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New-generation trade agreement with Japan: Significance to EU Companies

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ABSTRACT

Objective: The New-generation trade agreements, which include the agreement with Japan, provide wide coverage – not only the liberalisation of trade in goods or services but also the protection of intellectual property rights, the public procurement market, sustainable development and others. This paper aims to demonstrate key provisions and (both ex post and ex ante) opportunities that the agreement creates for EU companies.

Research Design & Methods: The research methods include a critical review of existing literature, an analysis of relevant legal and official documents of the European Union, as well as the provisions of the EU-Japan trade agreement. The empirical research focused on Eurostat data.

Findings: The provisions of the EU-Japan agreement provide an incentive for European companies to strengthen their position on the Japanese market. The elimination of import duties and other barriers to trade in Japan in relation to certain agricultural products on the entry into force of the agreement contributed to higher exports from the EU for these groups of goods. What might be expected is the additional effect of the liberalisation of bilateral trade on third countries. In fact, standards or rules agreed by Japan and the EU may become even more attractive to third countries, as their adoption would facilitate access to two large markets.

Implications & Recommendations: Japan is a relatively important trading partner for the EU and vice versa. One of the biggest achievements of the agreement made between the European Union and Japan includes the wide and deep liberalisation of trade in goods. Despite the fact that the overall level of tariff protection is relatively low, there are still some groups of goods for which the protection in the form of customs duties constitutes an important barrier, as a result of which the conditions for competing on the partner's market deteriorate. It seems that EU entrepreneurs should make more use of the opportunities which are created by the provisions of the free trade agreement with Japan. So far, the trade crisis caused by the pandemic has stood in the way.

Contribution & Value Added: Research conducted so far is of an ex ante nature, both regarding the provisions of the agreement (publications written before 2018) and the evaluation of its potential effects on economy, trade, production or selected sectors. The research carried out in this article is of an ex post nature; it covers the period following the entry into force of the agreement and does not present any growth scenarios or forecasts, as was the case in the existing research. The article attempted to juxtapose the provisions of the agreement with Japan with trade conditions applicable to EU companies, as well as with the growth rate, volume and coverage of bilateral trade in goods.

Article type:	research article
Keywords:	new-generation trade agreement; free trade agreements (FTAs); Japan; the European Union; customs duties; non-tariff barriers
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INTRODUCTION

The European Union has made a number of preferential trade agreements (PTAs) that provide for reciprocal preferences. The EU's PTAs vary substantially, depending on partners. They can be classified into four types:

- "First generation" trade agreements, i.e. focused on trade in goods and tariff elimination, negotiated before 2006. They include agreements with: Norway, Switzerland, eight Mediterranean countries, Mexico and Chile; Customs Union with Turkey, Andorra and San Marino; Stabilisation and Association Agreements with five Western Balkan countries.
- Economic Partnership Agreements (EPAs) with the African, Caribbean and Pacific regions are centred around development needs and support the gradual liberalisation of trade with partner countries.
- Deep and Comprehensive Free Trade Agreements (DCFTAs) focus on strengthening economic ties between the EU and its neighbours by bringing their regulatory framework closer to EU law. They include agreements with Ukraine, Georgia and Moldova.
- new or "second generation" free trade agreements are agreements negotiated after 2006 with selected third countries that go beyond trade in goods, also covering services and potentially other aspects such as procurement, intellectual property rights, customs cooperation, sustainable development and/or some investment related issues. They encompass agreements with South Korea, Colombia, Peru and Ecuador, Central America, Canada, Japan, Singapore and Vietnam.

The 2006 "Global Europe" European Commission Communication (2006) set out the main reasons for starting the negotiations of new free trade agreements. They included, first and foremost, economic grounds, second, the fact that the existing trade agreements were ineffective in the achievement of the EU's economy-related goals; third, a deadlock in the Doha Development Round; and finally; commercial policy pursued by the main competitors of the EU, in particular, the United States. The reasons behind choosing major trading partners with whom preferential trade agreements are to be made should be of an economic nature; indeed, attention must be given to their market potential (size and economic growth) and the level of security in exports from the EU (tariff and non-tariff barriers)(European Commission, 2006). The protection of the European trade interests is the prime motive for new free trade agreements. Indeed, the majority of previous first-generation trade agreements and EPAs was justified by political factors, foreign policy, security reasons and trade interests. Nevertheless, ACP countries account only for 4% of the EU's exports, the EU's southern neighbours (twelve countries) represent slightly above 4% of the EU's trade, whereas the Western Balkans countries comprise approx. 1.5%; therefore, trade with these countries is not that relevant for the interests of economic operators from the EU.

In the Union commercial policy strategy, Japan was considered a priority partner of the EU in the context of new-generation free trade agreements. Japan is the EU's second-biggest trading partner in Asia after China and the EU is Japan's third largest trading partner worldwide. In the past, European companies used to face barriers for exports to Japan, which they perceived as impediments preventing them from competing on the Japanese market (high rates on some products in the Japanese customs tariff, low level of internationalization of Japanese standards, technical barriers to trade, which concern, the inability to submit offers in public procurement in some sectors by foreign enterprises). This country is inhabited by more than 127 million citizens, who have considerable purchasing power. This market is of considerable relevance to exporters, service providers and investors from the European Union. The terms of trade with Japan are therefore very important for EU businesses. Detailed research questions include the following issues.

RQ1: What were the main barriers to trade with Japan?

RQ2: What are the main provisions of the Free Trade Agreement with Japan that are particularly important to EU companies?

RQ3: Have there been any changes in trade with Japan in recent years (in particular after the entry into force of the agreement)?

RQ4: Is there a correlation between changes in bilateral trade and the liberalization of trade in goods specified in the agreement?

Research conducted so far is of an *ex ante* nature, both regarding the provisions of the agreement (publications written before 2018) and the evaluation of its potential effects on economy, trade, production or selected sectors. The research carried out in this article is of an *ex post* nature; it covers the

period following the entry into force of the agreement and does not present any growth scenarios or forecasts, as was the case in the existing research. The article attempted to juxtapose the provisions of the agreement with Japan with trade conditions applicable to EU companies, as well as with the growth rate, volume and coverage of bilateral trade in goods.

The structure of the article encompasses, firstly, the reasons for concluding and the main provisions of the new generation free trade agreements. Secondly, the main barriers to trade with Japan and the most important provisions of the EU agreement (from the point of view of European entrepreneurs) are presented. Finally, the volume and structure of bilateral trade in recent years are characterized.

LITERATURE REVIEW

The effects of the EU-Japan trade agreement (EUJEPA) have already been investigated in some research papers. The substantial part of research used the CGE (Computable General Equilibrium) and NQTT (New Quantitative Trade Theory) models in order to determine the effects of the agreement, with various base assumptions (e.g. pertaining to free trade agreements in force) and a number of liberalisation scenarios being applied. One of the first studies, in which the CGE was used, was conducted by the EU's Directorate General for Trade in 2010 (Sunesen *et al*., 2010). Under the maximum liberalisation scenario (if barriers to trade were to be reduced to the greatest extent), the results revealed that the EU's exports might increase by almost 50%. It must be noted that the said research had been conducted before the negotiations of the agreement with Japan began, a time-frame for the reduction of barriers to trade was also not known. Another study on the effects of the EUJEPA had been also performed prior to the commencement of the negotiations, by Francois *et al*. (2011), when the text of the agreement was unknown. Authors analysed both the elimination of import duties and the liberalisation of non-tariff measures, considering 8 liberalisation scenarios.

The results of research performed by Benz and Yalcin (2015) also deserve attention. Contrary to other research, the model adopted by the aforesaid researchers considered intra-industry trade and employment. The labour market model that was developed enabled the authors to quantify the effect of trade liberalisation on employment. The purpose of this paper was to shed light on two possible liberalisation scenarios, less ambitious and comprehensive trade liberalisation.

Before the agreement was signed, during negotiations, the European Commission (2016a) had compiled a report on the agreement with Japan. Calculations were based on the CGE model and simulations provided for the reduction of both tariff and non-tariff barriers. The results showed that reducing customs duties and non-tariff barriers would contribute to an increase in nominal GDP both in the EU and Japan, as well as would be conducive to a growth of their exports. The most recent report by the European Commission's Directorate-General for Trade, published in 2018 (European Commission, 2018a), is based on the provisions set up by the EU and Japan in the EPA. As revealed by the simulations based on the CGE model, by 2035 (when EPA is fully implemented), GDP and exports of both parties to the agreement will rise. A study by Lee-Makiyama (2018) provides detailed information on the EU-Japan relations and informs about the current potential for growth and prosperity in both regions after the full implementation of the economic partnership agreement. Kawasaki (2017), on the other hand, adopted the CGE model to measure the effect of the agreement on basic micro indices, assuming that tariff rates would decline immediately to zero and non-tariff barriers (NTBs) would be reduced by 50%. It seems that the positive effect of trade liberalisation is proved by all existing research, although expected overall benefits (an increase in GDP, growth of exports, employment and production growth) vary from research to research (due to different assumptions for the model and trade barrier reduction scenarios). Most research investigates the overall impact on the entire EU. An exception is research conducted by the Ifo Institute (Felbermayr *et al*., 2017), which covers also the impact of EPAs on individual Member States of the EU. In this context, one has also to mention research regarding the effects of the Agreement with Japan on selected countries (Przeździecka *et al*., 2019) or sectors of economy (Ambroziak, 2017; Drelich-Skulska & Bobowski, 2019; Mazur, 2018).

It must be emphasised that research conducted so far is of an ex ante nature, both regarding the provisions of the agreement (publications written before 2018) and the evaluation of its potential effects on economy, trade, production or selected sectors. Moreover, none of the research conducted so far examines the effects of the pandemic on international trade.

The research carried out in this article is of an ex post nature, covering the period after the entry into force of the agreement, which is an added value of the research. Relying on current data (the latest data pertains to 2020, that is to say, two years after the agreement became effective), it endeavours to evaluate the effects of EU-Japan trade liberalisation on EU companies engaged in trade with Japan and on bilateral trade.

RESEARCH METHODOLOGY

The research methods include a critical review of existing literature, an analysis of relevant official documents of the European Union, as well as the provisions of the EU-Japan trade agreement. Japan is an important trading partner of the EU, hence the conditions for trade, access to the Japanese market are of considerable significance to EU companies engaged in trade. In order to present the conditions for access to the Japanese commodity market after 2018, not only the contents of the EU-Japan agreement, but also of EU documents pertaining to the agreement were used. EUROSTAT data was used to demonstrate bilateral trade streams. Due to text length requirements applicable to the article, the research covers only trade in goods.

RESULTS AND DISCUSSION

Key Provisions of New-Generation Free Trade Agreement with Japan

The European Commission's documents referenced above, indicated that the process for making the EU's trade relations bilateral should encompass not only emerging economies, but also developed countries. A decision on entering into the negotiations of such agreements with third countries is based on economic criteria and aims to provide European companies with greater access to very dynamic and competitive markets, specifically, in Asia.

Due to the fact that EU Member States and Japan hold membership in the World Trade Organisation, before making the agreement, both economies had applied the rates of customs duties based on the MFN (most favoured nation) clause. Furthermore, around one-fourth of goods is not subject to import duties in both regions (Table 1). The average applied MFN duty rates for all goods in Japan and in the EU are low and amount to 4.4% and 5.1% respectively. The EU has a lower average MFN duty rate on agricultural products (both simple and trade weighted averages) than Japan and higher average duty rate on non-agricultural one. The average EU duty rate for non-agricultural products is around one-third of the tariff applied to agricultural products. In Japan, the weighted average duty rate for agricultural products is seven times higher than for non-agricultural products (Table 1). As regards non-agricultural products, relatively high customs duties in Japan are levied on leather, footwear (10.1%). For agricultural goods, particularly high import duties are imposed in Japan on dairy products (an average MFN rate – 89.3%), coffee, tea (15.1%), cereals and preparations (34.6%), sugars and confectionery (22.1%), beverages and tobacco (14.4%), as well as animal products (11.1%) and oil seeds, fats and oils (12.9%) (WTO, 2021). Furthermore, agricultural subsidies (state aid) are considerable both in the EU and Japan. In 2016, estimated annual support for manufacturers in Japan, measured by annual gross transfers for agricultural manufacturers, amounted to approx. 48% of total farm proceeds (EUR 38bn in aggregate), compared to 21% of total farm proceeds in the EU (EUR 90bn in aggregate) (OECD, 2017). This explains, to a certain degree, why the EU urged Japan during trade negotiations to allow, as far as possible, duty-free access to the Japanese agricultural market.

Furthermore, it must be noted that an average rate applicable to imports from Japan to the EU, similarly to the import-weighted one, in 2018 (before the agreement was made) was relatively high (28% and 16% respectively) with respect to agricultural products (according to tariff lines), while with respect to non-agricultural products, it was low (4% and 1.4% respectively). An average tariff rate (also

an import-weighted average rate) in Japan in relation to agricultural products imported from the EU was nearly 50% lower. As for non-agricultural products, an average tariff rate and an import-weighted average one were higher than in the EU (Table 1).

Table 1. Rates of Customs Duties in European Union's and Japan's Customs Tariff in 2018 and 2019* (%)

Specification	Total	Agriculture	Non-Agriculture
European Union			
Simple average tariff rate MFN applied	5.1	11.2	4.1
Trade weighted average tariff rate	2.9	8.3	2.6
Duty-free tariff lines (% of all tariff lines) (MFN applied)	27.0	18.9	29.3
Simple average of MFN duties based on tariff lines in relation to imports from Japan	–	25.7 (27.6)	3.9
Trade-weighted average MFN duty in relation to imports from Japan	–	15.3 (16.2)	1.4
Duty-free imports from Japan (% TL)		48.5 (23.1)	94.5
Duty-free imports from Japan (Value in %)		40.4 (18.0)	93.4
Japan			
Simple average tariff rate MFN applied	4.4	15.8	2.5
Trade weighted average tariff rate	2.3	13.3	1.3
Duty-free tariff lines (% of all tariff lines) (MFN applied)	40.5	24.5	44.5
Simple average of MFN duties based on tariff lines in relation to imports from EU	–	14.4	4.4 (4.5)
Trade-weighted average MFN duty in relation to imports from EU	–	8.2	2.8 (2.8)
Duty-free imports from EU (% TL)	–	11.9	21.0 (21.0)
Duty-free imports from EU (Value in %)	–	30.6	41.2 (41.9)

TL – tariff lines; * Figures for 2018 – before the agreement with Japan entered into force; Figures for 2019 – after the agreement with Japan entered into force; Figures in brackets mean data available for 2018
Source: own elaboration based on WTO (2019a, 2020a, 2020b, 2021).

Regarding non-tariff barriers (NTBs), sanitary and phytosanitary (SPS) and technical barriers to trade (TBT), requirements in Japan are much stricter than international standards and sometimes higher than those in the EU (Felbermayr *et al*., 2017, p. 33). Japan has in place stringent requirements for sanitary and phytosanitary measures, including regulations on food safety and health. The database of the United Nations Conference on Trade and Development relating to non-tariff barriers contains 99 sanitary and phytosanitary measures in Japan having an impact on trade (UNCTAD, 2017).

The negotiations of the EU-Japan trade agreement began in 2013, more or less contemporaneously with negotiations with the USA on the Transatlantic Trade and Investment Partnership (TTIP), however, they gathered pace only when it was clear for the EU that the conclusion of the agreement would be very unlikely (Frenkel & Walter, 2017). Japan also accelerated the negotiations when the new US administration explicitly objected to free trade. The United States' withdrawal from the Trans-Pacific Partnership (TPP) – a multilateral agreement setting out the rules for trade in the Asia and Pacific region confirmed these concerns and forced Japan to further accelerate the negotiations with the EU. After 18 negotiation rounds, in mid-2017, the parties announced the conclusion of the trade negotiations and a new text of the agreement was unveiled at the end of that year (European Commission, 2017a). The EU-Japan Economic Partnership Agreement (EUJEPA) was signed on 17 July 2018, and entered into force on 1 February 2019 (Agreement between the European Union and Japan for an Economic Partnership). It was notified to the WTO on 14 January 2019 (WTO, 2019b). It is the world's largest free trade area with signatories together accounting for nearly one third of world GDP whereas economic operators from the EU may save up to USD 1 billion of customs duties paid for exports to Japan each year (European Parliament, 2018, p. 7).

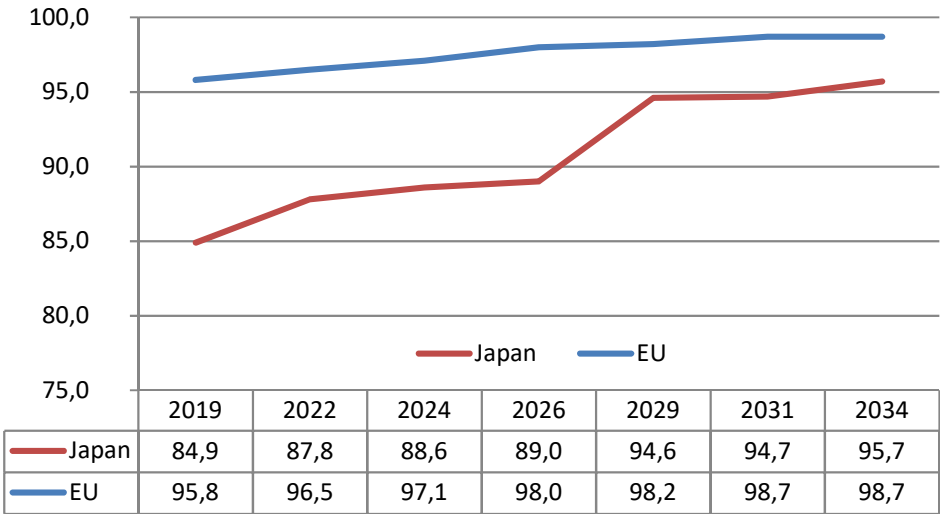
Due to the low level of internationalization of standards in Japan, many goods admitted to trading in the world require special tests or adaptation to different Japanese standards. Therefore, the process of admitting new goods to the Japanese market is usually very time-consuming, costly and

cumbersome. This mainly applies to food products – quarantine, phytosanitary regulations, the approval of flavors or colors.

The specific objectives of the agreement with Japan, which are of crucial importance to EU companies, include, in particular (elaborated based on: own elaboration on the basis of the Agreement between the European Union and Japan for an Economic Partnership):

- The elimination of customs barriers to mutual trade in relation to manufactured and agricultural goods, the facilitation of access to the market for EU food producers.
- The reduction of non-tariff barriers. The negotiations between the EU and Japan related to a number of non-tariff measures which raised EU companies' concerns, as certain Japanese technical requirements and certification procedures often hinder the export of European products to Japan. The example of such barriers which were eliminated and had significance to EU companies includes, e.g. motor vehicles. The agreement ensures that both Japan and the EU will fully adhere to the same international standards relating to product safety and environmental protection, which means that European cars will be subject to the same requirements in the EU and Japan. Another example includes medical devices. In November 2014, Japan adopted the international standard for quality management systems (QMS), which is also valid in the EU for medical devices. In March 2015, Japan adopted an international textiles marking system, which is similar to the one used in the EU. Therefore labels used for textiles no longer have to be changed for clothing exported to Japan. Next example includes "quasi medicines", medical products and cosmetics (European Commission, 2018a). The agreement will facilitate EU companies' access to strongly regulated Japanese market. For technical barriers to trade – the agreement aims ensure that their standards and technical regulations are based on international standards. It will facilitate access to the Japanese EU market for electronic, pharmaceutical, textile and chemical products, cosmetics.
- The liberalisation of the public procurement market (ensuring that EU and Japanese suppliers may compete on a level playing field on both markets). Companies from the EU will have an opportunity to compete on equal terms with Japanese businesses for contracts put out to tender in so-called Japan's "core cities" (i.e. cities having a population of around 300,000-500,000 people or more). The agreement also removes the existing impediments to contracts in the railway sector (Günther, 2017).
- The liberalisation of trade in services and better access to the services markets. The free trade agreement will facilitate the provision of services by EU companies in Japan, for instance: business and financial services, in particular insurance, telecommunications, transport, distribution, as well as postal and courier services. Details are provided in Chapter 8 of the EJEPA on Trade in Services, Investment Liberalization and Electronic Commerce and related appendices (Annex 8B) setting out obligations that go well beyond what the parties agreed at the WTO.
- The protection of intellectual property rights, in particular specific trade marks, copyright, Geographical Indications (GIs) and in particular 56 Japanese geographical indications and 205 EU geographical indications. These products will be given the same level of protection in Japan as in the EU (Pereira, 2018; European Commission, 2018a). This will make it easier for European producers and exporters to expand their marketing activities in Japan.
- Promotion of Sustainable Development. The EU and Japan have committed themselves to implement the fundamental standards of the International Labour Organisation (ILO) and international environmental agreements.

In 2019, 26% of tariff headings in the EU customs tariff was already covered by a zero MFN tariff rate, which accounted for 39% of the EU's imports from Japan between 2016 and 2018. Immediately after the arrangement entered into force, customs duties for further 70% of tariff lines were eliminated. This meant that when the agreement became effective, 95.8% of tariff lines under the EU's customs tariff was duty-free, which accounted for 80% of the EU's total imports from Japan between 2016 and 2018 (chart 1 and chart 2). After the end of the transition period, customs duties will continue to apply only to 87 tariff lines (0.9% of all TLs), which comprises a marginal portion of the EU's imports from Japan between 2016 and 2018 (live animals, vegetable products, prepared food).



	2019	2022	2024	2026	2029	2031	2034
Japan	84,9	87,8	88,6	89,0	94,6	94,7	95,7
EU	95,8	96,5	97,1	98,0	98,2	98,7	98,7

Figure 1. Timeline for Reduction of Tariff Rates Specified in EU-Japan Free Trade Agreement (in accordance with tariff lines)
Source: own elaboration based on WTO (2019c).

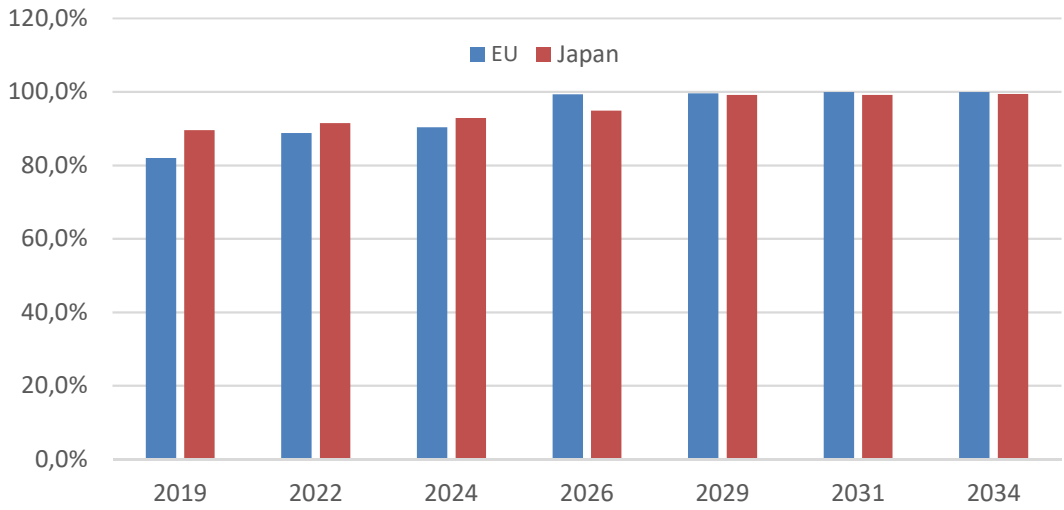


Figure 2. Timeline for Reduction of Tariff Rates Specified in EU-Japan Free Trade Agreement (in consideration of import volumes in 2016-2017)
Source: the same as for Figure 1.

On the other hand, in 2019, 40% of all tariff lines in Japan was covered by a zero MFN tariff rate, which accounted for 73% of Japan's imports from the UE between 2016 and 2017. After the agreement entered into force, customs duties on imports from the EU were abolished in relation to 44.5% of tariff lines. This meant that 85% of tariff lines in the Japanese customs tariff was duty-free, which comprised 90% of Japan's imports from the EU between 2016 and 2017 (chart 1 and chart 2). At the end of transition periods (the gradual elimination of customs duties: up to 15 years), liberalisation will cover 99% of the value of imports from the EU. At the end of the liberalisation period in 2033, only 390 tariff lines will be still subject to customs duties (4.2% of all tariff lines in the Japanese customs tariff), which accounts for 0.7% of Japan's imports from the EU between 2016 and 2017. The 390 lines excluded from tariff elimination are: live animals, vegetable products and prepared food.

Customs duties on manufactured goods will be completely abolished on both sides, however, timelines for the elimination of customs duties in both countries are slightly different. Japan will abolish customs duties in stages only for timber, leather and footwear. Customs duties on timber and timber

products (relatively low: 4%-6%) which are interesting for the EU will be eliminated gradually within seven years. The EU secured better conditions for the export of these goods than under other agreements. It is expected that removing quotas on footwear and leather and leather skins, which hindered the export of footwear from the EU due to extra costs being generated will be even more significant. The sector was traditionally considerably protected and it might be expected that the gradual abolition of high customs duties (30%) over a ten-year period, with customs duties being reduced to 21.6% on the entry into force of the agreement, will have powerful impact on trade flows for footwear to Japan. The effects of eliminating customs duties will be relevant, in particular, also for clothing and chemicals, as customs duties on these goods are still relatively high and the EU has considerable potential for penetrating the Japanese market as regards these goods.

The reduction of customs duties on agricultural products was the principal priority for the EU (European Commission, 2017b). The agreement will eliminate or significant reduce duties on agricultural products in which the EU has a major export interest, such as pork (from 43% to zero rate in 10 years), wine (15% to 0% at entry into force), meat of bovine animals (38.5% to 9% in 15 years), pasta and chocolate (elimination of customs duties in 10 years) (Table 2). The EUJEPA will not change EU rules for beef treated with hormones and GMOs. Like the EU, Japan has strict GMO laws. For cheeses, the EUJEPA will ensure full liberalization for hard cheeses and will provide tariff quotas with duty free access for fresh, processed and soft cheeses (Table 2). The elimination of pork duties is of great importance for EU exporters. In 2017 the EU exported to Japan pork products totalling $1.7bn, securing a 33% share in the market (Atlantic Council, 2018). With lower tariffs, less bureaucracy and higher quotas, it will be easier for European farmers and producers to export and seize new market opportunities in Japan.

Table 2. Pre- and post-agreement customs duties on agricultural products in Japan

Product	Pre-agreement tariff (MNF rate)	Post-agreement tariff
Wine and sparkling wine	15%	Elimination of customs duties at entry into force
Alcoholic beverages	15%	Elimination of customs duties at entry into force
Pork	Quota + average tariff of 43%	Elimination of customs duties over 10 years
Processed pork	8.5%	Elimination of customs duties at entry into force
Pasta	Up to 24%	Elimination of customs duties over 10 years
Chocolate	Up to 30%	Elimination of customs duties over 10 years
Hard cheese	Up to 28.9%	Elimination of customs duties over 15 years
Soft and fresh cheese	Up to 28.9%	Quota equivalent to EU exports
Meat of bovine animals	38.5%	Tariff reduction to 9% over 15 years
Herrings, Mackerel	10%	Elimination of customs duties over 10 years (Herrings); over 15 years (Mackerel)
Milk and cream	25%	Reduction of customs duties to 12.5% over 5 years

Source: own elaboration based on (Annex to the agreement with Japan – EU/JP/Annex 2-A-4/en 7; European Commission, 2017a).

The economic partnership agreement is completely consistent with the European Union's policy, hence there will be no need for amending its provisions or standards of any other field that must be regulated, e.g. technical regulations and standards applicable to products, sanitary or phytosanitary regulations, health and safety standards, GMO, environmental or consumer protection regulations. The exception includes a deviation from the size of bottles, which is expected to facilitate the export of Shoshu, a spirit drink in traditional bottles, from Japan. Japanese Shoshu liquor is traditionally sold in 720 ml or in 1,800 ml bottles (the sizes of spirits bottles in the EU are strictly regulated and only certain other capacities are allowed on the EU market) (European Commission, 2018c, p. 2).

Apart from the liberalisation of trade in goods and services, the aim of the agreement is to reduce non-tariff trade barriers (NTBs). It is expected that this will produce significant economic benefits (European Commission, 2012). This is confirmed by the number of new protectionist interventions undertaken by Japan on EU imports. Following the signing of the agreement with Japan, the number of new non-tariff instruments introduced by Japan decreased to an average of three per year in 2018-2021, while in the previous years there were twice as many (more on this topic: Global Trade Datebase, 2022).

Trade Relations between European Union and Japan in the Context of EUJEPA

Japan is the EU's second-biggest trading partner in Asia after China. At the same time, Japan is the seventh largest partner for EU exports and imports of goods. The balance of bilateral trade in goods between the EU and Japan is negative. 2020 was an exception to that rule (figure 3). It must be noted that the growth rate of exports in 2019 (the year in which the EUJEPA entered into force) was, compared to 2018, considerably higher than of imports (8.4% and 5.6% respectively), which contributed to a four times lower mutual trade deficit in that period.

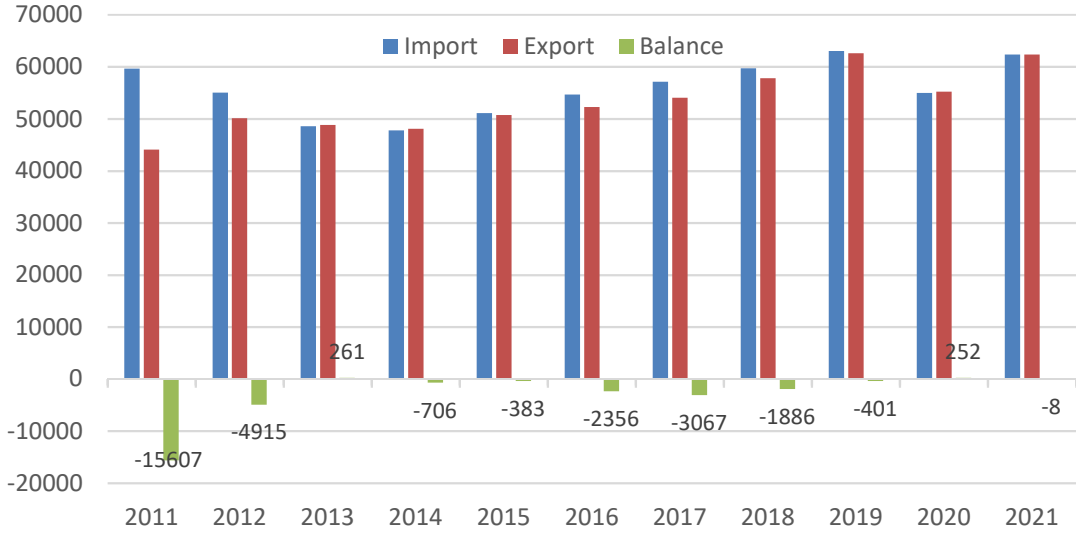


Figure 3. European Union (EU27 after 2019) – Japan Trade between 2011 and 2021, in mEUR
Source: own elaboration based on Eurostat data.

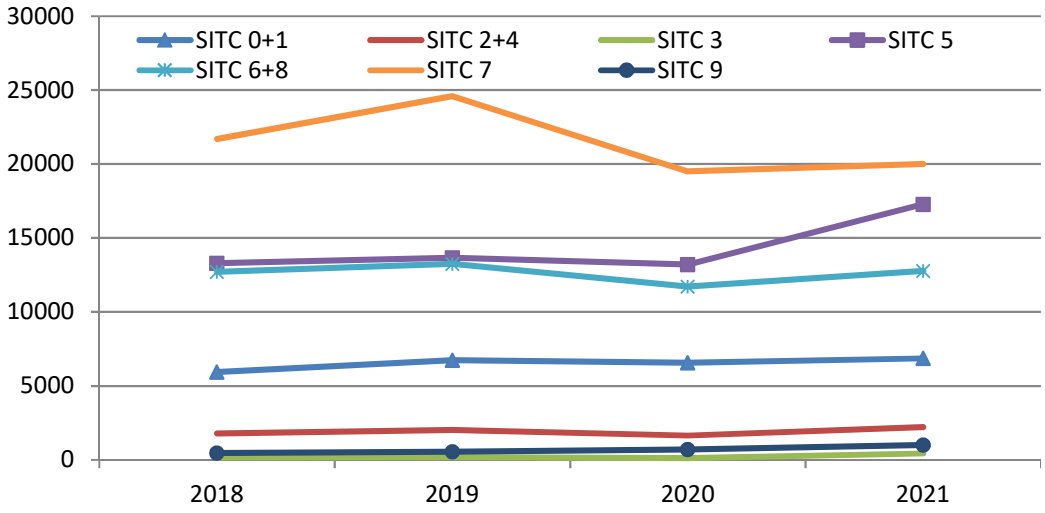


Figure 4. EU Exports to Japan Broken Down into Main Groups of Standard International Trade Classification (SITC)
Note: SITC – Standard International Trade Classification; Goods classified under the following sections: SITC 0+1 – Food, live animals, beverages and tobacco; SITC 2+4 – Raw materials; SITC 3 – Mineral fuels, lubricants and related materials; SITC 5 – Chemicals and related products, n.e.s.; SITC 6+8 – Manufactured goods classified chiefly by material and Miscellaneous manufactured articles; SITC 7 – Machinery and transport equipment; SITC 9 – Commodities and transactions not classified elsewhere in the SITC
Source: own calculations based on Eurostat data.

Having considered the structure of goods covered by bilateral trade, the biggest group includes processed products, with the SITC 7 group (machinery and transport equipment) having the greatest share – 62% in the EU's import from Japan, and as regards the EU's export, approx. 32% (2021) (figure 4 and figure 6). As regards the EU's imports from Japan, the second largest group is section 5 of the SITC, namely chemicals (14.5% in 2021), followed by goods categorised into section SITC 8, i.e. miscellaneous manufactured articles (approx. 13%). Whereas for exports, the second largest group includes section 5 articles (28%), followed by section 8 goods (14%).

Compared to 2018 (prior to entering into the EJEPA), a marked increase in the EU's imports to Japan was seen for the SITC 1 section (beverages and tobacco – by over 40% in 2021) and SITC 5 (chemicals) – by 30% (figure 4). It must be emphasised that Japan abolished customs duties in relation to the import of the aforesaid groups of goods from the EU on the entry into force of the agreement. Whereas the export of goods classified under section SITC 7 (machinery and transport equipment) declined. Nevertheless, it must be highlighted that 2019 (compared to 2018) saw the export of machinery and transport equipment (SITC 7) growing; the export of clothing and footwear also rose. In 2020, export for these groups of goods dropped, given absolute values, however, reasons for that may be associated with restrictions imposed due to the pandemic.

The structure of EU's exports to Japan also changed to a certain degree: the share of goods categorised into section SITC 5 and SITC 0+1 (food, live animals, beverages and tobacco) rose. On the other hand, the share of goods classified under section SITC 7 (machinery and transport equipment) fell (figure 5).

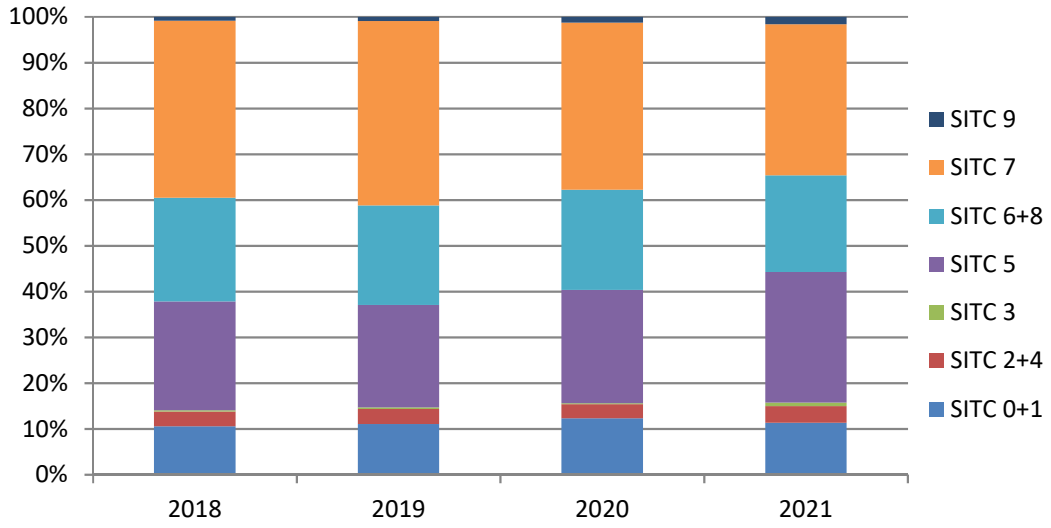


Figure 5. Structure of Goods Exported by EU to Japan, in per cent
Source: the same as for figure 4.

On the other hand, as regards the EU's imports from Japan (after the agreement became effective), there was an increase in the import volume (and the share) of goods classified under section SITC 5 (chemicals), whereas a decline was observed for articles categorised into section SITC 7 (machinery and transport equipment) (figure 6 and figure 7). Nevertheless, it is noteworthy that 2019 (compared to 2018, before the EPA entered into force) saw the export volume for machinery and transport equipment going up (figure 6).

The fact that the provisions of the agreement are attractive to EU economic operators is demonstrated by the degree to which tariff preferences provided for by the EUJEPA are used. The overall preference utilisation rate ("PUR")[1] for the EU-Japan EPA was 63.3% in 2020 (annual average), compared to 53.5% in 2019 (in February 2019, when the agreement became effective, PUR stood barely at 35.4%). PUR for agricultural products was high, in 2020 – 93.6% (compared to 85.2% in 2019). PUR for manufac-

[1]The PUR Index equals the value of the imports actually benefiting from EUJEPA preferential duties divided by the value of the imports eligible for a preferential duties under this agreement.

tured goods reached 45.6%, which meant that it rose proportionately more than PUR for agricultural goods (European Commission, 2021, p. 7-8). In 2020, PUR grew both in monthly and annual terms, and over the whole year: an average annual PUR in 2020 was approx. 10% higher than in the first year of EPA implementation. This happened despite trade stagnation caused by the Covid-19 pandemic.

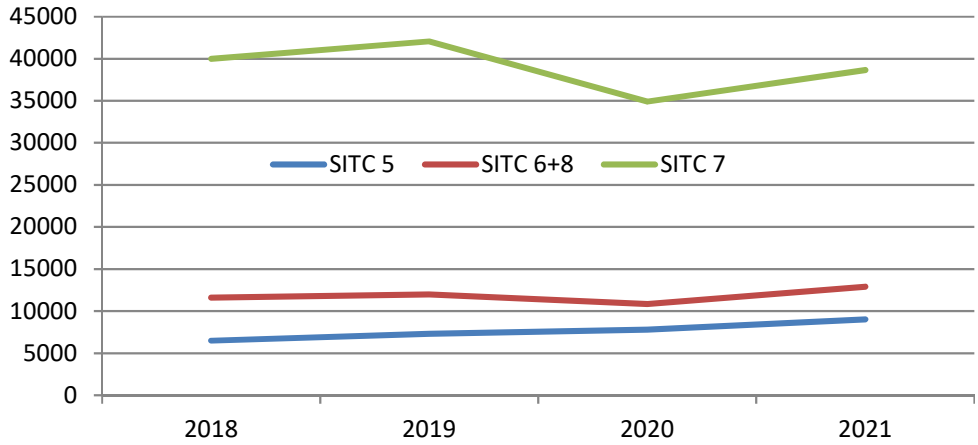


Figure 6. EU's Imports from Japan in Consideration of Three Main SITC Groups
Source: the same as for figure 4.

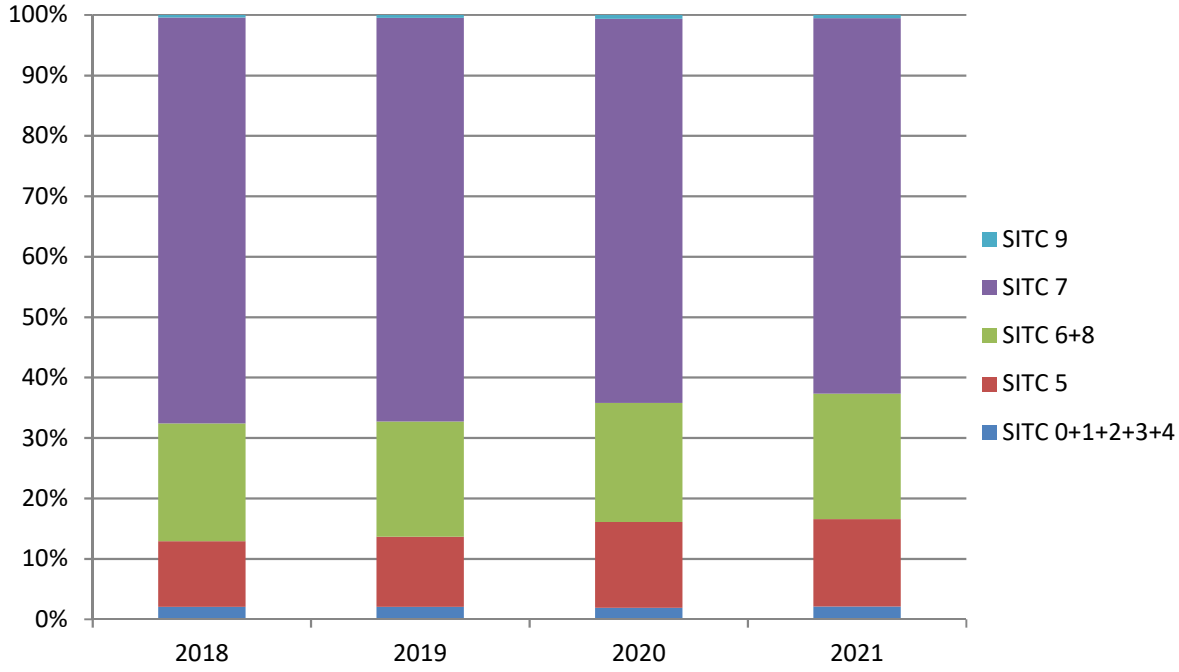


Figure 7. Structure of Goods Imported by EU from Japan, in per cent
Source: the same as for figure 4.

CONCLUSIONS

The main reason for negotiating new-generation free trade agreements referred to in the 2006 strategy for the development of the European Union's common commercial policy is an economic criterion (market potential, economic growth) for the selection of prospective trading partners and de facto a shift from multilateralism to bilateralism. The specific objective is the protection of economic interests

of EU economic operators, especially exporters and importers. The trade agreement of this type entered into by the European Union with Japan fits into this pattern. As a matter of fact, Japan is a relatively important trading partner for the EU and vice versa.

The agreement with Japan stipulates that almost the whole mutual trade (goods) is to be liberalised, and it also provides for the liberalisation of services and elimination of certain non-tariff barriers. One of the biggest achievements of the agreement made between the European Union and Japan includes the wide and deep liberalisation of trade in goods. Despite the fact that the overall level of tariff protection, as a consequence of liberalisation activities under GATT/WTO, is relatively low, there are still some groups of goods for which the protection in the form of customs duties constitutes an important barrier, as a result of which the conditions for competing on the partner's market deteriorate. As demonstrated, the free trade agreement contributed to a reduction in customs and administrative barriers to access to both markets, and consequently, it should be conducive to closer trade and investment co-operation. It may be also an incentive for European companies to strengthen their position on the Japanese market, which is not only important, but also offers good prospects. The elimination of import duties and other barriers to trade in Japan in relation to certain agricultural goods: food, live animals, beverages (some of them were relatively high) on the date the agreement became effective contributed to increased imports from the EU for these groups of goods. There were also minor changes to the structure of goods imported by the EU from Japan: the share of goods classified as section SITC 0+1, and in particular, SITC 5 and SITC 6+8 rose, whereas the share of SITC 7 declined. It must be remembered that from the respective EU economic operators' (exporters', importers') point of view, the liberalisation of trade with Japan is of crucial importance for trade transactions carried out by them. Indeed, the agreement contributed to the improvement of a business environment for companies and economic operators from the European Union engaged in trade with Japan.

The EUJEPA could create attractive business opportunities for European companies. This is also evidenced by a higher preference utilisation rate (PUR). In order to evaluate the potential significance of the agreement to EU economic operators, it must be also considered that non-tariff barriers were a considerable impediment to trade with Japan and generated extra costs. The elimination of these barriers means, among other things, better collaboration in various regulatory areas, to avoid unnecessary differences which generate additional transaction costs and are potentially detrimental to innovation. The European Union and Japan have in many areas similar, stringent requirements for health, environment and food safety. This context facilitates regulatory co-operation, in many cases allowing an opportunity to avoid the wastage of resources for compliance with regulations having a similar purpose, but being different as regards practical aspects. Even if their impact is difficult to assess, more consistent regulations may stimulate innovation, especially when they are achieved by two partners with large markets and state-of-the-art manufacturers. What might be expected is the additional effect of the liberalisation of bilateral trade on third countries. In fact, standards or rules agreed by Japan and the EU may become even more attractive to third countries, as their adoption would facilitate access to two large markets. This standard role of a leader is conditional, first and foremost, on a strong market position, which requires a different assessment of the potential significance of the agreement – an instrument which is not based on the importance of bilateral trade relationships, but on the shared importance of both partners on global markets.

Nevertheless, it is noteworthy that relatively too short time has elapsed since the entry into force of the EUJEPA, and furthermore, one has also to consider the impact of the pandemic (2020), which led to changes in international trade and a drop in trade growth rate. It would be expedient to continue research in the future to examine trends in bilateral trade, in particular, after the completion of timelines for the implementation of customs duties reduction.

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