



EUROPEAN BUSINESS COUNCIL IN JAPAN  
THE EUROPEAN (EU) CHAMBER OF COMMERCE IN JAPAN

## Message to the EU-Japan Summit, 28 April 2010

### The Future of EU-Japan Relations

#### Recommendations from The European Business Council in Japan (EBC) The European (EU) Chamber of Commerce in Japan

As the EU and Japan meet on 28 April 2010, against a background of weak economic growth, high unemployment and fierce competition, the good news is that there is huge untapped potential in the EU-Japan trade relationship. Most recently, a study by Copenhagen Economics for the European Commission has suggested that removing current tariffs and non-tariff measures could increase EU exports to Japan by more than 70% and Japanese exports to the EU by more than 60%. Moreover, welfare gains of 33 billion euro for the EU and 18 billion euro for Japan could also be achieved.<sup>1</sup> In the current economic climate, such potential should not be ignored: the question can only be how best to realise it.

#### **The EU-Japan Trade Relationship: a study in untapped potential**

The EU and Japan are, respectively, the largest and third largest economies in the world, with the EU accounting for 33% of world GDP and Japan for 11%. Moreover the EU is responsible for some 17% of world trade and Japan for 6%.<sup>2</sup> It follows that whatever happens in their individual economies has wide ramifications for the world as a whole.

The bilateral trade relationship between the EU and Japan is significant for both economies: Japan ranks fourth among the EU's import partners and fifth among its export destinations. For Japan, the EU ranks third both as a source of imports and as a destination for exports.

The trade simulations of the Copenhagen Economics study show that, if the EU and Japan were to work together to eliminate tariffs, EU exports to Japan could increase by up to 23% and Japan's exports to the EU could increase by nearly 30%. By reducing non-tariff measures to the fullest possible extent, EU exports to Japan could increase by almost an additional 50% and Japan's exports to the EU could rise by up to an additional 32%.

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<sup>1</sup> Copenhagen Economics, "Assessment of barriers to trade and investment between the EU and Japan", November 2009

<sup>2</sup> Source: Copenhagen Economics / Eurostat

Clearly, eliminating both non-tariff measures and tariffs is vital to any serious attempt to boost EU-Japan trade. Moreover, the survey shows that among non-tariff measures, the biggest obstacles to developing business are:<sup>3</sup>

- the regulatory environment;
- standards and conformity assessments, which increase the complexity and uncertainty of doing business and generate costs;
- quantity control measures as well as pricing and reimbursement rules.

The fact that, as a result, two-thirds of firms reduce the variety of goods they supply to the Japanese market and, in some cases, must charge higher prices, has a huge impact on their own sales volumes, on the EU's overall export performance, on the level of foreign direct investment in Japan, on the vibrancy of the Japanese market and on the choice offered to Japanese consumers.

Beyond these issues, the study assessed the maximum potential for opening up the Japanese procurement market at more than 70 billion euro, confirming that policy and practice in the fields of competition and public procurement have a significant impact on European business interests in Japan. Improving access to the public procurement market would greatly help EU exporters. Improving competition policy and enforcement would also, in the long run, boost the prospects for European firms.

These findings are not new. For years, the EBC has been delivering these same messages in its annual reports on the business environment in Japan, in its Committee position papers and in its inputs to the EU-Japan Business Round Table Dialogue. Moreover, it has followed up each message with clear recommendations for reform. The problems, analysis, opportunities and even the solutions are well known: the challenge is effective action.

### **The Action Plan for EU-Japan Co-operation 2001-2011: too little substance beyond the talk**

In 2001, the EU and Japan launched "An Action Plan for EU-Japan Cooperation" declaring that: "We, the European Union and Japan, have decided to launch a Decade of Japan-Europe Cooperation". Objective 2 of the Action Plan was specifically aimed at "Strengthening the economic and trade partnership". The commitment was clear:

"We want particularly to facilitate the two-way flow of trade and investment, so that our bilateral economic relationship can realise its full potential - in the interests of all, consumers, producers, and society at large."

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<sup>3</sup> Source: Questionnaire to managers of European firms that export to Japan (all sectors) cited in Copenhagen Economics, "Assessment of barriers to trade and investment between the EU and Japan", November 2009

Unfortunately, the ambition has not been matched by the results. Between 2000 and 2008, EU27 exports of goods to Japan fell in value, from 45 billion euro to 42 billion<sup>4</sup>. EU27 exports fell a further 26% in 2009<sup>5</sup>.

From the trade and economic perspective, the Action Plan had an inbuilt weakness: a reliance on dialogue to achieve results normally only associated with intense negotiation and binding commitments. Hardly surprising therefore that the achievements of the two main instruments for delivering the promise of the Action Plan - the Regulatory Reform Dialogue and the High Level Trade Dialogue, added in 2007 – have rested primarily in raising awareness and building understanding. While there has been modest progress, overall the past ten years have produced little to live up to the ambition of enabling the EU-Japan economic relationship to “realise its full potential”.

The impact of this failure is felt throughout European business, not only in terms of the depressed sales of those struggling to develop a business in Japan, but also in terms of the lost opportunities for those deterred from even entering the market. It is impossible to calculate the number of European jobs lost in this way but Copenhagen Economics has put a value on the lost EU exports and welfare benefits: it is 43 billion euro in exports without even taking potential procurement opportunities into account, and 33.2 billion euro in unrealised national income<sup>6</sup>.

It is clear that a new approach is needed.

### **Ensuring the next Action Plan delivers the right results**

The EU-Japan Summit in April 2010 is tasked with reviewing the current Action Plan for EU-Japan Cooperation and considering what should succeed it when it expires in 2011. It will take place against a background of economies struggling to emerge from recession and wrestling with high levels of debt and unemployment. Mindful of this, the EBC believes that the Summit must recognise both the enormous untapped potential of the EU-Japan trade relationship to deliver growth and jobs, and the failure of the mechanisms underpinning the current Action Plan to enable that potential to be realised. Hence, in terms of the economic and trade relationship, the EBC calls on the Summit to fix on a new, more dynamic, fit-for-purpose approach. Non-binding instruments, such as the Regulatory Reform Dialogue, should be discontinued and replaced with a binding and comprehensive Economic Integration Agreement (EIA).

Why an Economic Integration Agreement? In brief:

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<sup>4</sup> [http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/6-29042009-AP/EN/6-29042009-AP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/6-29042009-AP/EN/6-29042009-AP-EN.PDF)

<sup>5</sup> [http://www.finchannel.com/Main\\_News/Business/60653\\_Euro\\_area\\_external\\_trade\\_deficit\\_8.9\\_bn\\_euro/](http://www.finchannel.com/Main_News/Business/60653_Euro_area_external_trade_deficit_8.9_bn_euro/)

<sup>6</sup> “The trade simulations show that EU exports to Japan could increase by 23 percent or €14 billion if tariffs were abolished.... However, EU exports could increase by almost 50 percent or €29 billion if the cost of NTMs in Japan were reduced to the fullest possible extent.” Copenhagen Economics, “Assessment of barriers to trade and investment between the EU and Japan”, November 2009, Summary, page 8.

- Current, non-binding EU-Japan dialogues have proved unable to deliver the level of change necessary. Their failure affects not only the investors, staff and customers of firms who have failed to realise their potential, but also the economy as a whole. In this economic climate, such a situation should not be tolerated.
- Alternative dialogues and Partnership Agreements tend to be too limited in scope and in their ability to deliver results for business, and so would again fail to ensure that the “bilateral economic relationship can realise its full potential”. Opting for such lesser instruments would effectively announce the intention to sell stakeholders short.
- Negotiating an EIA would enable the EU and Japan to take a comprehensive approach, addressing tariffs and non-tariff measures, including the need to harmonise certification and regulatory processes and provide for free competition, fair investment, and transparent government procurement practices. By firmly placing protectionism where it belongs in the past and building a viable platform for the future, the ensuing market growth and competition would stimulate both economies to the benefit of all consumers.
- Specific early results from negotiations could be implemented immediately, without waiting for the whole Agreement to be completed, if both sides so agreed.
- Since an EIA is a *negotiated* agreement, there should be no risk of imbalance: each side can ensure that the changes it wants to see are locked in and that the end-result is even-handed. The European Commission has ample experience in negotiating difficult agreements and the EBC places full confidence in the Commission to do so with Japan.
- Strong similarities between the EU and Japan in terms of level of economic development, objectives for global development and free trade, and values in key areas such as public health and safety, environmental sustainability, climate change, innovation, and intellectual property make successful negotiation of an EIA a realistic target. Moreover, once in place, the achievements of an EU-Japan EIA could act as an inspiration to the international community for a wider, multilateral approach.

The EBC believes that an EU-Japan EIA should include all aspects of the trade in goods as well as substantial sectoral coverage in services. It should address both tariffs and non-tariff measures in areas including, but not limited to, regulations and regulatory transparency, distribution, harmonisation of standards, mutual recognition, government procurement, commercial laws, investment rules, capital and currency markets, cross-border data flows, competition policy, human resources and movement of natural persons, intellectual property, secure trade, and cooperation in areas such as energy and

environment. The Agreement should be carefully structured to include a timetable, not only for the negotiation of all relevant chapters, but also for the regular achievement of milestones and related evaluations once implementation begins.

## **Conclusion**

The EBC believes that, faced with intense economic challenges, the EU and Japan cannot afford to ignore the huge potential of their mutual trade and investment relationship to stimulate growth and jobs. The Summit in April 2010 offers a prime opportunity for the EU and Japan to commit to work together to realise this potential. However, in order to avoid a repeat of the failure of the 2001-2011 Action Plan to deliver on the very same commitment, a more comprehensive and binding approach is needed, in the form of an Economic Integration Agreement.

The EBC recognises the complexities involved in negotiating an Economic Integration Agreement but the time for change and the window of opportunity have never been better than now. Given the growth potential at stake, the EBC urges the authorities in the EU and Japan to make the effort required to reach an Agreement with the highest possible priority.