



EUROPEAN BUSINESS COUNCIL (EBC)

Call for Preliminary Talks on an EU-Japan Economic Integration Agreement

June 03, 2007

RECOMMENDATION

The European Business Council (EBC) calls on the Government of Japan and the European Commission to enter preliminary negotiations on a bilateral **Economic Integration Agreement (EIA)**. The structure and substance of this new, comprehensive trade agreement proposed by the EBC should extend beyond that of the bilateral Economic Partnership Agreements (EPA) currently negotiated between other nations, by harmonising certification and regulatory processes, and by containing at its core, provisions for free competition, fair investment, and transparent government procurement practices. This agreement should also promote coactive policies on intellectual property rights, promote responsible climate change policies, expand cooperation on energy security issues, and foster innovation in science and technology. By engaging in preliminary talks, the EU and Japan can craft a dynamic economic agreement that is not confined to tariffs, but moves ahead on issues currently outside of the WTO agenda. By broadening the scope of the agreement, an **EU-Japan EIA** will have a positive global impact and serve as a model for future multilateral trade liberalisation.

BACKGROUND

The European Union and Japan together account for close to 40% of the global GDP, and realise an annual trade turnover of around 145 billion Euros. Over the past five years the EU has increased direct investment in Japan significantly and is now Japan's largest source of foreign direct investment (FDI). Similarly, Japanese businesses have increased the number of Japanese business affiliates in Europe by 50% over the past eight years.¹ In terms of trade volume, the EU ranks as Japan's second largest export market, and is Japan's third largest source of imports. Trade flows in the other direction place Japan as the EU's fifth largest export market, and the fourth largest source of imports to the EU.²

Given the scale and value of existing trade flows, both partners stand to benefit from more open and synergistic trade practices. Through reciprocal commitment the EU and Japan can achieve transparency in

¹ Jose Manuel Barroso, President of the European Commission, "EU-Japan- a Mature Relationship with Untapped Potential." Tokyo Chamber of Commerce , Tokyo 21 April 2006

² EUBusiness website, "Japan and the EU" 26 August 2006; <http://www.eubusiness.com/Japan/japan-and-the-eu/?searchterm=japan%20and%20eu>



investment rules, adopt fair competition policies, open public procurement markets, and cut red-tape in order to significantly reduce non-tariff barriers. The two sides can enhance institutional cooperation on intellectual property protection laws and enforcement measures. Moreover, by including shared environmental policies in the agreement an **EU-Japan EIA** will be a model economic accord that creates new business opportunities and demonstrates both partners' commitment to addressing global climate change.

Beyond the broad sphere of cooperation endorsed by the EU and Japan, the two sides currently pursue a range of issues within the Cooperative Framework to promote two-way trade and investment. To date, strong bilateral trade and investment links have emerged from this productive, working-level engagement. One of the major pillars of bilateral EU-Japan relations has been the 10-year Action Plan for EU-Japan Cooperation, which started in 2001. Another has been the two-way Regulatory Reform dialogue that aims to reduce obstructive regulations hampering trade and foreign investment. Another important forum is the EU-Japan Business Round Table that affords business leaders an opportunity to inject industry viewpoints into regulatory policy discussions.

Over the years these dialogues have identified structural impediments to market growth and have provided a constructive forum for addressing change. Yet, substantial barriers remain. Moving forward, the recommendations that have emerged must serve as a starting point for a comprehensive **EIA** that will transform discussions into binding agreements for both parties

CURRENT FTA/EPA ACTIVITY AMONG ASIAN COUNTRIES

In view of the complicated phase in the current Doha Round of WTO negotiations, many global trading partners are pursuing bilateral Free Trade Agreements (FTAs) and Economic Partnership Agreements (EPAs) that target specific areas of trade cooperation. In Asia more than 70 FTA's have been signed between Asian trading partners since 2000.³ The resulting accords form what some call a "noodle bowl" of FTAs; an expression that aptly describes the entwined nature of the agreements. China in particular has stepped up trade diplomacy, as has Singapore. Most recently, South Korea completed an FTA with the US and also began trade negotiations with the EU. Both the EU and South Korea are pushing for rapid progress in these negotiations, with the South Korean Trade Minister stating that it was South Korea's chance to become East Asia's "free trade hub linking Europe, Asia and the US."⁴

JAPAN'S STANDPOINT

This accelerated pace of FTA activity has generated a sense of urgency in Japan to further open its market by way of bilateral agreements even though it was initially slow to react. Japan now has 3 EPAs that are already effective with Singapore, Mexico, and Malaysia and 3 more EPA agreements reached with

³ The Economist, "The Japan Syndrome" 10 May, 2007

⁴ BBC News, "S Korea and EU Begin Trade Talks," 07 May, 2007



Thailand, the Philippines, and Chile. Recently, the pace has accelerated even more sharply with government FTA/EPA negotiations ongoing with Australia, India, Vietnam, Korea, Switzerland, and the Gulf Cooperation Council (GCC) countries. An agreement has been reached with ASEAN on modality of goods, and agreements in principle have been reached with Indonesia and Brunei. Private sector studies are being undertaken with the U.S.A., Canada, China and several other countries.⁵ Prime Minister Abe and the Keidanren sense the urgency for more rapid trade liberalisation and both are now calling for increases in agreements to bolster trade and private sector growth within the Asia-Pacific region and elsewhere. Most recently, the Ministry of Economy, Trade and Industry (METI) announced plans to launch private sector studies on separate trade agreements with the EU and the US. The studies with the US are beginning with both sides aiming to bring the discussions to an intergovernmental level later in 2007. METI also announced plans to discuss a potential trade agreement with the EU at the annual bilateral Summit in Berlin on June 5, 2007.⁶

The EBC is encouraged by Japan's more proactive movement on economic accords and believes that as a key player in world trade Japan has much to gain from engaging the EU bilaterally to complete an **EIA** commensurate with each partner's global economic position. This is particularly true in view of the newly signed EU-US trade accord that is opening up a trans-Atlantic "single market" structure. Thus, Japan and Europe must act now, as equal partners, so that European and Japanese industries can gain a more competitive footing in their respective markets.

The EU'S STANDPOINT

Until now, the EU has generally eschewed EPAs with its major trading partners in favor of the multilateral approach. Yet more recently, the EU has begun to consider the benefits of deeply integrated economic agreements that do more than lower tariffs and that are firmly based on the market potential for European countries. One initiative that conveys the political support for this changing view is the "The Global Europe: competing in the world," which promotes a competitiveness agenda that reflects the EU's commitment to multilateral trading systems but that likewise pursues bilateral agreements that tackle issues not ready for multilateral discussion.⁷

In a speech at the London School of Economics in October of 2006, EU Commissioner Mandelson signaled this shift in trade strategy by arguing that carefully constructed and ambitious bilateral agreements with select partners can create new trade, improve competitiveness of EU companies, and

⁵ Ministry of Foreign Affairs (MOFA) website: <http://www.mofa.go.jp/policy/economy/fta/index.html>

⁶ Japan Today, "Japan Begins Studies on FTAs with US, EU" 23 May, 2007
<http://www.japantoday.com/jp/news/407284>

⁷ Speaking points by Commissioner Mandelson, Press Room, European Commission, 4 October, 2006;
http://ec.europa.eu/commission_barroso/mandelson/speeches_articles/sppm117_en.htm



prepare the ground for future liberalizations where WTO rules do not yet fully apply.⁸ Commissioner Mandelson rejected the idea that such bilateral agreements pose a threat to the multilateral objectives of the WTO stating that, “the risks in trade policy are not so much in the balance between multilateralism and bilateralism, but the choice between an open and ambitious approach to bilateralism that drives forward the dynamic of global liberalization and a closed approach to bilateralism that looks for the quick political fix or opens some borders only to close others.”⁹

As BusinessEurope stated in a policy paper last December, far greater additional trade volumes can be expected from agreements between large trading partners at a similar level of development than from partners at different levels. Indeed many of the issues that lay outside of the WTO negotiations at this point are not ready to negotiate largely because the less developed or developing economies are not ready. The asymmetry in the stages of economic development makes agreements on trade facilitation, investment, competition, or public procurement premature for many countries, even though such agreements are essential if developed economies like Japan and the EU are going to expand. Japan and Europe have separately indicated an interest in negotiating these issues, however their inclusion in a Single Undertaking within the WTO is unlikely. Through an **EIA** the EU and Japan can address these topics on a bilateral basis within the context of a WTO-plus framework, and demonstrate global leadership on a wider scale by setting common regulatory standards, and developing consolidated policies on critical matters such as climate change, energy security, and technology innovation. In this regard, an **EU-Japan EIA** would serve as a new economic cooperation model for future multilateral trade agreements.

The EBC fully understands the systemic implications to the multilateral trade process if large trading economies create a network of trade agreements outside of the WTO. We therefore oppose cherry-picking from the existing WTO agenda as a way of resolving bilateral trade issues. The EBC recommends moving beyond the traditional FTA/EPA frameworks to broker a far-reaching **EIA** that deepens the trade and investment relationship through regulatory convergence and true structural change. Since Japan has signaled a willingness to study potential trade agreements and is moving ahead quickly with other large trading partners, specifically the US, the EU must act so that Europe’s voice will be part of discussions that will shape future multilateral trade. Inaction at this time could well compromise the EU’s global trade position and diminish the EU’s credibility in trade talks with Japan for the foreseeable future. Conversely, pursuing a reasoned, cooperative **Economic Integration Agreement** at this time promises to open up business opportunities for European industry and to secure Europe’s position as a leader in global trade.

⁸ Bilateral Agreements in EU Trade policy, Speech by Peter Mandelson at the London School of Economics, London, 9 October 2006

⁹ Bilateral Agreements in EU Trade policy, Speech by Peter Mandelson at the London School of Economics, London, 9 October 2006



As the EU business trade lobby representing some 3,000 European companies in Japan, the EBC can deliver considerable insight into the trade environment between Europe and Japan. We stand ready to provide private sector input on the structure and substance of negotiations whenever needed.

CONCLUSION

In order to remain competitive in the global environment, Japan and the EU must create regulatory conditions in which the private sector can operate more efficiently. Businesses will not flourish in a protectionist environment; rather they will thrive by opening more sectors to trade and investment opportunity. This is particularly true at a time when so many emerging countries are honing their competitiveness and taking the stage as economic powers. For this reason the EBC urges the EU and Japan to begin preliminary bilateral **EIA** talks that focus on these trade policy matters. The two sides must act with resolute political will to overcome bureaucratic inertia, which itself can act as a regulatory barrier. As two of the world's largest trading economies Japan and the EU have an opportunity to exert leadership in creating a more stable and vibrant world economy. Now is the time for Japan and the EU to forge ahead with a dynamic **Economic Integration Agreement** that will secure future economic prosperity for both partners.

About the EBC:

The European Business Council (EBC) is the trade policy arm of the 18 European national chambers of commerce and business associations in Japan. Established in 1972, the EBC works to improve the trade and investment environment for European companies in Japan. The EBC currently represents more than 3,000 local European companies and individuals who are members of their national chambers of commerce. Some 350 of these companies participate directly in the EBC's 29 sector-based committees.

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