of reduction in the cost of NTMs on goods that would take place on the Japanese side is assumed to take place on the EU side.

Thus the asymmetric scenarios are designed to approach more closely the actual negotiating priorities of both sides, where EU priorities on the one hand, notably the reduction in the negative trade effects of Japan's NTMs, will be negotiated against Japanese priorities on the other, notably EU tariffs. Although the symmetric scenarios show a greater overall increase in welfare, only a portion derives directly from changes to the bilateral relationship; a substantial portion results from the spill-over effects. The symmetric scenarios provide a clear picture but do not fully reflect the parties' priorities, e.g. by implying that the EU would effect 20% and 50% cost reductions in EU regulations affecting trade, in circumstances when Japan's priorities lie mainly elsewhere. In reality, it seems unlikely that the FTA negotiations will provide the platform for the extensive discussion which would be needed for major changes to EU regulatory policies.

The first two scenarios envisage a "conservative" FTA with a reduction of the cost of NTMs of 20%. The first of these scenarios calls for an asymmetric reduction of the cost of NTMs in the EU and Japan, while the second analyses the effects of a symmetric reduction. The conservative scenarios are based on more modest achievements in reducing

[32] During the negotiation itself, DG Trade may commission an additional study – a sustainability impact assessment (Trade SIA) – which could provide a more detailed analysis of the potential outcomes, the actual scope and content of the proposed agreement being better defined at that stage.

the costs of NTMs, and would correspond in some respects to older EU FTAs and also tend more to the somewhat lower levels of ambition shown in Japanese FTAs to date.

The remaining two scenarios call for a full-scale FTA with a reduction of NTMs of 50%with the first of these scenarios involving an asymmetric reduction of NTMs, and the second a symmetric reduction. The upper band of 50% is in recognition that not all the cost of NTMs can or will be removed by way of trade negotiations and provides a working hypothesis for an ambitious scenario[33].

This second pair of scenarios envisages that the parties would negotiate an agreement in line with the new generation of trade agreements that the EU is currently negotiating with trade partners such as Canada. While not fundamentally different from the FTAs that Japan has concluded in recent years, EU trade agreement nevertheless differ from them in terms of scope and level of ambition. A comprehensive EU-Japan FTA would thus have to cover a higher number of market access issues of interest to both parties, including tariffs, non-tariff measures affecting trade in goods (including TBT and SPS aspects) and trade in services, further market access for services, investment and public procurement as well as specific chapters on investment protection, competition and intellectual property rights. Under these two scenarios, it could be assumed that around half of the costs related to actionable NTMs would be eliminated.

Current EU policy for deep and comprehensive FTAs aims at complete tariff coverage for all products as the starting point of negotiations. Asymmetry involving only a proportion of tariffs therefore would be inconsistent with this goal. Moreover, Article XXIV GATT requires FTAs between WTO members to cover substantially all trade. While what constitutes substantially all trade is not legally defined, the exclusion of products carries a risk of legal argument within the WTO. The manner in which tariffs will be eliminated, however, permits of a greater degree of flexibility in a WTO context and thus phase-out periods, with or without conditionality as to progress in areas other than tariffs, are potential tools available to the negotiator. However, since these are essentially mechanisms designed to achieve agreed end results, rather than results in themselves, the report does not attempt to assess the effect on the timing or delivery of results that this might entail.

[33] As highlighted in Annex 3 since there are any number of legitimate reasons for national regulations, assuming that all NTMs can be eliminated, or even that any regulatory divergence can be aligned is not realistic. A 50% cost reduction can therefore be considered as ambitious.

Box 1: Overview of the modelled scenarios

Policy Option B (the EU-Japan Free Trade Agreement) contains conservative and ambitious scenarios, which are detailed below. All scenarios apply full elimination of tariffs.

The parameters advanced in the different scenarios generally serve as an indication of order of magnitude rather than precise point estimates, and are based on the nature of the ex-ante analysis of a future FTA. Results are nevertheless robust as long as simulation parameters remain in a reasonable range. The ambitious versus conservative scenarios and the sub options (B1 through B4) confer an additional robustness test.

Conservative – reduction of no more than a quarter of NTM trade costs, including

- **B1**: a first sub-scenario envisaging an a-symmetric reduction of NTMs. The scenario aims at eliminating all tariffs and the following reductions in the cost of NTMs:

- 20% overall reduction in Japan,

- 6.6% reduction in the EU for goods,

- 20% reduction in the EU for services

- **B2**: a second sub-scenario aiming at a symmetric reduction of NTMs. The scenario aims at eliminating all tariffs and the following reductions in the costs of NTMs:

- 20% overall reduction both in Japan and in the EU

Ambitious – around half of the costs related to actionable NTMs would have to be tackled, including

- **B3**: a first sub-scenario envisaging an a-symmetric reduction in the costs of NTMs. The scenario aims at eliminating all tariffs and the following reductions in the costs of NTMs:

- 50% overall reduction in Japan,

- 16.5% reduction in the EU for goods,

- 50% reduction in the EU for services

- **B4**: a second sub-scenario aiming at a symmetric reduction of in the costs of NTMs. The scenario aims at eliminating all tariffs and the following reduction in the costs of NTMs:

- 50% overall reduction both in Japan and in the EU

5. IMPACT ANALYSIS

This section will analyze the impact of the different policy options outlined above on a number of different levels. It will begin by summarizing the modelling strategy and setup. It then looks at the overall economic impact resulting from the different policy options in the FTA. It also includes a sectoral analysis of economic impacts in the EU and Japan based on particularly important sectors, and covers environmental and social impacts. The impacts on administrative costs and simplification effects are briefly analyzed.

5.1. Model and assumptions

The Copenhagen Economics 2011 study[34] estimated the impact of changes in the barriers to trade between the EU and Japan by using a computable general equilibrium (CGE) model. The CGE model is a widely used tool in the analysis of policy options when different scenarios are to be simulated and compared to a baseline scenario. Concurrently, a wide network of users contribute to the systematic checking of the appropriateness of the underlying data and parameters (including dozens of agencies and institutions around the world), providing a reasonable degree of confidence in the robustness of CGE results.

Model's characteristics

The currently employed model is a multi-region global CGE model with the following important features: it covers global world trade and production, it allows for scale economies and imperfect competition, it includes intermediate linkages between sectors, and it allows for trade to impact on capital stocks through investment effects.

The model gives short-run and long-run results. The long-run assessment provides information about the impact of reductions of barriers to trade induced policy changes on the capital stock, thereby capturing the induced expansion (or contraction) of the economy over a longer time horizon following trade barrier reductions. In contrast, in the short-run the impact of investment on installed capital stocks is not included[35].

To analyse the impact of an FTA, two types of trade policy shocks were simulated by the model: the full elimination of all tariffs on goods, and the partial reduction of trade costs generated by non-tariff measures (NTMs). As indicated in chapter 4, the removal off the costs of NTMs considered were of 20% (conservative FTA) and 50% (ambitious FTA).

NTMs and MFN spillover effects

The impact of the various scenarios is analysed below. However, as a general comment, it is worth noting that tariff liberalization alone is not going to bring substantive benefits to either the EU or Japan. Ambitious reductions in the costs of NTMs on top of reductions in tariffs are the pre-condition for a significantly positive impact of the FTA, for both the EU and Japan, in all the scenarios considered.

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[34] "Economic Impact Assessment of an FTA between the EU and Japan", also referred to as the "complementary study".

[35] For more details on the methodology, please see Annex 2.

It is also worth noting that preferential bilateral tariff and NTM cost reductions account for only about 10% of the overall macro-economic impacts observed, and as much as 90% of the overall economic impact is attributable to NTM "spill-over" effects. Many of the NTMs relate to differences in regulations, as well as procedures, which mostly cannot be altered on a purely bilateral basis. Once addressed, they will improve market access for third countries as well. Therefore, to a large extent, NTM cost reductions operate on an MFN basis.

Based on an examination of barriers identified (in the Copenhagen Economics 2009 study), the Copenhagen Economics 2011 study has assumed that 65% of NTM cost reduction also yields benefits for third countries, while 35% of any reduction delivers a strictly bilateral benefit.

The strong economic leverage effect of NTM spill-over effects can then be explained by the relative importance of bilateral trade between the EU and Japan: since less than 2% of EU imports come from Japan, reducing NTM trade costs for the EU's imports from Japan implies that the remaining 98% of EU imports also benefit at least partially from these reductions. Similarly, imports from the EU represent about 10% of Japan's total imports. Reductions in the cost of NTMs on imports from the EU will spill-over to the other 90% of Japan's imports.[36]

The analysis that follows highlights the effects of the policy scenarios in Copenhagen Economics 2011 model, presented in terms of net changes from the values estimated in the baseline scenario (which includes Doha). For simplicity, the narrative will on occasion focus on the asymmetric scenarios. These are considered more likely to materialize, and serve as a conservative measure of the results, given that the symmetric scenarios produce higher gains.

5.1.1. The baseline scenario

The baseline scenario assumes no changes in trade policy: tariffs and NTMs remain as they are at present, subject to the conclusions of trade negotiations currently underway, as explained below. It projects the world economy to 2020, using the October 2010 IMF World Economic Outlook[37] macro-economic projection up to 2015. The 2014-2015 average growth rate is used for projections up to 2020[38].

The baseline scenario is based on all EU trade agreements in force at the time the relevant studies were completed and also on the assumption that EU bilateral FTA negotiations with a number of important partners – India, ASEAN, Korea and Canada – will be concluded and implemented by 2020. In fact the EU-Korea FTA has been in force since 1 July 2011.

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36 Further information on the definition and nature of these NTMs can be found in the Copenhagen Economics 2011 study, as well as in the "Assessment of barriers to trade and investment between the EU and Japan" study by Copenhagen Economics.

37 See IMF website at http://www.imf.org/external/pubs/ft/weo/2010/02/index.htm

38 In the event of reduced growth, percentage changes in bilateral trade will largely remain unchanged but the overall gains would be affected to the same extent as the changes in world economic conditions.

The baseline scenario also assumes that the Doha multilateral negotiations will have been concluded and implemented by 2020, based on the tariff proposals that were on the table in 2008. While this is the basic working assumption, the tables in Annex 5, which set out in detail the effects of the various options, include an alternative scenario in respect of tariffs, based on the *status quo*: i.e. based on tariff reduction that take place from current applicable levels (which are, for both the EU and Japan in this context their respective WTO-consolidate tariffs)[39].

In fact, there is little practical difference, given that both the DDA and an EU/Japan FTA would overlap in terms of the implementation period for tariff reduction, and that the aim of an ambitious, WTO-compatible FTA is the elimination of tariffs on substantially all trade, whatever the starting point is. Thus, the tariff elimination scenario envisaged here is that of tariff reduction to zero, in any event, by 2020 with the possibility that some of that tariff liberalization would result from the DDA and some from the FTA (the 'with Doha' figures), or that all the liberalization results from the FTA (the 'without Doha' figures)[40].

In respect of procurement, the forthcoming initiative on third country access to the EU's public procurement market would seek to improve access to public procurement markets by imposing a symmetrical approach: by allowing for restrictions to access to the EU's procurement market (80% of which is currently open to bidders from outside the EU), for companies from third countries that fail to grant reciprocal access to EU companies in respect of their own public procurement markets. This instrument is not normally foreseen for use in cases where FTA negotiations are under way. However, once the instrument is adopted, its existence is likely to provide an additional incentive on the part of Japan to consider the question of procurement in the FTA negotiations. Furthermore, in an FTA negotiation, agreement on procurement would form part of an agreed bundle of objectives, providing a broader negotiating platform

5.2. Overall economic impact from the Free Trade Agreement

5.2.1. Expected impact from a conservative FTA

Scenarios B1 and B2 make conservative assumptions about the extent of NTM cost reductions in the EU and Japan (see Box 1).

Under these conservative scenarios, the Copenhagen Economics 2011 model predicts GDP increases for the EU of 0.34% by 2020 in the case of asymmetric NTM cost reductions (or 0.75% assuming symmetric NTM cost reductions). For Japan, the magnitude of the increase is about 0.27% in either case. The estimated gains for the EU amount to 42 billion Euros in the case of asymmetric NTM cost reductions or as much as 92.8 billion Euros in the case of symmetric NTM cost reductions; for Japan, the comparable amounts round to 5.1 billion Euros. Most of the gains for NTM cost reduction stem from the spill-over effect of overall – as opposed to purely bilateral – liberalisation,

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39 See the column "For reference only: Tariff elimination without Doha" in tables in Annex 5.

40 The Copenhagen Study of February 2009 was carried out by reference to a baseline that did not include the Doha tariff concessions or the effects of the EU/Korea FTA, but took also into account an additional baseline that included those elements as a cross reference. From this 'with' and 'without' Doha comparison, the study reached the conclusion that 'results of the EU-Japan trade liberalisation scenarios are unaffected by the inclusion of the Doha Round in the baseline'.

hence the higher gains for the EU in the symmetric scenario, whereas for Japan the difference is very small.

Under these conservative scenarios (and in the asymmetric case), EU exports to Japan would increase by 22.6%, while Japan's export to the EU would increase by 17.1%. Overall, the value of the EU's global exports would rise by 1.2%, with EU's global imports rising by 1.2%. Japan's global exports show an increase of about 3.8%, while Japan's imports increase by about 4.5%.

Table 1: Economic impact of the asymmetric scenarios (Mln €, percentage change)

Policy options	Baseline values (Mln €)	Conservative		Ambitious	
		Asym. B1	Sym. B2	Asym. B3	Sym. B4
Impact in the EU					
GDP	17,642,509	0.34	0.75	0.79	1.88
National Income (Mln €)	17,642,509	42,006	92,805	99,774	319,292
Global exports fob	5,334,549	1.2	2.7	2.8	6.7
Global imports cif	5,611,441	1.2	2.8	2.9	N/A
Bilateral exports to JPN	68,553	22.6	23.7	32.7	N/A
Impact in Japan					
GDP	3,845,622	0.27	0.27	0.67	0.67
National Income (Mln €)	3,845,622	5,069	5,137	13,173	18,321
Global exports fob	720,175	3.8	3.9	7.3	7.4
Global imports cif	684,535	4.5	4.5	8.6	N/A
Bilateral exports to EU	109,201	17.1	18.0	23.5	N/A

5.2.2. Expected impact from an ambitious FTA

Scenarios B3 and B4 are more ambitious as to the extent of NTM cost reductions achieved by both sides (Box 1).

Under the ambitious scenarios, the model predicts GDP increases for the EU of 0.8% in the case of asymmetric NTM cost reductions (or 1.9% assuming symmetric NTM cost reductions). For Japan, GDP increases amount to 0.7%. For the EU, these estimated gains amount to 99.8 billion Euros for asymmetric NTM cost reductions or as much as 319.3 billion Euros in the case of symmetric NTM cost reductions; for Japan, the comparable amounts are €13.2 billion for asymmetric NTM cost reductions and €18.3 billion Euros for symmetric NTM cost reductions[41].

[41] Further evidence is to be found in the report of a sub-group of the Japan-EU Trade and Economics Working Group (TEWG) of the Joint High Level Group set up by the 2010 EU-Japan summit. This report compares the results obtained from different economic studies and provides data on the estimated impact of an ambitious FTA policy option according to two different models: one European and the other Japanese (different also from the models used in the various studies). The European model suggested that EU GDP would increase by about 0.7%, while Japanese GDP would increase by about 1%. A very high GDP gain (0.5%) was also predicted for other OECD countries, while ASEAN countries would see the region's GDP increase by about 0.25%. The Japanese model found that EU GDP would increase by about 0.5% and that Japanese GDP would increase by about 1.2%.

Under this ambitious scenario, with asymmetric cost reductions from NTMs, EU exports to Japan would increase by 32.7%, while Japan export to the EU would increase by 23.5%. Overall the value of the EU's global exports would rise by 2.8% under asymmetric NTM cost reductions or 6.7% under symmetric NTM cost reductions; EU global imports would also rise by about 2.9% assuming asymmetric NTM cost reductions. Japan's global exports increase by about 7.3%, while its imports increase by about 8.6% in the case of asymmetric NTM cost reductions (no estimate for imports assuming symmetric NTM cost reductions is available**)**.

5.3. Impact on sectoral competitiveness

The macro-economic analysis above has shown that trade liberalisation between the EU and Japan improves welfare overall for both partners. In reducing trade barriers it increases competitive pressures in industries that to some extent have been sheltered from global competition by these barriers. However, the impact of trade opening may differ by sector and by firm within each sector.

According to the European respondents to the public consultation, increased export prospects linked to NTMs cost reduction would be particularly important for the chemical and pharmaceuticals sectors in the EU. Reducing the cost of NTMs would also increase competitiveness and enhance market access for European businesses in the information technology, consumer electronics and telecommunications sectors, which would boost or support employment in those sectors. A similarly favourable effect is expected for the EU's textile sector. By contrast, the EU automotive sector does not expect to gain from an elimination of tariffs and NTMs costs, which will put it at a competitive disadvantage relative to the Japanese sector.

According to the Japanese respondents to the public consultation, the Japanese automobile, IT and electronics sectors in particular expect to benefit from an elimination of tariffs and reduction of NTM costs in Europe.

Note that the simulation model used in this analysis does not forecast innovations in technology, productivity and/or the quality of outputs produced by sectors. Forecasts are based on current technology and competitiveness in the world market. In reality, many firms will respond by improving their technologies and products in the wake of increased competition. The sectoral analyses presented below should therefore be considered as "bottom line" scenarios that leave considerable margin for improvements in the competitiveness of sectors.

Table 2: Sectoral impact of the asymmetric scenarios* (percentage change)

Policy options	Conservative FTA (B1)				Ambitious FTA (B3)			
	Exports		Imports	Output	Exports		Imports	Output
	Global	Bilateral	Global		Global	Bilateral	Global	
Impact in the EU								
Processed foods	4.4	182.6	3.3	0.6	7.6	202.2	8.6	0.5
Chemicals	1.0	21.9	1.4	-0.3	2.7	51.8	3.2	-0.5
Electrical machinery	4.1	8.1	-0.1	3.5	10.9	20.8	-0.4	9.3
Motor vehicles	0.6	8.2	1.3	-0.3	2.0	18.1	2.7	0.0
Other transport equipment	0.9	20.6	1.6	-0.1	2.1	47.3	3.5	-0.1
Other machinery	1.1	3.3	1.2	0.1	3.1	7.6	2.7	0.6
Finance	1.6	0.9	2.5	0.1	3.9	1.3	6.4	0.1
Insurance	0.8	2.3	1.8	0.2	1.9	4.7	4.7	0.4
Business services	2.3	8.9	3.8	0.1	5.8	22.2	9.7	0.3
Impact in Japan								
Processed foods	-1.0	36.7	41.5	-3.3	-0.2	45.8	50.1	-4.0
Chemicals	-1.1	9.7	15.4	-3.5	-7.3	3.4	40.7	-11.0
Electrical machinery	4.9	13.8	1.1	1.6	11.1	19.4	1.7	3.8
Motor vehicles	4.0	24.6	6.5	2.5	5.6	28.2	13.9	3.4
Other transport equipment	11.6	31.1	17.0	0.7	24.6	50.4	37.3	0.8
Other machinery	8.6	20.7	1.3	5.2	19.0	34.4	3.0	11.5
Finance	1.4	2.6	0.6	0.1	4.3	7.7	0.6	0.3
Insurance	0.4	1.8	1.9	0.0	1.7	5.7	3.9	0.1
Business services	1.2	4.0	8.8	-0.1	3.8	11.3	21.8	-0.4

* For brevity, the table presents a selection of sectors. The full set of sectors is available in annex 5. The same applies to the policy scenarios, where only the asymmetric options are reported.

5.3.1. Expected sectoral impact of a conservative FTA

In case of a conservative FTA, the Copenhagen Economics 2011 model forecasts significant rises in **EU global exports** for the processed food, electrical machinery and business services sectors. The motor vehicle industry would see a rise in both exports and imports.

The **EU's global imports** would rise substantially for the processed foods, finance, business services, and air transport sectors. Imports in the electrical machinery sector would on the other hand fall.

For **Japan,** a conservative FTA with the EU would mean significant increases in global exports in the electrical machinery, motor vehicles, other transport equipment and other machinery sectors. Japan's imports would rise substantially in the processed foods, chemicals, motor vehicles, other transport equipment, and business services sectors.

In terms of **bilateral trade**, the biggest sectoral effect is expected to take place in processed foods – a sector representing almost 7% of total EU exports to Japan – with an increase of over 180% of EU exports to Japan and an improvement of €9.5 billion in the trade balance. EU exports to Japan of chemicals and other transport equipments are also expected to increase by more than 20%.

The sector where we expect to see the largest increase in output, i.e. overall production, in the EU is in electrical machinery; other sectors would see more limited increases (e.g. processed foods, or modest decreases (chemicals, metals). This apparent contradiction in the chemicals sector, whereby the EU increases its bilateral exports while suffering from a decline in output, can be explained as an MFN effect: EU exports to Japan benefit from the reduction in NTM costs, but at the same time exports from third countries also get

better access to the European market (via the NTM cost reduction in the EU). For Japan, the largest sectoral output increases are expected in: other machinery, motor vehicles and electrical machinery. The largest output decreases are expected in processed foods and chemicals.

The changes in sectoral output are expected to be bigger for Japan than for the EU as the EU is a more important trading partner for Japan than Japan is for the EU. It also reflects that in general sectors that are currently most protected by tariffs and non-tariff measures and thus the least competitive on global markets are likely to experience the largest decrease in output and the highest increase in imports. Less protected sectors are generally more competitive, and will experience only a small increase in competitive pressures as a result of further trade opening.

NTM cost reductions operate to a large extent on an MFN basis, which will enable other trading partners to free-ride on these reductions in trade costs. Where the change in Japanese imports is clearly linked to tariff reductions, for example large reductions in tariffs on processed foods, other trading partners will not benefit from a 'free-rider' effect.

5.3.2. Expected sectoral impact of an ambitious FTA

The patterns of change between the conservative and the ambitious FTA scenarios are driven by variations in the level of NTM cost reductions and the impact will depend on the importance of the cost reductions of NTMs.

In an ambitious FTA, the sectors most affected in the EU would largely be the same, but the expected increase in exports, or imports, would double or triple. The model forecasts significant rises in **EU global exports** for the processed food, electrical machinery and business services sectors. The **EU's global imports** would rise substantially for the processed foods, air transport, finance, and business services sectors. Imports in the electrical machinery sector would instead fall. The motor vehicle industry would see a rise in both exports and imports. In terms of **bilateral** trade, EU processed foods exports are expected to increase by 200%, and chemicals and other transport equipment exports by around 50%.

For **Japan**, the ambitious FTA scenario leads to increased exports especially in the electrical machinery, motor vehicles, other machinery, other transport equipment, and other manufactures sectors. Japan would experience a substantial rise in imports in the processed foods, chemicals, other transport equipment, motor vehicles and business services sectors.

With an ambitious scenario (and in case of asymmetrical NTM cost reductions), we can expect an increase in output in the EU electrical machinery sector of 9%, whereas in Japan we would expect an increase in output of 11% in the other machinery sector, and a decrease of 11% in the chemicals sector.

5.3.3. Sector specific analyses of the financial services, business services, and motor vehicles sectors

Given their importance for bilateral trade, as shown above, and on the basis of available information from respondents and studies, the following sectors of major potential trade value have been examined in greater detail.

5.3.3.1. Financial services sector

The total exports of financial services from EU to Japan was about €1.2 billion in 2004, which made the EU the largest exporter of these services to Japan. Despite Japan being EU's second largest export market (in 2004), the business survey conducted in Copenhagen Economics 2009 highlighted that major barriers affect cross-border financial services trade (see chapter 2: a complex regulatory environment and excessive administrative burdens). The study estimated their trade cost equivalent (TCE) between 12% and 15%.

The Ecorys 2009 study suggested that 49% of the costs of barriers resulting from NTMs in the financial services sector could be reduced through trade policy negotiations. An FTA could thereby contribute to significantly reducing costs for EU financial firms that export to Japan.

The Copenhagen Economics 2011 model estimates a conservative FTA (in its asymmetric, more conservative, option) could increase EU finance sector exports to Japan by 0.9%, an ambitious FTA by 1.3%, whereas the insurance sector would increase exports by 2.3% and 4.7% respectively[42]. Japan finance sector exports to the EU would increase by 2.6%(conservative) / 7.7%(ambitious) and insurance sector exports by 1.8%/5.7%, respectively.

Overall, the EU finance sector output would be expected to increase by 0.1%/0.1% and insurance sector output by 0.2%/0.4%; the Japan finance sector output by 0.1%/0.3% and insurance sector output by 0.01%/0.1%.

The barriers affecting trade of financial services between the EU and Japan being mainly regulatory, the reduction in the costs of NTMs (and its spill-over) is the primary driver in the estimated effects of the FTA on the financial sector.

The EU financial sector would therefore clearly benefit from an ambitious FTA.

5.3.3.2. Business services sector

The business services sector accounts for 30% of global trade in services. However, Japan's import penetration is particularly low in this sector: just 2.6% compared to 8% in the case of the EU.[43]

Many of the trade barriers encountered by the business services sector result from specific features of the way of doing business in Japan, such as differences in culture or language. These barriers cannot easily be addressed by trade policy, especially in the short or medium term.

However, other issues that hamper FDI in the business services sector – for example, the complexity of administrative procedures, high labour costs and high taxes – could be

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42 The symmetrical or asymmetrical scenarios do not bear much difference for the financial sector as both envisage the same removal of NTM in services (the asymmetry applies goods)

43 "Assessment of barriers to trade and investment between the EU and Japan", Copenhagen Economics, 2009.

addressed by the Japanese government and trade negotiations could provide the incentive to do so. Overall, the Ecorys 2009 study suggests that about 51% of non-tariff barriers affecting the business services sector in Japan can be addressed by trade policy negotiations for an FTA.

The Copenhagen Economics 2011 model estimates that a conservative FTA could increase EU business services exports to Japan by 9%, and an ambitious FTA increase it by 22% while Japan business services exports to the EU would increase by between 4% and 11%.

Overall, the EU business services output would be expected to increase by between 0.2% and 0.3% in the asymmetric (more conservative) options, and the Japan business services output decrease by between 0.1% and 0.4%.

As in the case of the financial services sector, the barriers affecting trade in business services between the EU and Japan are mainly regulatory; thus, the reduction of NTMs costs (and its spill-over) is the primary driver in the estimated effects of the FTA on business services. Accordingly, supposing the current status quo in respect of tariffs (i.e. the Doha multilateral negotiations are not concluded and implemented), the impact of an FTA on the financial sector would be as set out above.

5.3.3.3. Motor vehicle sector

The results of the models at sectoral level show that the motor vehicles sector – where fears of a negative impact from an EU-Japan FTA are often strongest – would experience a mainly negative impact from the elimination of tariffs alone; but when tariff reductions are combined with reductions of NTMs costs, the impact for the EU is broadly neutral. This indicates that Japan's increased presence in the EU motor vehicle market would be tempered by increased exports of EU motor vehicles to Japan.

With 25% of global production, the EU is the largest motor vehicle producer in the world. Out of 78 million motor vehicles produced in 2010, 19.6 million were produced in the EU, compared to 9.6 million in Japan.[44] Import penetration in the motor vehicle market in Japan is extremely low: in the passenger car market for example, only 7%, compared to 28% in the EU. Nevertheless, the vast majority of cars exported to Japan come from Europe (almost 95%), and most are in the top price segment.

The barriers encountered by the EU motor vehicle producers in Japan are mainly technical barriers to trade related to emission, safety and noise standards. These barriers cause extra conformity assessment, development and production costs for EU exporters and distort consumption of motor vehicles toward the domestic Japanese manufacturers who do not carry these costs. According to European motor vehicle exporters, NTMs in Japan result in an additional cost of 10% of the exported value of European motor vehicles sold in Japan. Expert studies estimate that the trade cost associated with these NTMs is equivalent to a tariff of 12.5%.

On the other hand, while Japan has no tariffs applicable on imports of these products, the EU motor vehicles sector is protected by tariffs on imports from Japan around 8% (even though these top rates could be cut in half by a successful Doha round). Most of the

[44] International Organisation of Motor Vehicle Manufacturers, 2010, available at: www.oica.net

studies referred to in this impact analysis estimated that the tariff component of an FTA with Japan would have a negative effect on the output of the European automotive industries, with an increase in that of their Japanese counterparts.

The Copenhagen Economics 2011 study estimated that the output of the motor vehicles is expected to expand by 2.5% in Japan in case of a conservative FTA and 3,4% in case of an ambitious FTA. But it also highlighted that in case of an ambitious FTA, where around half of the costs related to actionable NTMs would have been tackled, the EU motor vehicle global exports would increase by 2% (7% in case of symmetrical reduction of NTMs costs), while bilateral exports would increase by 18% to 25%) and output would increase in the EU by up to 1%. In case of a conservative FTA, output of the EU motor vehicle industry would only slightly decrease (by 0.30%) or even remain stable (in case of symmetrical reduction of NTMs costs). If one were to consider, for reference purposes, a baseline scenario with the current status quo in respect of tariffs (i.e. where the Doha multilateral negotiations would not be concluded and implemented), an FTA (either conservative or ambitious) would, in comparison to that baseline, only lead to a moderate decrease in motor vehicle output (-0.9% to -0.6%).

The impact on employment in the EU motor vehicle sector of an FTA would also be very limited, (between -0.40% for a conservative, asymmetric FTA and -0,10% for an ambitious asymmetric FTA).

5.4. Impact on small and medium enterprises (SMEs)

SMEs should gain from an EU-Japan FTA on a number of levels. Japan is a key (the 4th) target market for European internationalised SMEs which also consider Japan as a strong launch pad and testing ground for the Asian market[45]. The public consultation clearly expressed the particular need of SMEs for greater advice and assistance on how to break into export markets, and into Japan in particular. An FTA between the EU and Japan would be an opportunity to strengthen existing cooperation and support programmes and create new programmes that focus on helping SMEs to increase their exports.

The fixed costs of complying with regulations weigh against the SMEs more than against the larger firms. Therefore NTM cost reduction, increased regulatory cooperation between the EU and Japan as well as further convergence towards international standards would especially benefit SMEs, both in the EU and Japan.

A study contracted by the European Commission on Opportunities for the Internationalisation of SMEs (see footnote above) highlighted significant opportunities in Japan for EU SMEs in several sectors (chemical products, advanced engineering, luxury products, etc).

Finally, SMEs are prominent in the sectors most benefiting from an EU-Japan FTA: SMEs make up more than 50% of the food industry enterprises and are prominent in the electrical machinery sector.

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[45] "Opportunities for the Internationalisation of SMEs" August 2011, http://ec.europa.eu/enterprise/policies/sme/market-access/enterprise-europe-network/intern_event_en.htm

5.5. Analysis of environmental impacts on the EU, Japan, and the world

5.5.1. Introduction

International trade and economic development can have various impacts on the environment. This section examines the following three effects of trade opening on the environment:

The "scale effect", that is the expansion of the economic activity through trade.

The "composition effect" that arises from changes in production and consumption patterns triggered by tariff dismantling and reductions in the trade cost of NTMs.

The "technique effect" that traces improvements in the emission efficiency of production induced by changes in the composition of inputs in the production process.

It is the combination of these effects that determines the overall impact of trade on the environment. The empirical results of studies that have examined the relationship between trade and the environment in the last few years are mixed.[46] Perhaps the most interesting finding is that the income gains associated with increased trade are in principle sufficiently large to pay for the necessary costs for pollution abatement (i.e. the costs of additional measures and activities to negate any repercussions on the environment) and still leave an economic surplus. In other words, by combining trade with environmental reforms one can find ways to raise consumption without compromising the natural environment.[47]

It is also important to recognise that Japan accounted for only 3.3% of the EU's exports and 4.7% of its imports in 2009. In consequence, *any* negative environmental effects resulting from even an ambitious FTA with Japan would be associated with what is in reality only a small part of the EU's overall trade flows.

The current EU and Japanese commitments to increase the share of renewable energy and to decrease overall energy consumption are ambitious. Increased economic cooperation between Japan and the EU should facilitate greater cooperation on climate protection as well as on other environmental issues including biodiversity, natural resources and waste.

A quantitative analysis of the effects of an FTA on climate and climate change through an analysis of CO_2 emissions is conducted in 5.2.2. Assessments of the environmental impacts of an FTA on biodiversity, natural resources, waste, as well as on firms and consumers, are included in section 5.2.3.

5.5.2. Analysis of the impact of the policy options on the climate and climate change resulting from CO_2 emissions

This section analyses the possible impact of a reduction in trade barriers between the EU and Japan on climate change, measured here as changes in global CO_2 emissions[48] For the baseline projection of CO_2 emissions, the model was calibrated to the medium-term

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46 Trade and Environment by Håkan Nordström and Scott Vaughan http://www.wto.org/english/res_e/booksp_e/special_study_4_e.pdf.

47 Idem at 4.

48 This presupposes that the option of an FTA is pursued given the negligible trade benefit effects expected from the baseline option will have correspondingly negligible effects.

projections from the IEA "World Energy Outlook" (2010), which is based on existing and operational climate change policy measures – including the emission ceilings under the Kyoto Protocol, the EU emissions trading system (EU ETS) and other policy measures in the EU and in Japan – without assuming any further climate policy changes up to 2020. Both the EU and Japan have signed up to the Kyoto Protocol under the UNFCCC, pursuant to which both parties have ceilings on their CO_2 emissions up to 2012 when the first commitment period of the Protocol expires. The EU has binding domestic legal ceilings to 2020[49], while Japan has yet to adopt binding limits beyond 2012. The emissions modelling assumes that both parties will in fact continue to implement commitments beyond 2012.

Additional production in these economies will therefore need to take place within the existing emission ceilings commitments, through a combination of increased emissions efficiency (energy-saving investments) and re-allocation of production from more to less emission-intensive sectors. It may also lead to re-location of production outside the EU and Japan (which may induce "leakage" of emissions). Within the energy intensive sectors covered by the EU ETS these re-allocations are driven by the emission price mechanism. For sectors outside the EU ETS, this may require strengthening of climate change regulatory policy measures. In Japan, it is assumed that the government will put in place the necessary measures to respect the emission ceiling commitments. As such, any scale effect (i.e. as a result of an increase in production) in the EU or Japan brought about by trade opening is compensated by composition and technique effects, or changes in production patterns and production techniques.

Outside the EU and Japan, emissions change mainly as a result of spill-over effects from the lowering of NTMs, trade diversion effects, and changes in production patterns. Overall, the impact on global emissions is close to zero (+1.5m tonnes CO_2). The main changes are expected in China (a reduction of 11m tonnes CO_2 because of trade diversion) and ASEAN countries (an increase of 13m tonnes CO_2 because of increased trade).

5.5.3. Assessment of the potential impact of the policy options on biodiversity, natural resources and waste, and the environmental consequences for firms and consumers

Every scenario under the FTA policy option increases trade and thus the need for resources for production[50]. This may increase waste and may pose dangers for both natural resources and the preservation of biodiversity. It is expected that the negative impact of the different policy options on waste, biodiversity and natural resources would be mitigated to some extent by benefits flowing from increased trade in environmentally sustainable goods and services, and increased cooperation between the two partners. An ambitious reduction of NTMs is expected to significantly improve trade in environmental goods and services.

The online consultation of stakeholders from both the EU and Japan indicated that an agreement on environmental goods and services (EGSA), including energy efficient

[49] Pursuant to the Climate and Energy package: http://ec.europa.eu/clima/policies/package/index_en.htm

[50] This presupposes that the option of an FTA is pursued given the negligible trade benefit effects expected from the baseline option will have correspondingly negligible effects.

products, would be an effective way of increasing EU-Japan cooperation in this area.[51] Increased cooperation in this field should produce a shift towards sustainable production processes resulting in a tangible improvement of the environment, including a reduction of CO_2 emissions.

Clean technologies and clean industrial processes, energy efficiency, renewable energy, water and waste management, a new generation of bio fuels, electric vehicles, and ICT technologies, are all important areas for potential future cooperation in the context of EU-Japan trade negotiations.

For example, the EU has invited Japan, as a major timber consuming country, to join it and other major timber consuming countries in intensifying policy measures against the import of illegally harvested timber. A deeper trade agreement with Japan could provide further opportunities to develop a closer and more ambitious cooperation on illegal timber trade between the two partners.

Another issue involving trade and the environment that might be fostered by an economic integration agreement is the economic valuation of biodiversity and ecosystems services, in line with the TEEB report[52]. A better understanding of the economic value of biodiversity and of ecosystem services will promote better quantification of the environmental consequences of increased trade; and should lead to more effective policies for mitigating adverse environmental impacts and for protecting biodiversity.

5.6. The social impact

5.6.1. Overall increase of welfare for both the EU and Japan

Increased trade between the EU and Japan would lead to an increased demand for labour, and raise the welfare of both parties. The greater the extent of liberalisation proposed in the various policy options, the greater are the welfare gains achieved.

A conservative FTA would allow for an increase in EU GDP of 0.34%, i.e., in absolute numbers an increase in income for the EU of €42 billion; an ambitious FTA, with symmetrical reductions of the cost of NTMs, would allow for increases by 1.9% and €320 billion respectively. Welfare increases in Japan would also be significant, with an increase in Japan GDP of 0.27% to 0.67% in absolute numbers: between €5 billion and €18 billion.

Both the EU and Japan are expected to benefit from increases in the wages of both higher and lower skilled workers (between +0.3% and +1.8% in the EU and +0.4% and +0.8% in Japan) under each of the policy options, relative to the baseline scenario. Mutual benefits are forecast to be highest in the event of concluding an ambitious FTA involving symmetric reductions of non-tariff barriers by both parties (+1.8% in the EU and +0.8% in Japan).

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51 Public consultation on "The future of EU Japan trade and economic relations", available at: http://trade.ec.europa.eu/doclib/docs/2011/february/tradoc_147586.pdf

52 "The Economics of Ecosystems and Biodiversity (TEEB) study is a major international initiative to draw attention to the global economic benefits of biodiversity, to highlight the growing costs of biodiversity loss and ecosystem degradation, and to draw together expertise from the fields of science, economics and policy to enable practical actions moving forward", See: http://www.teebweb.org/

An analysis of the social impact of the different policy options also has to include effects on standards and rights related to job quality, social inclusion and protection of particular groups, gender equality, equal treatment and opportunities, non-discrimination, access to and effects on social protection, health and educational systems as well as public health and safety. However, the social impact in these areas of an FTA between developed countries such as EU and Japan in these areas can be considered as broadly neutral. However, it could create potential synergies vis-à-vis third countries. Potential positive social effects on health as well as mobility will be briefly analyzed in section 5.4.

Even though trade policies may be considered gender neutral by design, they may have gender effects. These effects, which will depend on which sectors are impacted, will also depend on the economic development of the respective countries. As in other industrialised countries, Japan and the EU exhibit similar trends in the increased presence of women in higher education and in the labour market. Female employment rates in the EU and Japan are similar (about 57-58%). However, the gender wage gap in Japan is almost twice that of the OECD average, and women's median income is two thirds of that received by their male counterparts[53]. The gender pay differences are related to the lack of women in supervisory roles and women being underrepresented in management track career positions ('sougou-shoku').

At the same time, corporate culture is reportedly changing in Japan, due to greater trade and investment integration. Many highly educated Japanese women prefer to work in foreign subsidiaries of multinational firms and there is some evidence that hiring practices of foreign firms have influenced those of local firms[54]. Gender equality was identified as an important goal in the Action-Plan for EU-Japan Cooperation. An FTA should contribute to Japanese corporate culture further evolving towards gender equality.

5.6.2. Sectoral analysis of the impact on employment

In the EU, for both lower skilled and higher skilled workers we expect a substantial increase in jobs (in percentage terms) in the *electrical machinery* sector. Under the conservative FTA scenario we expect jobs in this sector – for both lower and higher skilled workers – to increase by about 3% in the case of asymmetric NTM cost reductions, and by more than 7% if the reductions in NTMs costs are symmetric. Under the ambitious FTA scenario, jobs are expected to increase by over 8% assuming asymmetric NTM cost reductions (no estimate is available for the change in employment under symmetric NTM cost reductions).

We also expect small increases in jobs in '*agricultural, forestry, fisheries*[55]', the *processed food* sector and the *insurance* and *construction sectors*, and a small reduction in jobs (in percentage terms) in the *chemicals, motor vehicles, other transport equipment, metals and metal products, other manufactures*, and *air transport sectors*.

On the Japanese side, two sectors in Japan are forecast to experience large percentage changes in employment. Under the conservative FTA scenario we expect jobs in the *other machinery sector* – for both lower and higher skilled workers – to increase by about 4.5%

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53 Highlights Japan babies and bosses – Policies towards reconciling work and family life; OECD

54 Trade and gender: issues and interactions; OECD

55 The model did not allow for a breakdown between agriculture, forestry and fisheries

(under both the asymmetric and symmetric NTM cost reduction assumptions). Employment in the *chemicals sector* – again, for both lower and higher skilled workers – is forecast to fall by more than 3%. Under the ambitious FTA scenario, employment in the *other machinery* sector might increase by as much as 10%, while employment in the *chemicals* sector might fall by more than 10%.

For both lower skilled and higher skilled workers we expect a modest increase in jobs (in percentage terms) in the *electrical machinery*, *motor vehicles*, and *other manufactures* sectors; and modest job losses (in percentage terms) for the *agricultural, forestry, fisheries, processed foods, metals and metal products*, and *wood and paper products* sectors.

Some European respondents to the public consultation feared an FTA could have negative effects on employment in the EU, in particular in the automotive sector. Such potential effects however are likely to be mitigated by high Japanese FDI in the EU, and corresponding job creation, in Europe. In all, 3300 Japanese companies invested €135 billion in the EU in 2009, supporting 400,000 job opportunities. The Japanese automobile sector is a prime example. With 13 production plants in eight EU countries as well as 12 research centres in 5 countries, this sector alone employs 136,000 persons and accounts for €21.5 billion of investment.[56]. The Japanese industries responsible for this high rate of FDI are concerned about the negative impact of the EU-Korea FTA on their competitiveness, and argue that the agreement with Korea will undermine their ability to create or support jobs in Europe. The conclusion of an ambitious FTA would reduce the risk of diminishing Japanese FDI in Europe, and thus contribute to the protection of employment in Europe.

The sectoral analysis done under 5.3.3 also highlighted that an ambitious FTA which would reduce the cost of NTMs limiting the access to the Japanese market could allow for a significant increase (+25%) in EU motor vehicle exports to Japan.

In Japan, increased economic cooperation should support employment in the machinery, electrical machinery, and motor vehicle sectors. Employment opportunities would also increase in the manufacturing sector. There may be a negative impact on employment in the food, chemicals, and agricultural sectors.

5.7. Analysis of the impact on human rights

Both the EU and Japan are committed to high standards of protection for human rights, and are signatories to all the main conventions. An EU-Japan FTA, exclusively focused on trade, will not have direct impact on these rights, as listed in the main UN conventions on human rights, the Charter of fundamental rights of the European Union and the European convention on human rights. It is also expected to respect fully the Charter which is an integral part of the EU Treaties.

An FTA between the EU and Japan would be accompanied by a framework agreement in which the parties commit themselves to respect and protect fundamental rights. The final report of the High Level Group process between the EU and Japan made specific mention

[56] The Parliament Magazine, 7 March 2011.

of a mutual commitment to promote human rights, and noted that both parties had decided to expand cooperation on human rights.

An EU-Japan FTA is therefore expected to have a positive indirect effect on the right to enjoy the highest attainable standard of physical and mental health as consumers, both in the EU and Japan, would be able to profit from a wider choice in the supply of goods, for example, the latest technologies and treatments in the healthcare sector.

Regulatory cooperation in a number of areas, including, for example, on the recognition of professional qualifications, and on the validity of practice permits, could also have positive effects on rights such as the rights to work, free choice of employment, just and favourable conditions of work, protection against unemployment, equal pay for equal work, and the right to just and favourable remuneration.

5.8. Impact on administrative costs and mutual simplification benefits

Administrative burden (or administrative costs) can be defined as the costs incurred by enterprises and public authorities in meeting legal obligations to provide information on their action or production, either to public authorities or to private parties.

The administrative efforts necessary for implementation are different for each of the policy options. The baseline scenario does not require or assume any kind of additional administrative burden.

The complexity of implementation depends mostly on the extent of elimination of the cost of NTMs. As a result, option B implies more complex procedures, especially for Japan. In the EU, the conclusion of an FTA will require a process of implementation of the FTA provisions, including approval by the European Parliament. In Japan, a removal of NTMs – especially under the more ambitious scenarios of option B – will require a complex set of administrative and legislative procedures.

However, the ambitious scenarios outlined in option B will also create simplification benefits and reduce administrative costs in both the EU and Japan. The elimination of NTMs, and cooperation in the area of harmonizatio+n of standards, can greatly reduce such administrative costs and create mutual benefits.

5.9. Impact on the European Union's budget

Entering into an FTA with Japan would have effects on the budget of the EU, notably through the loss of own resources in the form of customs duties. The loss from tariff revenue could be around Euro 1.9 billion, based only on the value of duty income in 2009. The actual figure is likely to be considerably lower, because this estimate does not factor in any possible benefits to the EU budget deriving from future gains in EU GDP.

6. COMPARISON OF THE DIFFERENT POLICY OPTIONS

This section links both the positive and negative impacts of each policy option explained in chapter 5 directly to the objectives mentioned in chapter 3. The comparison of the different policy options has been conducted according to criteria of effectiveness in achieving the operational objectives, efficiency, and coherence with overarching EU policy objectives. The analysis has taken into account not only the trade and economic

impacts of each alternative; but also their social and environmental impacts, as well as possible gains from simplification and synergy effects. Finally, the impacts of the different options have been assessed considering the background of past and potential future conclusions of FTAs between the EU and third countries.

As stated in section 3, the EU's main operational objectives are: reducing and ultimately eliminating tariffs and non-tariff barriers in trade in goods and services; removing regulatory measures that pose *de facto* barriers for EU investment; and lowering and ultimately removing trade barriers to cross-border public procurement. The overarching policy goal of the EU is to capture the benefits of further trade liberalization in order to create the necessary conditions for smart, sustainable and inclusive growth.[57] Japan's primary objective is the reduction and ultimately elimination of tariffs on industrial goods in the EU; but the reduction of certain NTMs, and enhanced bilateral cooperation (for example in the areas of environment and energy) are also key Japanese objectives.

6.1. Positive and negative effects of each option

The baseline option does not achieve the operational objectives outlined above. The option calls for maintaining and increasing the efficiency of on-going bilateral economic cooperation programs such as the Regulatory Reform Dialogue and further cooperation in areas where agreements have already been signed. This continuing process of cooperation is projected to be a long-term commitment, and the reductions in tariffs or NTMs achieved are expected to be low. The efficiency of this option amounts to zero given that its effectiveness in achieving the operational objectives can be considered to be zero or even potentially negative.

This is due to the fact that economic cooperation between the EU and Japan must be analyzed while taking into account the background of other FTA negotiations with third countries. As mentioned in section 4, examples of such negotiations include the recently concluded FTA between the EU and Korea, as well as the current negotiations with other trade partners such as Canada, India, Mercosur and ASEAN countries.

In this context, the baseline option could effectively lead to a further overall reduction of bilateral trade between the EU and Japan. Furthermore, the baseline option is not consistent with overall EU policy objectives calling for further trade liberalization as an instrument of increasing economic growth.

The baseline option will not have significant environmental or social effects, but neither side will be able to profit from synergy or simplification effects.

The second option calls for full-scale FTA negotiations, with different degrees of trade liberalization together with bilateral cooperation in other areas, such as at the political level. The conservative scenarios for trade liberalization aim at the elimination of tariffs and a reduction of the costs NTMs by 20%. The more ambitious scenarios will lead to a reduction of the costs of NTMs by 50%. These scenarios have been chosen as corresponding to the levels of ambition appropriate for conservative and ambitious FTA

[57] See chapter 1 of Title V of the Treaty on European Union (TEU), in particular Article 21 paragraph 2 (e), Article 206 (ex Article 131 TEC) of the Treaty on the Functioning of the European Union (TFEU), COM(2010) 2020 and COM(2010)612/4.

negotiations to allow a comparison of the trade related results that flow from them. Such reductions in the costs of trade, especially in the more substantial ambitious scenarios, is likely to allow both the EU and Japan to achieve considerable benefits deriving from trade liberalization.

Such benefits include increases in GDP, increases in exports, overall increases in employment, increases in wages for both semi-skilled and skilled employees, together with increases in competitiveness and an improved standing for both the EU and Japan in respect of other global competitors.

This process of full-scale FTA negotiations will also allow both the EU and Japan to profit from synergy effects, for example in the area of trade-related environment issues through an exchange of expertise.

The various options set out for negotiating a full-scale FTA may have potentially negative impacts on the environment arising from an increase in trade and production. However, overall the impact on global emissions is close to zero and the overall environmental effects will be limited due to a long-term increase in trade in environmental goods and services as well as the possible synergy effects resulting from increased cooperation in this area. Furthermore, these environmental impacts are likely to be contained and accompanied by significant social gains linked to the increase in wealth and employment opportunities.

Effects on human rights are likely to be indirect but positive, which is to be expected from partners sharing high commitments to these values.

Finally, the EU and Japan as well as third countries will be able to profit from simplification effects resulting from a reduction of NTMs in both countries, which will reduce the administrative costs when trading with the EU or Japan.

6.2. Summary of the effects of the different policy options in table form

Criterion	Policy Options				
	A	B1	B2	B3	B4
Faster and more sustainable economic growth	0	+	++	++	+++
Improving labour opportunities and consumer and welfare gains	0	+	+	++	++
Improving Europe's competitiveness in global markets	0	+	+	++	+++
Increasing the volume of bilateral trade in goods by reducing barriers	0	+	++	++	+++
Increasing the volume of bilateral trade in services by reducing barriers	0	+	+	++	+++
Increasing investment flows between the EU and Japan by reducing barriers	0	+	+	++	++
Achieving access to the Japanese government procurement market comparable to that offered by the EU	0	+	+	++	++
(Overall) Effectiveness	**0/-**	**+**	**+**	**++**	**+++**
Efficiency (Time and resources spent in relation to estimated effectiveness)	0/-	+	+	++	++
Coherence with overarching EU policy objectives (for example, outlined in the EU 2020 strategy)	0	+	+	++	++
Ability to profit from synergy effects (for example, exchange of expertise)	0	++	++	++	++
Gains from simplification effects (for example through a reduction of NTMs)	0	+	+	++	+++

6.3. Identification of a preferred option

For the EU, the preferred option would be to enter into an FTA, provided that the scoping exercise can be assessed as giving positive results concerning the political will of Japan to tackle, to a satisfactory level, the key areas of concern to the EU, notably non-tariff measures, government procurement, services and investment and tariffs, and as demonstrating an appropriate level of shared ambition concerning the agreement.

Given that in any FTA negotiation Japan's primary objectives can be fulfilled to a much greater extent via tariff reductions, while the EU's objectives have broader ambitions, it is clear that the EU preference for a comprehensive FTA is heavily dependent on Japan's willingness to tackle in negotiations those issues of concern to the EU.

Thus, the European Council meeting of 25 March 2011, referred to the 'potential launch of negotiations for a free trade agreement on the basis that Japan is willing to tackle *inter alia* the issue of non tariff barriers and restrictions on public procurement'.

The conclusions of the 28 May 2011 Japan-EU summit equally referred to the possible negotiation of a deep and comprehensive Free Trade Agreement (FTA), which addressed all issues of shared interest to both sides including tariffs, non-tariff measures, services, investment, Intellectual Property Rights, competition and public procurement, on the basis of a successful scoping exercise.

Subject to these considerations, the preference for entering into an FTA becomes clear when looking at the tabular presentation in Section 6.3. As illustrated in section 6.3 above, each of the different scenarios of option B would be preferable to the baseline scenario of Option A concerning the criteria of effectiveness, efficiency and coherence. Furthermore, each of the scenarios of option B would lead to more beneficial synergy and simplification effects than option A.

When comparing the different scenarios of option B, the preferred scenario of the EU is that of an ambitious FTA. This is due to the fact that, as outlined in the analysis above and in the different expert studies[58], most of the economic gains can be obtained from a reduction of NTMs. A higher reduction of NTMs facilitates more economic growth and thus leads to an increase in the resulting creation of job opportunities and welfare gains. Accordingly, the ambitious scenarios perform better when weighed against the criteria of effectiveness, efficiency and coherence mentioned above and they create more benefits from synergy and simplification effects.

[58] See: "Assessment of barriers to trade and investment between the EU and Japan", Copenhagen Economics, 2009, or "Economic impact assessment of an FTA between the EU and Japan", February 2011.

7. MONITORING AND EVALUATION:

7.1. Core indicators of progress towards meeting the objectives

General objectives	**Indicators**
Economic growth	- percent change in GDP - absolute change in national income
Creation of job opportunities and welfare gains	- percent change in more and less skilled employment - percent change in more and less skilled wages
Improving relative competitiveness of the EU	placement of EU member states in rankings measuring global competitiveness, such as the "Global Competitiveness Report" of the World Economic Forum
Specific objectives	
Increase of bilateral trade in goods	- relative and absolute/percent change in value of bilateral exports and imports of goods by sector
Increase of bilateral trade in services	- relative and absolute/percent change in value of bilateral exports and imports of services by sector
Increase of bilateral investment	- relative and absolute/percent change of bilateral investment flows
Increase of market access, especially for the EU, in the government procurement sector	Increase of number of tenders secured by EU companies
Operational objectives	
Elimination of tariffs on industrial goods and agricultural products	Japanese tariff schedules
Reduce NTMs concerning trade in goods	- convergence of standards/technical regulations - specific annexes - change in regulations/laws - increase of transparency/availability of information - business surveys
Reduce NTMs and increase market access in trade in services	- convergence of standards /technical regulations - change in regulations/laws - list of commitments and specific annexes - increase of transparency/availability of information - business surveys
Reduce NTMs concerning foreign direct investment	- convergence of standards/technical regulations - list of commitments and specific annexes - change in regulations/laws - increase of transparency/availability of information - business surveys
Reduce NTMs and increase market access of the Japanese government procurement market	- convergence of standards/technical regulations - change in regulations/laws - increase of transparency/availability of information - list of commitments and specific annex business surveys

7.2. Monitoring and evaluation arrangements

Monitoring requirements in respect of the specific objectives can be facilitated by short- and medium-term analysis of the measurable indicators mentioned above: changes in the relative value of bilateral exports and imports as well as the number of tenders secured by

EU companies in Japan.. Concerning the operational objectives, the same is valid for monitoring of tariff reductions, as these become apparent in Japan's tariff schedules.

A more complex set of indicators is necessary for monitoring reductions in the cost of NTMs. Convergence of standards and changes in regulations and law can be analyzed by gathering information on the legal and administrative sources. The increase of transparency or the availability of information as well as the general perception of a reduction in the cost of NTMs could be analyzed by surveys among stakeholders operating in Japan. Such surveys could be combined, for example, with existing programmes such as the EU Gateway Programme organizing business missions to Japan.[59] However, in order to obtain more extensive feedback, additional business surveys or surveys among the Japanese could be set up.

In line with the commitments made in 2010 in *Trade, Growth and World Affairs*[60], there will be a rigorous ex post evaluation of the effects of any fresh trade agreement concluded with Japan at an appropriate time interval after its implementation.

[59] See: http://www.eu-gateway.eu/

[60] http://trade.ec.europa.eu/doclib/docs/2010/november/tradoc_146955.pdf

Glossary of acronyms

ASEAN	Association of Southeast Asian Nations
CGE	Computable General Equilibrium
CO_2	Carbon Dioxide
DDA	Doha Development Agenda
DG	Directorate-General
EGSA	Agreement on Environmental Goods and Services
EPA	Economic Partnership Agreement
ETS	Emissions Trading System
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
IASG	Impact Assessment Steering Group
IEA	International Energy Agency
IP	Intellectual Property
IPR	Intellectual Property Rights
JHLG	Joint High Level Group
MERCOSUR	Mercado Común del Sur/Mercado Comum do Sul
NTM	Non Tariff Measure
NTM	Non Tariff Measure
OECD	Organization for Economic Cooperation and Development
SMEs	Small and Medium Sized Enterprises
TEC	Treaty establishing the European Community

TEEB	The Economics of Ecosystems and Biodiversity
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union
UN-ECE	United Nations Economic Commission for Europe
UNFCCC	United Nations Framework Convention on Climate Change
US	United States
WTO	World Trade Organization

ANNEX 1

COMPLEMENTARY STUDY ASSESSING BARRIERS TO TRADE AND INVESTMENT BETWEEN THE EU AND JAPAN

1.1 The study

This report provides an updated, CGE-based integrated assessment, based on existing estimates of NTMs as reported in recent studies, for a range of scenarios. It examines both tariff liberalization and liberalization of non-tariff measures (NTMs). The integrated update involves estimates of barriers from previous studies, but with more recent trade and production data. Given that the current level of tariffs in most sectors in both the EU and Japan is already relatively low, reductions of non-tariff barriers is an important issue in defining scope for reducing barriers to commerce between the two economies.

Non-Tariff Measures are defined as 'all non-price and non-quantity restrictions on trade in goods, services and investment, at federal and state level'. This measure thus includes border measures (customs procedures, etc.) as well as behind-the border measures flowing from domestic laws, regulations and practices. However, regulations as a concept are not as easily removed as tariffs. In many cases, they have legitimate purposes and in some even work towards facilitating trade, by setting common rules and standards, and enhancing consumer welfare, by protecting against health and safety risks. Meanwhile, some rules impose higher costs on foreign producers than strictly necessary in order to comply with national standards and regulations. Since there are any number of underlying reasons for introducing national rules, including factors such as geography, language, preferences, culture or history, assuming that all NTMs and regulatory divergence can be aligned, is not very realistic. Thus, one has to acknowledge that a certain amount of trade costs related to those measures will always exist. This is the concept of 'actionability' as used in recent studies.

1.2 Differences to previous studies

The report also reviews existing estimates of the economy wide impact of trade liberalization between the EU and Japan. Concretely, three previous studies are analysed that have previously looked at the economy wide impact of trade liberalization between the EU and Japan: the Copenhagen Economics 2009 study, which focuses on the effects on the EU and Japan; the Ecorys 2009 study, which focuses on a number of other potential FTAs as well; and the study by the Swedish National Board of Trade, which includes separate calculations for the estimated effects on the Swedish economy.

The three studies differ with regards to underlying assumptions, sector division for the CGE model, as well as incorporated trade liberalization scenarios. While the Swedish study assumes that only tariffs are removed, the Ecorys study in addition assumes a liberalization of services and some moderate lowering of trade costs. In the Copenhagen Economics study, the effects of a more substantial lowering of NTMs are also included. Although the studies differ somewhat across their set-ups, the sector impacts of a potential FTA between the EU and Japan are similar. The studies estimated negative effect on the output of the European automotive industries, with a corresponding increase in their Japanese counterparts. Meanwhile, the studies generally estimate the effect to be the opposite effect for the meat industries, i.e. liberalizing trade is expected to lead to an

increase the output of European meat production, while their corresponding Japanese counterparts are expected to contract. One message that can be taken from these studies, collectively, is that tariff liberalization alone, and even modest NTM reductions, are not going to bring substantive benefits to the EU. This requires ambitious NTM reductions on top of reductions in tariffs.

In contrast to existing estimates, in the complementary study there is an integrated assessment examining both tariff liberalization and liberalization of NTMs that reflects possible third-country NTM spillover effects (essentially unintended liberalization vis-à-vis third countries). It is based on this assessment that both the EU and Japan would gain from reducing barriers to trade. The decomposition of the different scenarios indicates that it is in fact this spill-over of the NTM reductions that is the primary driver in the estimated effects of the potential FTA. And since Japan is a smaller trading partner for the EU than the EU is for Japan, the non-discriminatory NTM reductions imply bigger gains for the EU economy than for Japan.

The integrated assessment also provides analysis of the impact of an FTA on social and sustainability indicators. In terms of the global profile of CO2 emissions for the EU (not analysed in earlier studies of Japan-EU liberalization), Japan, and third countries, the estimated impact is negligible (approximately 0.1 to 0.07%) of global baseline emissions. Also, the effect on real wages is estimated to be relatively small (less than 0.7%) for both skilled and unskilled labour in both economies.

TABLE 1 OVERVIEW OF PREVIOUS STUDIES

Study	**Incl. C's**	**Liberalization Scenarios**	**Underlying Assumptions and Focus**	**Est. GDP Effects in Value and %**	**Most Affected Sectors (% change in output)**
Copenhagen Economics	EU, Japan	-Full bilateral tariff removal. -Two Scenarios, i.e. '*lower*' & '*upper*' bound regarding - reduction of NTMs -reduction of barriers on services trade.	-Short and long run (2018) -ATC phase-out, China in WTO, EU-10, -recent FTA agreements, -Estimation of country specific NTMs.	EU: 0.1-0.14% JAPAN: 0.2-0.3%	EU: -Motor vehicles (-3%). +Transport services (1%) JAPAN: +Motor Vehicles (+12%) -Other Machinery (-6%)
Ecorys	NL, EU, Japan	'Ambitious Scenario' – Full bilateral tariff removal. -reduction of services barriers, -reduction of trade costs.	ATC phase-out, China in WTO, EU-10, -recent FTA agreements, -notional 2020 economy.	EU: (long run) €-14.000 million/ -0.1% JAPAN (long run): €45,000 million/ 3.2%	EU: +Meats (13%), Clothing, Textiles -Motor vehicles (-8%) JAPAN: +Motor Vehicles (53%), - Meats (-84.5%)
Swedish National Board of Trade	Sweden, EU, Japan	-removal of tariffs.	Short run	EU: -0.01% JAPAN: 0.1%	EU: + Pig & Poultry meat (3%), Iron & Steel prod (8%), -Motor Vehicles (-6%) JAPAN: + Motor Vehicles (25%), -Meat (-18%), Textiles (-9%)

ANNEX 2

MAIN ASPECTS OF THE CGE MODEL

The policy assessment uses a computable general equilibrium model (CGE) of global world trade. CGE models help answering what-if questions by simulating the price, income and substitution effects in equilibrium on markets under different assumptions. The "baseline" for the model is the equilibrium before the policy change, and the 'scenario' is the equilibrium after the policy change. The effect of the policy change is quantified as the difference between the two.

1.1 The components of the model

The CGE model employed is based on Francois, van Meijl, and van Tongeren (2005). The most important aspects of the model can be summarised as follows:

– it covers global world trade and production

– it allows for scale economies and imperfect competition

– it includes intermediate linkages between sectors

– it allows for trade to impact on capital stocks through investment effects

In the model there is a single representative composite household in each region, with expenditures allocated over personal consumption and savings. The composite household owns endowments of the factors of production and receives income by selling these factors to firms. It also receives income from tariff revenue and rents accruing from import/export quota licenses. Part of the income is distributed as subsidy payments to some sectors, primarily in agriculture.

Taxes are included at several levels. Production taxes are placed on intermediate or primary inputs, or on output. Tariffs are levied at the border. Additional internal taxes are placed on domestic or imported intermediate inputs, and may be applied at differential rates that discriminate against imports. Where relevant, taxes are also placed on exports, and on primary factor income. Finally, where relevant (as indicated by social accounting data) taxes are placed on final consumption, and can be applied differentially to consumption of domestic and imported goods.

On the production side, in all sectors, firms employ domestic production factors (capital, labour and land) and intermediate inputs from domestic and foreign sources to produce outputs in the most cost-efficient way that technology allow. Perfect competition is assumed in the agricultural sectors (but the processed food products sector is characterised by increasing returns to scale). In these sectors, products from different regions are assumed to be imperfect substitutes.

Manufacturing sectors are modelled as involving imperfect or monopolistic competition. Monopolistic competition involves scale economies that are internal to each firm, depending on its own production level. An important property of the monopolistic competition model is that increased specialisation at intermediate stages of production

yields returns due to specialisation, where the sector as a whole becomes more productive the broader the range of specialised inputs. These gains spill over through two-way trade in specialised intermediate goods. With these 'spillovers', trade liberalisation can lead to global scale effects related to specialisation. Similar gains follow from consumer good specialisation.

While the model covers changes in gross trade flows, it does not model changes in net international capital flows. Rather the capital market closure involves fixed net capital inflows and outflows. This precludes the model from giving any indications of changes in international investment flows.

1.2 Other features summarized

The inclusion of scale economies and imperfect competition implies agglomeration effects like those emphasized in the recent economic literature. Potential provisions in areas of competition and regulatory policy are not explicitly taken into account. Regulatory policy is implicitly dealt with in the choice of the different degrees of NTM reduction in the different scenarios. To the extent that anticompetitive practices are private practices which are subject to regulation, these are as well indirectly implicated in the choice of NTM reduction levels. This can be understood to make our approach conservative; if we were to factor in competition provisions (beyond the degree implicated by the current choice of NTM reduction levels), the gains would likely be higher. It is also worth noticing that the estimation of the impact of NTMs on trade costs originates from a business survey which focused on many competition aspects. These were latter incorporated in econometric models that estimated the NTM ad valorem equivalents used in the CGE model and that allowed the estimation of the effects of NTM reduction.

The model gives short-run and long-run results. Long-run effects, which include those of the short-run, also incorporate further effects such as those resulting from capital accumulation. Thus the results of the long-run, dynamic scenarios involve a mix of induced investment, and also productivity effects flowing from the interaction between investment and variety/specialization gains. As a rule of thumb, the long run can be taken to represent the steady state some 10 years after the FTA implementation, whereas the short-run would represent the most immediate future, up to 5 years after implementation.

In the model, sectors are linked through intermediate input coefficients (based on national social accounts data) as well as competition in primary factor markets. The model includes imperfect competition, short-run and long-run macroeconomic closure options, as well as the standard static, perfect competition, Armington-type of model as a subset. It also allows alternative labour market closures. On the policy side, it offers the option to implement tariff reductions, export tax and subsidy reduction, trade quota expansion, input subsidies, output subsidies, and reductions in trade costs. International trade costs include shipping and logistic services (the source of fob-cif margins) but can also be modelled as Samuelson-type deadweight costs. This can be used to capture higher costs when producing for export markets, due to regulatory barriers or NTBs that do not generate rents (or where the rents are dissipated through rent-seeking).

1.3 Data used for the baseline

The model runs on the GTAP database, version 8. It provides the data for the empirical implementation of the model. The database is the most up-to-date source of internally consistent data on production, consumption and international trade by country and sector. The database for the model is benchmarked for 2007,then projected to 2020, and serves as baseline against all experiments.

The GTAP data on protection incorporate the Macmaps data set, which includes a set of ad valorem equivalents (AVEs) of border protection across the world. The source information concerns various instruments, such as specific tariffs, mixed tariffs and quotas, which cannot be directly compared or summed. In order to be of use in a CGE model, these were converted into an AVE per sector, per country and per trading partner.

1.4 Sector aggregation

For the purpose of this study, the GTAP database is aggregated into 20 sectors, as shown in Table below.

Sectors in the model

	Sectors	Market structure
1	Agriculture, forestry, fisheries	Armington
2	Other primary sectors	Armington
3	Processed foods	Monop Comp
4	Chemicals	Monop Comp
5	Electrical machinery	Monop Comp
6	Motor vehicles	Armington
7	Other transport equipment	Armington
8	Other machinery	Monop Comp
9	Metals and metal products	Armington
10	Wood and paper products	Armington
11	Other manufactures	Monop Comp
12	Water transport	Armington
13	Air transport	Armington
14	Finance	Armington
15	Insurance	Armington
16	Business services	Armington
17	Communications	Armington
18	Construction	Armington
19	Personal services	Armington
20	Other services	Armington

1.5 Market structure

From the sectors listed in Table 6.1, industrial sectors and most service sectors (except public services, utilities, and transport) are specified with monopolistic competition while all other sectors have perfect competition. Econometrically-based substitution elasticities for goods originate from Ecorys (2009) while elasticities for the services sectors were obtained from Dee (2010).

1.6 Country aggregation

The country aggregation used for the model is presented in Table below.

List of regions in the model

Region name
European Union 27
United States
Canada
Mexico
Japan
Korea
Other OECD
China
ASEAN
Brazil
India
Russia
Rest of World

ANNEX 3

NTM estimates[61]

While trade policy makers have made significant progress in lowering barriers to international trade linked to tariffs, the policy relevance of non-tariff measures (NTMs) has increased. The reason for the greater attention to NTMs is three-fold. First, as the level of tariffs has decreased, the relative importance of NTMs has increased. In addition, during this time, significant progress has been made in terms of quantifying the effects of NTMs, leading to a better understanding of the costs these barriers impose on the cost of doing business. And finally, there is some evidence of NTMs being used as substitution for the tariffs that have been reduced. Thus in this study, we include the modeling of lowering NTMs in addition to the lowering of tariffs. In this subsection we describe the process of obtaining the estimated NTMs employed in the analysis.

The EC NTM project led by ECORYS (2009b) had the stated goal of trying to "shed light on the existence of nontariff measures (NTMs) and regulatory divergence at the sector level of EU-US trade". Furthermore, the study aimed to estimate the magnitude of this divergence as well as calculating the potential economic impacts of reducing or harmonizing NTMs.

The basis for the estimation of the impact of NTMs on cost in the study originates from a business survey, which incorporated firms originating in the EU, US and third countries, operating in the EU and/or US (the survey is further described below). The results from the survey were incorporated in a set of econometric models, using the Anderson et al methodology to estimate current levels of NTMs impacting on US-EU trade. The use of a gravity model allowed for calculation of ad valorem equivalents of NTMs. These were then used as basis for further analysis with a Computable General Equilibrium (CGE) model in order to estimate potential effects of lowering current levels on NTMs.

The business survey was based on the following question: "Consider exporting to the US (EU), keeping in mind your domestic market. If 0 represents a completely 'free trade' environment, and 100 represents an entirely closed market due to NTMs, what value between 0 – 100 would you use to describe the overall level of restrictiveness of the US (EU) market to you report product (service) in this sector?"

Thus, the finished product of the business survey generated bilateral NTM index numbers (between 0 and 100) based on the answers from 5,500 companies, which then were cross-checked against other indicators. These index numbers were then transformed into" levels of trade restrictions" which in turn were used as inputs to gravity regressions. The coefficients emerging from the gravity equation estimates were then used to infer trade cost equivalents resulting from current levels of NTMs (using methodology presented in Anderson, Bergstrand, Eggers and Francois (2009), which were incorporated into the studies as basis for liberalizing trade. In the NTM survey, the firms were also asked whether the NTMs had a discriminatory element- i.e. whether they were being treated differently in the market place than domestic- and other foreign firms operating in the third market. These survey answers were also scaled from 0-100, where 50 meant they were treated equally, 0 much better and 100 much worse than their international

[61] Taken from the complementary study.

competitors. Using the same approach as above, ad valorem equivalents for third countries could be obtained as well.

The subsequent study by Copenhagen Economic set out to estimate specific levels of EU-Japanese NTMs. These estimates were then used to calculate trade cost equivalents, expressing the cost impact on cross-border trade of the identified NTMs. The process of calculating levels of NTMs in manufacturing entailed a very similar process to that in the Ecorys study described above, albeit here in a three stage process. Step one contained a complementing business survey aimed at European businesses operating in Japan. The two subsequent steps were based on gravity modeling (one using a country specific dummy and the other the Ecorys NTM survey index) according to the Anderson et al. (above) methodology.

In the Copenhagen Economics business survey, business managers were asked to ’quantify the costs of accessing the Japanese market in comparison to other markets’, with answers ranging from 1 (much easier) to 5 (much more difficult), where average restrictiveness was calculated to 4.1. This input was then fed into the gravity models, yielding trade cost equivalents for Japan.

Actionability

Non-Tariff Measures are defined as ‘all non-price and non-quantity restrictions on trade in goods, services and investment, at federal and state level’. This measure thus includes border measures (customs procedures, etc.) as well as behind-the border measures flowing from domestic laws, regulations and practices.

However, regulations as a concept are not as easily removed as tariffs. In many cases, they have legitimate purposes and may even work towards facilitating trade by setting common rules and standards and enhancing consumer welfare, or by protecting against health and safety risks. Some rules may also impose higher costs on foreign producers than strictly necessary in order to comply with national standards and regulations.

Since there are any number of underlying reasons for national regulations, including factors such as geography, language, preferences, culture or history, assuming that all NTMs and regulatory divergence can be aligned is not realistic. One has to acknowledge that a certain amount of trade costs related to those measures will always exist. This is the concept of ‘actionability’ as used in this study, and it has no legal connotation.

Secondly, the internal market of the European Union provides the most far-reaching attempt to date to reduce trade costs by harmonization and mutual recognition of regulations across EU member states. This implies that EU can be seen as a benchmark of what is achievable in terms of reduction in NTM-related trade costs. The estimated levels of current NTMs in EU-Japan are summarized in the tables 2 and 3for Japan and the EU respectively. As can be seen from the Tables, the estimated levels of NTMs are often higher and thus more important than tariffs. This is true even for the more protected industrial goods sectors. In addition, because they tend to involve deadweight costs rather than tariff revenues (meaning the trade costs are not collected as government revenue in the case of NTMs) the welfare costs are much higher than for a comparable tariff.

TABLE 2 NTMS IN JAPAN

	Cost related Total Trade Cost	maximum avoided as actionable	trade cost portion	ent portion
Food and beverages	25.0	9.0	5.7	3.3
Chemicals	22.0	20.0	13.4	6.6
Electrical machinery	11.6	3.9	2.6	1.3
Motor vehicles	10.0	8.0	5.2	2.8
Other transport equipment	45.0	41.0	22.2	18.6
Metals and metal products	21.3	8.5	2.8	3.9
Wood and paper products	15.4	10.6	5.6	5.0
Other machinery	30.0	3.9	2.6	1.3
Air transport	2.1	1.3	0.4	0.9
Water transport	6.0	5.2	1.4	3.8
Finance	15.6	8.7	4.8	3.9
insurance	2.5	1.2	0.7	0.5
Business and ICT	8.5	3.7	2.3	1.4
Communications	24.7	19.2	7.8	11.4
Construction	2.5	1.9	1.1	0.8
Personal, cultural, other services	8.6	3.7	0.3	3.4
average	15.0	9.2	4.9	4.3

Source: ECORYS (2009) and Copenhagen Economics (2009).

TABLE 3 NTMS IN THE EU

	Est mated Total Trade Cost	[illegible] avoided as actionable	trade cost portion	ent portion
Food and beverages	58.6	30.3	20.9	9.4
Chemicals	16.8	12.1	7.3	4.7
Electrical machinery	4.5	2.8	1.7	1.1
Motor vehicles	18.3	11.0	7.4	3.8
Other transport equipment	16.6	5.8	3.1	2.5
Metals and metal products	8.5	5.2	1.9	3.3
Wood and paper products	11.3	8.4	5.9	2.5
Other machinery				
Air transport	2.5	1.1	0.4	0.6
Water transport	8.5	4.5	1.4	3.1
Finance	11.3	7.0	2.9	4.2
insurance	10.6	5.8	2.8	2.8
Business and ICT	14.9	4.3	2.5	1.9
Communications	11.7	8.2	4.3	3.9
Construction	4.6	2.8	1.9	0.7
Personal, cultural, other services	4.4	2.5	1.0	1.5
average	13.2	7.4	4.4	3.1

Source: ECORYS (2009) and Copenhagen Economics (2009).

countries, while 35% of any reduction is strictly bilateral.

ANNEX 4

The current institutional framework

Japan and the EU conduct their relations by way of non-binding dialogue, notably by way of ministerial meetings and Government level yearly Summits, covering both trade and political matters. A "Joint Declaration on Relations between the European Community and its Member States and Japan" was signed on 18 July 1991. In addition they have created informal "dialogues" in a number of areas

At the 10th EU-Japan Summit held in Brussels in December 2001 a ten-year Action Plan, to reinforce EU-Japan partnership and move it from consultation to joint action, was adopted.

One of the four objectives of the Action Plan for a stronger partnership is "the strengthening of the Economic and Trade Partnership" in bilateral relations and on the international scene, including the WTO. Since the adoption of the Action Plan, opportunities for dialogue and exchange of ideas with the Japanese counterpart have multiplied.

Following the EU-Japan Summit in Tokyo, on 22 June 2004, Japan and the EU endorsed a Cooperation Framework aimed at promoting two-way investment via concrete actions in areas such as establishment of new regulations; regulatory transparency; standards and conformity assessment; facilitation of conditions for foreign residents. Additionally, they recognized the value of continuing the current Intellectual Property Rights dialogue, including in the area of Geographical Indications, and presented a joint initiative to promote protection and encourage enforcement of Intellectual Property Rights in Asia. They also noted the importance of continuing the cooperative dialogue on government procurement and on Private Finance Initiatives and Public Private Partnerships.

Another major feature of bilateral EU-Japan relations is the two-way Regulatory Reform Dialogue aimed at reducing the number of unnecessary and obstructive regulations which hamper trade and foreign investment. Since 1995, the EU and Japan have participated actively in each other's regulatory reform efforts through dialogue and exchange of reform proposals. Over the last ten years, the EU has submitted a wide-range of regulatory reform proposals aiming at improving the climate for doing business and helping increase economic growth in Japan.

Since 1979 the European Commission has encouraged European enterprises' efforts to penetrate the Japanese market and given them concrete assistance through the EXPROM programme (Relex promotion programmes).

Bilateral agreements

Four important agreements have been finalized between the EU and Japan.

1. The EU-Japan Mutual Recognition Agreement which entered into force on 1 January 2002, permits acceptance of conformity assessment conducted in one Party according to the regulations of the other in four product areas (telecommunications terminal equipment and radio equipment, electrical products, Good Laboratory Practices for chemicals and Good Manufacturing Practices for pharmaceutical), an important step in facilitating market access.

2. An Agreement on Co-operation on Anti-competitive Activities was adopted by the EU Council on 16 June 2003. This agreement should facilitate both trade and investment by securing a level-playing field between in- and outsiders.

3. A Science and Technology Agreement between the EU and Japan was signed on 30 November 2009.

3. The Agreement on Co-operation and Mutual Administrative Assistance (CCMAA) between the EU and Japan entered into force on 1 February 2008.

Despite the degree of intensive cooperation and dialogue between the EU and Japan, concrete results have been minimal, with items remaining on the agenda, for example, of the Regulatory Reform Dialogue, without any change of substance on the part of Japan since it was created.

Likewise, notwithstanding Japanese attempts to improve the investment climate for foreign investors in Japan, foreign direct investment has remained at lower levels than for any other OECD member country.

ANNEX 5

Tables providing statistical information concerning aspects of Chapter 5 (Using 2020 baseline with Doha)

Table 1. Percent change in GDP

			Option B: Conservative FTA		Option B: Ambitious FTA		Baseline
	For reference only: Tariff elimination without Doha	Tariff elimination with Doha	Asymmetric	Symmmetric	Asymmetric	Symmetric	GDP, millions of 2007 euros
European Union	0.06	0.04	0.34	0.75	0.79	1.88	17,642,509
Japan	0.04	0.02	0.27	0.27	0.67	0.67	3,845,622
United States	-0.01	0.00	0.00	0.01	0.01	0.02	13,830,495
Canada	-0.01	-0.01	-0.03	-0.04	-0.07	-0.08	1,537,228
Mexico	-0.01	0.00	0.01	0.01	0.02	0.02	1,248,779
Korea	0.01	0.02	0.07	0.04	0.15	0.08	1,286,784
Other high income	-0.02	-0.02	0.07	0.20	0.20	0.54	4,448,912
China	0.02	0.00	-0.05	-0.08	-0.14	-0.23	7,785,691
ASEAN	0.01	-0.01	0.02	0.02	0.08	0.06	2,130,930
Brazil	-0.01	-0.01	0.00	0.01	0.00	0.03	2,027,176
India	-0.01	-0.01	-0.02	-0.03	-0.05	-0.07	2,659,034
Russia	-0.03	-0.02	-0.02	0.00	-0.02	0.02	1,732,134
ROW	-0.02	-0.02	-0.02	-0.02	-0.04	-0.03	16,721,947

Table *2:* Absolute change in national income (million euros 2007 prices)

			Option B: Conservative FTA		Option B: Ambitious FTA		Baseline
	For reference only: Tariff elimination without Doha	Tariff elimination with Doha	Asymmetric	Symmmetric	Asymmetric	Symmetric	GDP, millions of 2007 euros
European Union	5,850	4,651	42005.88	92805.11	99774.41	319291.88	17,642,509
Japan	612	167	5069.03	5137.41	13172.69	18321.45	3,845,622
United States	-851	-346	1027.24	1911.11	3288.89	7364.25	13,830,495
Canada	-122	-69	-138.75	-64.19	-262.24	-125.82	1,537,228
Mexico	-80	-19	113.33	188.60	316.64	658.85	1,248,779
Korea	69	109	498.05	233.11	1182.44	714.87	1,286,784
Other high income	0	1	2337.87	6195.11	6532.01	21246.13	4,448,912
China	992	233	-564.67	-1027.09	-2263.17	-4973.53	7,785,691
ASEAN	-6	-106	984.26	1209.74	2694.55	4356.91	2,130,930
Brazil	-69	-59	125.98	420.40	413.76	1606.79	2,027,176
India	-112	-63	-113.61	-48.58	-217.91	-97.56	2,659,034
Russia	-215	-169	77.50	638.26	420.20	2412.45	1,732,134
ROW	-2,327	-1,712	-901.88	1391.80	145.01	7821.33	16,721,947

Table 3: Percent change in value of global exports by country f.o.b.

			Option B: Conservative FTA		Option B: Ambitious FTA		Baseline
	For reference only: Tariff elimination without Doha	Tariff elimination with Doha	Asymmetric	Symmmetric	Asymmetric	Symmetric	exports, millions of 2007 euros
European Union	0.17	0.13	1.20	2.72	2.84	6.72	5,334,549
Japan	2.64	1.68	3.84	3.88	7.29	7.39	720,175
United States	-0.02	-0.01	0.22	0.34	0.57	0.86	1,516,441
Canada	0.01	0.00	0.03	0.07	0.08	0.17	405,837
Mexico	-0.02	-0.01	0.02	0.06	0.07	0.15	304,036
Korea	-0.01	0.02	0.26	0.41	0.64	1.02	435,022
Other high income	-0.02	0.00	0.14	0.26	0.38	0.76	1,280,238
China	0.01	0.00	0.04	0.03	0.08	0.04	2,672,273
ASEAN	0.07	-0.02	-0.07	0.01	-0.19	0.01	1,155,211
Brazil	0.00	-0.01	0.10	0.22	0.25	0.57	282,030
India	0.04	0.02	0.12	0.29	0.28	0.69	355,136
Russia	0.02	0.00	0.10	0.25	0.25	0.61	391,408
ROW	-0.02	-0.02	0.13	0.32	0.35	0.82	3,079,555

Table 4: Percent change 1 n value of glob al imports by country c.i.f.

			Option B: Conservative FTA		Option B: Ambitious FTA		Baseline
	For reference only: Tariff elimination without Doha	Tariff elimination with Doha	Asymmetric	Symmmetric	Asymmetric	Symmetric	imports, millions of 2007 euros
European Union	0.18	0.13	1.21	2.76	2.87	**N/A**	5,611,441
Japan	3.05	1.94	4.50	4.54	8.57	**N/A**	684,535
United States	-0.02	-0.01	0.15	0.23	0.39	**N/A**	2,307,464
Canada	0.01	0.00	0.03	0.07	0.07	**N/A**	424,079
Mexico	-0.02	-0.01	0.03	0.06	0.08	**N/A**	274,773
Korea	-0.01	0.02	0.29	0.47	0.71	**N/A**	425,569
Other high income	-0.02	0.00	0.15	0.26	0.40	**N/A**	1,196,472
China	0.04	0.02	0.07	0.06	0.12	**N/A**	2,116,003
ASEAN	0.08	-0.02	-0.09	0.01	-0.23	**N/A**	1,027,592
Brazil	0.00	-0.01	0.12	0.27	0.31	**N/A**	235,166
India	0.03	0.01	0.09	0.21	0.19	**N/A**	478,482
Russia	0.02	0.00	0.10	0.24	0.24	**N/A**	413,598
ROW	-0.02	-0.01	0.11	0.28	0.30	**N/A**	3,515,771

Table 5: Percent change ¡ n value of global EU exports by sector f.o.b.

			Option B: Conservative FTA		Option B: Ambitious FTA		Baseline
	For reference only: Tariff elimination without Doha	Tariff elimination with Doha	Asymmetric	Symmmetric	Asymmetric	Symmetric	exports, millions of 2007 euros
Agr forestry fisheries	-0.24	-0.21	-0.13	0.09	-0.02	0.56	311,630
Other primary sectors	0.05	0.01	0.02	0.09	0.02	0.19	151,788
Processed foods	3.27	2.41	4.44	8.10	7.56	17.13	446,015
Chemicals	-0.10	-0.02	1.05	2.22	2.70	5.42	704,094
Electrical machinery	-0.25	-0.28	4.08	10.06	10.94	26.76	153,252
Motor vehicles	-0.87	-0.40	0.55	2.45	1.99	6.73	624,427
Other transport equipment	0.10	0.02	0.89	2.72	2.13	6.73	166,916
Other machinery	-0.09	-0.20	**1.11**	3.53	3.07	9.31	825,372
Metals and metal products	0.00	-0.02	1.26	3.73	3.18	9.43	336,098
Wood and paper products	0.10	0.07	0.87	2.39	2.10	5.96	235,562
Other manufactures	0.51	0.21	0.27	0.74	0.34	1.46	386,563
Water transport	0.27	0.18	0.41	0.63	0.76	1.33	43,569
Air transport	0.06	0.03	0.93	1.13	2.27	2.80	74,628
Finance	0.07	0.04	1.57	1.71	3.93	4.30	63,253
Insurance	0.08	0.04	0.79	0.91	1.93	2.21	58,354
Business services	0.08	0.04	2.30	2.55	5.82	6.50	337,260
Communications	0.04	0.02	0.87	1.10	2.15	2.75	31,055
Construction	0.15	0.08	0.97	1.30	2.33	3.17	32,158
Personal services	0.06	0.03	1.61	1.82	4.07	4.59	70,258
Other services	0.09	0.05	0.23	0.55	0.50	1.32	282,297

Table 6: Percent change 1 n value of global EU imports by sector c.i.f.

			Option B: Conservative FTA		Option B: Ambitious FTA		Baseline
	For reference only: Tariff elimination without Doha	Tariff elimination with Doha	Asymmetric	Symmmetric	Asymmetric	Symmetric	imports, millions of 2007 euros
Agr forestry fisheries	0.73	0.60	0.63	0.39	0.67	**N/A**	164,663
Other primary sectors	0.02	0.01	-0.02	0.00	-0.08	**N/A**	297,195
Processed foods	-0.13	-0.12	3.30	10.47	8.56	**N/A**	312,616
Chemicals	0.12	0.08	1.35	3.83	3.23	**N/A**	715,632
Electrical machinery	0.10	0.08	-0.14	-0.24	-0.44	**N/A**	329,282
Motor vehicles	0.81	0.44	1.32	2.98	2.65	**N/A**	554,381
Other transport equipment	0.68	0.44	1.64	3.77	3.47	**N/A**	131,372
Other machinery	0.22	0.24	1.20	3.04	2.66	**N/A**	790,229
Metals and metal products	-0.17	-0.10	1.03	3.15	2.72	**N/A**	490,395
Wood and paper products	0.05	0.06	1.00	2.85	2.42	**N/A**	214,509
Other manufactures	0.24	0.14	0.62	1.26	1.38	**N/A**	743,998
Water transport	0.07	0.06	0.66	0.79	1.54	**N/A**	36,809
Air transport	0.01	0.01	2.05	2.25	5.10	**N/A**	74,206
Finance	-0.04	0.00	2.51	2.71	6.38	**N/A**	61,039
Insurance	-0.02	0.01	1.85	2.05	4.66	**N/A**	26,555
Business services	-0.05	0.00	3.79	3.89	9.71	**N/A**	270,168
Communications	-0.05	0.00	1.12	1.25	2.84	**N/A**	36,319
Construction	-0.06	0.00	1.59	1.74	4.03	**N/A**	23,825
Personal services	-0.03	0.01	3.19	3.38	8.12	**N/A**	51,946
Other services	-0.03	0.01	0.13	0.29	0.32	**N/A**	286,304

Table 7: Percent change i n value of global Japan exports by sector f.o .b.

			Option B: Conservative FTA		Option B: Ambitious FTA		Baseline
	For reference only: Tariff elimination without Doha	Tariff elimination with Doha	Asymmetric	Symmmetric	Asymmetric	Symmetric	exports, millions of 2007 euros
Agr forestry fisheries	4.26	3.27	4.49	4.64	6.39	6.78	9,541
Other primary sectors	-0.05	-0.06	-0.02	0.12	-0.10	0.22	9,320
Processed foods	-1.58	-1.51	-0.96	-0.88	-0.18	0.05	12,791
Chemicals	3.81	2.16	-1.10	-1.16	-7.34	-7.52	89,892
Electrical machinery	2.14	0.99	4.91	5.57	11.06	12.91	47,841
Motor vehicles	6.42	2.88	3.98	3.92	5.61	5.41	189,026
Other transport equipment	6.06	3.80	11.56	11.83	24.63	25.44	22,671
Other machinery	1.80	2.52	8.64	8.52	18.97	18.61	183,417
Metals and metal products	-0.29	-0.18	2.20	2.30	5.87	6.14	45,339
Wood and paper products	-0.64	-0.28	0.85	0.98	2.45	2.82	8,321
Other manufactures	2.45	1.05	4.45	4.57	10.73	11.12	28,713
Water transport	0.26	0.18	0.39	0.60	0.72	1.27	2,997
Air transport	-0.23	-0.13	0.61	0.76	1.75	2.15	8,059
Finance	-0.90	-0.49	1.41	1.48	4.29	4.57	3,600
Insurance	-0.96	-0.54	0.37	0.45	1.69	1.94	1,657
Business services	-0.88	-0.49	1.22	1.24	3.82	3.94	13,774
Communications	-0.89	-0.51	0.39	0.49	1.71	2.00	816
Construction	-0.82	-0.47	0.66	0.65	2.34	2.36	8,332
Personal services	-0.84	-0.48	0.47	0.52	1.87	2.03	3,782
Other services	-0.85	-0.48	0.17	0.26	1.11	1.37	30,285

Table 8: Percent change in value of global Japan imports by sector c.i.f.

			Option B: Conservative FTA		Option B: Ambitious FTA		
	***For reference only:* Tariff elimination without Doha**	**Tariff elimination with Doha**	**Asymmetric**	**Symmmetric**	**Asymmetric**	**Symmetric**	**Baseline c.i.f. imports, millions of 2007 euros**
Agr forestry fisheries	-5.06	-4.30	-6.05	-6.10	-8.73	**N/A**	8,606
Other primary sectors	0.02	0.03	0.18	0.23	0.65	**N/A**	108,114
Processed foods	51.87	36.04	41.52	41.83	50.10	**N/A**	25,051
Chemicals	0.77	0.62	15.42	15.96	40.68	**N/A**	54,083
Electrical machinery	1.32	0.78	1.12	0.57	1.69	**N/A**	92,039
Motor vehicles	3.52	1.76	6.49	7.12	13.95	**N/A**	20,686
Other transport equipment	2.95	1.73	16.96	17.13	37.32	**N/A**	12,172
Other machinery	1.05	0.17	1.34	1.54	2.98	**N/A**	87,764
Metals and metal products	2.13	1.33	7.04	7.11	15.93	**N/A**	61,719
Wood and paper products	1.77	1.11	2.32	2.39	4.29	**N/A**	16,803
Other manufactures	2.63	1.17	-0.42	-0.44	-3.37	**N/A**	107,502
Water transport	0.33	0.20	0.36	0.54	0.61	**N/A**	10,136
Air transport	0.61	0.35	1.69	1.70	3.70	**N/A**	10,972
Finance	1.13	0.64	0.61	0.62	0.65	**N/A**	4,281
Insurance	1.28	0.71	1.95	1.95	3.93	**N/A**	3,213
Business services	1.38	0.77	8.78	8.85	21.81	**N/A**	20,697
Communications	1.22	0.70	0.88	0.91	1.25	**N/A**	1,556
Construction	1.33	0.74	2.21	2.39	4.51	**N/A**	5,123
Personal services	1.08	0.61	3.79	3.80	8.75	**N/A**	5,911
Other services	1.18	0.67	-0.05	-0.06	-1.04	**N/A**	28,109

Table 9: Percent change in volume of bilateral exports of EU by sector

			Option B: Conservative FTA		Option B: Ambitious FTA		
	***For reference only:* Tariff elimination without Doha**	**Tariff elimination with Doha**	**Asymmetric**	**Symmmetric**	**Asymmetric**	**Symmetric**	**Baseline f.o.b. exports, millions of 2007 euros**
Agr forestry fisheries	17.95	10.72	8.77	9.14	5.76	6.71	488
Other primary sectors	1.11	0.69	0.83	0.80	1.31	1.21	155
Processed foods	276.40	170.10	182.58	183.24	202.20	203.59	5,243
Chemicals	6.64	4.55	21.90	22.21	51.75	52.63	10,160
Electrical machinery	1.12	0.51	8.12	16.26	20.76	43.76	1,199
Motor vehicles	4.16	2.05	8.22	10.59	18.10	24.56	7,664
Other transport equipment	3.43	1.94	20.62	22.76	47.26	53.64	1,183
Other machinery	1.91	0.47	3.27	5.62	7.60	13.79	7,706
Metals and metal products	8.41	5.94	13.37	15.42	25.13	30.71	2,900
Wood and paper products	7.51	5.70	7.80	8.52	11.12	12.89	2,056
Other manufactures	63.69	22.20	19.83	19.97	15.55	15.67	5,390
Water transport	0.38	0.22	0.50	0.88	0.93	1.86	3,684
Air transport	0.58	0.33	2.09	2.25	4.73	5.07	2,366
Finance	1.20	0.65	0.87	0.95	1.27	1.37	2,076
Insurance	1.34	0.73	2.27	2.34	4.74	4.81	1,622
Business services	1.48	0.81	8.93	9.33	22.18	23.21	6,728
Communications	1.33	0.73	1.23	1.48	2.07	2.59	296
Construction	1.37	0.75	2.17	2.67	4.41	5.60	2,510
Personal services	1.17	0.64	4.25	4.45	9.91	10.34	1,054
Other services	1.24	0.68	0.08	0.18	-0.76	-0.60	4,073

Table 10: Percent change in volume of Japan bilateral exports f.o.b.

			Option B: Conservative FTA		Option B: Ambitious FTA		
	For reference only: Tariff elimination without Doha	Tariff elimination with Doha	Asymmetric	Symmmetric	Asymmetric	Symmetric	Baseline f.o.b. exports, millions of 2007 euros
Agr forestry fisheries	29.00	16.87	18.40	17.91	20.79	19.42	207
Other primary sectors	1.82	1.67	1.51	1.55	1.09	1.18	97
Processed foods	61.31	30.74	36.67	47.95	45.80	76.26	289
Chemicals	20.37	12.57	9.73	12.16	3.45	8.52	11,894
Electrical machinery	19.38	10.13	13.77	13.00	19.41	17.47	7,350
Motor vehicles	52.60	22.24	24.64	25.79	28.22	30.95	29,893
Other transport equipment	34.64	19.86	31.07	33.26	50.38	56.64	5,530
Other machinery	14.74	12.69	20.69	21.13	34.37	35.46	28,878
Metals and metal products	14.03	9.15	13.93	16.58	21.57	28.58	2,272
Wood and paper products	3.93	3.75	5.94	7.69	9.20	13.84	417
Other manufactures	21.62	11.36	16.38	17.02	25.73	27.67	3,632
Water transport	-0.85	-0.48	1.04	1.06	3.36	3.48	859
Air transport	-0.89	-0.52	2.47	2.62	7.04	7.55	2,099
Finance	-1.21	-0.66	2.63	2.81	7.67	8.29	1,892
Insurance	-1.34	-0.73	1.85	2.03	5.73	6.35	313
Business services	-1.24	-0.68	4.01	3.93	11.32	11.25	3,708
Communications	-1.27	-0.69	1.42	1.46	4.61	4.84	120
Construction	-1.10	-0.59	1.69	1.63	5.20	5.17	2,746
Personal services	-1.19	-0.65	3.60	3.73	10.22	10.69	296
Other services	-1.19	-0.64	0.25	0.39	1.55	2.06	6,708

Table 11: Percent change in output in EU

			Option B: Conservative FTA		Option B: Ambitious FTA		
	For reference only: Tariff elimination without Doha	Tariff elimination with Doha	Asymmetric	Symmmetric	Asymmetric	Symmetric	baseline value added shares, 2020
Agr forestry fisheries	0.14	0.10	0.13	0.13	0.17	0.15	4.69
Other primary sectors	0.01	0.00	0.01	0.03	0.02	0.06	1.35
Processed foods	0.85	0.68	0.63	0.25	0.55	-0.50	3.19
Chemicals	-0.15	-0.06	-0.27	-1.40	-0.52	-3.30	2.73
Electrical machinery	-0.30	-0.30	3.46	8.25	9.33	21.75	0.48
Motor vehicles	-1.08	-0.52	-0.31	0.05	0.03	0.99	1.72
Other transport equipment	-0.19	-0.15	-0.10	0.15	-0.08	0.52	0.75
Other machinery	-0.16	-0.23	0.12	0.59	0.64	1.93	4.02
Metals and metal products	-0.08	-0.07	-0.16	-0.51	-0.30	-1.12	2.21
Wood and paper products	0.07	0.05	0.15	0.22	0.32	0.50	2.32
Other manufactures	0.00	-0.01	-0.10	-0.10	-0.25	-0.27	2.31
Water transport	0.27	0.18	0.34	0.63	0.61	1.32	0.54
Air transport	0.02	0.01	-0.36	-0.09	-0.93	-0.25	0.39
Finance	0.04	0.03	0.07	0.31	0.14	0.75	3.11
Insurance	0.05	0.03	0.19	0.41	0.43	1.01	1.00
Business services	0.04	0.03	0.15	0.45	0.32	1.11	21.37
Communications	0.04	0.03	0.17	0.44	0.39	1.10	2.25
Construction	0.07	0.06	0.34	0.77	0.78	1.93	8.00
Personal services	0.04	0.03	0.15	0.44	0.33	1.09	3.44
Other services	0.03	0.02	0.20	0.45	0.48	1.12	34.13

Table 12: Percent change in output in Japan

			Option B: Conservative FTA		Option B: Ambitious FTA		baseline value added shares, 2020
	For reference only: Tariff elimination without Doha	Tariff elimination with Doha	Asymmetric	Symmmetric	Asymmetric	Symmetric	
Agr forestry fisheries	-0.93	-0.70	-0.72	-0.72	-0.75	-0.75	2.24
Other primary sectors	-0.08	-0.05	0.07	0.08	0.25	0.30	0.41
Processed foods	-3.66	-2.80	-3.27	-3.30	-4.00	-4.07	2.44
Chemicals	1.45	0.78	-3.47	-3.61	-11.04	-11.44	2.47
Electrical machinery	0.54	0.29	1.62	2.12	3.79	5.13	1.76
Motor vehicles	4.14	1.88	2.52	2.42	3.43	3.14	2.75
Other transport equipment	2.72	1.72	0.75	0.87	0.83	1.20	0.41
Other machinery	0.89	1.58	5.21	5.06	11.50	11.09	3.25
Metals and metal products	0.20	0.18	-0.62	-0.63	-1.73	-1.76	1.95
Wood and paper products	-0.31	-0.23	-0.39	-0.38	-0.64	-0.63	1.85
Other manufactures	-0.32	-0.17	0.81	0.84	2.71	2.79	1.50
Water transport	0.04	0.04	0.45	0.62	1.10	1.54	1.08
Air transport	-0.37	-0.22	-0.25	-0.17	-0.26	-0.03	0.25
Finance	0.06	0.04	0.14	0.15	0.31	0.33	3.81
Insurance	-0.09	-0.06	0.01	0.01	0.12	0.14	1.46
Business services	0.08	0.05	-0.13	-0.12	-0.41	-0.40	9.96
Communications	0.04	0.02	0.09	0.10	0.21	0.22	2.29
Construction	0.17	0.09	0.25	0.25	0.51	0.53	6.82
Personal services	-0.05	-0.03	0.00	0.01	0.07	0.08	3.31
Other services	0.03	0.01	0.13	0.13	0.32	0.33	49.98

Table 13: Percent chanae in C02 emissions

			Option B: Conservative FTA		Option B: Ambitious FTA	
	For reference only: Tariff elimination without Doha	Tariff elimination with Doha	Asymmetric	Symmmetric	Asymmetric	Symmetric
European Union	0.01	0.01	0.02	0.04	0.04	**N/A**
Japan	0.00	0.00	0.00	0.00	0.00	**N/A**
United States	0.01	0.00	-0.01	-0.04	-0.05	**N/A**
Canada	-0.01	0.01	-0.13	-0.19	-0.34	**N/A**
Mexico	-0.01	0.00	0.02	0.03	0.04	**N/A**
Korea	0.03	0.02	0.05	-0.22	0.11	**N/A**
Other high income	0.03	-0.02	0.34	1.01	0.86	**N/A**
China	0.01	0.00	-0.04	-0.05	-0.11	**N/A**
ASEAN	-0.01	0.04	0.34	0.28	0.88	**N/A**
Brazil	0.00	0.00	-0.01	-0.01	-0.01	**N/A**
India	0.01	0.01	-0.01	0.01	-0.03	**N/A**
Russia	-0.03	-0.01	-0.03	-0.02	-0.07	**N/A**
ROW	-0.01	-0.01	-0.02	0.01	-0.03	**N/A**

Table 14: Percent change in wages of the lower skilled

			Option B: Conservative FTA		Option B: Ambitious FTA	
	***For reference only:* Tariff elimination without Doha**	**Tariff elimination with Doha**	**Asymmetric**	**Symmmetric**	**Asymmetric**	**Symmetric**
European Union	0.05	0.04	0.32	0.68	0.75	1.71
Japan	0.24	0.14	0.35	0.35	0.71	0.72
United States	-0.01	0.00	0.00	0.01	0.01	0.02
Canada	-0.02	-0.01	-0.02	-0.02	-0.04	-0.04
Mexico	-0.01	0.00	0.01	0.02	0.03	0.04
Korea	0.02	0.02	0.06	0.03	0.13	0.05
Other high income	-0.02	-0.02	0.07	0.21	0.21	0.56
China	0.02	0.00	-0.05	-0.08	-0.14	-0.22
ASEAN	0.01	-0.01	0.03	0.04	0.09	0.10
Brazil	-0.01	-0.01	0.00	0.01	0.00	0.03
India	-0.02	-0.01	-0.03	-0.04	-0.06	-0.09
Russia	-0.04	-0.02	-0.05	-0.05	-0.09	-0.12
ROW	-0.03	-0.02	-0.03	-0.03	-0.04	-0.04

Table 15: Percent change in wages of the higher skilled

			Option B: Conservative FTA		Option B: Ambitious FTA	
	***For reference only:* Tariff elimination without Doha**	**Tariff elimination with Doha**	**Asymmetric**	**Symmmetric**	**Asymmetric**	**Symmetric**
European Union	0.04	0.03	0.31	0.70	0.74	1.78
Japan	0.28	0.18	0.38	0.39	0.75	0.76
United States	-0.01	0.00	0.01	0.02	0.03	0.05
Canada	-0.01	-0.01	-0.02	-0.02	-0.04	-0.04
Mexico	-0.01	0.00	0.01	0.02	0.04	0.05
Korea	0.02	0.02	0.07	0.04	0.15	0.08
Other high income	-0.02	-0.02	0.07	0.21	0.21	0.56
China	0.02	0.00	-0.04	-0.07	-0.13	-0.21
ASEAN	0.01	0.00	0.04	0.05	0.10	0.13
Brazil	-0.01	-0.01	0.00	0.02	0.01	0.05
India	-0.02	-0.01	-0.02	-0.03	-0.04	-0.06
Russia	-0.04	-0.02	-0.03	-0.02	-0.05	-0.03
ROW	-0.03	-0.02	-0.02	-0.02	-0.03	-0.03

Table 16: Percent change in employment of the lower skilled in EU by sector

			Option B: Conservative FTA		Option B: Ambitious FTA		Baseline employment shares
	For reference only: Tariff elimination without Doha	Tariff elimination with Doha	Asymmetric	Symmmetric	Asymmetric	Symmetric	
Agr forestry fisheries	0.18	0.13	0.13	0.07	0.12	**N/A**	6.12
Other primary sectors	0.02	0.00	0.00	0.00	-0.01	**N/A**	0.50
Processed foods	0.76	0.61	0.42	-0.10	0.14	**N/A**	3.98
Chemicals	-0.16	-0.08	-0.45	-1.74	-0.97	**N/A**	3.01
Electrical machinery	-0.31	-0.30	3.05	7.28	8.23	**N/A**	0.55
Motor vehicles	-1.04	-0.51	-0.40	-0.19	-0.24	**N/A**	2.71
Other transport equipment	-0.20	-0.16	-0.18	-0.05	-0.28	**N/A**	1.29
Other machinery	-0.18	-0.24	0.00	0.32	0.34	**N/A**	5.52
Metals and metal products	-0.09	-0.08	-0.32	-0.85	-0.68	**N/A**	3.47
Wood and paper products	0.04	0.02	-0.03	-0.17	-0.12	**N/A**	3.17
Other manufactures	0.01	-0.02	-0.22	-0.38	-0.55	**N/A**	3.55
Water transport	0.20	0.11	0.03	-0.02	-0.10	**N/A**	0.53
Air transport	-0.01	-0.01	-0.53	-0.51	-1.31	**N/A**	0.54
Finance	0.01	0.00	-0.10	-0.06	-0.26	**N/A**	2.50
Insurance	0.02	0.01	0.04	0.11	0.09	**N/A**	0.94
Business services	0.00	-0.01	-0.11	-0.11	-0.28	**N/A**	9.98
Communications	0.00	0.00	-0.03	0.01	-0.08	**N/A**	1.61
Construction	0.04	0.03	0.09	0.24	0.20	**N/A**	10.02
Personal services	0.01	0.00	-0.04	0.03	-0.11	**N/A**	2.59
Other services	0.00	0.00	0.04	0.10	0.09	**N/A**	37.42

Table 17: Percent change in employment of the higher skilled in EU by sector

			Option B: Conservative FTA		Option B: Ambitious FTA		Baseline employment shares
	For reference only: Tariff elimination without Doha	Tariff elimination with Doha	Asymmetric	Symmmetric	Asymmetric	Symmetric	
Agr forestry fisheries	0.18	0.14	0.13	0.07	0.12	**N/A**	0.55
Other primary sectors	0.02	0.00	0.00	0.00	-0.01	**N/A**	0.31
Processed foods	0.77	0.62	0.43	-0.12	0.15	**N/A**	1.77
Chemicals	-0.15	-0.07	-0.45	-1.76	-0.97	**N/A**	2.40
Electrical machinery	-0.30	-0.29	3.05	7.26	8.24	**N/A**	0.44
Motor vehicles	-1.03	-0.50	-0.39	-0.21	-0.23	**N/A**	1.48
Other transport equipment	-0.19	-0.15	-0.18	-0.07	-0.28	**N/A**	0.70
Other machinery	-0.17	-0.22	0.00	0.30	0.34	**N/A**	4.59
Metals and metal products	-0.08	-0.07	-0.31	-0.87	-0.68	**N/A**	1.60
Wood and paper products	0.06	0.03	-0.02	-0.19	-0.11	**N/A**	1.62
Other manufactures	0.02	-0.01	-0.21	-0.40	-0.54	**N/A**	1.43
Water transport	0.21	0.13	0.04	-0.05	-0.09	**N/A**	0.27
Air transport	0.01	0.00	-0.52	-0.53	-1.30	**N/A**	0.28
Finance	0.02	0.01	-0.09	-0.08	-0.25	**N/A**	4.07
Insurance	0.03	0.02	0.05	0.09	0.10	**N/A**	1.53
Business services	0.01	0.01	-0.10	-0.13	-0.28	**N/A**	16.30
Communications	0.01	0.01	-0.02	-0.01	-0.07	**N/A**	2.60
Construction	0.05	0.04	0.10	0.22	0.21	**N/A**	4.38
Personal services	0.02	0.01	-0.04	0.01	-0.11	**N/A**	4.22
Other services	0.02	0.01	0.05	0.08	0.10	**N/A**	49.44

Table 18: Percent change in employment of the lower skilled in Japa n by sector

			Option B: Conservative FTA		Option B: Ambitious FTA		
	For reference only: **Tariff elimination without Doha**	**Tariff elimination with Doha**	**Asymmetric**	**Symmmetric**	**Asymmetric**	**Symmetric**	**Baseline employmen t shares**
Agr forestry fisheries	-1.23	-0.91	-0.98	-0.98	-1.11	**N/A**	2.15
Other primary sectors	-0.15	-0.09	0.02	0.04	0.18	**N/A**	0.12
Processed foods	-3.61	-2.74	-3.30	-3.33	-4.20	**N/A**	2.03
Chemicals	**1.11**	0.59	-3.42	-3.55	-10.56	**N/A**	2.25
Electrical machinery	0.36	0.19	1.26	1.71	2.99	**N/A**	1.85
Motor vehicles	3.72	1.68	2.14	2.04	2.75	**N/A**	3.10
Other transport equipment	2.46	1.56	0.35	0.46	-0.07	**N/A**	0.53
Other machinery	0.70	1.39	4.59	4.45	10.09	**N/A**	3.74
Metals and metal products	0.04	0.09	-0.82	-0.83	-2.12	**N/A**	2.14
Wood and paper products	-0.42	-0.30	-0.55	-0.55	-0.97	**N/A**	1.89
Other manufactures	-0.47	-0.25	0.48	0.50	1.91	**N/A**	1.85
Water transport	-0.11	-0.05	0.15	0.30	0.45	**N/A**	1.20
Air transport	-0.45	-0.26	-0.41	-0.34	-0.64	**N/A**	0.34
Finance	-0.10	-0.06	-0.11	-0.11	-0.21	**N/A**	2.63
Insurance	-0.17	-0.11	-0.14	-0.14	-0.20	**N/A**	1.62
Business services	-0.06	-0.03	-0.32	-0.32	-0.80	**N/A**	8.96
Communications	-0.10	-0.06	-0.13	-0.13	-0.26	**N/A**	1.88
Construction	0.08	0.04	0.09	0.09	0.18	**N/A**	8.95
Personal services	-0.18	-0.11	-0.21	-0.21	-0.38	**N/A**	2.75
Other services	-0.11	-0.07	-0.09	-0.09	-0.14	**N/A**	50.04

Table 19: Percent change in employmei it of the higher skilled in Japan by sector

			Option B: Conservative FTA		Option B: Ambitious FTA		
	For reference only: **Tariff elimination without Doha**	**Tariff elimination with Doha**	**Asymmetric**	**Symmmetric**	**Asymmetric**	**Symmetric**	**Baseline employmen t shares**
Agr forestry fisheries	-1.24	-0.92	-0.99	-0.99	-1.12	**N/A**	0.05
Other primary sectors	-0.15	-0.10	0.01	0.03	0.17	**N/A**	0.13
Processed foods	-3.65	-2.77	-3.33	-3.36	-4.24	**N/A**	1.62
Chemicals	1.06	0.55	-3.45	-3.59	-10.60	**N/A**	2.15
Electrical machinery	0.31	0.15	1.22	1.67	2.95	**N/A**	1.86
Motor vehicles	3.67	1.64	2.10	2.00	2.70	**N/A**	3.38
Other transport equipment	2.41	1.53	0.31	0.42	-0.12	**N/A**	0.57
Other machinery	0.65	1.36	4.55	4.41	10.04	**N/A**	3.78
Metals and metal products	0.00	0.05	-0.86	-0.87	-2.16	**N/A**	2.01
Wood and paper products	-0.47	-0.33	-0.59	-0.59	-1.02	**N/A**	2.11
Other manufactures	-0.52	-0.29	0.44	0.46	1.86	**N/A**	1.35
Water transport	-0.18	-0.10	0.10	0.25	0.39	**N/A**	1.24
Air transport	-0.51	-0.31	-0.46	-0.39	-0.70	**N/A**	0.35
Finance	-0.15	-0.09	-0.15	-0.14	-0.25	**N/A**	2.94
Insurance	-0.22	-0.14	-0.18	-0.18	-0.25	**N/A**	1.81
Business services	-0.11	-0.07	-0.36	-0.36	-0.84	**N/A**	10.04
Communications	-0.15	-0.10	-0.17	-0.17	-0.30	**N/A**	2.10
Construction	0.03	0.00	0.05	0.05	0.13	**N/A**	10.62
Personal services	-0.23	-0.15	-0.25	-0.25	-0.43	**N/A**	3.08
Other services	-0.16	-0.11	-0.13	-0.13	-0.19	**N/A**	48.80

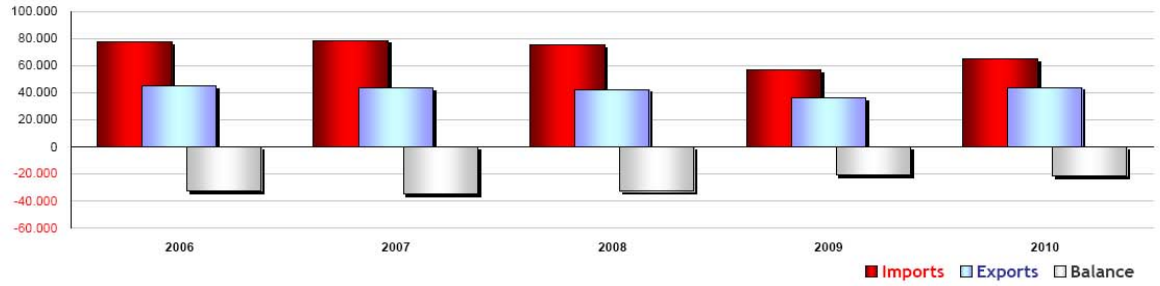
ANNEX 6

EU'S TRADE BALANCE WITH JAPAN

European Union, Trade with Japan

millions of euro, %

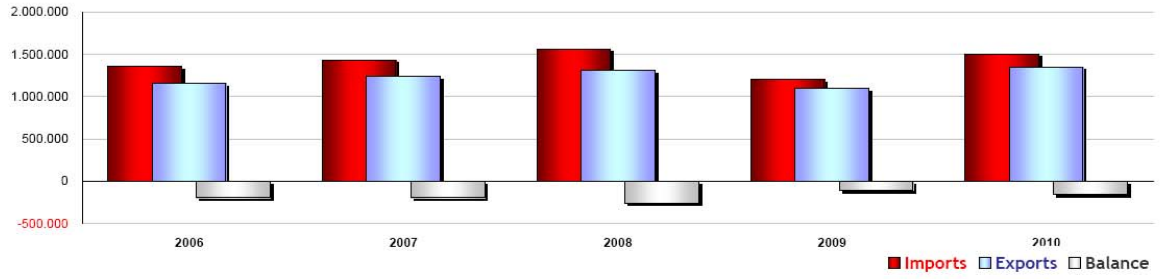
Period	Imports	Variation (%, y-o-y)	Share of total EU Imports (%)	Exports	Variation (%, y-o-y)	Share of total EU Exports (%)	Balance	Trade
2006	77.510	4,7	5,7	44.771	2,3	3,9	-32.739	122.282
2007	78.392	1,1	5,5	43.622	-2,6	3,5	-34.770	122.013
2008	75.074	-4,2	4,8	42.267	-3,1	3,2	-32.807	117.340
2009	56.738	-24,4	4,7	36.038	-14,7	3,3	-20.700	92.776
2010	64.898	14,4	4,3	43.730	21,3	3,2	-21.168	108.628
2010Q1	15.188	-	4,5	10.079	-	3,4	-5.108	25.267
2010Q2	16.355	-	4,4	10.525	-	3,1	-5.830	26.881
2010Q3	16.428	-	4,2	11.365	-	3,2	-5.062	27.793
2010Q4	16.927	-	4,2	11.760	-	3,2	-5.167	28.687
2011Q1	17.715	16,6	4,3	11.808	17,2	3,2	-5.907	29.524
2011Q2	-	-	-	-	-	-	-	-
2011Q3	-	-	-	-	-	-	-	-
2011Q4	-	-	-	-	-	-	-	-
Average annual growth (2006-2010)		-4,3			-0,6			-2,9



European Union, Trade with the World

millions of euro, %

Period	Imports	Variation (%, y-o-y)		Exports	Variation (%, y-o-y)		Balance	Trade
2006	1.352.787	14,7		1.160.101	10,2		-192.686	2.512.887
2007	1.435.015	6,1		1.240.556	6,9		-194.459	2.675.571
2008	1.566.309	9,1		1.309.885	5,6		-256.424	2.876.193
2009	1.206.475	-23,0		1.097.142	-16,2		-109.333	2.303.617
2010	1.501.844	24,5		1.348.792	22,9		-153.051	2.850.636
2010Q1	334.469	-		294.707	-		-39.762	629.176
2010Q2	374.727	-		335.897	-		-38.830	710.624
2010Q3	389.656	-		351.680	-		-37.976	741.336
2010Q4	402.992	-		366.509	-		-36.483	769.500
2011Q1	416.763	24,6		366.330	24,3		-50.433	783.093
2011Q2	-	-		-	-		-	-
2011Q3	-	-		-	-		-	-
2011Q4	-	-		-	-		-	-
Average annual growth (2006-2010)		2,6			3,8			3,2



Source: EUROSTAT (Comext, Statistical regime 4)
World excluding Intra-EU27 trade; European Union: 27 members.

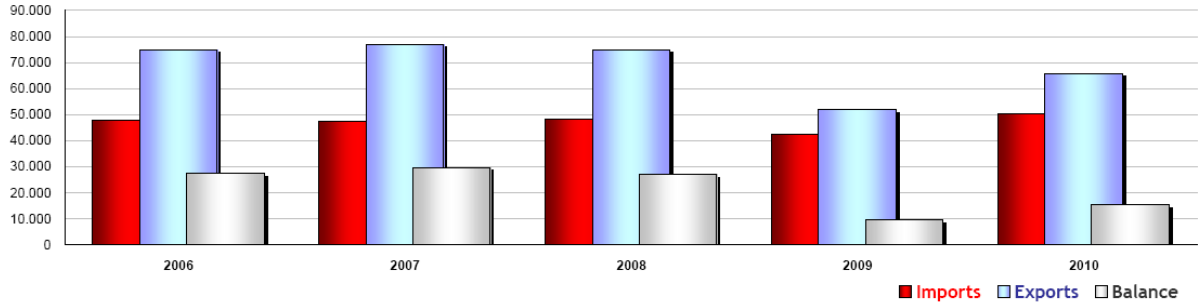
TRADE A2 - CG/MP
8-Jun-11

JAPAN'S TRADE BALANCE

JAPAN, Trade with the European Union

millions of euro, %

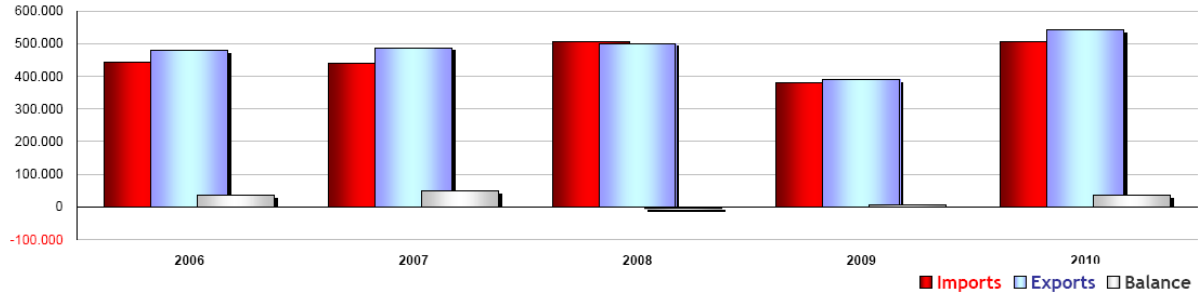
Period	Imports	Variation (%, y-o-y)	EU Share of total Imports (%)	Exports	Variation (%, y-o-y)	EU Share of total Exports (%)	Balance	Trade
2006	47.604	0,5	10,7	74.923	7,0	15,6	27.320	122.527
2007	47.472	-0,3	10,8	77.088	2,9	15,8	29.616	124.560
2008	48.105	1,3	9,5	75.009	-2,7	15,0	26.903	123.114
2009	42.412	-11,8	11,1	51.851	-30,9	13,3	9.439	94.262
2010	50.217	18,4	9,9	65.740	26,8	12,1	15.523	115.957
2010Q1	11.511	-	10,4	14.549	-	12,2	3.038	26.059
2010Q2	12.492	-	9,8	16.181	-	11,9	3.689	28.673
2010Q3	13.459	-	10,0	17.031	-	11,9	3.572	30.490
2010Q4	12.756	-	9,5	17.980	-	12,5	5.224	30.736
2011Q1	-	-	-	-	-	-	-	-
2011Q2	-	-	-	-	-	-	-	-
2011Q3	-	-	-	-	-	-	-	-
2011Q4	-	-	-	-	-	-	-	-
Average annual growth (2006-2010)		1,3			-3,2			-13,2



JAPAN, Trade with the World

millions of euro, %

Period	Imports	Variation (%, y-o-y)		Exports	Variation (%, y-o-y)		Balance	Trade
2006	444.716	11,0		479.765	8,1		35.048	924.481
2007	438.763	-1,3		487.802	1,7		49.039	926.565
2008	505.081	15,1		500.820	2,7		-4.262	1.005.901
2009	382.331	-24,3		388.823	-22,4		6.492	771.153
2010	506.826	32,6		541.976	39,4		35.150	1.048.802
2010Q1	110.953	-		119.227	-		8.274	230.180
2010Q2	126.889	-		135.538	-		8.648	262.427
2010Q3	134.269	-		143.233	-		8.963	277.502
2010Q4	134.714	-		143.979	-		9.265	278.693
2011Q1	-	-		-	-		-	-
2011Q2	-	-		-	-		-	-
2011Q3	-	-		-	-		-	-
2011Q4	-	-		-	-		-	-
Average annual growth (2006-2010)		3,3			3,1			0,1



Source: IMF (DoTS)

TRADE A2 - CG/MP
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EU TRADE WITH MAIN PARTNERS (2010)

The Major Imports Partners

Rk	Partners	Mio euro	%
	Extra EU27	1.501.843,9	100,0%
1	China	282.011,1	18,8%
2	United States	169.467,4	11,3%
3	Russia	158.384,9	10,5%
4	Switzerland	84.126,2	5,6%
5	Norway	79.179,4	5,3%
6	Japan	64.898,1	4,3%
7	Turkey	42.088,0	2,8%
8	South Korea	38.651,6	2,6%
9	India	33.147,3	2,2%
10	Brazil	32.320,4	2,2%

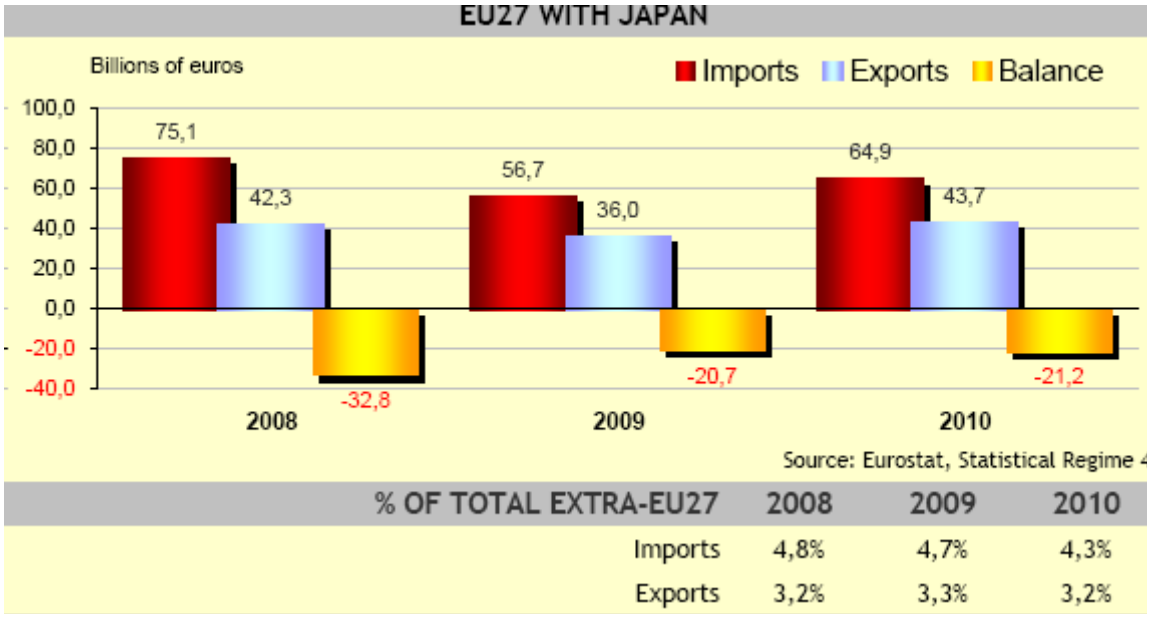
The Major Exports Partners

Rk	Partners	Mio euro	%
	Extra EU27	1.348.792,4	100,0%
1	United States	242.095,1	17,9%
2	China	113.117,7	8,4%
3	Switzerland	105.433,4	7,8%
4	Russia	86.508,8	6,4%
5	Turkey	61.189,7	4,5%
6	Japan	43.730,1	3,2%
7	Norway	41.860,2	3,1%
8	India	34.798,8	2,6%
9	Brazil	31.282,9	2,3%
10	South Korea	27.984,8	2,1%

The Major Trade Partners

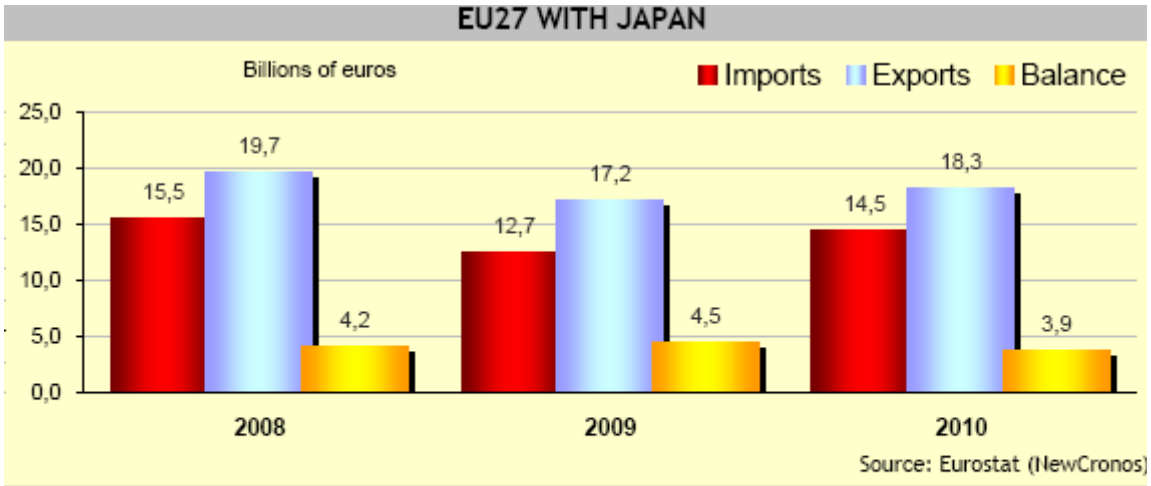
Rk	Partners	Mio euro	%
	Extra EU27	2.850.636,3	100,0%
1	United States	411.562,5	14,4%
2	China	395.128,8	13,9%
3	Russia	244.893,7	8,6%
4	Switzerland	189.559,5	6,6%
5	Norway	121.039,5	4,2%
6	Japan	108.628,2	3,8%
7	Turkey	103.277,7	3,6%
8	India	67.946,1	2,4%
9	South Korea	66.636,4	2,3%
10	Brazil	63.603,3	2,2%

EU27-Japan Trade in goods



% OF TOTAL EXTRA-EU27	2008	2009	2010
Imports	4,8%	4,7%	4,3%
Exports	3,2%	3,3%	3,2%

EU27 Trade in services (excluding 'government services')



% OF TOTAL EXTRA-EU27	2008	2009	2010
Imports	3,5%	3,1%	3,2%
Exports	3,8%	3,7%	3,5%

ANNEX 7

DIRECTORATE GENERAL FOR TRADE

EUROPEAN COMMISSION

Brussels, 17 February 2011

Summaries of contributions to the Public Consultation on: 'The future of EU Japan trade and economic relations'

This document does not present the official position of DG Trade or of the European Commission. It is designed to summarise the views of interested parties who gave comments on the future of EU Japan trade and economic relations.

The suggestions in this document in no way prejudge either the nature or the form or content of any future action by the European Commission.

1. INTRODUCTION

At the 19th Japan-EU Summit of 28 April 2010, the EU and Japan decided to establish a joint High Level Group (HLG) to identify options for strengthening all aspects of Japan-EU relations – including trade and economic aspects.

The purpose of this consultation was to gather views from all relevant stakeholders regarding the future EU-Japan trade and economic relationship.

This report summarizes the responses received during the consultation. These responses will contribute to shaping the Commission's position ahead of the next EU-Japan Summit foreseen for spring 2011.

2. THE PUBLIC CONSULTATION AND THE QUESTIONNAIRE

The public consultation ran from 9 September to 5 November 2010. The exercise was open to all stakeholders, both within the EU and in third countries. An on-line questionnaire, hosted by the European Union's Europa web site, was open to all stakeholders interested. The questionnaire had 23 questions covering a broad range. The written version of the on-line consultation is to be found at:

http://trade.ec.europa.eu/doclib/html/147585.htm

In all, 87 exploitable answers were received from a wide range of respondents. Submissions came from the authorities of Japan and a from a number of EU Member States, representative organizations, both general and sectoral, at EU, Japan and Member State level, and from private companies and other organizations.

According to the stakeholders own self-classification, around 66% are from the private sector, 7% are from government or public bodies, and around 27% from NGOs and others. The classification was chosen by the respondents themselves and does not always correspond with the usual use of these terms. Considering EU subsidiaries of Japanese corporations as 'Japanese' and representative bodies as Japanese or EU depending on the interests they represent rather than their location, the breakdown was of 66.6% (58) EU respondents and 33.3% (29) Japanese respondents.

The full list of contributors can be found at: http://trade.ec.europa.eu/doclib/html/147583.htm

The on-line consultation exercise made clear that all contributions would be published unless respondents indicated that they did not wish their contribution to be made public. Those contributions which respondents intended to be available for publication can be found at:

http://trade.ec.europa.eu/doclib/html/147584.htm

3. EXECUTIVE SUMMARY AND CONCLUSION

On the **overall future nature of the economic relationship between the European Union and Japan,** the vast majority of respondents favour strengthened trade ties. Most favour greater cooperation and economic integration by way of an agreement between the European Union and Japan in the form of an ambitious FTA, also called Economic Integration Agreement. Respondents on the EU side enter the major qualification that, before entering into negotiations, the Japanese side should show goodwill in respect of making progress on existing trade barriers.

On the **EU-Japan bilateral economic, trade and regulatory dialogues,** views vary but include a widely perceived need to reinvigorate and streamline the process.

On **tariffs and non tariff measures (NTMs),** EU respondents are concerned about standards, procedures, testing and certification, and particularly concerned on SPS issues. Both the application of international standards and mutual recognition are put forward to alleviate the difficulties in this field. Respondents' estimates of the size of potential increases in exports following the removal of NTMs varied, but in all cases were substantial. Cultural differences were recognized as creating additional hurdles, which could nonetheless usually be overcome with persistence and effort.

On **tariffs**, certain sectors such as agriculture (meat, dairy, food and drink) and leather and sports goods, cited concerns but, overall, tariffs are minor compared to NTMs. Japanese respondents are concerned about Japanese inward investment in the EU and the potentially negative effects that the EU/Korea FTA will have. Japanese respondents cited the EU/Korea FTA as the main reason in favour of an EU/Japan FTA.

On the **Mutual Recognition Agreement,** responses are varied but generally positive. Some respondents favour extension of the MRA to cover other sectors.

On **customs procedures, border enforcement and trade facilitation,** respondents support the moves already taken and favour increased EU/Japan cooperation to further simplify and accelerate customs procedures

On **Intellectual Property Rights,** Japan is generally perceived as having relatively good IPR but slow, complicated procedures (patents & trade marks), comments echoed in Japanese submissions about the EU system. A large majority of respondents favour increased cooperation to protect innovation and sustain competitiveness.

On **services,** many examples of perceived discriminatory practices are cited by EU respondents. Anti-competitive practices are also cited, with the telecoms sector given as an example. On the means to achieve progress, some respondents consider that ongoing work on services in the WTO is an appropriate forum, i.e. to address these questions under the GATS, while others favour further bilateral cooperation and possible work within an FTA.

On **investment,** EU respondents express concerns about the difficulties of investing in Japan, citing problems, inter alia, of corporate governance, anti-competitive practices, distribution chains and procurement. The low level of FDI in Japan is perceived as a direct result of dissuasive policies. Some Japanese respondents echoed the need for change in the business climate in Japan. EU respondents hold expectations that the EU should act to change this situation and encourage Japan to be more in line with international practice.

On **public procurement,** market access via public procurement is seen as the key aim for EU-Japan trade relations for a number of EU respondents. Complex procedures, an overall lack of transparency and the application of derogations from the WTO Government Procurement Agreement (e.g. on operational safety for the rail sector) are cited by EU respondents as the more important areas where they want change. EU respondents voice an expectation that the EU will ensure improvement in the current situation.

On **competition,** EU respondents evince some scepticism about the willingness of Japan to ensure a 'level playing field'. EU respondents cite difficulties concerning mergers, anti-competitive practices, and the de facto need to take a Japanese partner to tackle the business culture successfully.

On **multilateral cooperation,** respondents remain concerned about lack of progress in the DDA and call for a push by both the EU and Japan to secure an advantageous agreement, with greater cooperation between both sides.

On **sustainability,** a number of respondents favour greater coordination to integrate sustainable development into trade and economic policies but with varying ideas on how to do so.

On the **environment** the shared concerns in both the EU and Japan (of government, business and citizens) offer possibilities for cooperation and for common approaches to development of technology, etc. A number of respondents, both EU and Japanese, favour an agreement on environmental goods and services. Overall, increased cooperation in this area is considered desirable.

On the possible effect on **employment**, most EU respondents, but with some sectoral exceptions, most notably the rail and automobile sectors, consider an EU/Japan FTA would increase EU employment. Japanese respondents voice concerns about the EU/Korea FTA, and its effects on competitiveness for their industries.

On **labour and the environment,** responses broadly highlight the need for cooperation in international bodies (ILO, WTO, G8, G20, etc).

On the question of **other issues (Question 23),** respondents evoke a number of eclectic responses, including the need to develop foreign language skills, a regional cluster approach for business organizations, and the possibility that Japan accelerate the introduction of trams to open a market for EU producers.

Conclusion

The consultation exercise has provided invaluable results concerning the views of the stakeholders which responded, both in terms of overall policy options and in respect of the detailed positions concerning a number of important sectors and issues.

As such, the results provide a wealth of information to illuminate and give more focussed impetus to the considerations of the EU side of the EU/Japan High Level Group, which was charged with examining the question of improving economic and trade relations between the EU and Japan at their 2009 annual Summit.

4. RESPONSES TO THE QUESTIONNAIRE

Priorities for a forward-looking trade relationship with Japan

Question 1: What should be the objectives and priorities of the future EU- Japan trade and economic relationship? How should the EU pursue these objectives?

The majority of respondents felt that the EU and Japan should strengthen their trade ties and cooperate further on global matters following changes in the global economy and trade flows. Although cultural differences were raised in submissions, a number of respondents stressed the common values and mutual interests which are shared between the EU and Japan. In particular, both are highly developed economies with a strong focus on technology. Approximately 80% of the respondents to this question and nearly all Japanese respondents call for closer and enhanced cooperation or economic integration through an Economic Integration Agreement (EIA) which corresponds to an ambitious deep and balanced Free Trade Agreement. Several respondents stated that an FTA between the EU and Japan should not be seen as a threat but rather as an opportunity, which, through a binding legal agreement, could eliminate the many existing tariff and non-tariff trade barriers (NTBs) and as well as contributing to the Europe 2020 goals.

This broadly shared conclusion came with the significant qualification that the majority of European respondents considered that, before entering into negotiations, the Japanese authorities should demonstrate their good intentions by way of substantial progress on eliminating existing trade barriers, such as regulatory and behind the border barriers, problems with mutual recognition and transparent access to public procurement and lack of harmonisation of standards, which were all considered very important. Eliminating these barriers – together with 'red tape' – offered scope for a more open and understandable business environment where EU companies would have better market access and could be more competitive in the Japanese market.

EU respondents from the agro-food, dairy, meat, electronic communication services sectors and chemical industries were clearly positive about strengthened bilateral cooperation which could boost export. The agro-food, dairy and meat sector was of the opinion that through removal of minimum import prices, the reduction of import tariffs for dairy products and the extension of tariff-rate quotas, EU exporters would be able to increase their market share. A respondent of the networked IT services mentioned that despite many entry hurdles the large size of the market is attractive for them. Some respondents also mentioned the importance of EU and Japan working together on high technology to capture a share of the growing global market.

On the other hand the EU automotive sector did not expect any positive effects in terms of volume and growth for EU exports to Japan in the event of an EIA. A leading EU business federation was sceptical about Japan's willingness to tackle NTBs and Japanese consumer attitudes. They advocated the creation of a high-level EU-Japan Economic Partnership Council to strengthen and deepen EU-Japan relations.

EU-Japan bilateral economic, trade and regulatory dialogues

Question 2: How could the effectiveness of regulatory and trade dialogue/cooperation between EU and Japan be improved?

Respondents views diverged on the effectiveness of regulatory and trade dialogue/cooperation and on how it could be improved, varying from a perception that structures are broadly appropriate and do not need to be extended to the view that new areas of cooperation and initiatives are needed. On balance, the weight of responses is slightly toward the need for new incentives for cooperation in order to reinvigorate the process, which has so far only delivered limited commitments from the Japanese side. The main criticism from respondents was that the dialogue lacks real engagement and has delivered very limited concrete results. Several respondents suggested that its effectiveness could be improved by involving high level political and business representatives in the preparation of meetings. The latter could assist by identification of issues and giving feedback. Several replies called for less involvement of officials in the existing dialogues. One business organisation suggested that the establishment of a comprehensive and well informed network could substantially improve the effectiveness of dialogue. Several respondents stressed that the lack of tangible results is related to the absence of binding mechanisms, noting for example, the lack of progress in EU-Japan High Level Transport Dialogue on the main issue of public procurement.

Many Japanese respondents called for a wide ranging and binding EIA /FTA and political leadership to tackle the vested interests that currently hamper the conclusion of binding regulatory results. In this respect, European respondents called first and foremost for the achievement of measurable targets within the EU-Japan Regulatory Dialogue before the EU embarks on an FTA; an alternative, suggested by a few EU business organisations, was for the establishment of a high level EU Japan Economic Partnership Council that could streamline the existing dialogues and cooperation.

A number of respondents also referred to cooperation in international standards bodies such as UNECE as providing appropriate mechanisms to achieve regulatory convergence on certain standards.

Question 3: Are there any priority sectors on which regulatory cooperation should focus? If yes, please explain, including specific areas or issues to be addressed.

A large number of sectors on which regulatory cooperation should focus were put forward as "priority", reflecting the considerable number of responses by sectoral bodies promoting the interests of their own particular sector. This renders any conclusion about priorities difficult without further assessment. The main areas are covered below.

Several respondents proposed that food **and food safety (SPS)** is a high priority, with a clear focus on removing both tariff barriers and NTBs. From an EU perspective, food safety issues needing to be addressed in this way included, amongst others: the use of food additives, either added or occurring naturally, the ban on beef exports (BSE), the positive list for maximum residue levels (MRL) in the dairy sector, Japanese requirements for listeria monocytogenes and the use of gelatine for food products, for which the Japanese requirements are not in line with those of the World Health Organization. The general conclusion from the sector was that exports to Japan were burdened by food standards not in line with international standards with high conformity costs.

Cooperation in the **automotive sector** was also called for by both European and Japanese respondents, with a particular focus on high technology and the need to work together in the relevant international bodies such as UNECE WP 29, to encourage the acceleration of the adoption of a system of international Whole Vehicle Type Approval. Furthermore one European automotive sector organisation considered the UNECE 1958 Agreement, with its mutual recognition principle and approach, as being key for international harmonisation and Japan should be encouraged, in the long term, to subscribe to this approach. It was also suggested that both parties should develop a strategy to promote the 'better regulation' agenda.

Cooperation on **renewable energy/energy efficiency measures/high technology and innovation,** including smart grids technology, in the wider context of climate change and carbon dioxide mitigation also figured prominently on the list of priorities. The development of such next-generation technologies could be stimulated by the creation of shared systems, standards and benchmarks between both parties.

For **pharmaceuticals** and **medical devices** complex regulatory hurdles in Japan were noted by respondents. These included the lack of recognition of international standards for medical devices, which could eliminate costly and time consuming duplicate inspections, currently preventing easy market access. Japan's drug approval procedures are viewed as far too slow with safety measures not harmonised with international standards.

EU respondents felt that regulatory cooperation in the area of Japanese **public procurement** practices should continue as current processes were too complex and opaque, benefitting local companies to the detriment of EU competitors. The rail sector was cited as one specific example.

Other priority sectors, specific areas or issues mentioned included: high duties and tariff quotas for leather goods/shoes; the need for simplification of pork quotas; the complex regulatory hurdles in the chemical sector; IPR issues; life science and healthcare; harmonisation and mutual recognition in the areas of consumer protection and safety; the ICT sector; and the need for regulatory dialogue on existing and upcoming regulations and a pro-active approach to tackling barriers by binding regulatory guidelines, which should take account of the views of business.

Tariffs and non tariff measures (NTBs)

Question 4a: Are you concerned about regulatory hurdles in your field of activity in Japan? If yes, please specify whether they arise from, including a short description of the barrier:

a) Divergent standards

b) Technical regulations

c) Conformity assessment procedures (including technical specifications, texting and certifications)

d) SPS related barriers

e) Others (please specify)

f) If yes,how should the EU address these specific non tariff barriers with Japan?

The great majority of respondents stressed that they were concerned about regulatory hurdles in their field of activity. Divergent standards and technical regulations were the biggest concern, followed by conformity assessment procedures, including technical specifications, testing and certifications. SPS related barriers were also deemed to be a concern by a significant number of respondents. The broad sentiment of EU respondents was that Japan needed to demonstrate its goodwill by effectively addressing NTBs in the existing dialogues.

Many respondents thought the EU needed, through its existing dialogues, to promote the acceptance by Japan of internationally recognised standards, thereby ensuring Japan refrained from maintaining, and creating new, NTBs, while also to strive towards mutual recognition of each others standards and conformity assessment procedures. Currently Japan does not accept EU standards on SPS, as a result requiring expensive additional tests which result in a heavy additional burden on foreign companies.

Several respondents explicitly mentioned that major NTB problems related to language/communication, cultural problems, consumer attitudes and the lack of transparency in Japan compared to the mainstream international style of corporate governance. Addressing these **behavioural differences** was not considered an easy task and would require a long term perspective.

In addressing specific barriers respondents favoured the use of a wide variety of tools by the EU, from making better use of existing dialogues – where Japan could show its goodwill in tackling NTBs – to a more confrontational approach.

Other specific comments not mentioned above included that:

- Japan and the EU should (mutually) recognise products certified under similar product standards and harmonize regulations.
- The Commission and Member States should tackle NTMs by way of Market Access partnership/bilateral activities.
- SMEs need EU support and the EU Gateway Programme to Japan was highly appreciated.
- There should be a push for a collaborative approach between government and industry (including relevant specialists) both in the EU and Japan with a view to stimulating changes in areas of regulation, market policies and economic cooperation.
- On SPS, Japan should provide scientific evidence to support its position.
- The EU should enhance market potential for agricultural and agri-food exporters by negotiating an agreement to increase list of permitted additives through its existing dialogues and harmonisation of legislation with respect to food.
- On public procurement, Japan should adopt a system in which non Japanese firms would be authorized to participate in public tenders, the EU industry should be provided with a definition of operational safety requirements and the EU should not accept the removal of Japanese Rail from the Government Procurement Agreement without conditions.

- On automobiles, it was suggested that EU and Japan should accelerate the International Whole Vehicle Type approval and the EU should take steps to convince Japan that it should refrain from adopting new, unique, technical requirements.

- Regulatory dialogue is a good tool to support the ongoing international regulatory reform discussions being conducted within the G20.

Question 4b: If removed, do you think that there would be a significant increase of market access. If yes, could you estimate the market value of achieving better access?

A large majority of respondents considered that the removal of tariff and non-tariff measures would result in a significant improvement in access to the Japanese market. Many respondents were not in a position to give clear estimates of the increase of market value. A few respondents referred to the Copenhagen Economics study of 2010 (commissioned by the European Commission), which suggested that by removing current tariff and non-tariff measures EU exports to Japan could increase by more than 70%, with welfare gains for the EU of € 33 billion. Respondents from the EU railway, the food and drink and the agricultural products sectors all expected significant gains. Other respondents from individual Member States mentioned relatively smaller amounts to be gained from increased market access for the leather and gelatine industries. One EU based Japanese car producer estimated a 10% increase of current sales of Japanese exports to the EU due to reduced EU duties.

Question 5: In your field of activity, how significant would the remaining barriers be, for instance those related to cultural preferences and behavioural patterns (for example long-term relationship in business) that cannot be easily changed by law on a scale of 1-10?

A significant number of respondents recognized that cultural differences influenced the behaviour of consumers and the way of doing business in Japan. The extent to which such differences created significant barriers was, however, not overstressed and was generally placed in a broader context. Of those respondents which graded the issue on a scale of 1 to 10, the lowest cited was 2 and the highest 8. Japanese consumers were considered rather conservative vis-à-vis new products. They also usually demand high quality and good after-sales services (bearing additional costs) and often have strong preferences for traditional local food products.

A few respondents, however, pointed to evolving consumer preferences, and to the possibility of influencing them by a careful and patient approach. The successes of IKEA, Zara and H&M in Japan were cited as examples. One respondent felt that the relative new 'openness' of Japanese consumers is creating new opportunities for the export of EU food and drink products to Japan. The conduct of business is also strongly related to behavioural patterns, with reliance, trust and informal contacts considered prerequisites for long-term business relations. A respondent from the pharmaceutical sector mentioned that loyalty, patience and continuous cooperation are key elements for success in their sector.

The inherent complexity of government procurement is considered to favour local suppliers. Moreover, it was felt that smooth communication is difficult with Japanese authorities. One EU business organisation considered that a change of societal mindset and openness rather than a legal agreement were key factors in addressing cultural and behavioural barriers to doing business in Japan.

Question 6: Are you concerned by tariffs or measures of equivalent effect in your field of activity? If yes, do the tariffs affect your ability to export?

Two-thirds of EU respondents to the question were concerned by tariffs or measures of equivalent effect in their field of activity; while one-third were not. The overwhelming majority of Japanese respondents did express concerns.

Many European respondents who explained their concerns in greater detail, complained about

- the loss of market share **(e.g. agricultural products**),
- a risk of future market loss where market access derived from temporary measures **(e.g. the tobacco industry**),
- Japan's import duties on **industrial raw materials** which eventually result in cost advantages for Japanese operators and deprive EU operators of valuable export possibilities.

The **agricultural, dairy and food and beverage sectors** noted that they would profit from further liberalisation of trade (decrease of import tariffs and expansion of tariff-rate quotas) between the parties. Japanese citizens show strong interest in European food but import tariffs, transport costs and red tape often make imports of these products into Japan expensive and complex. Of specific concern in the **meat sector** is the minimum import price system operated by the Japanese which stimulates exports of top products to the detriment of less expensive products. Duties for the **leather sector** remain high, which makes the Japanese market unattractive to investors. Furthermore, **sports articles** were mentioned as potential beneficiaries from tariff reductions.

Whilst some respondents were concerned by tariffs and called for elimination of the remaining tariff barriers, their major concern remained NTMs. This was particularly the case of respondents from the **chemical and pharmaceutical** sectors.

Most of the **input from Japanese companies and business organisations** points in the same direction. Most respondents highlight the importance of inbound Japanese FDI in the EU which has resulted in many leading Japanese companies operating in Europe with corresponding creation of employment for European citizens. Many Japanese respondents were afraid that the recently signed FTA between the EU and Korea would, through comparatively lower tariffs for Korean imports, place Japanese companies at a competitive disadvantages vis-à-vis their Korean counterparts. This development might ultimately lead to a decrease of Japanese investments and the scaling down of their production facilities, or even a retreat from the EU market. Japanese respondents considered that it was crucial to have an FTA in place to avoid such a scenario.

Japanese respondents also commented that some specific EU tariffs should be eliminated, such as those on passenger cars and home appliances, certain agrochemical products, parts and components.

Mutual Recognition Agreement

Question 7: Do you consider that this Agreement has been successful in facilitating market access and promoting trade between the EU and Japan in the sectors covered:

Ttelecommunicationss terminal and radio equipment, Electrical products, Good Laboratory Practices for chemicals and Good Manufacturing Practices for pharmaceuticals?

This question received a number of varied responses. The majority of these respondents (including one Japanese and an EU/Japanese company) considered the agreement as being successful in facilitating market access and promoting trade between the EU and Japan in all sectors which were mentioned. On the other hand, two EU business organisations and one EU company were broadly negative about the agreement; one respondent (a ministry of an EU Member State) was negative about the electrical products and Good Laboratory Practices for chemicals sectors; and a technology company was negative about the scope of coverage for electrical equipment.

Question 8: Should the scope of the agreement be extended to other sectors? If so, to which sectors?

A large majority of responses to this question wanted the scope of the agreement to be extended to other sectors. The sectors expressing major interest in extension of the scope of the agreement put forward a number of issues which included:

- food products /food additives,
- SPS issues (including meat and the animal heath sector),
- professional qualifications (universities and schools, culture, rules in the field of internal control and corporate responsibility),
- pharmaceuticals.

Respondents in others sectors in favour of extension of scope included: high technology products, toys and children products, cosmetics, leather, agricultural products, healthcare, whisky & EU spirit drinks with GIs and tests necessary for chemical registration.

Some EU and Japanese respondents called for a better use of the existing MRAs by involving both governments in a review process, with a view to identifying ways to improve the use of the current agreement. A leading EU chemical company mentioned the need for greater mutual recognition of tests necessary for the registration of products/substances. A leading pharmaceutical company called for regulatory harmonization and extension of the MRA, to avoid double inspections of manufacturing facilities, and for the establishment of more competitive pricing systems to promote innovation.

In the area of professional qualifications, a joint EU/Japanese company suggested the establishment of a program to develop procedures and management organisation models, with a view to improving business relationships.

Customs procedures, border enforcement and trade facilitation

Question 9: Should the EU increase cooperation with Japan with a view to further simplifying and accelerating customs procedures? If yes, what should be the EU priorities for the years to come?

A large majority of respondents favour increasing the cooperation between the EU and Japan, with a view to further simplifying and accelerating customs procedures.

Equally, a large majority of respondents were positive about recent steps taken to simplify and facilitate custom procedures. Particular mention was made of the cost-saving mutual recognition of Authorised Economic Operators (AEO) and the secure shipper programme. These were welcomed as steps forward, which should be followed by swift implementation and adequate reviews when appropriate. Many respondents also saw scope for enhanced cooperation and further simplified custom procedures, where the complex administrative burden for businesses (documentation and information) could be substantially reduced between both parties. Thus respondents felt that the EU and Japan should introduce transparent and equivalent customs classifications and procedures. It was noted that the agro-food sector is hampered by complex border procedures (customs valuation, classification and clearance) unnecessary product specific custom procedures and (SPS) controls and testing requirements which impede trade and imposes costs and delays on food exporters.

On the question of how to enhance cooperation between the EU and Japan, several Japanese respondents called for better and more efficient cooperation between customs authorities through consultation mechanisms in which changes in the respective legislation could be discussed, or the establishment of a Joint Customs Committee which should for example involve ICT business organisations in the EU.

Another Japanese respondent called for the creation of an environment for customs procedures that is in accordance with the Customs Guideline on Advance Cargo Information. The classification of IT products appeared to be a major concern for several respondents. In this regard an EU respondent from the IT sector suggested that trade should be facilitated by introducing a system of advance ruling by both customs authorities prior to the import of goods into its territory. An EU business organisation called for more action to counter the import of counterfeit goods and for IPR right holders to be exempt from inspection of goods in person, proposing instead the use of electronic means. A few EU respondents mentioned difficulties encountered for imports into the EU, for instance discrepancy of views with custom authorities about the definition of goods and the inconsistency in implementation of EU Member States' procedures.

Protection of Intellectual Property Rights (IPR)

Question 10: Are you concerned by problems of protection and enforcement of IPR in Japan in your field of activity? If yes, please explain, including specific areas or issues to be addressed.

Just over half of the respondents were **not** concerned by problems of protection and enforcement of IPR in Japan in their field of activity. Of those who did raise concerns several called for increased cooperation and improvement, including harmonization, of the patent application and examination system, which is considered far too lengthy. The current examination period of 6-10 years should be substantially reduced. A leading EU pharmaceutical company mentioned that Japanese Patent Law makes strict requirements regarding disclosure in order to ensure the implementation of patents. They further complained that claims by the complainant are not sufficiently heard in courts, and that the Japanese sub-classification system for trademarks is rather complex, and the grounds for refusal by the Japanese Trade Mark Office are difficult to understand for foreign applicants.

Furthermore, the practice concerning the co-existence of similar, pre-existing trade marks in Japan was raised as a cause for concern.

On the other hand, a Japanese business organisation called for improvement of the patent application systems in the EU; the European Patent Office (EPO) was considered as being slow. This business organisation expressed its hope that the Patent Prosecution Highway, launched by EPO and its Japanese counterpart, will reduce examination times, improve examination quality and ensure the stability of rights which can be obtained.

A few EU business organisations mentioned the importance they attach to design protection (even before the official registration). However, the procedures for applying IPR protection for their designs were viewed as being too complex and expensive and it was felt that EU companies do not enjoy the same level of protection as in the EU and other markets. An EU government respondent argued for the longer protection for certain drugs: the current limit of 8 years should be extended by an additional year. A respondent from the audiovisual sector pleaded strongly for action to address piracy issues. The needs of right holders must be addressed in order to maintain high levels of investment in the production of original content, as well as the level of employment.

Some respondents underlined the need to protect and enforce IPR across the EU and in 'BRICs' countries in order to remain competitive in global markets. In this respect a joint EU-Japan Legal Defence Force could act together in areas of chemicals, fashion and design.

Question 11: Should the EU increase cooperation with Japan with a view to improving the protection and enforcement of certain intellectual property rights? If yes, what should be the EU priorities for the years to come?

A large majority responded that the EU should increase its cooperation with Japan to protect innovative capacity and maintaining competitiveness. The priorities identified for the years to come included strong and effective cooperation on patents and a new common international framework for IPR enforcement and protection in third countries ('BRIC'). Implementation of the recently concluded ACTA agreements was mentioned by several respondents as a tool for cooperation in the fight against global counterfeiting, IPR infringements and piracy.

Since at national levels both the EU and Japan have similar system for protection and enforcement of IPR, they should aim for the adoption of the highest standards in their domestic legislation. EU business organisations called for a specific EU-Japan agreement which should cover identical protection for IP right-owners in both markets, the guarantee of mutual recognition of GIs, copyrights and patent protection and licensing systems. Moreover, they call for the creation of common rules and principles for penalties applying to counterfeiting and patent infringements on the Internet and mobile auction sites, the fostering of an enhanced cooperation between patent offices, and the establishment of improvements to the functioning of the Patent Cooperation Treaty.

One business organisation from the ICT sector was concerned about counterfeiting and security problems related to ICT products. An EU producers' organization called for a strong policy against piracy through a whole range of measures such as raising awareness, enhancing cooperation and increasing responsibility of Internet Service providers, as well as through the creation of new business models.

Japanese business organisations broadly shared the same priorities but thought in addition that:

- the EU should review its private copying system in the light of progress made in digital rights management technologies (DRM),
- a single language and window system for patent applications should be introduced; and,
- both parties should mutually recognize patents and conduct faster patent examinations, and improve methods for copyright utilization and levy reduction and elimination.

Trade in services

Question 12: Are you concerned by barriers to trade in services in your field of activity? If yes, which ones? Please clarify whether:

a) They affect your ability to establish physical outlets in the country and supply services through these outlets

b) They discriminate in favour of domestic service suppliers

c) They affect the price of the services you provide

d) They have other restrictive impacts (please specify)

Responses to this question were almost equally divided between 'yes' and 'no'. Most of the EU respondents concerned by barriers to trade in their field of activity felt discriminated against in favour of domestic service suppliers. Providing services in Japan were seen as generally fraught with restrictions, inefficiencies, delays and procedures. Local authorities were considered as imposing further procedures and/or their own interpretation of regulations. Discriminatory rules vis-à-vis foreigners and/or the preferential treatment of local service providers were perceived as in being in breach of WTO commitments under the General Agreement on Trade in Services (GATS). Attractive markets such as the Japanese telecoms market were seen as remaining closed to EU investors because of the anti-competitive behaviour of dominant players. For electronic communications services, the key areas of concern were the definition of electronic communication services, the inclusion of virtual private networks, and the independence of the regulator. The air services sector was considered to be heavily regulated with more liberalisation required.

Examples of discriminatory behaviour cited included:

- Japanese law firms control access to their organisations and have in the past obstructed or delayed applications to them, restricting the provision of legal services;
- Opening of retail outlets by foreign companies is discouraged by local authority regulations as far as possible. Opportunities to streamline the Large Scale Retail Location Law, together with the Building Permit and Environmental Impact Assessment procedures have not been taken. As a result local governments had

imposed their own procedures, adding to investment costs and increasing uncertainties and risks for foreign companies;

- A technology company raised the need to provide all promotional material in clear Japanese with concrete examples following all rules and restrictions;

- A few Japanese companies control the distribution channels, so that working closely together with a local operator is a prerequisite for success;

- Japan Post, which is also the biggest bank and life-insurance company, controls 40% of the market and receives a wide range of advantages;

Among barriers that have other restrictive impacts, an EU business organisation referred to the problems service providers encounter in obtaining work permits. These administrative burdens impose substantial limitations on the timely delivery of the right services by the most qualified staff, with potential loss of market share. Furthermore, it is not possible to offer export services in Japan without a physical presence in the country. A Japanese business organisation mentioned, with regard to this barrier, that the Personal Information Protection Law is not recognised as equivalent to the EU Directive on protection of personal data. Therefore companies operating in the EU and Japan have to comply with both sets of laws and regulations or refrain from sending personal data from the EU to Japan.

Question 13: How should the EU address these restrictions to trade in services with Japan?

Several EU respondents wanted to address the barriers to trade in services within the existing multilateral WTO negotiations, insisting that Japan should adhere to its GATS commitments. An EU business organisation, recognizing that Japan had made a revised offer in the Doha Services negotiations, considered that Japan was willing to make more ambitious commitments. Other respondents incited the EU to exercise pressure in the various existing dialogues, or through a free trade agreement. One EU Member State respondent made it clear that any further integration of the two economies was bound to include progress in the services sector.

Finally, a few EU respondents offered practical ways to address restrictions, for example by:

- promoting English language skills;

- increasing EU knowledge of Japanese consumer attitudes and preferences;

- providing EU companies interested in investing in Japan (and in particular SMEs) with market opening advice and assistance.

Investment

Question 14a: Are you concerned by barriers to direct investment in your field of activity? If yes, what are the barriers to investment?

A majority of respondents indicated concerns about barriers to direct investment in their field of activity.

Many EU respondents raised the Japanese way of doing business, with its style of corporate governance substantially divergent from international standards, language barriers, and in particular the absence of any substantial encouragement for foreign investors. EU respondents cited anti-competitive behaviour by dominant players, strict employment regulations and competition rules, a high overall cost structure for market entry/exit and exclusive buyer-supplier networks, as among the factors hindering FDI. EU respondents were critical of a business culture with so many institutional as well as informal barriers, e.g. excessive administrative and regulatory practices and policies, applying to investment, foreign takeovers, mergers and acquisitions, and concerning public procurement. The low level of inbound FDI was seen as the direct result of a de facto policy to discourage foreign investors.

EU respondents mentioned a number of other barriers, such as high establishment costs, derived in part from the strict application of rules for inward investors, as compared to their Japanese competitors. One Member State thought that an important formal restriction is the high number of sectors which are subject to national scrutiny and which require notification. An EU business organisation called for either the negotiation of an Investment Agreement, as opposed to an FTA, or for strong bilateral investment rules as part of any future framework. It was felt in particular that the Japanese triangular merger and acquisition rules remain complex and should be revised in order to provide greater legal certainty for companies operating in the EU and Japan.

With regard to labour rights one NGO called for the reduction of investments barriers which would facilitate the sustained development of important markets in order to create jobs, and suggested that in any discussion about FDI workers rights and the protection of existing terms and conditions should be considered.

Another business organisation stressed that the complex business environment, and the costs related to completing transactions, encourages investors to invest in emerging markets rather than in Japan. Public markets – such as the rail sector – are also considered to be relatively closed to EU competitors.

The few Japanese respondents to this question recognised that changes are needed to the current Japanese business climate and that facilitation is required to help foreign companies investing in Japan, especially as regards clarifying the restrictions on foreign ownership. They called for an EIA to provide legally binding common rules, and transparency as a way to resolve many of the outstanding problems. Finally, a Europe-based Japanese company voiced the perception that frequent changes in regulations in several EU countries create a lot of confusion for Japanese companies.

Question 14b: Do you consider that there is a need for the EU to contribute to facilitating EU direct investment in Japan? If yes which avenues should the EU pursue?

A large majority of EU respondents confirmed that they expect the EU to facilitate direct investment in Japan, while a minority saw no specific need for the EU to be proactive. In terms of how to foster the investment climate, the views expressed were rather divergent. Several respondents called for Japan to move in the direction of the mainstream of the international business environment and thus be more open transparent and predictable.

One avenue to facilitate the investment climate mentioned several times by respondents was to negotiate a bilateral investment agreement, covering all sectors of business; it was felt that this would provide legal certainty on both sides with a view to promoting cooperation on trade

and investment. Similar mention was given to the conclusion of an FTA – covering also bilateral investment – whereby investors could benefit from commitments on market access and investment on a transparent and non-discriminatory basis.

Respondents also mentioned: the use of the Market Access Partnership, the sharing of success stories on inbound investments into Japan and the setting-up of joint ventures in certain sectors (such as the rail market) as the only opportunity to enter the Japanese market. Finally, one NGO called for the removal of laws which are not enforced and the easing of laws which are too favourable to employees and which make the labour market rather rigid.

Public procurement

Question 15: Are you concerned by restrictions in public procurement in your field of activity? If yes, what strategy should the EU develop to open up Japan's public procurement market?

A number of EU respondents were not concerned by restrictions in public procurement in their field of activity. However, for the majority, access to Japanese market in the area of public procurement was a key element. These EU respondents urged the EU to take steps to ensure an appropriate enabling environment for reciprocal market access for procurement, where equal treatment of foreign and domestic suppliers is guaranteed. Currently, access for European companies to government procurement in Japan was considered greatly restricted by

- a significant number of complex procedures,
- derogations of WTO Government Procurement Agreement (such as the specific 'operational safety' clause which allows Japan to close its lucrative rail sector to EU competitors); and,
- lack of transparency and information.

Respondents also highlighted the need for standardisation and harmonisation of procurement procedures, and to avoid perceived abuse of technical specifications to benefit Japanese suppliers.

Among more general concerns about the public procurement market in Japan, one respondent stressed that the EU should make effective use of trade instruments and reciprocity measures in order to convince Japan to open its lucrative rail transport market.

Japanese respondents also called for more transparency, including by the creation of a virtual single access point, and the adoption of provisions exceeding those of the WTO GPA, such as lowering the threshold for the contracts to which the agreement applied and for simplified procedures.

In sum, the responses of many business organisations and companies militated in favour of the EU fostering a policy aimed at increasing transparency, and openness, simplifying procedures and promoting a better information exchange.

Competition issues

Question 16a: Are there fields (anti-trust / mergers / liberalisation / state aid) where the EU should seek to increase cooperation with Japan with a view to pushing for the removal of non-tariff barriers in Japan?

Of the responses, increased cooperation in the field of mergers was the most highlighted, followed by liberalisation, state aid and finally anti-trust, although a number of respondents were against increased cooperation on anti-trust issues.

Question 16b: What should the EU priorities be for the years to come?

Broadly speaking, a significant proportion of EU respondents doubted Japan's willingness to ensure a level playing field for EU business through enforcement of agreements, equal treatment in the development and implementation of competition law, and in the opening of markets to allow EU companies the same opportunities to gain market share as domestic competitors. In particular, the EU was urged to give special attention to difficulties related to mergers and acquisitions that EU companies encounter. Japanese exclusive buyer-supplier networks, together with alliances by some business groups, limit competition from foreign firms and prevent competitive best practices advocated by non-domestic companies. It was considered very difficult to enter the Japanese market without support from a Japanese partner with the necessary proper understanding both of the market and of the business culture.

The EU was called upon by several respondents to foster a common understanding on both sides on anti-trust issues, by cooperation between the antitrust authorities of the EU and Japan. One respondent strongly called on the EU to press the Japanese government to remove measures that protect their domestic rail market, a policy that was considered as equivalent to state aid.

Multilateral cooperation

Question 17: Do you find the results of the EU-Japan multilateral cooperation in these policy areas to be: very good; satisfactory or insufficient. If insufficient please indicate why.

Nearly two-thirds of respondents deemed EU-Japan cooperation in these policy areas as insufficient, although not all gave reasons. Around one-third of respondents deemed the multilateral cooperation as satisfactory.

Of those who found co-operation insufficient, several were disappointed and/or concerned by the lack of progress on the DDA to date, although respondents still hope that a positive outcome is feasible. Respondents perceived the progress made in multilateral cooperation by both parties as too little and possibly too late, in view of the shift in focus in the global economy towards emerging countries. The rise of the latter – at least in part – explained the decline of mutual interest in improving multilateral cooperation. Nevertheless, a few respondents encouraged both parties, which share common views on a number of issues, to take a more active role in the DDA negotiations and to find a compromise, which could incite the USA, emerging and developing countries to move forward.

Question 18: In which ways could EU-Japan multilateral cooperation be enhanced in the coming years?

A large number of respondents (both EU and Japanese) encouraged the EU and Japan, in the context of current global downturn, to cooperate and push for an ambitious outcome of the DDA negotiations, in which key emerging countries would make market access concessions, according to their level of economic development. Both parties should strive towards the successful conclusion of negotiations. It was suggested that such a multilateral cooperation initiative could strengthen the influence of the two parties in international fora. In the context of NAMA, respondents felt it important that the EU and Japan should cooperate for a successful outcome in the electronics sector negotiations and conclude an environmental goods and services agreement (EGSA). In the context of the WTO, some respondents called for restricting or prohibiting the use of export taxes, and for barriers to access to raw materials also to be addressed.

Japanese respondents, in particular, suggested the reduction and/or elimination of tariffs on environmental goods in the context of the WTO/DDA; this was considered essential for promoting trade and investment in environmental goods, including goods with high energy efficiency and high energy saving characteristics. The two sides should work together and with other countries in order to promote a sustainable society. In the context of the WTO, cooperation for the enhancement of existing Dispute Settlement system was favoured.

Japanese respondents also favoured a possible review of the Information Technology Agreement (ITA), cooperation on a common classification for information technology products, and called for a bilateral effort to secure global supply–chains and production networks free from trade and investment barriers. Furthermore, a Japanese automotive company and a business organisation stressed the importance of common action in support of the International Whole Vehicle Type Approval (IWVTA) which would foster international harmonisation efforts with regard to automotive technical regulations, as well as enhance vehicle safety and environmental performance.

Finally, several respondents favoured an EIA as a stepping stone for scrutinizing issues shared in common and, as a next step, exploring the possibility of joint actions. Others perceived enhanced cooperation (or an EIA) as a possible driving force to push for the completion of the Doha round.

Sustainability

Question 19: How could the EU and Japan seek to better integrate sustainable development considerations in their discussions on the various topics relevant to their trade and economic relations, from trade in natural resources to technical regulations and standards for goods and from investment to government procurement, among other issues?

A number of respondents thought it important that the EU and Japan should integrate sustainable development considerations in their discussions of trade and economic topics. Several respondents commented that more could be done to determine a common approach. Some respondents found it equally important to encourage such co-operation toward the conclusion of an agreement on environmental goods and services (EGSA). Many respondents felt that increased cooperation in this field should produce a shift towards sustainable production processes resulting in a tangible environmental improvement, including a reduction of CO2 emissions.

On how the two parties should co-operate, the views of the respondents diverged. The chemical sector considered itself a key driver in the process of sustainable development and called for further support of the sector to achieve its environmental goals. Business organisations called for an enhanced cooperation aimed at removing NTMs and the remaining tariffs to produce a more liberal business climate for goods and services, thus contributing to environmental improvements worldwide. A few respondents sought the negotiation of harmonised environmental regulations and standards, including alignment of recycling regulations and energy efficiency standards.

Respondents also called on the EU and Japan to cooperate in providing necessary technological support to countries which export raw materials in order to promote greater efficiency and redress environmental problems related to the extraction of raw materials. One EU NGO suggested the incorporation of environmental considerations in procurement contracts.

Clean technologies and clean industrial processes, energy efficiency, renewable energy, water and waste management, new generation of bio fuels, electric vehicles and ICT technologies were all cited as areas for potential future cooperation.

Question 20: What are the likely environmental effects – both positive and negative – that you expect to emerge in the context of an enhanced EU-Japan Trade Cooperation? Which issues would require specific attention?

Responses showed that the EU and Japan, at the level of government, citizens and business, shared common concerns about regional and global environmental issues. This wide public support for sustainable development has incited both governments and business to tackle mounting environmental problems. The widespread acceptance and use of advanced environment-friendly technologies (green technologies) increased energy efficiency and dissemination of good practices has made the two parties global leaders in this important business segment. Nearly all respondents thought that the two parties should work together on the subject of innovative capacity building. A harmonized approach to tackling environmental problems and joint research and cooperation to develop and share state of the art technology could offer attractive opportunities for EU and Japanese business and contribute to the achievement of environmental goals. A majority of Japanese respondents called for expanded cooperation targeted at saving resources and the efficient disposal of waste. Enhanced cooperation was seen as potentially offering consumers a wide choice of environmental products, such as next-generation vehicles, at competitive prices.

Several suggestions were made as to how to achieve these goals. Most Japanese and some European respondents called for the conclusion of an agreement on environmental goods and services (EGSA), including energy efficient products, which would liberalize trade in these goods and services. The legally binding nature of an EU-Japan EIA was seen as providing an opportunity for regulatory cooperation on environmental impact assessment standards, aimed at reducing carbon dioxide emissions. Some EU business organisations suggested common standards and industry cooperation to advance these technologies and to create bigger markets for them. No negative environmental effects in the context of an enhanced EU-Japan Trade Cooperation were mentioned.

With regard to which issues would require specific attention, the following were brought forward:

- Dissemination of good practices and development of innovative technology to reduce greenhouse gases.
- Building systems with an eco-friendly focus and faster implementation of eco-friendly measures and technologies.
- Research on renewable source energy.
- Efficient use of energy in business and transport.

Question 21: In your field of activity, do you think that the employment situation in the EU could be affected, positively or negatively in the context of an enhanced EU-Japan Trade Cooperation?

The majority of respondents who either provided services or produced goods considered that enhanced EU-Japan trade cooperation would have a positive impact on employment in the EU. Several respondents mentioned that better cooperation on trade matters would result in more open and competitive markets, creating new opportunities for EU business. Public and cultural organisations predicted an increase in collaboration and flows of students, teachers and staff between universities and new working areas for experts. A respondent in the legal advice sector expected that an increase in mergers could improve efficiency in Japanese companies and lead to higher growth and employment rates, and also foster the use of Japanese IP and services abroad.

On trade in goods a few distinctions among the groups of respondents could be made. **The EU agriculture-food sector and the food and drink manufacturing industries**, which are among the biggest EU's employers, had high expectations of a future FTA, in particular if such an agreement would be similar to the FTA concluded between the EU and Korea. An FTA would ensure that European farmers could profit from a level playing field in relation to equivalent production standards. One respondent called for the lifting of the ban on certain raw materials which affects the competitiveness of the EU gelatine industry. The **food and drink sector** was very positive about the likely impact across Europe on employment. An EU business organization was positive about enhanced cooperation between the **information technology, consumer electronics and telecommunication sectors**, in that it could mean that parts and components imported for EU manufacture would be available at lower prices increasing the competitiveness of this sector; on the other hand market access would also be facilitated. Both factors should lead to a positive increase in employment. The EU **textile sector** was equally positive. Enhanced cooperation was judged as being positive in terms of better market access and the elimination of trade and investment hurdles which could then lead to increased employment in the EU.

However, not all sectors were positive. The business organisation for **railway suppliers** voiced its concerns that the current imbalance in EU-Japan trade relations results in job losses in the EU rail industry. Even more outspoken was the **EU automotive business organisation,** which commented that an EIA/FTA would have negative effects on employment in the EU's automotive industry.

All **Japanese respondents**, and in particular those in the **automobile sector and the IT and electronics sectors,** voiced concern about the recently concluded FTA between the EU and Korea. Members of a Japanese business organisation were seriously concerned about the negative impact the EU-Korea FTA would have on the competitiveness of their members.

Furthermore, business organisations stressed the role Japan has played in the EU in creating jobs and in respect of inbound FDI. High tariffs on car parts and components will influence the competitiveness of Japanese producers and in due course could have a negative impact on local production and employment. However, this situation could be reversed, also in terms of positive development of employment in the EU, through the conclusion of an EIA. Such a conclusion would create a level playing field for Japanese companies.

Question 22: Given the importance of commitments on labour rights and environmental protection as underlying elements for international economic relations, how could the EU and Japan cooperate to further promote adherence to internationally recognised principles, rights and agreements on labour and environment?

Several respondents mentioned that both parties should cooperate in the framework of existing international organizations such as the ILO, WTO, G8 and G20 and also exchange information in bilateral meetings on a regular basis. Where Japan is not yet a member of an international institution, the EU should promote participation. Other respondents called for the inclusion of a mechanism to address environmental issues in negotiations for a bilateral agreement (EIA), based on the example of the EU-Korea FTA agreement. Such negotiations could further enhance understanding and encourage both parties to move forward their current cooperation on these issues. One NGO stressed that the focus should be more on environmental issues than on labour (as they felt that labour rights had gone too far in the EU and Japan). The respondent mentioned that both countries have the right attitude and track record on environmental issues and should be able to co-operate and share best practices with each other.

Finally, a number of respondents put forward the need for a less restrictive application of immigration rules and the easing of visa restrictions.

Other issues

Question 23: If there any other issues that are not mentioned in this questionnaire that you would like to address, please use the space below to set them out?

Many respondents took the opportunity to underline their responses to earlier questions. A number also raised self standing issues which are set out below.

Firstly, one NGO emphasized the need for Japanese to invest in learning foreign languages with a focus on further developing their English communication skills.

Secondly, an EU respondent mentioned the impact of exchange rate fluctuations on trade relations as well as the current state of Japan‘s economy. Its economic stagnation and deflation restricts internal demand and the EU’s perspective to export to Japan.

Thirdly, a Japanese business organisation called on both parties to invest in forming international regional clusters, as already applied in several business sectors with positive results. Best practices should be collected and disseminated to achieve cooperation on other fronts.

Fourthly, an EU company stressed that from a safety point of view, trade restrictions for processed agricultural products should be treated differently according to their risk status and trade policy should take this difference in risk assessment into account.

Fifthly, an EU company mentioned that Japan should accelerate its programme of tramway development, with the possibility for EU manufacturers to have access to this market.

An EU business organisation in the automotive sector raised its concern about the coming into effect of the Japan-ASEAN FTA in 2015 and its possible negative effects on the EU's competitiveness in the automotive sector.

Finally, a few EU business organisations reiterated the importance they attach to addressing, at international level, worldwide barriers hampering the liberalisation of trade. In particular, mention was made of issues relating to the supply of raw materials and the removal of export taxes and other forms of trade or investment restrictions imposed by foreign governments.