Seminar Report

EU-Japan partnership for the future – EPA and business activities

25 October 2012

Event hosted by the

European Economic and Social Committee
Summary

On the very day on which the European Parliament voted in favour of the opening of trade negotiations with Japan, and one month before the Council is scheduled to decide whether, or not, to grant the European Commission a negotiating mandate, the EU Studies Institute in Tokyo (EUSI) and the EU-Japan Centre for Industrial Cooperation organised a seminar. This event, hosted by the European Economic & Social Committee (EESC), traced the history of EU-Japan trade relations and looked forward to what form future trade relations might take.

Following opening remarks by Prof. Takamoto SUGISAKI (Tsuda College), Jonathan PEEL welcomed participants on behalf of the EESC and then Prof. Toshiro TANAKA (Keio University & EUSI) gave the keynote address entitled, “EU-Japan Relations: From ‘Trade Conflicts’ to ‘Strategic Partners’”. Antonio PARENTI (European Commission, DG TRADE) and H.E. Kojiro SHIOJIRI (Mission of Japan to the EU) summarised the views and strategies of their respective Authorities and took questions from the audience. In the final session, Carsten DANNÖHL presented BUSINESSEUROPE’s view and Koshi NOGUCHI presented the view of Toshiba (with particular emphasis on how an EPA / FTA might affect its healthcare division).

Seminar Outline

- **Date:** Thursday, 25 October 2012, 14:00 – 17:00
- **Venue:** European Economic & Social Committee, 2 rue Van Maerlant, 1000 Brussels (Belgium)
- **Organised by:** EU-Japan Centre for Industrial Cooperation (EUJC) & EU Studies Institute in Tokyo (EUSI)

**Moderator**
Hideki HAYASHI, Secretary General, EU Studies Institute in Tokyo

**Opening Remarks**
Prof. Takamoto SUGISAKI, Faculty of Liberal Arts, Tsuda College

**Welcome**
Jonathan PEEL, President of Permanent Study Group on WTO & International Trade, European Economic & Social Committee

**Part One:**
**Keynote Speech**
EU-Japan Relations: From ‘Trade Conflicts’ to ‘Strategic Partners’
Prof. Toshiro TANAKA, Jean Monnet Chair *ad personam*, Professor Emeritus, Keio University; Governor, EUSI

**Part Two:**
**the road to the EU-Japan EPA / FTA**

- **The view of the European Commission**
  Antonio PARENTI, Deputy Head of Unit in charge of Far East, Directorate-General for Trade, European Commission

- **The view of the Japanese Government**
  H.E. Kojiro SHIOJIRI, Ambassador Extraordinary and Plenipotentiary, Mission of Japan to the European Union

**Questions & Answers**

**Part Three:**
**the impact of an EU-Japan EPA / FTA on business activities**

- **The view of European industry**
  Carsten DANNÖHL, Senior Adviser, International Affairs, BUSINESSEUROPE

- **The view of Toshiba**
  Koshi NOGUCHI, Vice President – Corporate Government & External Relations, Toshiba of Europe Ltd.

**Questions & Answers**

**Closing remarks**
Hideki HAYASHI, Secretary General, EU Studies Institute in Tokyo

**Photographs:**
![Photographs]
Major issues discussed

The seminar explored the evolution in EU-Japan trade relations, the steps taken by the EU and Japanese Authorities to prepare for the possible opening of negotiations and their key concerns, together with the views of an industry federation and the impact that an FTA could have on one particular company.

Prof. Takamoto SUGISAKI, Faculty of Liberal Arts, Tsuda College

Opening Remarks

Prof. SUGISAKI opened the ‘timely meeting’ and thanked the EESC and the European Commission for supporting the event.

Jonathan PEEL, President of Permanent Study Group on WTO & International Trade,
European Economic & Social Committee (EESC)

Welcome

Mr PEEL, who has been interested in Japan for a long time, welcomed participants on behalf of the EESC. He outlined its structure, explained that the EESC is a ‘bridge’ between the EU institutions and civil society and noted that the EU’s concept of civil society is far more developed than it is in Japan.

Mr PEEL strongly believes that trade is a key economic driver and that external trade is an extension of the Single Market. The event was timely as the European Parliament (EP) was simultaneously adopting Resolution 2012/2711 (RSP) on EU trade negotiations with Japan. He thought it was significant that the EP’s vote, which came after one of the most ambitious ‘scoping exercises’ was taken before the decision of The Council1, a clear sign of the enhanced role of the Parliament as a result of the Lisbon Treaty. An EPA / FTA with Japan would be a great opportunity as it would be a win-win and would deepen the EU-Japan partnership. He was also aware that other competing possibilities included EU/US discussions, TPP negotiations and trilateral talks between Japan, Korea and China. He felt that the Doha Round was the ‘clear loser’ (with the conclusion of bilateral FTAs) but noted it had not made progress for 6 years.

Once EU-Japan negotiations get underway, he advised those present to look closely at the precedent set by the EU-Korea FTA which the EP and others see as a benchmark agreement. This included the enhanced role of the EP (it is now closely involved in any negotiations) and in particular it included a chapter on Sustainable Development (addressing the economic and environmental aspects of trade and will be a benchmark used by the EP to judge future FTAs). That in turn involved the creation of a civil society forum, or monitoring panel, to oversee its implementation. This panel, of which Mr PEEL is a member, has the right of own initiative so it can raise any concerns. He looked forward to the inclusion of similar civil society monitoring in future FTAs. He recognised that there may be greater support for this idea from Japanese trade unions than from Keidanren, but said that the EESC would be very willing to explain to Japan how this could work and what such a provision would mean in practice.

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1 The Foreign Affairs Council (FAC) (Trade) may well discuss and vote on the issue on 29 November
PART ONE: KEYNOTE SPEECH

Prof. Toshiro TANAKA, Jean Monnet Chair ad personam, Professor Emeritus, Keio University; Governor, EUSI

Keynote Speech

Prof. TANAKA began his presentation noting that the EU and Japan share similar human and economic values. Although EU-Japan trade friction ended in the early 1990s and successive agreements in 1991 and 2001 established a joint framework, an “expectations deficit” explained why the EU and Japan had only been able to take a few effective joint actions. Trade conflicts had existed since 1968. In the 1970s, Japan-European Communities (EC) talks broke down over a Japanese refusal to accept Commission demands on safeguard clauses. By then, Japan had a trade surplus with the EC and its main exports were seen in Europe as ‘laser-beam’ exports. A series of episodes, including the poor reception for the 1976 Dokō Keidanren trade mission, stereotyping and defensive trade clearance measures, led to Japan introducing a series of “voluntary export restrictions and monitoring measures”. With the end of the Cold War, cooperation developed in non-economic areas: the Owada initiative led to the 1991 Joint Declaration on EC-Japan Relations and the holding of annual EU-Japan Summits2, biannual Foreign Ministerial meetings and numerous meetings at official level. The Declaration also led to the 1992 Japan-EC joint-proposal to the UN on the registration system of arms sales, the 2001 COP 6.5 Bonn Conference and Japan’s decision to ratify the Kyoto Protocol after the US decided not to.

In parallel, efforts were made to strengthen EU-Japan foreign relations: a 2000 proposal by the then Japanese Foreign Minister for a “millennium partnership between Japan and Europe” led to the 2001 Shaping Our Common Future: an Action Plan for EU-Japan Cooperation agreement. The European Council 2003 A Secure Europe in a Better World: European Security Strategy explicitly mentioned that “the EU is inevitably a global player” and “we should look to develop strategic partnerships with Japan” along with China, Canada and India. Since then, European leaders have referred to Japan as a “strategic partner”. Prof. TANAKA quoted the four reasons identified by Michito TSURUOKA as an “expectations deficit”3 as explaining why hopes have not always been met, viz. a lack of Japanese expectations for Europe arising from Japan’s focus on relations with its Asian neighbours and with the US; a lack of understanding of the EU, and Tokyo’s preference for bilateral relations (e.g. Japan/UK or Japan/France); Europe’s indifference to Japan and the complexity and failures of the EU.

In its 2006 Global Europe: Competing in the World Communication, the Commission changed its priority from new multilateral global rules to bilateral FTAs. This led to the EU-Korea FTA that has caused concern for Japanese industry. Meanwhile successive EU-Japan Summits continued discussions and the 19th Summit agreed to establish a joint High-Level Group to identify options for the comprehensive strengthening of all aspects of Japan-EU relations. Following the Great East Japan Earthquake of 11/03/2011, the EU showed it was no longer indifferent to Japan by suggesting naming the 20th Summit the Kizuna (筍 or ‘bonds of friendship’) Summit. The 20th Summit agreed to start the process for parallel negotiations for a deep and comprehensive EPA / FTA and a separate binding cooperation agreement and agreed that the process would begin with a scoping exercise to define the scope and level of ambition. The Scoping Exercise ended on 31/05/2012. On 18/07/2012, the Commission formally requested Japan’s decision to ratify the Kyoto Protocol after the US decided not to.

Japan has also pursued EPAs / FTAs with its neighbours (starting with Singapore – the lack of agricultural issues made it the easiest FTA to conclude) and is a member of various regional groupings. Despite strong domestic political objections, PM NODA has said Japan will consult with participating countries whether it can join the formal negotiations for the TPP. Prof. TANAKA was confident that multiple bilateral EPAs / FTAs were compatible (i.e. Japan could agree ones with the EU and with other parties). Agreeing the TPP will not be easy, so if successful it would mean Japan could agree FTAs with anyone. He cited a 2006 survey that showed that, in Japan, the EU is seen as being currently only Japan’s sixth-most important partner country / group of countries and only the fourth-most in the future (the US was seen as the most important partner in both cases – this could explain some Japanese people’s reluctance for the EU). Similar rankings could be seen in Korea, Thailand, Hong Kong and Singapore although they think China is the most important. However, Chinese respondents said that they saw the EU as being China’s most important future partner.

2 Held every year except in 1994. A Summit is also unlikely to take place this year.
In his conclusion, Prof. TANAKA noted that as the EU underestimates Japan, so Japan underestimates the EU. Thus, the “expectations deficit” persists. Dialogue and cooperation for global governance, a bilateral EPA / FTA and a framework agreement for cooperation can help overcome this.

**PART TWO: THE ROAD TO THE EU-JAPAN EPA / FTA**

**Antonio PARENTI, Deputy Head of Unit in charge of Far East, DG TRADE, European Commission**

*The view of the European Commission*

Mr PARENTI thought that an EU-Japan EPA / FTA would be second only to an EU-US one. When the negotiations are launched, they will be the best-prepared ones the EU has entered into. The Scoping Paper has been the most ambitious one to date. It is already clear, to a very large extent, what the negotiations could include. The talks would cover all areas of interest to both regions (all sectors and possible standards). The Impact Assessment ran in parallel to the Scoping Exercise: the first time an impact assessment has been carried out for an FTA. If the agreement is sufficiently ambitious, it could be worth an additional 1% of EU GDP (overcoming any doubts as to whether the economies really are linked). Japan is a huge economy and its consumers have a huge spending power. There are some problematic sectors, so any agreement must ensure that a level playing field is established for firms on both sides.

Since submitting its request for a negotiating directive (mandate) the Commission has been in discussion with the Member-States. Mr PARENTI hoped that the Trade Council meeting on 29 November would reach agreement on the Commission’s request (the European Council expressed such a hope in the Conclusions to its 18-19/10/2012 meeting). Once there is agreement, negotiations can only be started at an EU-Japan Summit and it is for Japan to organise the next Summit. There will not be any honeymoon period for these negotiations. Instead, the first year of talks will be rocky with serious discussions being held from the outset. A number of measures, to be implemented within the first year have already been defined and are part the Government Revitalization Unit (GRU) programme of reforms aimed at facilitating Japan’s economic recovery. The Commission will monitor progress on the elimination or alteration of a number of barriers to trade and will also want to see progress on other issues, including on public procurement.

At the end of the first year, Commissioner DE GUCHT will report back to the Member-States on the progress made and if progress is not sufficient, the Commission may propose to suspend the negotiations. The EU-Korea talks took 2½ years. The EU-Canada talks have already taken 3 years. It is likely that EU-Japan talks will take as long but the results of the ambitious scoping exercise may facilitate this task.

**H.E. Kojiro SHIOJIRI, Ambassador Extraordinary and Plenipotentiary, Mission of Japan to the European Union**

*The view of the Japanese Government*

For Ambassador SHIOJIRI, the EU and Japan cherished a relationship that inspired each other through their differences and created partnerships through their synergies. The full potential of the relationship has not been realised. The EPA / FTA would attain this through groundbreaking solutions to the problems we face (such as economic problems, ageing populations, low birth rates) that could also confront the fast-growing economies. Thus, an EU-Japan agreement could be a model for other countries for the future.

The EPA would help by stimulating growth and jobs (its benefits would go beyond that of a conventional FTA, as it would also cover issues such as IPR and regulatory harmonisation); it would expand investment; it would address non-tariff fields and would help global rule making. For a long-time, Japanese firms have produced near to the EU market in order to meet the demand of the European market (with the background of the high й/€ rate) – in 2011 Japan invested €30bn in the EU (compared with €20bn in East Asia or €10bn in the US). Japan no longer has an EU trade surplus and current figures indicate that the trend is for balanced trade. Already, Japanese firms employ 400,000 people in the EU, ⅔ of Japanese cars sold in Europe are made in Europe, as are 80% of components. The EPA will play a critical role in eliminating additional costs incurred by global firms through their supply chains. If tariffs were to be removed, firms would have a greater incentive to have a global strategy that includes not only Asia but also Europe – so rather than threatening industry, the EPA would create jobs.

Japan is making efforts to eliminate unnecessary burdens and its regulation system needs continuous reform. EU and Japanese regulations should be based on negotiation and harmonisation. The EPA would create harmonised standards for firms to use. This could increase EU success on Japanese markets, but as in any other market, EU firms would need to be competitive (adopting optimised pricing strategies and

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*An Executive Summary of the report is also available. The DG TRADE website also has links to other official Japan-related documents.*
meet market demands). European industry is not always as successful as hoped: between 1995 and 2010, imports into Japan rose 100%, but those from the EU only increased by 30% (despite the EU increasing in size from 15 to 27 Member-States). Japanese people love quality products and services and are prepared to pay a deserved price for them. Japan is currently importing approximately 200,000 European cars each year and this has been in an upward path.

Whilst the WTO discussions are stalled, countries are seeking to expand their FTA networks. It is essential that Japan and the EU act as role models. The EU has not been successful in maximising the potential of East Asia. Success in the Japanese market would create opportunities for EU firms in Asia (using Japan as a gateway). Inter-regional trade in East Asia has risen by 700% (compared with a 300% increase in the EU). EU industry can take advantage of the Asian supply chain. A free trade area covering East Asia and an EU-Japan FTA would cover 90% of global trade.

On 10 July, the Japanese Government took concrete steps to address EU concerns and in September, prominent European business organisations came out in favour of the FTA with Japan. There are unmistakable signs of momentum; negotiations must start now. Japan and the EU have stagnating domestic markets and cannot afford to let the window of opportunity close in the face of uncertainty. Any worries on either side should be put on the negotiating table. This synergy can ensure the EU-Japan partnership attains its full potential. Ambassador SHIOJIRI ended by asking participants for their strong support in order for this endeavour to succeed.

Questions & Answers

Various points were raised during the Q&A discussion, including:

- What did Mr PARENTI think of the French Government’s apparent linkage of the Commission’s refusal to meet a French request on automotive imports from Korea to opening negotiations on an FTA with Japan? France is not the only country to have questions about the mandate – the principle of an agreement with Japan is agreed, but its content is the concern. The fallout, for Japan, of the debate over Korean cars should not be overestimated, but could lead to a renewed interest in the possibility of a safeguard clause.

- Whether a clause to help SMEs foreseen in any agreement? Mr PARENTI did not necessarily agree that FTAs benefit big companies at the expense of SMEs. An agreement that eliminates NTBs would give an even bigger advantage to SMEs than to large firms. SMEs are at the core of EU policy. Ambassador SHIOJIRI pointed out that more than 90% of Japanese firms are SMEs, so SMEs have a very important place.

- How would the Commission feel if Japan preferred bilateral relations with individual Member-States to a partnership with the EU? In addition, would Japan be happy to share, with the EU, the potentially huge market in developing economies? Mr PARENTI did not see any contradiction between the two processes, although as trade is an EU competence Japan could not have an FTA with an individual Member-State. Ambassador SHIOJIRI felt that rather than seeking monopolies, Japan would welcome the EU into the Asian market.

- To what extent could vested agricultural interests prevent the successful conclusion of negotiations between Europe and Japan? Prof. TANAKA explained that, as in the EU, the number of people working in agriculture has declined in Japan. Their power should also decline. However, the vagaries of the Japanese electoral system mean that they still have considerable power in the Diet. If the Japanese Government wants an FTA, it must address the agricultural issue. Agricultural concerns will be much stronger for negotiations under the TPP than for EU-Japan discussions.

PART THREE: THE IMPACT OF THE EU-JAPAN EPA / FTA ON BUSINESS ACTIVITIES

Carsten DANNÖHL, Senior Adviser, International Affairs, BUSINESSEUROPE

The view of European industry

Mr DANNÖHL stated BUSINESSEUROPE’s strong support for an open market for trade and investment and for fighting protectionism wherever it occurs. Several studies have said that an FTA would benefit both sides, provided it tackled all kinds of obstacles to trade and investment and ensured comparable market access for firms. BUSINESSEUROPE continues to have a very intense internal dialogue – some of its members foresee benefits, others are not convinced that any negotiations would achieve very much.
The major challenge is to link tariff elimination with the elimination of NTBs. Whilst some EU tariffs cause problems for Japan, the major problem in Japan for EU firms is NTBs. In case of non-reciprocal tariff liberalisation, market opening through tariff dismantling must, therefore, be matched by respective NTB elimination. NTBs include certification standards, TBT, lengthy conformity periods, reluctance to take foreign suppliers – but it is not clear that all of these can be changed through an FTA. Mutual recognition and regulatory convergence could help to achieve this. BUSINESSEUROPE strongly supports the GRU reform process and hopes it will continue. It is important that as one NTB is removed another one does not appear. Investment is also a concern – Japan has the lowest FDI stocks of all OECD countries. Today it is essential that companies are present in the local market. Mergers and acquisitions are hard. This could be tackled either through ambitious investment provisions in an FTA or through starting negotiations for a bilateral investment treaty. Public procurement problems are another long-standing issue and are most prominent in the railway sector. Mr DANNÖHL recognised that a railway procurement arrangement had been agreed but wondered whether it could really be put into practice and whether it would really improve market access.

As the Commission has on-going intense discussions with the EU Member-States, so BUSINESSEUROPE continues to have similar discussions with its members. Mr DANNÖHL has seen no signs of excitement from any business circle that believes that the EPA / FTA would solve all its problems – instead the people who favour the opening of negotiations believe talks should be ‘tried’.

Koshi NOGUCHI, Vice President – Corporate Government & External Relations, Toshiba of Europe Ltd.

In the first part of his presentation, Mr NOGUCHI introduced Toshiba and identified issues of concern to it: established in 1875, it employs 210,000 worldwide (10,000 in its Europe, Middle East & Africa region – or EMEA), 56% of its sales are foreign and of its 555 subsidiaries, 80 are in Europe and a regional corporate headquarters is in the UK. Social infrastructure (nuclear power, medical equipment and transport equipment) makes up 33% of its sales; electronic devices (semi-conductors), 25%; digital products (televisions, computers, etc.), 28%; and home appliances (white goods and LED lamps), 15%. In world rankings for 2008 and 2009, Toshiba was the world’s biggest producer of nuclear power plants, the third biggest producer of semi-conductors and the fourth biggest producer of both hard disc drives and notebook PCs. Infrastructure systems (trains, mail-sorting equipment, lifts, medical devices, etc.) will be a key area for the future. Innovation is the key to business. As the global market changes – Toshiba’s management will focus its attention on issues such as securing high-efficiency and stable power supplies, addressing big data and security and enhancing medical services in emerging economies and for the elderly. The strong ¥/€ rate means that although EMEA sales are increasing in €-terms, they are falling once converted to ¥. This is a significant problem for Japanese companies and even if Europe was to cancel its 14% tariff on audiovisual goods, any benefit would be offset by the 40.6% increase in the ¥’s value in the past 5 years.

The rest of his presentation focussed on the potential impact of an FTA on Toshiba: currently its ability to set the price of its products depends upon the type of product. For its consumer goods, it has to accept the price determined by the market. It has more control over the price of its products for utilities and for government as purchase decisions will be based more on the technology, finance and long-term commitment than on price, new functions and speed to the market. Because the consumer good market in Europe and Japan is shrinking, Toshiba can only develop that business either if it finds a new market or if existing markets are unified. The fewer regulatory issues it faces, the easier it is to produce products in a better way. Toshiba would like to see a big unified market and to be able to emulate the iPhone and produce a single product suitable for Japan and Europe, as it could then use economies of scale to reduce costs. This is why Toshiba supports the idea of an EU-Japan EPA / FTA.

For its utilities and government businesses, the simpler the situation the better – if it could supply a single type of product for a global market, by standardising the technology it could reduce both time-to-market and cost, raising customer satisfaction. This explains the cooperation between governments and industry on medical imaging equipment. In March 2012, many EU and Japanese industry bodies met for bilateral discussions on issues relating to their sectors. COCIR and JIRA (the EU and Japanese medical device industry bodies) also met with their US counterpart to discuss trade barriers and identified the main problem as being different regulations. Currently Europe has the fastest time-to-market – once a product requiring recognition is developed, provided it meets the regulations in force, it can be given the CE kitemark and can be put on the market without any need for formal governmental recognition. The regional bodies’ main aspiration is for global harmonisation of medical device regulations, as this would have several benefits including expanding patient access to life-saving imaging and radiation therapy.
DITTA, their umbrella body, identifies barriers and suggests solutions to the Japanese, EU, US and other governments and advocates an acceleration of free trade.

Questions & Answers

Various points were raised during the Q&A discussion, including:

- **Whether an FTA covering medical devices would overcome Japanese regulations that even Japanese firms find problematic and would be welcome, or whether the lifting of barriers to trade would create unwelcome competition?** Mr NOGUCHI agreed that some people felt that it takes longer in Japan to gain market-entry approval, but argued that those regulations arose because Japanese regulation was closer to that of the US (where products have to be authorised by the government) rather than that of the EU (where products can be self-assessed and put on to the market). He thought the Japanese Government would want to keep the medical system safe, so would not want to be able only to sanction companies after a non-conforming product had been put on the market. Therefore, although it does take longer in Japan to get approval it does not mean that the system is unfair.

- **Whether or not, in Japan, all industrial sectors are discussing FTA-related issues?** Mr NOGUCHI said that the electronics industry was seeking an integrated market as this would allow it to reduce the costs of its products and raise customer satisfaction levels. The electronics industry hopes that the 1996 WTO Information Technology Agreement will be retained for as long as possible.

Hideki HAYASHI, Secretary General, EU Studies Institute in Tokyo

In his closing remarks, Mr HAYASHI noted how much the situation had changed – six months ago, when planning for the event began it was not possible to be very confident about the opening of discussions. He ended by quoting a Japanese proverb, *hajime yokereba owari yoshi* (始めよければ終わりよし) which translates roughly as, “a good beginning makes a good ending”.

Participants & Evaluation

Sixty-eight people attended the seminar. 25% worked in industry or for a business association. 24% worked for think tanks or consultancies. 21% worked for the EU or Japanese Authorities, or in a diplomatic mission. The media and business supporting organisations each accounted for 9% of the participants. 80% of people who completed the questionnaire viewed the event as having been either ‘good’ or ‘excellent’.