



## Stockholm Seminar on Japan – what is the agreement in principle?"

Stockholm, 29 September 2017

**EU Trade Commissioner Cecilia Malmström**

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Ladies and gentlemen,

It's a pleasure to be here with you today, and before I go on I would like to thank the Stockholm School of Economics, Stockholm University, Defence University and the Swedish institute of international affairs for organizing this event.

This is an exciting time for EU – Japan trade. The last time I was here was in March 2015, when negotiations on the EU – Japan FTA were in full swing. This past July, so a couple of years later, we were able to reach a political agreement on our FTA. This is what we call the "agreement in principle".

Today, I will tell you all about the details of this agreement in principle, and what we still have to achieve. But first, let me stress how important this moment was for furthering the cause of open trade, and rejecting protectionism.

Here you have the EU and Japan, two of the world's largest economies. Two advanced economies committed to a rules-based system of international trade.

And by agreeing a free trade agreement between us, we are sending a strong message: at a time when protectionism would like to make a comeback; at a time when many large players are turning their back on global governance; the EU and Japan lead on open trade.

The agreement shows that both the EU and Japan concur that there is no protection in protectionism. That we both argue for free and fair trade, for open economies, for clear and transparent rules, and for value-based international trade relations.

Transparency of trade negotiations is a key aspect of our approach, and immediately after the agreement was reached, a detailed summary of the agreement and most of the negotiating texts were sent to the European Parliament, to Member States and also published online. I am also pleased to say that the Council has now decided to publish the negotiating directives for the EU-Japan FTA, further enhancing transparency of the process.

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Let me now get into the detailed contents of the agreement, and the promise it holds for both of our economies.

First, what exactly do we mean by an agreement in principle?

It means that we have achieved an agreement on substance of all key elements of the agreement, even though some texts remain to be finalised.

The only exception is investment: here we have not yet found common ground when it comes to the resolution of potential investment disputes. We have completely reformed our approach to dispute resolution, moving away from the old style "investor to state dispute settlement" system, known as ISDS. We have set up a new system of a more transparent and accountable investment court in our agreements with Canada and Vietnam, and would like to see a similar outcome for Japan.

Second, what are the main features of this excellent agreement, and what do they mean for Europe and for Japan?

On tariffs:

- This agreement will substantially liberalise trade between our two economies. Japan will liberalise 91% of its imports from the EU at entry into force. At the end of the transition period, 99% of its imports from the EU will be liberalised. The remaining imports (1%) will be partly liberalised through quotas and tariff reductions mainly in the agriculture and food sector. This means significant savings for EU exporters to Japan – today, they pay around 1 billion Euros in duties every year.
- On industrial products, full liberalisation with transition periods was agreed for all sectors.

We begin with leather and shoes, chemicals, plastics, cosmetics and textiles and clothing, where the EU is very competitive. A vast majority of products will be fully liberalised at entry into force.

- On wood, the very good news is that all tariffs will be fully eliminated after a relatively short transition period of mostly 7 to 10 years. This will in particular benefit the strong wood industries in Nordic countries. As you know, export of sawn wood is a key interest for Sweden.

But our achievements for better market access are also important in the field agriculture and food. Japan is a market of 127 million consumers and a net-food importing country. It is already the fourth biggest market for EU agricultural exports. Japanese like high quality European products and, once in force, this Agreement will significantly facilitate trade and this will bring more choice to Japanese consumers. Here are some more concrete examples:

- for wines – our second biggest export product to Japan - tariffs of 15% will be fully scrapped at entry into force. This will help EU exporters to maintain and even increase their market share. We also agreed to facilitate the recognition by Japan of EU key wine additives.
- Our key processed agricultural products such as pasta, chocolates, or confectionery which face import tariffs in the region of 20 to 30% will all be liberalised with transition periods. For beef and pig meat there will be a considerable improvement of market access conditions.
- Similarly on dairy and cheeses, the agreement foresees full liberalisation of tariffs for hard cheeses (eg. Parmesan, Fontina, Gouda, Cheddar...) and a tariff rate quota which will grant duty free access for other cheeses like fresh and processed cheese including mozzarella, blue veined cheese and soft cheeses such as camembert, brie and feta. The tariff rate quota will cover fully EU's current export and will be growing over time considering the enlarging cheese consumption in Japan.

It should also be noted that as with all the EU's trade agreements, the agreement with Japan will not affect European product safety standards, including standards for food and agricultural products.

Like the EU, Japan has very strict product standards, including for food and agricultural products. Indeed, the EU and Japan have the highest consumer protection standards in the world. The agreement will reinforce these standards.

In terms of tariff concessions by the EU, we secured a comfortable transition period (7 years) for our most sensitive sector (and Japan's main interest): cars.

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And what did we obtain apart from tariff concessions?

The agreement addresses a wide range of issues, including ambitious results with regard to the so-called "beyond-the border issues", which have become increasingly important in trade agreements.

For instance, the EU and Japan have two of the largest public contracts markets in the world. The EU-Japan EPA will allow to mutually facilitate access to these markets via strong **commitments on public procurements**.

Japan will notably remove its operational safety clause on railways. This has been widely used in the past to exclude foreign suppliers from even bidding for public contracts in the rail transport sector.

Japan also accepted to commit that the procurement of so-called "core cities" would take place under a non-discrimination regime. These core cities are 48 cities all of which have more than 300.000 inhabitants. They include about 15% of Japan's population. The EU agreed to reciprocate with similar commitments at sub-central level.

On **Non-Tariff measures (NTMs)**, we agreed to strengthen our joint commitment to international standards as the best basis for even closer cooperation in the future.

Concretely, we finalised the work on the two lists of EU NTMs which had been identified in cooperation with EU member states and EU industry, providing clear roadmaps highlighting the remaining steps.

We also agreed on an automotive annex which contains a safeguard and a snapback clause. This will allow us to reintroduce tariffs in case Japan were to reinstall the removed NTMs.

Let me highlight the strategic importance of the result in this area. This agreement will not just translate into increased reciprocal market access opening due to the removal of long standing NTMs. It also reinforces a strategic cooperation between two major economies in the regulatory area, as the EU and Japan agreed to adopt international manufacturing and regulatory standards.

The EU has always been a strong supporter of international standards, and now Japan has joined the EU. I trust that this will encourage other trade partners to follow in the future.

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The agreement has also secured strong commitments **on services and investment**, including on international maritime transport services as well access to ports and port services.

But in order to avoid any confusion I would like to once again make clear that no EU free trade agreement forces governments to privatise or deregulate any public service at national or local level. Nor will the EU-JPN EPA or any other trade deal the EU is currently negotiating. Likewise, Member States' authorities retain the right to bring back to the public sector any privately provided services.

On **investment dispute resolution, as mentioned**, the EU continues to insist that there can be no return to old-style ISDS. Under no conditions can old-style ISDS provisions be included in the agreement. The EU has tabled its reformed investment court system and more discussions will be required in order to arrive at a conclusion on this in the next months.

Japan will protect a list of 205 EU **Geographical Indications**. Only products with this status would be allowed to be sold in Japan under the corresponding name. To give you a concrete example, the appellation Svensk Vodka / Swedish Vodka will notably be fully protected in Japan.

On **trade and sustainable development**, the chapter includes all of the key elements of the EU approach and is in line with the level of ambition of the chapters concluded in other recent EU FTAs:

- For the first time in an EU trade agreement it will contain a specific commitment to the Paris Climate Agreement.
- It will contain commitments to key international instruments on labour and environment, including the fundamental ILO conventions.
- It will have a dedicated institutional set-up, including mechanisms for the involvement of civil society in the implementation of the chapter;
- Finally, as part of this trade and Sustainable Development chapter there will also be a tailored mechanism for the resolution of disputes, including governmental consultations and recourse to an independent panel of experts.

For the first time in EU's trade agreements, there will also be a **dedicated chapter on SMEs**. The objective is to enable SMEs to benefit fully from the agreement, and to encourage European and Japanese SMEs to trade and invest more in each other's markets.

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So those are the technical details of the agreement in principle.

This leaves us with one question – what do we do next? As the European Commissioner for Trade, I am very proud of this agreement. But I would like to conclude with a note of warning.

We should not forget that an agreement in principle is not the end of the process. The two negotiating teams are now working towards a rapid complete finalisation of the agreement by the end of this year.

Even that is not the end of the story. If we want to start delivering concrete benefits, we must be ready to complete the adoption process within the EU so that the agreement can enter into force.

This is the promise of our trade strategy "Trade for All" – and I hope that the next time I address you, we will be able to discuss how the implementation of the EU – Japan FTA is bringing benefits of international trade to all European citizens.

Thank you very much for your attention.