Business Opportunities realized by the Japan-EU EPA

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Executive Director, JMC Brussels

3rd October, 2018
Japan External Trade Organization (JETRO)  
• **Government-related organization to promote mutual trade and investment** between Japan and the rest of the world  
• Established in 1958  
• Overseas offices: 74 (in 54 countries) *  
• Japan offices: JETRO Headquarters in Tokyo, JETRO Osaka, 45 regional offices, the Institute of Developing Economies (IDE-JETRO), JFOODO (Japan Food Product Overseas Promotion Center) *  
• Employees: 1,803 (1,067 in Japan and 736 overseas) **

*As of November 2017  
**As of October 2017
1. Promoting Foreign Direct Investment into Japan
   - JETRO offers a range of support and serviced aimed at helping foreign firms set-up or expand business in Japan, in particular firms seeing to set-up and manufacturing site, regional HOs or R&D hub. Focus industries include high-growth ones such as future energy, life science, tourism and other sectors with strong employment creation possibilities.
   - Specific activities include:
     - Offering free temporary office space in key business centers in Japan, called invest Japan Business Support Centers (IBSC), as well as access to expert advisers and help with establishment procedures and the like.
     - Providing firms with information on government regulations and highlighting the advantages of the Japanese market through seminars, the internet and other media.

2. Supporting the overseas businesses of Japanese companies
   - Utilizing its well-developed global networks and accumulated know-how, JETRO contributes to the distribution of Japanese foodstuff, high-value added products & services and infrastructure throughout the world. For small and medium-sized enterprises (SMEs) in particular, JETRO creates global business opportunities and facilitates Japanese investment overseas. With these efforts, JETRO promotes win-win business relations between Japan and the rest of the world.

3. Facilitating world trade and the global economy as well as growth in developing countries.
   - Often in collaboration with international organizations, JETRO conducts research on the world economy, trade and investment, which contributes to the development of free trade systems and international business. To promote global partnerships, JETRO sets up study groups with private sector leaders and presents its findings to governments concerned.

→ JETRO has so far assisted more than 486 European companies in entering Japan.
→ Supporting collaboration between EU and Japanese start-ups.
Current Relationship between EU and Japan

Japan’s trade with the EU

[Unit: billion Yen]


Export

Import

Trade Deficit
100 B. Yen ≒ 776 M. Euros

Source: Ministry of Finance

Japanese FDI position toward the EU

CAGR 17.8% (2011-2016)

[Unit: billion yen]

Source: Bank of Japan
Economic Impact by Japanese Companies in the EU (2016)

(Unit: person, billion Yen)

<table>
<thead>
<tr>
<th>Country</th>
<th>Employment</th>
<th>Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>497,579</td>
<td>31,924</td>
</tr>
<tr>
<td>UK</td>
<td>150,641</td>
<td>7,323</td>
</tr>
<tr>
<td>Germany</td>
<td>61,935</td>
<td>5,837</td>
</tr>
<tr>
<td>Belgium</td>
<td>52,609</td>
<td>5,885</td>
</tr>
<tr>
<td>France</td>
<td>39,227</td>
<td>2,648</td>
</tr>
<tr>
<td>Italy</td>
<td>33,884</td>
<td>1,192</td>
</tr>
<tr>
<td>Netherlands</td>
<td>38,281</td>
<td>4,020</td>
</tr>
<tr>
<td>Spain</td>
<td>24,838</td>
<td>1,587</td>
</tr>
</tbody>
</table>

Procurement Value by Japanese Companies in the EU (2016)

5,860 billion Yen (=45 billion Euros)

[Source: METI Basic Survey on Overseas Business Activities]
Japan will recognize 210 EU's GIs. This protects European farmers and producers selling abroad.

The deal will show commitments to internationally recognized environment and labour standards.

The deal will open up Japan’s services market to EU firms.

Expanding business opportunities will:
- Improve productivity
- Accelerate GDP growth
- Create EU jobs – every €1 billion in EU exports supports 14,000 jobs in EU.

The deal will promote Japan’s foreign direct investment in EU because:
- of improvement of investment climate
- Japanese companies would feel more familiar to EU market as a result of closer trade relationship.

The deal will show commitments to internationally recognized environment and labour standards.

(Source: European Commission, Ministry of Foreign Affairs of Japan)
Economical Impacts and Prospects for the EU

Creating Jobs

- Japanese companies employ approx. 500,000 EU citizens and 600,000 EU jobs depend on exports to Japan.
- The Japan-EU EPA is expected to increase trade by 100 billion euros, creating 1.4 million new jobs.

Increase Trade

- Exports in goods and services will increase by 24%, with even more dramatic increases by sectors.
- EU exporters currently pay up to 1 billion euros annually in Japanese tariffs. This will be either eliminated or drastically reduced.

Timeline of the Japan-EU EPA

25 March, 2013       Official Launch of Negotiations
6 July, 2017         Agreement in Principle
8 December, 2017     Finalization of the Agreement
17 July, 2018        Signature of the Agreement

Next steps:
The agreement is now awaiting ratification by the European Parliament and the Japanese Diet.

Entry into force by early 2019 is expected.

[Source: European Commission, Ministry of Foreign Affairs of Japan]
Major Opportunities for EU companies

1. More Exports
   — Grow your trade with Japan.

2. Win-win Business Partnerships
   — Develop new business ties through collaboration with Japanese companies.

3. Investments to Japan
   — Expand your business in the Japanese market.
Tariff Reduction for the EU

◆ Tariff elimination rate on industrial products: 100% in the ratio of items and trade volume
◆ Due to tariff elimination, EU firms benefit from better conditions in the Japanese market, where some other countries have already enacted FTA/EPAs with Japan

Example: Current Export Volume from EU to Japan and Japanese Tariff Rate
➢ Chemicals (includes Pharmaceutical products) : 6,848 billion yen (= 53 bil. Euros)  
  Tariff rate: Chemicals products 2.6–3.9%, Plastic products etc. 3.9%
➢ Textile • Textile products : 1,949 billion yen (= 15 bil. Euros)
  Tariff rate: Handbags 8-16%
➢ Leather • Leather footwear : 2,261 billion yen (= 18 bil. Euros)
  Tariff rate: Leather Footwear 17.3-30 % or 2,400-4,300 yen
➢ Pork: 15,056 million US dollar (=13 bil. Euros)  
  Tariff rate: Gate pricing system + 4.3%(ave.) tariff on fresh pork, up to 20% on processed pork(ham, sausage, etc.)  (* Eliminated in 10 years)
➢ Cheese: 17,973 million US dollar (=16 bil. Euros)
  Tariff rate: up to 40% (* Eliminated in 16 years + Quota)

※1 Euro=126.71 yen (Eurostat average for 2017)
※2 FAO statistics for 2013

(Source: METI, MAFF)
Example: Wine Imports to Japan after Japan-Chile EPA (2007)

- **Wine Tariff**: Bottled wine 67 - 125 yen/L, Sparkling wine 182 yen/L
- **Due to Japan-Chile EPA (2007)**, tariffs on bottled wine from Chile has been decreased and will be eliminated to zero in 2019.
- **Japanese tariffs on wine imported from the EU will be eliminated immediately** at the time that the Japan-EU EPA comes into force.

\*Wine bottled under 2L bottles except for Sparkling wine and Fortified wine

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Source: Ministry of Finance Customs and Tariff Bureau

1 Euro = 126.71 Yen (Eurostat average 2017)
### Expectations of Japan-EU EPA for Japanese Companies

More than half of Japanese companies expect benefits from EU-Japan EPA

#### Impact of EPAs/FTAs

<table>
<thead>
<tr>
<th>Region</th>
<th>Positive Impact</th>
<th>Negative Impact</th>
<th>No Impact</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU-Japan (n=738)</td>
<td>54.3</td>
<td>1.1</td>
<td>19.3</td>
<td>25.3</td>
</tr>
<tr>
<td>EU-Thailand (n=593)</td>
<td>18.0</td>
<td>0.8</td>
<td>46.2</td>
<td>34.9</td>
</tr>
<tr>
<td>EU-USA (n=594)</td>
<td>17.5</td>
<td>2.0</td>
<td>39.7</td>
<td>40.7</td>
</tr>
<tr>
<td>EU-ASEAN (n=605)</td>
<td>15.2</td>
<td>1.0</td>
<td>44.1</td>
<td>39.7</td>
</tr>
<tr>
<td>Japan-UK (n=557)</td>
<td>14.3</td>
<td>1.1</td>
<td>39.8</td>
<td>45.8</td>
</tr>
<tr>
<td>EU-Indonesia (n=582)</td>
<td>12.2</td>
<td>0.7</td>
<td>52.7</td>
<td>34.4</td>
</tr>
<tr>
<td>EU-India (n=582)</td>
<td>11.5</td>
<td>0.9</td>
<td>52.7</td>
<td>34.0</td>
</tr>
<tr>
<td>EU-Malaysia (n=583)</td>
<td>10.3</td>
<td>1.0</td>
<td>54.7</td>
<td>35.0</td>
</tr>
<tr>
<td>EU-Mercosur (n=559)</td>
<td>54.0</td>
<td>55.3</td>
<td>39.2</td>
<td>65.0</td>
</tr>
</tbody>
</table>

#### Number of companies responding that Japan-EU EPA would bring major advantages

- **2015 (n=667):** 34.9%
- **2016 (n=775):** 37.8%
- **2017 (n=736):** 54.3%

- **16.5 points UP!!**

(Source: 2017 JETRO Survey on Business Conditions of Japanese Companies in Europe)
Currently, Japanese manufacturers in EU procure more than 50% of parts/raw materials from EU Countries and Regions of Parts & Raw Material Suppliers for Manufacturing (Breakdown Based on Value)

*1 This graph shows the companies average response rate given for each procurement source. Each company calculated the percentage of their procurement sources to amount to 100%.

*2, “Local” indicates the country/region listed, Countries where respondents are less than 5 were excluded.

*3 Procurement from Russia was 0% in all countries.

[Source: 2017 JETRO Survey on Business Conditions of Japanese Companies in Europe]
Win-Win Business Cooperation in the EU (2)

With a better environment for investment in EU by the Japan-EU EPA, more and more Japanese companies are planning to expand business cooperation in the EU.

Weight of Japanese-affiliated suppliers in Europe
Break down of Local Suppliers for Manufacturing (Breakdown Based on Value)

<table>
<thead>
<tr>
<th>Country</th>
<th>Local companies</th>
<th>Japanese-affiliated companies</th>
<th>Other foreign-affiliated companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU (n=232)</td>
<td>75.5</td>
<td>14.7</td>
<td>9.8</td>
</tr>
<tr>
<td>Western Europe excl. Switzerland (n=201)</td>
<td>78.3</td>
<td>12.4</td>
<td>9.3</td>
</tr>
<tr>
<td>Ireland (n=5)</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>France (n=35)</td>
<td>87.2</td>
<td>5.1</td>
<td>7.7</td>
</tr>
<tr>
<td>Netherlands (n=10)</td>
<td>84.5</td>
<td>12.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Italy (n=8)</td>
<td>79.4</td>
<td>3.1</td>
<td>17.5</td>
</tr>
<tr>
<td>Belgium (n=5)</td>
<td>76.2</td>
<td>19.2</td>
<td>4.6</td>
</tr>
<tr>
<td>Germany (n=48)</td>
<td>74.9</td>
<td>18.2</td>
<td>6.9</td>
</tr>
<tr>
<td>Finland (n=13)</td>
<td>74.2</td>
<td>17.7</td>
<td>8.1</td>
</tr>
<tr>
<td>Spain (n=14)</td>
<td>73.4</td>
<td>8.3</td>
<td>18.3</td>
</tr>
<tr>
<td>UK (n=48)</td>
<td>71.9</td>
<td>15.9</td>
<td>12.1</td>
</tr>
<tr>
<td>Central &amp; Eastern Europe (n=32)</td>
<td>59.2</td>
<td>28.7</td>
<td>12.1</td>
</tr>
<tr>
<td>Poland (n=9)</td>
<td>68.9</td>
<td>26.8</td>
<td>4.3</td>
</tr>
<tr>
<td>Hungary (n=7)</td>
<td>60.9</td>
<td>30.6</td>
<td>8.6</td>
</tr>
<tr>
<td>Czech Republic (n=9)</td>
<td>49.9</td>
<td>40.7</td>
<td>9.4</td>
</tr>
</tbody>
</table>

* "Local" indicates the country/region listed, Countries where respondents are less than 5 were excluded

[Source: 2017 JETRO Survey on Business Conditions of Japanese Companies in Europe]

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Solid Growth in Japan’s Inward FDI

Japan’s inward FDI stock at the end of 2017 was 28.8 trillion yen, renewing a record high.

- The ratio against its nominal GDP was 5.2% in 2016, exceeding 5% mark for the first time.
- The preliminary estimate of the FDI stock at the end of June 2017 is 28.8 trillion Yen (=224 billion Euros) (announced by MOF in Sep 2017).

[Source] “International Investment Position of Japan” (Ministry of Finance), “National Accounts of Japan” (Japan Cabinet Office)
**Attractiveness of the Japanese Market (2)**

**Improvement of economic data since the launch of the current administration**

Since the launch of the Abe administration in December 2012, stock prices, Tankan DI, and unemployment data, have all improved.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2012 (Before the launch of the current administration)</th>
<th>2017 (Calendar year, 10 Aug 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP</strong></td>
<td>498.8 Trillion yen</td>
<td>531.6 Trillion yen</td>
</tr>
<tr>
<td>(Real GDP (seasonally adjusted))</td>
<td>26 Dec, 2012</td>
<td>9 Aug 2018 (Closing price)</td>
</tr>
<tr>
<td><strong>Stock prices</strong></td>
<td>10,230.36 yen</td>
<td>22,598.39 yen</td>
</tr>
<tr>
<td>(Nikkei Stock Average)</td>
<td>26 Dec, 2012</td>
<td>9 Aug 2018 (Closing price)</td>
</tr>
<tr>
<td><strong>Business conditions</strong></td>
<td>Large firms -12</td>
<td>Large firms 21</td>
</tr>
<tr>
<td>(Tankan, current situation, manufactures)</td>
<td>Medium-sized -12</td>
<td>Medium-sized 20</td>
</tr>
<tr>
<td></td>
<td>SMEs -18</td>
<td>SMEs 14</td>
</tr>
<tr>
<td></td>
<td>Survey in Dec 2012</td>
<td>Survey in Jun 2018</td>
</tr>
<tr>
<td><strong>Unemployment rate</strong></td>
<td>4.3%</td>
<td>2.8%</td>
</tr>
<tr>
<td></td>
<td>2012 annual average</td>
<td>2017 annual average</td>
</tr>
<tr>
<td><strong>CPI growth rate</strong></td>
<td>-0.4%</td>
<td>+0.1%</td>
</tr>
<tr>
<td>(Less food (except alcohol) and energy, year-on-year)</td>
<td>2012 annual average</td>
<td>2017 annual average</td>
</tr>
</tbody>
</table>
Attractiveness of Japan in the rankings

**Innovation** (in Global Competitiveness Index)
- Rank in Asia: 1st

**Foreign Direct Investment Confidence Index**
- Rank in Asia: 2nd

**Asia-Pacific City of the Future**
- Tokyo: 2nd
  - Out of 163 cities
  - fDi Intelligence “Asia-Pacific Cities of the Future 2017/18”

**Travel & Tourism Competitiveness Index**
- Rank in Asia: 1st
  - WEF “Travel and Tourism Competitiveness Report 2017”
Perception of the Business Environment in Japan among Foreign-affiliated Companies

- Foreign-affiliated companies are generally performing well and are positive about the economic prospects.
- A questionnaire was sent to about 1,600 companies with focus on foreign-affiliated companies supported by JETRO in their entry into the Japanese market. 260 companies responded.

**Current business conditions compared with the previous year**

- Good (upturning): 42.4%
- Unchanged: 48.6%
- Bad (worsening): 8.9%

**Outlook of business conditions in Japan (over the next one or two years)**

- Good (upturning): 56.6%
- Unchanged: 33.2%
- Bad (worsening): 10.2%

[Source] JETRO Invest Japan Report 2017
The greatest appeal is the “Japanese market”

Top 3 “attractiveness of doing business in Japan” were: No. 1 The Japanese market, No. 2 Stability of nation and society, and No. 3 Existence of good partners, companies or universities with outstanding technology or products.

The attractiveness of doing business in Japan (Top 3 choices)

1. The Japanese market: 65.9%
2. Stability of nation and society: 40.3%
3. Existence of good partners, companies or universities with outstanding technology or products: 28.7%
4. Existence of world famous global companies: 28.3%
5. Well-developed infrastructure (traffic, logistics, ICT, energy, etc.): 24.4%

n=258
Japan aims to create a society where we can resolve social challenges by incorporating the innovations of the Fourth Industrial Revolution (e.g. IoT, big data, AI, robot, and the sharing economy) into every industry and social life. Japan will take the lead to realize a super-smart society, which is Society 5.0.
Japanese New Regime: “REGULATORY SANDBOX” scheme

Launched a new scheme for carrying out **trials freely for new businesses for a certain period of time**, without conforming to existing regulations (adopted by the Diet in May 2018).

**Feature of “REGULATORY SANDBOX” scheme**

**“Let’s try it first!”**

- In case that a relationship between aiming new business / new technology and regulation generates a problem

- Periods and participants be limited and then demonstration be conducted

- Data will be collected by demonstration and regulatory reform will be implemented based on it

**Dialogue with market/ policy formulation by demonstration**

**JETRO is in charge of point of contact for foreign companies**

- “Due to the regulation of the law, it seems hard to commercialize the business. How can we make it...?”

- Consultation

- Besides introducing the Sandbox scheme by staff in charge at home and abroad, JETRO makes a contact with Cabinet Secretariat.

- Cooperation

- As a center of point of contact, coordinate with each competent ministries and agencies as well as support creation of application forms

- Request for consideration

- In addition to conducting demonstration experiments, competent ministry will review the regulatory system
**Japan’s Example of “Regulatory Sandbox”**

○ Utilizing the system to remove gray zone areas on ride share services

**Example : Medium-long distance carpool matching system**

### Case overview

<table>
<thead>
<tr>
<th>[Law] Road Transport Act</th>
<th>Inquiry details and results</th>
</tr>
</thead>
<tbody>
<tr>
<td>[Applicant]</td>
<td>○ The company was considering a service which matches drivers who travel medium-to-long distances by car and passengers who need rides for the same distances, whereby the passenger pays the actual costs (gas and road toll) of travel.</td>
</tr>
<tr>
<td>• Notteco Co., Ltd</td>
<td>○ The company inquired whether this driving service applies to passenger car transportation businesses regulated by the Road Transport Act.</td>
</tr>
<tr>
<td></td>
<td>○ It was determined that the company’s service does not fall under the regulatory scope of the Road Transport Act since payments are price-capped at actual costs of gas and road tolls that the driver incurs.</td>
</tr>
</tbody>
</table>

### Commercialization status, etc.

(Voice from company)

- Following this result, the company proceeded with preparations for offering the service.
- The company is considering working with local governments and providing the service since the gray zone areas have been clarified.
EU’s Foreign Direct Investment in Japan

Japanese FDI position trend

(unit: billion Yen)

Japanese FDI position (Regional Breakdown)

Source: Bank of Japan
European-affiliated companies’ performance in Japan

Turnover of Foreign-Affiliated Companies in Japan

Unit: billion Yen

Turnover breakdown of Foreign-Affiliated in Japan (2015)

European 57.0%
American 28.3%
Asian 11.0%
Other Regions 3.8%

Turnover of Foreign-Affiliated per company

(Unit: million Yen)

European Companies earn more than companies from any other regions!

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With 45 offices in Japan and more than 70 offices in over 50 other countries across the world, JETRO assists foreign-affiliated companies planning to start or expand their business in Japan.

Support for establishing a business in Japan

**Overseas office & HQ:**
- Provide information on markets and industries
- Governmental approval and licenses
- Business models
- For setting up a business base in Japan, help to solve problems relating various filings, regulatory, or business issues.

**In Japan, JETRO IBSCs:**
- Provide expert advice (taxes, accounting, human resources, social security, real estate, etc.)
- Offer temporary office space (at IBSC in six major cities in Japan)
  - Tenancy period: Up to 75 Business days in principle (free charge up to 50 business days)
  - Tenancy Fee: Free (Deposit and communication fee are required)
  - Common facilities: Conference rooms, multipurpose hall, business library

**Domestic offices and local governments:**
- Provide information on regions throughout Japan (location sites, local incentives, etc.)
- Provide information for expanding business base