



12 September 2011

### TRADE BARRIERS FACED BY THE EU INDUSTRY IN THE JAPANESE MARKET RESPONSES BY BUSINESSEUROPE

**Note: This document focuses on horizontal issues, but does not address any sector-specific barriers**

	<b>Classification</b> (e.g. SPS, TBT, tariffs, rules of origin, licensing, customs/trade facilitation, services, investment, IPR, public procurement etc.)	<b>Description of the measure</b> (details of the measure in place; proof of measure e.g. Legislation; any steps already undertaken by Japan to alleviate this concern)	<b>Impact of the measure</b> (please indicate if you can quantify the impact of the barrier on your industry)	<b>Comparison with EU system</b>	<b>Possible solution</b> (please describe possible solution that would be create a satisfactory situation for you)	<b>Level of Priority</b> (1 = low; 2 = medium; 3 = high)
Overall objectives		<p>An FTA with Japan will be possible only when effective and comparable market access is demonstrated for European companies in Japan. Concrete initiatives to the removal of some of the major barriers would demonstrate that Japan is indeed willing to open its market to competition from Europe. There are also a number of issues that cannot be covered in a bilateral agreement, for example cooperation in defence technology or cooperation on raw materials. It is for that reason that BUSINESSEUROPE has put forward the creation of a new institutional structure like a high-level EU-Japan Economic Partnership Council (EUJ-EPC) to foster and deepen EU-Japan relations.</p> <p>It must be ensured that there is a factual openness of the Japanese market, and that this openness not only exists legally. All issues of significant economic interest to either party must be solved. Before embarking on free-trade negotiations, the Japanese government should demonstrate its willingness to liberalise these sectors of its economy. The scoping exercise should set some clear red lines of the level of ambition that will have to be achieved in a potential agreement. Any negotiations should be conducted in full transparency and close cooperation with the business community.</p>				



	<p>Non-tariff measures (NTMs) / regulatory divergence</p>	<p>A mixture of divergent standards and certification processes, technical barriers to trade, SPS related barriers, lengthy and complex conformity assessment procedures, and others. Voluntary standards often are de-facto mandatory. The impact of attitudes, incl. the habitual buying behaviour, in the overall regulatory framework is another very important problem.</p>	<p>NTMs, regulatory divergence and different buying habits are the major obstacles to EU-Japan trade. The 2010 Copenhagen Economics study "Assessment of barriers to trade and investment between the EU and Japan" contains a large list of NTMs restricting market access.</p>		<p>Adoption of international product standards and cooperation / promotion of new international standards where needed. Mutually recognize products certified under similar and equivalent product standards. Drive regulatory convergence forward in highly regulated areas (e.g. transport, telecoms, health, financial regulation, industry). Aim at harmonizing regulations and systems where possible. Address issue of attitudes, incl. the habitual buying behaviour, by implementing targeted means (e.g. regulatory issue database projects / better communication).</p>	
	<p>Tariffs</p>	<p>On average an applied rate of 4.9%, Japan has low tariff rates but some high peaks in e.g. dairy products, clothing, cereals, food and drink, leather, etc. This average is influenced by the annual temporary suspension of applied import duties that covers over 400 products. This duty suspension has to be renewed on a yearly basis by the Japanese Parliament.</p>	<p>Depending on the sector, these high tariffs effectively restrict access to the Japanese market. The yearly renewal of temporary import tariff suspensions creates huge business uncertainty.</p>	<p>The EU has also generally low tariffs, with some tariff peaks notably in the field of agriculture.</p>	<p>In case of non-reciprocal tariff liberalisation, market opening through tariff dismantling must be matched by respective NTB elimination. The business uncertainty derived from the yearly renewal of tariff import suspension should be addressed by permanently eliminating import duties for these covered EU products.</p>	



	Investment	Japan has a high degree of limits on foreign ownership, screening requirements and restrictions on foreign personnel and operational freedom. For example, Japanese regulations make investments / merger-acquisition very difficult. Major problems relate to the triangular merger scheme, prior approval requirements and M&A's in sensitive sectors. High labour costs and high taxes are also seen major obstacles to investment.	Japan has the lowest FDI stocks (as a percentage of GDP) of all OECD members. It is among the countries with the highest levels of overall restrictions. Therefore, the potential to increase FDI into Japan is enormous.	The EU comprises the most open countries. Since 1992, intra-EU FDI flows are almost completely unrestricted. A number of EU countries have minimal overt restrictions on inflows from non-EU countries – although some restrictions also exist in some countries.	Include ambitious investment provisions in any agreement with Japan. Guarantee free market access, non-discrimination and national treatment, greater transparency and full pre- and post-investment protection, including free transfer of all investment-related capital flows. Strong rules on protection from unfair treatment or unfair expropriation, provide a mechanism for investor-to-state dispute settlement. Restrictions on FDI only on the basis of national security.	
	Procurement	Although both GPA members, the Japanese legal framework remains difficult through its complex system of diverse statutes and regulations at central and local level. Also poor dissemination of procurement information and absence of a single point of access. Not all prefectures are subject to GPA rules. In addition, the situation is not progressing. For instance, in the rail sector, the issue is well known and has been	Due to the complex system and discriminatory treatment, it is extremely difficult for European companies to win public tenders in Japan. Studies have shown that over 80% of Japan's total government procurement market is not covered by GPA.	The EU's combination of international commitments and Single Market rules has created a European market that is widely open to international competition.	Secure reciprocal and effective market access with binding and simplified rules, guaranteeing equal treatment of foreign and domestic suppliers. Jointly increase efforts to improve transparency, endorse simplification of complex procedures for becoming registered as a "qualified supplier" and promote equal treatment and fair competition. Press for the suppression of exemptions and derogations of GPA rules, such as Japan's "operational safety clause" in railway procurement. The objective must be to reach an "effective and comparable market access".	



		raised at any relevant meetings or events with Japan. However, no concrete solutions have been proposed nor measures taken by Japan.				
Services	There are a number of restrictions (like commercial presence) on several services sectors (e.g. legal, construction, banking, telecommunications). Residency requirements are in place for most of the professional services; making export services basically impossible. Lots of difficulties and long delays in obtaining work permits.	All these obligations to foreign services providers have an impact, since small and even large European providers will consider it too expensive / complicated to do business with Japan. For those which would do so, these obligations have an obvious impact on the price of the service delivered.	Compared to Japan, the European market for services is much more open to foreign suppliers and market access, and largely bound under WTO commitments. However, European private sector would support any further opening in Europe.	All these issues would have to be tackled in potential negotiations. The starting must be the current offers in the WTO Doha round, but both sides should aim to go much further in removing any regulatory barriers (WTO plus) which make daily business activities very complex.		
Trade facilitation	General border procedures (e.g. customs valuation, classification and clearance) and product-specific customs procedures (e.g. health inspections) impose costs and delays on some exporters.			An agreement should be based, as a minimum, on the WCO Revised Kyoto Convention and WTO Doha results. Provisions should be focused on minimisation and/or elimination of fees and charges; procedures for legal recourse and appeal, complaint or mediation services in the case of		



					disputes with customs; establishment of a single administrative window; and accelerated and simplified procedures for release and customs clearance of goods. Following the agreement on the mutual recognition, both side should give more concrete benefits to AEOs (Authorized Economic Operators): e.g. once an economic operator is approved as an AEO in Japan, its status should be extended to its subsidiaries in the EU, and vice versa.
	Intellectual property rights	Japan allows importation of fake goods as long as they are for personal use. Accordingly, there is an inflow of counterfeit goods into the Japanese market.	The described factors unfortunately lead to quite a large trade in counterfeit goods		Japan needs to make all trade with fake goods illegal and better cooperate with overseas authorities to secure the closure of sites trading in fake goods. Japan should also improve and simplify the procedure for right-holders to receive information on suspected merchandise. Enhanced cooperation among Patent Offices is key in order to avoid unnecessary duplication of work. The Patent Cooperation Treaty is the most appropriate platform for work-sharing.
	Competition policy	As discussed under investment, Japanese regulations make investments / merger-acquisition very difficult. Major problems relate to the triangular merger scheme,			Japan should, where appropriate, install meaningful systems to enforce competition policy. Disciplines should include basic principles of transparency, non-discrimination, government subsidies as well as commitments to tackle hard core



		prior approval requirements and M&A's in sensitive sectors. Moreover, within each sector there are a handful of conglomerates which control most of the market, and which European companies are therefore dependent on.			international cartels.	
	Transparency / better regulation			The EU strongly encourages adherence to a certain number of procedural safeguards designed to ensure transparency, objectivity and administrative efficiency in decision-making. These provide companies with predictability and ensure that decisions are neither arbitrary nor abusive.	Support to similar principles of transparency, objectivity, better regulation and administrative efficiency, including deadlines for decisions and objective justification for these decisions. Pro-actively increase mutual understanding of existing and upcoming regulations on each side to exclude unwittingly taking initiatives that create barriers to trade. Exchange annual legislative work programmes at the earliest stage to prevent regulatory divergence and agree to an early warning system for draft legislation.	
	Dispute settlement	The WTO system should remain the main avenue for solving disputes. However, a mechanism should be established to deal with			A binding and effective bilateral dispute settlement mechanism with clear cut deadlines. This should be set up in analogy to the WTO mechanism or the mechanism enshrined in the	

		complaints in case of violations of the bilateral agreement.			FTA between the EU and Korea. Companies should have direct access.	
--	--	--	--	--	--	--