

The strategic importance of Japan-EU EPA does not stop at tariff reduction

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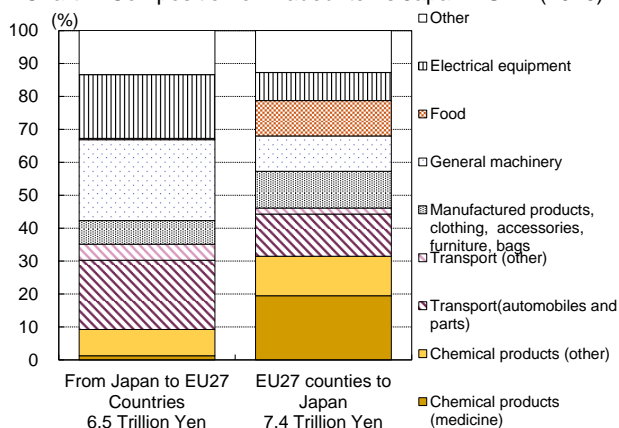
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On July 6th, Japan and the European Union (EU) reached an agreement in principle on their Economic Partnership Agreement (EPA). The negotiations spanning six years began in 2011, and gained speed in the latter half of 2016. Negotiations covered the mutual economic merits for Japan and the EU, and held the political implication of countering the rise of protectionism against a backdrop of the UK withdrawal from the EU, and the formation of the Trump administration in America.

Looking at the relationship between Japan and the 27 EU countries (excluding the UK), the EU is an importer of Japanese automotive and general machinery, whilst at the same time exporting medical supplies, automotive, general machinery, food etc to Japan (Chart 1). As an effect of the FTA, in addition to the expected yearly reduction of approximately 1 billion euro on EU tariffs on related products, the price of European products such as cheese and wine is expected to fall in Japan. On the other hand, with tariffs already broadly eliminated on medical supplies and manufacturing products, the EU aims to gain economic advantage through reduction of the costs of dealing with differences in technical requirements and authentication procedures. Specifically referenced in 6th July's agreement in principle are the deregulation of European automotive manufacturers' access to the Japanese market, and expansion of the scope of Mutual Recognition Agreements (MRA) for medicines. In addition to these, industry-wide discussions are being held in fields such as medical equipment production and information and telecommunications with the aim of easing non-tariff measures (Table 1). In future, this is projected to connect to improvement in corporate competitiveness for both Japan and the EU, and the pioneering of building shared systems with potential to become global standards. For example, the implementation of a per unit international certification system for automobiles being examined in the automotive industry, or harmonisation of various testing procedures and methods for submitting documents necessary for the approval of new medicines under consideration by the pharmaceutical industry. The strategic importance of the EPA between Japan and the EU does not stop at tariff reduction.

Rather than the “basic agreement” originally sought by both governments, this is an “agreement in principle” covering key areas. The likely reason for this is that both sides showed a strong desire to reach an agreement of sorts, despite the existence of areas for which the details are yet to be finalised. As to the extent to which importance of the EPA between Japan and the EU can be enhanced, ongoing negotiations on further details will continue to draw attention, with the EPA planned to take effect in early 2019.

Chart 1: Composition of Traded Items Japan-EU 27 (2016)



Note: "EU27" are the 27 EU countries, excluding the UK. Totals from 2016.
Source: Ministry of Finance Japan, BTMU Economic Research Office

Table 1: Japan-EU Non-Tariff Measures under Discussion

Non-tariff measures to be relaxed according to 6th July's agreement	
Automotive	Easing of regulation for EU companies' access to the Japanese automotive market (in principle, applying the regulation laid down by the United Nations Economic Commission for Europe)
Hydrogen Fuelled Automotive	For hydrogen fuelled automobiles which have been approved in the EU to be approved in Japan under the same conditions
Medical and pharmaceutical products	Expansion of the scope of Mutual Recognition Agreements which apply in certification process used by exporter and destination country
Food additives	Transparency and smoothing of the approval process in Japan for food additives
Areas seeking relaxation of non-tariff measures	
Electrical machinery, Medical equipment, Textiles/clothing, Chemicals, Agricultural labelling, etc	

Source: European Commission, BTMU Economic Research Office

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