EU-JAPAN FREE TRADE AGREEMENT
TRADE & SUSTAINABILITY IMPACT ASSESSMENT

Civil Society Dialogue
Interim / Progress report June 2015
CONTEXT
TODAY’S PROGRESS REPORT

• An assessment of the potential economic, social and environmental effects of trade and trade-related provisions of the agreement in the EU and Japan as well as third countries

• Overall analysis of impacts
  ‣ Detailed analysis of specific sectors focusing on the potential economic, social/human rights, and environmental impacts
  ‣ Interim report presents baseline, working hypotheses, preliminary indications in most chapters

• Comprehensive consultation and continuous dialogue with stakeholders
  ‣ Five roundtables
  ‣ Surveys on social, environmental aspects, additional sectors
  ‣ Over 30 bilateral stakeholder meetings requested and conducted

• Interim report is a progress report and provides a state of play in the assessment process

• Final report due mid October
ECONOMIC ANALYSIS

• Prior EU and Japanese FTAs have distinctive features
  ‣ Overlap in scope and objectives, but difference in technique

• Analysis show that EU offensive interests where there are considerable differences in approach
  ‣ Regulatory chapters: SPS, TBT
    More detailed implementation in EU FTAs compared to delegation to institutional cooperation via sub committees in Japan FTAs
  ‣ Achieving GPA+ coverage and thresholds in sub-central public procurement
  ‣ IPRs: GI provisions; copyright

• Tentative conclusions: FTA with few regulatory risks
  ‣ Even assuming negative or hybrid scheduling of services
    Exceptions in audiovisual/cultural sector, maritime cabotage and public services, EUMS on mode 4
    Japan does not exclude audiovisuals, education and environmental services
  ‣ Both Japanese and EUMS BITs contain ISDS provisions.
  ‣ A few sectoral interests, but more difficult to identify vulnerable groups

• Ongoing work in the economic section
  ‣ Market access, trade diversion and cross effects from TPP, fiscal revenue forgone
  ‣ Plurilaterals have both impact baseline and cross-effects; Turkey
SOCIAL & HUMAN RIGHTS ANALYSIS

• FTA between two highly developed economies
  ‣ Currently, 2% of EU employment supported by Japan; similar to levels in Australia, Korea
  ‣ FTA has positive effect on wages: 0.7% wage increase in EU, 0.5% in Japan
  ‣ EU ratified all eight ILO Fundamental Conventions; Japan all but Convention 111 (non-discrimination) and 105 (forced labour)
  ‣ Both EUMS, Japan urged to take actions in ILO Committee of Experts report
  ‣ Remarks on Japan for equal pay, but Japan has engaged in policy programme on “womenomics”

• Difference in approach in FTAs
  ‣ EU FTA promoting Core Labour Standards, peer review system etc; only brief, general references in Japan FTAs
  ‣ Social impact deriving from economic impact, not normative and conditional FTA provisions
  ‣ No risks on EU regulatory sovereignty. No evidence that Japanese business are heavy user of ISDS

• Income impact does not change income differences
  ‣ Symmetrical impact on social groups in the long run: Changes in Gini coefficient is within margins of error for EU and Japan (-0.001 to +0.002)
  ‣ For the EU, substantial increase in employment in the machinery sector (6.7%)
  ‣ Potential negative effects on motor vehicles are less than chemicals, metal products

• Assume that coming FTA could have similarities with past EU FTAs
  ‣ In addition involvement of ILO in dispute resolution procedure, civil society engagement
  ‣ Ratification of missing ILO conventions?

• Ongoing work
  ‣ SME aspects, but no particular vulnerable groups yet identified specific to this FTA
  ‣ Impact on Decent Work Agenda
ENVIRONMENTAL ANALYSIS

• General aspects of environmental analysis outstanding
  ‣ However, changes in input usage and outputs are too minor to significantly alter today’s economy-wide environmental baselines in both EU and Japan
  ‣ Conclusion on regulatory sovereignty similar to previous analysis

• Case studies on timber
  ‣ Wood and paper not a major feature in EU-Japan trade
    2/3 of Japan covered by forest, but net importer and forest products industry insignificant
    Only 0.9% of EU wood and paper exports destined to Japan
  ‣ Trade in timber with high risk of illegality has declined globally
    Estimates show similar levels of trade with high risk timber in EU and Japan, circa US$ 3bn
  ‣ Unilateral trade measures on illegal timber (Forest Law Enforcement, Governance and Trade) in EU
    Voluntary measures in Japan
  ‣ Potential impact from trade liberalisation is limited
    General effect from increased economic activity from FTA, not sectoral trade
    Sourcing within the EU not likely to result in any significant negative impacts
    Some third country effects (e.g. Malaysia VPA with EU)

• Fisheries
  ‣ Both economies import dependent and relatively open (import dependency of 125% in EU, 59% in Japan)
  ‣ Therefore little trade at all, with exceptions (e.g. eels)

• Next steps
  ‣ Quantitative analysis of CO2, GHGs; energy intensive sectors and cross effects from EGA
  ‣ Analysis of resource use, waste
  ‣ Interaction with MEAs, bilateral cooperation
  ‣ Completion of case studies, in particular fisheries
SECTORAL ANALYSIS
SERVICES (FINANCIAL AND BUSINESS SERVICES)

• Services traditionally the largest contributor to trade expansion in prior EU FTAs
  ‣ In EU-Japan FTA, bilateral exports in business services estimated to increase by up to 10% in line with previous estimates
  ‣ However, like all typical offensive EU offensive interests, the increase is overshadowed by unprecedented growth in processed foods

• High quality services consumption, EU stakeholders focus often on other APAC markets
  ‣ High market entry costs vs. profitability; competitiveness of EU firms
  ‣ Tendencies of EU services providers focusing on B2B markets, e.g. particular financial services
  ‣ Suggests further analysis on on consumer sectors
  ‣ Regulatory and trade divergences focusing on insurance

• Ongoing work
  ‣ Market analysis, especially with sector competition from US services providers
  ‣ Studies on the model for qualification and mode 4 issues, undertaken with the social analysis on qualifications
SECTORAL ANALYSIS
MOTOR VEHICLES

• Longterm factors consistent, not due to trade
  ‣ EU and Japan have the world’s highest car ownership ratio
    Growing from replacement, not demographic factors
    Same levels of export dependency (approx. 40%)
    Japan is a premium buying market in each motor vehicle segment
  ‣ Market contraction largely benefitted EU firms (US and Japanese brands shrunk their market shares), especially imports dropping
    2011 crisis forced Japan to address utilisation rate;
    Parts of EU still suffering from overcapacities
    Foreign brands steal market shares from each other, not EU brands
  ‣ 63% of Japanese branded cars made in the EU
  ‣ EU trade surplus on motor vehicles are world’s largest trade surplus on manufacturing
    Longterm prospects and competitiveness in EU divided into two

• Several studies exists with different assumptions and baselines
    CGE model, treating all motor vehicles and parts alike; 9.9% trade cost cut cut on Japanese exports, 1.04% on EU exports
  ‣ Deloitte Belgium (2011)
    Assuming EU market expands while Japan contracts; author’s own assumption that Japanese exports increase by 67% that are exclusively taken from EU brands
  ‣ MRI (2012)
    Assuming both EU and Japanese market grows, symmetrical (10%) trade cost reduction; modest increase of employment compared to baseline for EU
  ‣ Copenhagen Economics (2014)
    A quantitative model specific to passenger car industry, 11% trade cost cut on Japanese exports, 5% on EU exports
SECTORAL ANALYSIS
MOTOR VEHICLES

• Because of the assumptions, CGE-based 2012 Impact Assessment likely to be the upper bound of the impact (Japan export +56%; EU exports 13%).
  ‣ Deloitte impact on employment is four times larger than 2012 Impact Assessment
  ‣ Only Copenhagen takes into account local production and trade specific to the passenger car industry, resulting in -0.1% of drop in EU output (compared to -0.56% in 2012 Impact Assessment)

• NTMs
  ‣ The cost impact from safety standard divergences (UNECE), test-driving cycle for emissions, zoning issues

• Kei car issue
  ‣ The size of market that is “feasible”
    34% are trucks, 39% make less than €29,000 per year, primarily in rural and older demographics (49% 50 years old and upward)
  ‣ Average imported car retails for 88% higher price than kei car
  ‣ 8 year total cost of ownership, kei car tax benefits accounts for one-fifth of the cost difference

• Coming work
  ‣ Parts, supply chains
  ‣ Commercial Vehicles
  ‣ Two-wheelers
  ‣ Implications from smart cars and new entrants
SECTORAL ANALYSIS
RAILROAD (OTHER TRANSPORT EQUIPMENT)

• In terms of passenger rail services (measured in passenger km), Japanese market is equal in size to the EU, yet
  ‣ Japanese operators are mostly private, three majors representing 60% are entirely privatised by commercial interests, focusing on passenger traffic (not freight) and vertically integrated through ownership of tracks

• Wide differences in railway supply industry
  ‣ Existing studies (Ecorys 2012) show Japanese RSI have higher labour productivity, RCA, R&D intensity
  ‣ Similar levels of openness (import penetration of 6.3-6.4%)
  ‣ Half of Japanese imports are from the EU

• Aircraft
  ‣ The US consortiums buy 10 times more parts from Japan, affecting choice of aircraft supplier
  ‣ Services and industrial cooperation aspects
SECTORAL ANALYSIS
PROCESSED FOODS (FOOD, FEED AND TOBACCO)

• Beef
  ‣ In January 2015, the Japan-Australia Free Trade Agreement entered into force, cutting by almost half the Japanese tariff on Australian beef exports over a period of 15 to 18 years.
  ‣ The magnitude of the tariff cut that Japan will grant to the EU, compared to the tariff cuts granted to Australia and to the main other TPP-5 beef exporters, the competitiveness of the EU beef producers in the future, the ability of EU beef producers to overcome the handicap of BSE safety issue
  ‣ The basic choice is between an across-the-board tariff cut or a TRQ regime.
  ‣ Current work focusing on further analysing the negotiation context and outcomes of partial liberalisation

• Pork
  ‣ Japan is a substantial export market for EU producers since its imports from the EU amounts to 23 percent of total Japanese imports of pork, while the share of Japan’s imports from the TPP-5 countries is 68 percent. Specific tariffs are the key instrument of the EU protection regime.
  ‣ Given the existing Japanese protection regime, there are currently few legal incentives to export cheap pork to Japan.
  ‣ Japan’s current protection regime of the pork sector has one key positive feature that should be preserved: it does not rely on TRQs.
  ‣ Current work is focusing on further analysing different alternatives to a TRQ regime.
SECTORAL ANALYSIS
PROCESSED FOODS (FOOD, FEED AND TOBACCO)

• Chicken:
  ‣ Imports from both the EU and the TPP-5 countries are modest, less than 10 percent altogether. The main sources of imports of chicken in Japan are ASEAN countries and a few other developing countries. Since the suspension of all export restitutions for poultry exports (July 2013), the protection of the EU chicken production relies on three pillars: a system of multiple specific tariffs, a quota regime and a special safeguard clause.
  ‣ As Japanese protection relies on moderate and relative uniform ad valorem tariff, a TRQ regime is not an attractive option.
  ‣ Current work is focusing on a partial liberalisation scenario based on preferential access that might be granted to TPP countries.

• Dairy products, including cheese:
  ‣ The EU is facing severe competition from TPP-5 dairy producers. The main EU competitors are Australia, New Zealand and the US.
  ‣ EU requests of concessions from Japan should be focused on cheese products. Cheese products are the most important source of EU exports, the profitability is high, and the existing level of protection in Japan is high.
  ‣ Current work is focusing on further analysing possible scenarios of partial liberalisation.

• Beverages:
  ‣ Beer: A liberalisation scenario in beer could only focus on the excise taxes—the extent to which they are discriminatory and have a discriminatory impact on foreign beer.
  ‣ Wine: The options for full or partial liberalisation should first address the issue of whether an across the board formula would be suitable, or whether ad hoc decisions would be the solution.
  ‣ Current work is focusing on potential liberalisation scenarios and on the analysis of spirits.
SECTORAL ANALYSIS
PHARMACEUTICALS & MEDICAL DEVICES

• Pharmaceuticals
  ‣ Duty-free market access through WTO Pharmaceutical plurilateral
  ‣ Existing EU-Japan MRA on pharmaceuticals with conformity assessment, GMP and international practices (not quasi drugs), by and large overlapping with FTA negotiation objectives –

• Medical devices
  ‣ EU, US, Japan account for 80% of consumption/production
  ‣ 95% of EU producers are SMEs. Japanese exports are extremely specialised (diagnostic and medical imaging equipment), often used or merged with EU products
  ‣ No detailed provisions on MD/IVD in MRA, but both EU and Japan parties to the IMDRF
  ‣ Tariffs vary across the board due to variety of MD/IVD product portfolio

• Time consuming Pre-Marketing Authorisation
  ‣ Device and innovation lag, duplication of clinical and other test results
  ‣ A compensation discipline for market-entry delay due to lengthy authorisation on innovative products in CH-Japan FTA
  ‣ Close match of classification in MD/IVD, similar to situation in the US

• Transparency on reimbursement decisions

• Ongoing studies
  ‣ Specific study of potential reduction in AVEs to assess accuracy of impact
    CGE assumptions are 4% for both pharmaceuticals and medical devices
  ‣ Impact of transparency provisions on reimbursement; generics
  ‣ Use of SDoC; functional equivalence in MD
ADDITIONAL SECTORS
SUGGESTED BY STAKEHOLDERS

• Specific survey for stakeholders conducted in order to identify stakeholders’ suggestions concerning additional sectors for further analysis. Feedback received were following, not yet covered clusters/sectors:
  ‣ Leather, textile, footwear, etc (Other Manufactures).
  ‣ Insurances (Insurances)
  ‣ Retail, wholesale (Other services).

• Applying selection criteria (used in inception report and stakeholder feedback suggestions)
  ‣ Bilateral trade flows, role of investments, competitiveness of the sector, NTMs, negotiation emphasis (including the process preceding the negotiations)

• Criteria suggest Retail, Wholesale (Other services)
  ‣ Analysis of this sector should also emphasise the subset / overlap with leather, textile, footwear trade.
  ‣ General purpose sector with high relevance for SMEs, yet impact of the FTA in the sector not entirely clear, and fewer studies exist in the area
NEXT STEPS

• Inception report published
  ‣ Comments on the inception report until June 29th to   LSEE.TSIA-JAPAN@LSE.AC.UK

• Survey on SME impact opening in early July

• Roundtable consultations (July)
  ‣ Environmental impact
  ‣ Healthcare sectors (pharma, medical devices)
  ‣ Additional sector

• Final report due in October
  ‣ Deadline for meetings with the authors until September 1st