

Louvain School of Management

Japan – European Union Free Trade Agreement and its future impact on the markets

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Index

ACEA	– European Automobile Manufacturers Association
Bn	– Billions
CAP	– Common Agricultural Policy
CEFIC	– European Chemical Industry Council
CETA	– Comprehensive Economic and trade Agreement
CG	– Corporate Governance
DGT	– Directorate General for trade, European Commission
EP	– European Parliament
EPA	– Economic partnership agreement
EU	– European Union
EUR	– Euros
EURATEX	– European Apparel and Textile Confederation
FDI	– Foreign Direct Investments
FTA	– Free trade agreement
GATT	– General Agreement on Tariffs and Trade
GDP	– Gross Domestic Product
GI	– Geographical indications
GPA	– Government Procurement Agreement
JAMA	– Japanese Automobile Manufacturers Association
JCIA	– Japanese Chemical Industry Association
JEUFTA	– Japan-EU Free Trade Agreement (a.k.a. JEFTA)
JPY	– Japanese Yen
NOM	– Non-Originating Material

NTM	– Non-tariff measure
OECD	– Organisation for Economic Co-operation and Development
OICA	– International Organisation of Motor Vehicle Manufacturers
PDO	– Protected Designation of Origin
TPP	– Trans-Pacific Partnership
TTIP	– Transatlantic Trade and Investment Partnership (also called TAFTA)
USD	– US dollars
WTO	– World Trade Organisation

1. Introduction

Two years ago, when the world was facing an unprecedented era of protectionism, where the global organisations could not resolve and fix the growing distance between the West and the emerging economies, an agreement was signed between two economic powers that both stood for liberalism. On the 1st of February of 2019, was signed the free trade agreement between the European Union and Japan, the JEUFTA.

This agreement, the largest of his kind, is the conclusion of over 6 years of negotiation between the two partners, and will surely, through its importance, set new standards on the world stage and resonate as the opposition to protectionism. The agreement aims to reduce and eliminate tariffs and non-trade barriers, and as a result, increase trade flows between the two partners.

The JEUFTA did not come out of nowhere, the timing of its signature is no accident. In the West, the Trump Administration is isolating their country, unleashing trade wars against most of its major trading partners, and in the East, China's growing influence, and the global dependence on its industry, is troubling. The agreement will also be a contender to the existing EU-Korea free trade agreement, established in 2011, which has shifted some of the trade between the EU and Japan, toward the peninsula. Only a year after the agreement was signed, the world was hit by the covid-19 pandemic, which broke supply chains and forced most countries to put a halt to their trade, challenging the newly signed agreement.

In the context of this thesis in Management, we will analyse the JEUFTA, and more specifically, we will compare the expected impact of the agreement, with the current market situation. We will emphasize some of the key industries of both partners, namely the agricultural industry, the automotive industry, and to a lesser extent, the clothing and textiles industry and the chemical industry. These industries were selected due to their economic importance, and the number of protective measures in place to protect them. Hence, the problem could be given as such: "What is the impact of the EU-Japan Free Trade Agreement on the key industries of both partners, and who benefits most from the agreement?"

Firstly, a brief overview of the general situation between the EU and Japan will be given, followed by a more in-depth analysis of the industries mentioned above, in order to understand their value and worth, and the reasons for their protection. Next, we will look through the expected impact of the JEFTA, and, as far as possible, the impact that the market has experienced. Finally, we will briefly see the impact the coronavirus crisis had on trade flows between the partners.

2. EU – Japan trade relations

General Overview of the situation

Historically, Japan and the founding members of the European Union have traded since they knew of each other's, and this trade has fructified since then. In 2019, Japan was the 7th largest trading partner of the EU, just behind Turkey, and before Norway. (Directorate-General for Trade [DGT], 2021) In 2019, it accounted for 3.2% of EU's imports, and 2.8% of its exportation. (Eurostat, 2021) When looking solely at Asia, Japan comes to be the 2nd largest trading partner of the EU, beaten only China.

For goods

Among EU-27, Germany holds the podium, being the largest importer and exporter of goods from and to Japan, accounting for 32.87% of EU-Japan trade. Next in line are Italy and France, respectively accounting for 10.82% and 10.53%. As for imports, Germany represents 23.28% of all EU's imports from Japan, followed again by Italy, with 16.48% and France accounting for 12.76%. (Chowdhry et al., 2018) Globally, the EU accounts for 30% of world trade.

In general, trade between the two partners mingles a considerable sum of money, reaching EUR 124 billion. In 2019, right before the Covid crises, EU exports to Japan reached their highest level, amounting to EUR 61 Bn, while the imports also reached their highest at EUR 63 Bn, hence a trade deficit on the EU's side (figure 1). (European Commission [EC], 2021) Overall, Japan represents 3.2% of EU imports and 2.9% of its exports. (DGT, 2021)

However, the Covid crisis left its mark on the trade relation between both economies. In the 2019-2020 period, the growth rate collapsed to -12.8% in terms of imports and -12% in terms of exports. Despite these numbers, the average annual growth remains positive, at 0.1% for imports and 1.3% for exports.

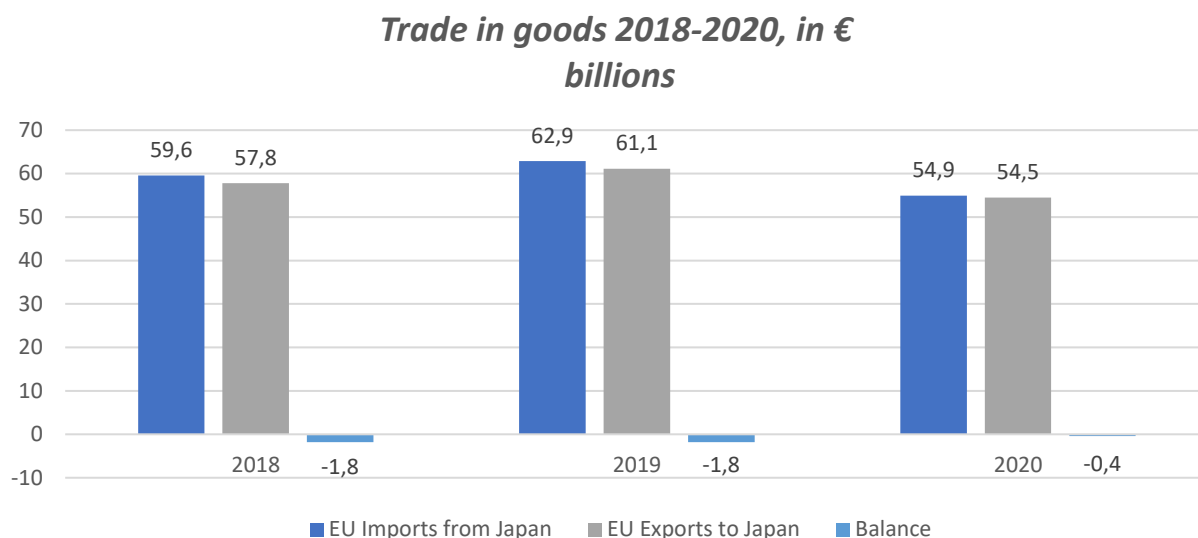


Figure 1. EU-Japan trade in goods

Source: EC Europa

For services

In 2019, the European Union increased its surplus in services trade with Japan, up to EUR 14.7 billion (figure 2). This increase is in line with close to 6 years of widening of the trade balance between both blocks. With regards to the EU's main exports of services to Japan, financial services come on top (23.53%), followed by telecommunications (14.5%) and transports (13.97%). (Chowdhry et al., 2018)

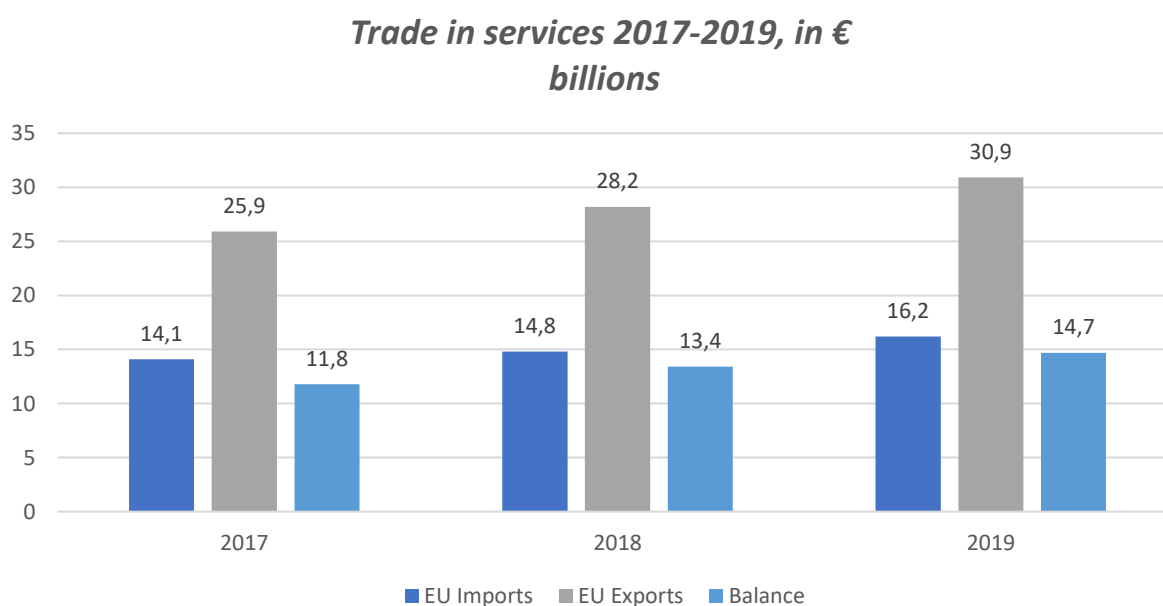


Figure 2. EU-Japan trade in services

Source: EC Europa

Bilateral and direct investments

With regards to Foreign Direct Investments, the EU invested EUR 108.2 Bn in Japan (EC, 2021), accounting for a mere 1.2% of all EU's FDI (EUR 8,990 Bn). Hence, Japan, which gets 40% of its inward FDI from the EU, is only in 13th place in terms of outward FDI for the European Union. (Eurostat, 2021) In comparison, the USA, the first receiver of EU's FDI, get 24%, or EUR 2,161 Bn, of all outward FDI.

Conversely, Europe received less than a quarter of Japan's outward FDI (EUR 217 Bn), making the Union the second-largest destination for Japan. From the EU's perspective, Japan is the 9th largest contributor, accounting for 3% of the inward FDI. (Ministry of Finance Japan, 2021)

In 2018, Japanese multinationals employed around 625,000 people within the EU (DGT, 2018). These multinational companies generated, in Europe, a revenue up to four-time higher than the value of Japan's exports of goods and services to the old continent (EUR 375 bn in 2015 and EUR 77.7 bn respectively). The explanation behind this is that Japanese firms circumvented EU tariffs by manufacturing directly within the Union. For example, 2/3rd of Japanese cars sold in Europe is built and assembled in Europe. (Binder, 2019)

A part of the agreement between both blocks, as will be mentioned later, is about SMEs. In point of fact, European SMEs represents up to 88% of all EU exporters to Japan, and 30% of the value of the exports. While some areas, such as the automotive industry, are dominated by large companies, others are led by SMEs. Among them, the largest industries are Agriculture, Real Estates activities, construction, recorded media, retail trade, and information and communication. (DGT, 2018)

Key industries

In this section, we will analyse the economic and commercial situation of some of the key industries of both Japan and the European Union. These industries have been selected either because of the special importance they have for their region, and that are often subject to protectionist measures (agriculture, automotive industry), or because they reflect the strength of their country in this industry (textile & clothing industry, chemical industry).

In general, tariffs are low both in Japan and in the EU, however, industries like the agricultural one are put under high tariffs to imports in both regions. This is also the case in Japan for clothing and textiles, which is an important market for Southern European countries, or for automotive products in the EU, which are one of the keystones of the Japanese economy.

According to a study from the European Parliamentary Research Service, about the trade agreement:

The principal areas of interest for Japan were the elimination of high tariffs on industrial products and the regulatory problems Japanese companies face in the EU. Import tariffs are comparatively high for the most important Japanese export items, mainly cars, car components and electronics. Japanese firms also expressed concerns about non-tariff barriers in EU markets, such as differences in the regulatory systems and technical standards, for instance in the automotive, chemical and food processing sectors. The reduction of regulatory and non-tariff barriers was a significant issue, as these obstacles affect several key EU exporting sectors, including automotive, agri-food products, pharmaceuticals, and chemicals, as well as telecommunications and financial services. (Binder, 2019, p.4)

On EU side

Agriculture

Agriculture, as seen since the signing of the Common Agricultural Policy (CAP) in 1962, is regarded as a key sector by EU Member states. With an estimated 9.2 million people directly working in agriculture, accounting for 4.4% of total employment, and indirect employment of over 44 million people, the sector is vastly protected and financed by the Union. Some

member states, such as Romania rely heavily on this sector, with one in every four Romanian employed in agricultural activity. (Cook, 2020)

However, this does not make Romania one of Europe's agricultural behemoths, as this status will most likely be given to France (18.55% of the value of the agricultural production, or EUR 77 bn), followed by Germany (14%, EUR 58.2 bn), Italy (13.7%, EUR 57.8 bn) and Spain (12.3%, EUR 51.7 bn). Romania, with 4.6% (EUR 19.0 bn), comes in 7th place, right after The Netherlands (7%, EUR 29.1 bn) and Poland (6.3%, EUR 26.4 bn). In total, these 7 member states account for 76.4% of the total value of the EU's agricultural industry. (Ledroit, 2021)

In 2019, the industry showed its importance to the EU's GDP, accounting for 1.9% of the latest. In a more numeral view, agriculture contributed EUR 176.4 billion toward the GDP of the EU. In addition to that, the sector is also valuable in terms of trade, as it accounted for 9% (EUR 327 Bn) of total EU international trade in 2020, doubling its worth since 2002. The Union exported EUR 185 Bn worth of agricultural goods while importing EUR 142 Bn, leading to a positive balance of EUR 43 billion. Yet, the EU ranked first in terms of trade of agricultural goods, far from the USA in second place, however, it must be noted that this is also due to intra-European trade. (Cook, 2020)

When looking at the composition of the exports and imports, we can see that the EU exports mostly processed food, with beverages, spirits and vinegar being number one and accounting for close to 16.8% of all exports (EUR 31 Bn). Whereas, the EU mostly imported vegetables, especially exotic goods, such as fruits, nuts, coffee, tea, etc (figure 3). (Eurostat, 2021)

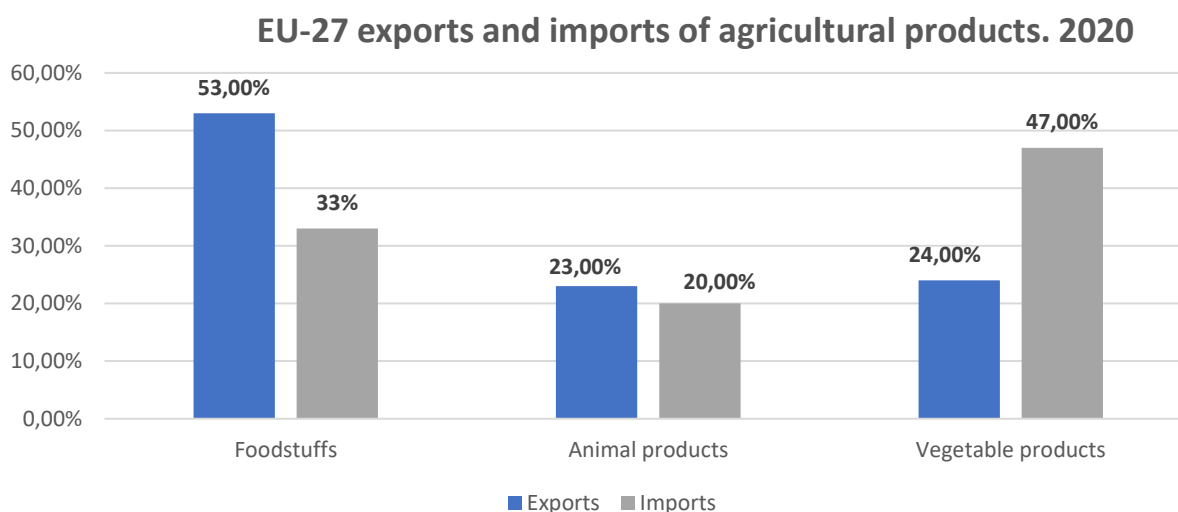


Figure 3. EU share of imports and exports of agricultural products
Source: DGT

The European agricultural industry can count on the European budget to feed its funds. For the 2014-2020 period, the CAP was granted a budget of EUR 408.3 billion¹, meaning an annual grant of slightly over EUR 102 Bn. This is equivalent to 40% of the EU's annual budget, making it the highest spending topic. France, is the main beneficiary of this budget, receiving over EUR 9.5 Bn per year, between 2014 and 2020, this amount represents 63% of all that France received from the EU. Next in line is Spain, with EUR 6.5 billion, followed by Germany with EUR 6.1 billion and then Italy and Poland with respectively EUR 5.37 Bn and EUR 4.38 Bn. Together, the 5 agricultural behemoths receive up to 1/3rd of the CAP budget. (Schmitt, 2020)

As of 2020, the EU imported EUR 342 million worth of agricultural products (excluding fisheries) from Japan, while the exports to the island reached just below EUR 7 Bn. This stark difference can be showcased even more, as the imports of agricultural goods to the EU accounts for only 0.6% of all imports from Japan, while the exports of such goods are worth 12.7% of all Eu exports to Japan. (DGT, 2021)

¹ The 2021-2022 period follows transitional regulation and will extend the 2014-2020 measures until the new legal framework is drawn, and effective in January 2023.
https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/transitional-regulation_en

EU largest agricultural trading partners

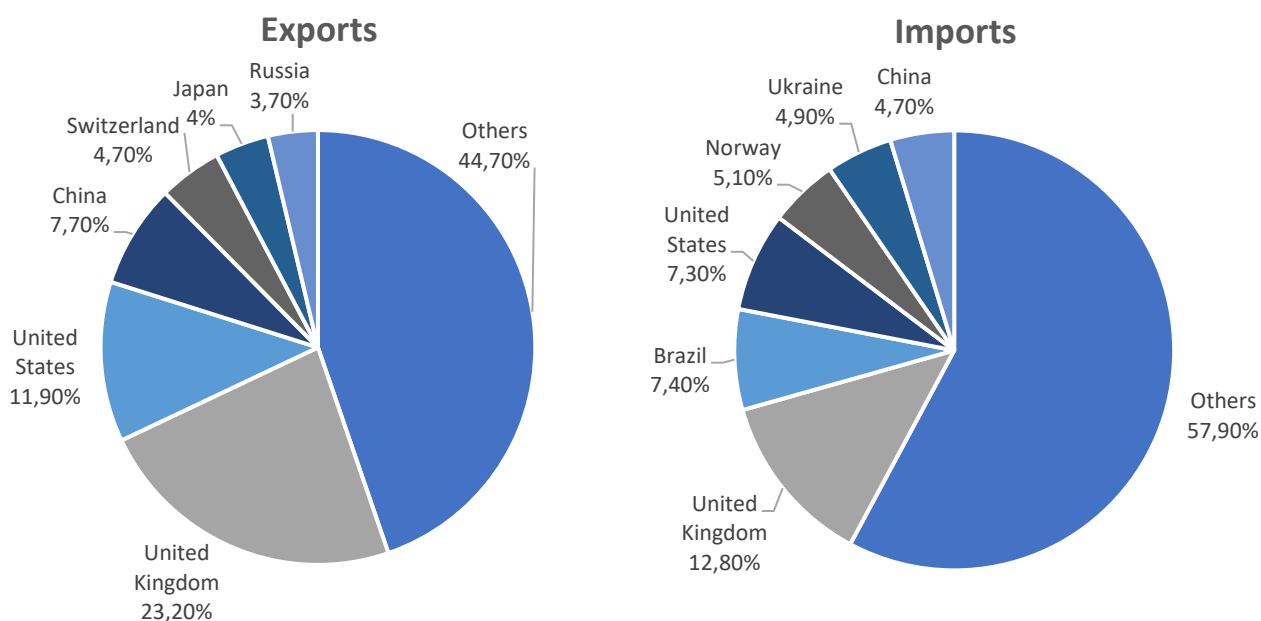


Figure 4. EU-27 exports and imports of agricultural products by main partners in 2019

Source: DGT

Automotive industry

Another key industry to Europe's economy and prosperity is the automotive one. The sector provides direct and indirect jobs to over 14.6 million Europeans or around 6.7% of the EU's total employment in 2019. This percentage goes even higher if looking specifically at employment in manufacturing, as 2.6 million workers are working directly in motor vehicle manufactures, accounting for 8.5% of EU's total employment in manufacturing. Countries like Slovakia and Romania rely heavily on this industry for their economy, as the automotive sector employs 15.8% of their working force. Though these countries have the highest percentage of employment in the EU, Germany remains the first employer in this industry, boasting a staggering 882 thousand direct employees, with France being the second-largest employer, with close to 230 thousand direct jobs. Hence, the industry is regarded as essential as it also provides jobs and even more economic opportunities to upstream and downstream industries, as it supports a vast supply chain. Industries such as steel, chemicals or textiles rely on the automotive sector, as well as repair, garage, or mobility services. (ACEA, 2020)

Overall, the automotive sector generated a turnover worth around 7% of the Union's GDP (EC, 2021), while being the first industry in R&D investments, spending over EUR 60.9 Bn in 2018, accounting for 29% of all R&D spending in the EU-27.

The EU-27 automotive industry produced more than 17 million vehicles in 2019, making the EU the second largest car producer after China (26 million). This production allows the EU to be a huge contender on the global market, with Asia counting for 34.8% of all EU cars' exports, followed by North America, at 32.4% of the total exports. In 2019, the Union exported for EUR 136 Bn, while importing EUR 62 Bn worth of vehicles, leading to a positive trade balance. (ACEA, 2020)

Despite being second in the production of cars, the EU is undoubtedly the largest exporter of automotive products, accounting for 46.6% of the world's trade. In comparison, Japan comes in second, with only 10.2% of all world trade. However, it should be noted that this number comprises intra-European trade of cars. (World Trade Organisation [WTO], 2020)

The EU exported over EUR 11.5 Bn worth of transport equipment to Japan in 2017. (DGT, 2018)

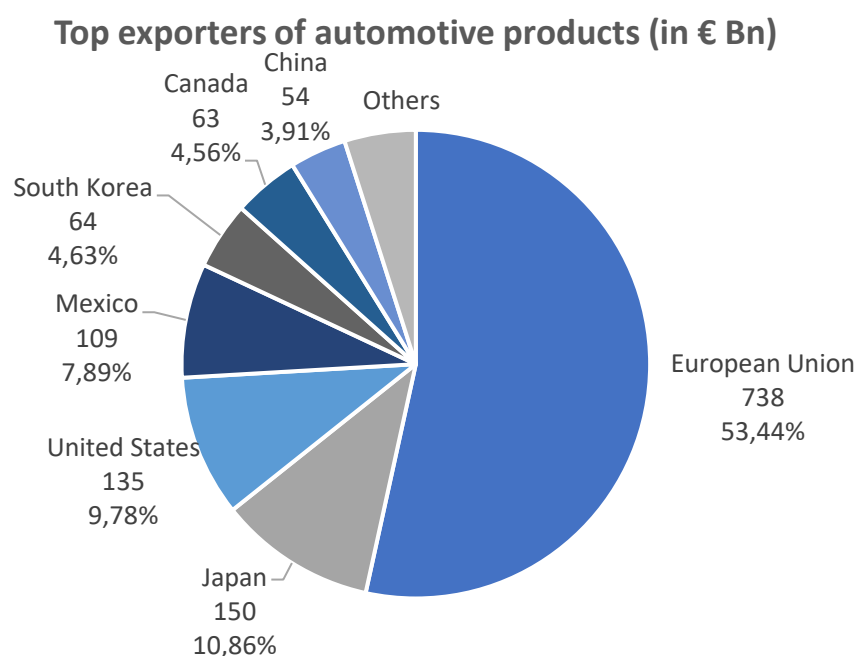


Figure 5. World's top ten automotive exporters
Source: WTO

In a statement, the ACEA gave its support to the signature of the trade agreement with Japan, quoting:

The members of the European Automobile Manufacturers Association (ACEA) are global companies and international trade is an important pillar of the EU automobile industry's competitiveness, generating a trade surplus of more than €90 billion in 2017. Hence, ACEA supports trade agreements that are free and fair, providing mutual benefits. The fact that the EU and Japan signed a free trade agreement (FTA) yesterday is a positive signal for international trade. (ACEA, 2018)

Textile industry

The textile and clothing industry is an essential sector to the European economy and its SMEs. The industry counts 160 thousand companies, hiring a total of 1.5 million Europeans, or around 6% of all employment linked to manufacturing (but less than a per cent of the total working population) while generating a yearly turnover of EUR 162 Bn. SMEs are a key part of the industry, as they account for 90% of the workforce while producing over 60% of the added value.

Once more, the European market is dominated by a few countries, namely Italy, France, Germany and Spain, accounting for 3/4th of the EU production. However, there is a distinction to be made in the type of textile. While southern Europe (Italy, Spain, France, Greece) and some Eastern European countries are more focused on clothing, countries like Germany, the Benelux, Austria, and Sweden, are more focused on technical textiles. Overall, the EU textile industry focuses more on high-end and luxurious products. (EC, 2020)

It is around 20% of the production that is sold outside the EU-27, or a net worth of EUR 67 Bn worth of exportation (EUR 43 Bn worth of clothing and EUR 24 Bn worth of textiles), that is approximately 8% of the extra-EU trade in textiles and clothing. This allows the EU to be the world's second-largest exporter in this industry, behind China, boasting a staggering 40% of the textile trade and 30% of the clothes trade. The United Kingdom is the first export market for the EU-27, importing around EUR 11.5 Bn worth of goods, while Japan is in 8th position with around EUR 2 Bn worth of imports. (Euratex, 2020; WTO, 2020)

However, this industry has a deficit in trade with regards to international trade, as the Union imported in 2019 EUR 30 Bn of textiles and EUR 95 Bn of clothing. Globally speaking, the Union is the second-largest importer in the industry, right behind the United States. The main exporters to the EU are low labour costs countries such as China (€32.5 Bn), Bangladesh (> €15 Bn), and to a lower extend, Turkey (€14.5 Bn).

In 2019, the industry invested EUR 5 Bn for its development, with Italy being the largest investor (26%), followed by Germany (13%), France (9%), Portugal (8%) and Poland (6%). Germany and Poland are the only two countries that invested more in textiles than in clothing. (Euratex, 2020)

As their automotive counterparts, the ACEA, the Euratex encouraged the signature of the agreement, and received it well, saying that:

"It is important, seeing how essential trade is for the sector to grow and flourish, to guarantee open extra-EU markets, based on free but fair competition." (2020)

Chemical industry

The chemical industry is again one of the vital industries to the EU's economy and was even categorized as indispensable by the European Commission. With only over 1.1 million direct jobs, or around 0.5% of the EU's total employment, and 3.6 million indirect ones, the industry yet manages to generate over EUR 543 Bn in turnover, or 4.1% of the EU-27's GDP, making it one of Europe's wealth generators. (Cefic, 2021) It is also a large contender in the manufacturing industry, accounting for 7.5% of its GDP. (EC, 2020) In 2018, the EU could boast of having 9 companies in the top 30 of the leading chemical companies. (Cefic, 2021)

Some countries rely heavily on this industry for their economy, especially Belgium. With the industry generating EUR 65 Bn, or 12.2% of the country's GDP, employing directly and indirectly up to 315 thousand people (6.2%), and representing 1/3rd of all its exports and 2/3rd of all its R&D, the industry is truly vital to the country. Other countries also rely on this sector, usually being the third or fourth-largest contributor to national wealth (table 1). (Ibid.)

Turnover and share of the chemical industries in EU national economies (in € bn)

Country	Turnover of the industry	Part of the national GDP
Belgium	€ 65 Bn	12.2%
France	€ 74 Bn	2.7%
Germany	€ 198.3 Bn	5.1%
Italy	€ 55 Bn	2.75%
Netherlands	€ 62 Bn	6.8%
Poland	€ 64 Bn	10.7%
Spain	€ 66.43 Bn	4.77%
Sweden	€ 36 Bn	6.8%

Table 1. Turnover of the chemical industry for some EU countries

Source: Cefic

Sales-wise, the chemical market is dominated by China, which sold a value of EUR 1.488 Bn, which is equal to what the 6th next largest seller combined sold. The EU-27 itself arrives in second place, producing a worth of EUR 543 Bn, slightly more than the USA (€ 504 Bn), and three times more than Japan, 4th largest producer at EUR 168 Bn.

However, while there is an increasing trend in the value of the Union's exportation of chemicals, the share on the global chemical market is decreasing, dropping from 26.7% in 1999 to 14.8% in 2019. It is expected that, by 2030, the EU's share on the market will drop to 10.5%, while China will grow from 40.6% to 48.6%. Despite this domination in sales of China, the EU managed to retain its first position in terms of exportation. According to Eurostat, the EU exported EUR 411.4 Bn worth of chemicals in 2020 or around 20% of the worlds' exportation. Its main partners are the USA, the UK and Switzerland. (Cefic, 2021)

Importation-wise, the EU, the second-largest importer, bought for EUR 235 Bn of chemicals, to the same partners as for its exportations. Japan for itself is the EU's 5th largest exporter and importer (figure 6). (Eurostat, 2020)

Regarding solely EU exports to Japan, chemical products are still the largest part of EU exports, with over EUR 13.3 Bn worth of them. (DGT, 2018)

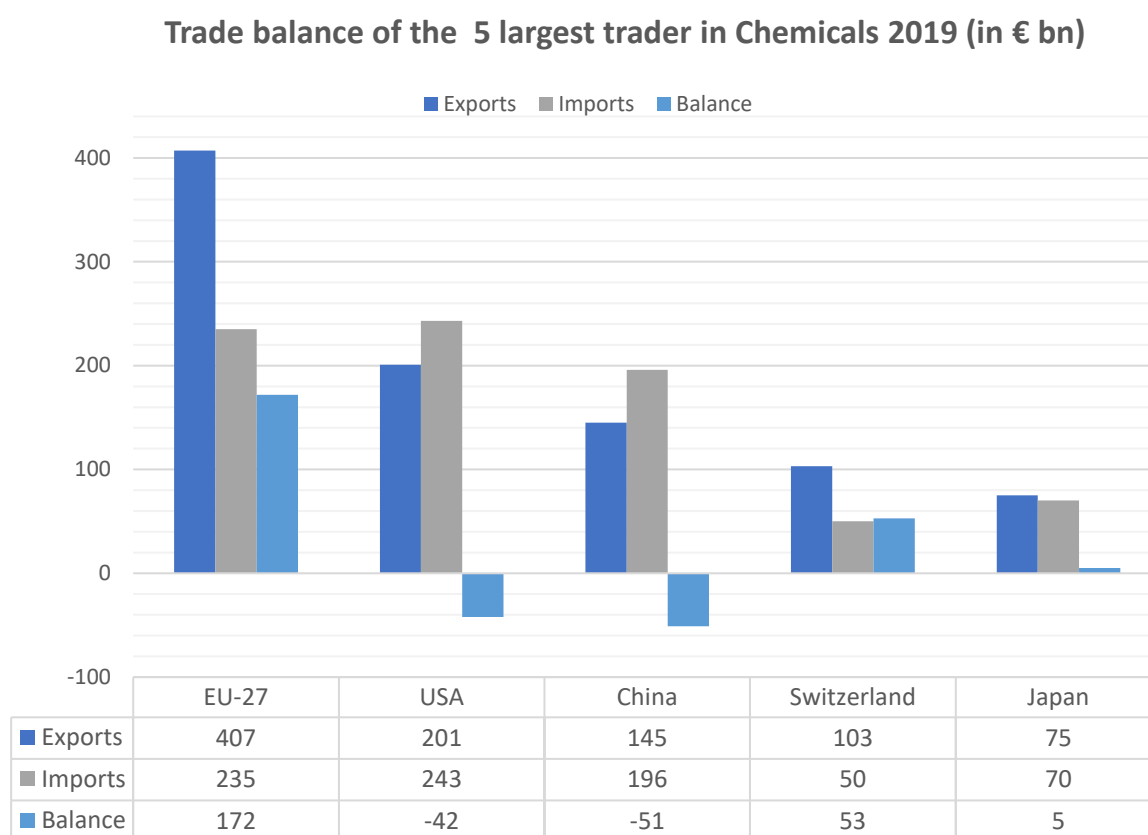


Figure 6. Trade balance of the 5 largest trader in chemicals
Source: WTO

Hence, the EU globally benefits from a positive trade balance. However, this balance exists thanks to 4 markets, namely the USA, the United Kingdom, Russia, and Turkey. These countries counterbalance, and exceed the deficit the EU has with China, Japan, South Korea, and India.

The EU's biggest threat is the low average growth in the industry compared to what emerging economies experience. With an annual growth of 1.4% (Japan being at 1.5%), the EU cannot face China and Russia's growth of 9.3 and 5.5 per cent. (CEFIC, 2021)

On Japan side

Agriculture

The Japanese agricultural, forestry and fishing market is home to 3.8% of total employment while generating 1.2% of Japanese GDP. The total agricultural output of the country has been increasing since 2014. Until then, Japanese agriculture experienced a prolonged period of contraction, losing 25% of its farm households and 50% of its agricultural workforce since the 1990s. This is partially due to the lack of arable land on the island: only 11.6% of the landmass. Currently, the country can only meet 39% of its needs in food. Hence, the country relies essentially on importation. With over USD 71 billion worth of imports of agricultural goods in 2019, and a mere USD 5.2 billion worth of exports, the country presents a large trade deficit. To illustrate the situation, the 126 million inhabitants island represents 4.7% of the world's share of imports of agricultural products and food (4th place), though it improved greatly since 2000 as the country was worth 10.6% of all imports. (EU Business in Japan, 2021; OECD, 2019)

Although this sector can be looked at as less important, it is viewed as one particularly important by the Japanese authorities, due to food security (most of the additives and enzymes considered and declared safe by the WTO are still not approved by Japanese Health Authorities) and cultural reasons. Hence, this topic was one of the sensible issues of the negotiations between Japan and the EU. (European Business Council, 2016; WTO, 2020) As a matter of fact, the Japanese authorities, who face small farms held by families of old farmers, are subsidizing them to maintain them in their farms. The producer support estimate (PSE), or the yearly transfer of money from taxpayers to support farmers and agriculture, is twice as high as the OECD average. However, the decline of production and the slow diminishing of subsidies (while the tariffs remain still), made the domestic price higher than the world's price. (Felbermay et al., 2017)

In general, Japan's regulation allows for easier import of raw materials that will be processed or added to the system internally, instead of the imports of processed or even packaged food. This, in addition to strict hygiene regulations, makes it difficult for European companies to export food toward the Japanese market. (Kongstad, 2016)

Automotive industry

According to the JAMA, the automotive industry employs over 900 thousand Japanese people directly, and 5.42 million people indirectly, making this industry responsible for 8.1% of the Japanese total employment.

Japan Produced around 9.6 million motor vehicles in 2019, which remains in line with the production level of the two previous years. Among these vehicles, 8.36 million were cars. (JAMA, 2020) This important production made Japan the 4th largest vehicle manufacturer in the world, after China, the EU, and the USA, with over 10% of the world's production. (OICA, 2021) This important production allows Japan to be the second largest exporter of cars in the world, exporting half its production abroad (4.8 million units), generating USD 152 Bn. (WTO, 2020) Among them, 11.8% goes toward the EU-27, or 570 thousand vehicles, including 471 thousand cars. (JAMA, 2020) Germany was the first importer with 141 thousand vehicles bought (25%), followed by Spain (13.5%) and Italy (11.4%). In 2021, the exportation of cars accounts for 12.6% of all exports of goods from Japan, and vehicle parts accounts for 4.72%. (Observatory of Economic Complexity [OEC], 2021) Monthly details of the Japanese production can be found in Annex 1.

However, the number of vehicles of Japanese origin could be seen as higher, as Japan produces most of the cars sold in Europe, within the EU. In 2019, it is no more than 1.23 million vehicles that were manufactured in the EU-27, or 60% more than what imported from Japan. (JAMA, 2020)

The EU-Japanese automotive relations are well established, long existing, and mutually dependent. However, the automotive relations are tensed and harsh, as seen by the arrest and evasion of Carlos Ghosn, former CEO of the Renault-Nissan-Mitsubishi alliance. Mr. Ghosn was arrested on the charges of concealment of income in the Nissan financial disclosure. However, many believes that these charges were set up or given to the authorities by executives of the Japanese branch that were against the merging of the companies. (Le Figaro, 2021)

Textile industry

In comparison to the European Union, the textile industry of Japan is not regarded as especially important and protected. As a matter of fact, with textiles and clothing accounting for 0.92% of its exports, Japan does not even appear in the top 10 of textile or clothing exporters, though being the 3rd largest importer of clothes and 6th of textiles. (OEC, 2021)

Japanese tariffs on clothing and textiles remain high, up to 10-12%, despite the reliance on imports. Hence the will of the EU to disband those tariffs to better penetrate the market. (Japan Customs, 2020)

Since the signing of the Trans-Pacific Partnership, Japanese companies, notably the trading house Itochu, started investing in Pacific countries. This includes a USD 45 million investment in the Vietnamese textile company Vinatex, Vietnam's largest textile company, hence making Itochu the second-largest shareholder after the Vietnamese government. This stranglehold allows Japan to partially dominate the textile low-cost production hub that is South-East Asia and competing with China. (Tobita & Ohira, 2018)

Chemical industry

The Japanese chemical sector is the second largest in the manufacturing industry of Japan, after the automotive one. According to the EU-Japan Centre for industrial relations, the Japanese chemical industry had a historic focus on the high production of low value-added products. However, this led the country in a fierce battle with the rest of Asia that pursued the same pattern of production. Now, Japanese manufacturers are increasingly looking toward high value-added products with high growth rates, however, this is a risky shift. (EU Business in Japan, 2020)

The industry currently employs 944 thousand people, or 12% of the manufacturing workforce, and is dominated by a few companies, notably Mitsubishi Chemical Group, Mitsui Chemicals Inc, Sumitomo Chemical, Toray Industries, and Shin-Etsu Chemical. All these companies are among the top 30 leading chemical companies. In addition to that, Mitsui,

Sumitomo, and Toray are part of the same Keiretsu². The industry generated over EUR 135 Bn of value-added in 2018. (JCIA, 2021) The extensive list of the leading chemical companies is to be found in Annex 2.

In 2020, Japan was 4th in terms of chemical sales, at EUR 168 Bn, and it is expected that its share in the world's sales will drop from 4.6% in 2019 to 3.6% by 2030. Japan also managed to retain an advantageous position on the international trade scene, being the 5th largest exporter of chemical goods, at 7%. However, this is a drop from a place, toward South Korea, as the island was in 4th place in 2008, with 8.4% of the world share of chemical exportation. (CEFIC, 2021) Medicines are the Japanese largest part of its exports, accounting for 28.5% of them, followed by Industrial inorganic chemical products, at 7.8%. However, medical products are the largest deficit product in the Japanese chemical compass, at EUR 177 Bn (second largest being inorganic chemical at EUR 5.5 Bn). Despite this, Japan managed to retain a positive balance of EUR 43 Bn. (JCIA, 2021; WTO, 2020)

The Japanese chemical industry invested a lot in FDI abroad, especially in Europe (EU + non-EU), where it invested around EUR 268 Bn. On a more global scale, Japan invested EUR 341.5 Bn around the world, while its inward direct investment only went up to EUR 25.2 Bn. (Ibid.)

² Relations where a cluster of companies own substantial shares of each-others.

3. Analysis of the Agreement

Origins and international context

On July 17, 2018, former European Council President Donald Tusk and his European Commission counterpart Jean-Claude Juncker, met with former Prime Minister Shinzo Abe and signed the EU-Japan Economic Partnership Agreement. Mr Abe (2019) then said that "*With these agreements as guideposts, as partners that share universal values such as freedom, democracy, human rights, and the rule of law, we shall hoist the banner of free trade high above the sky.*" (The Diplomat, 2018)

This statement puts forward some of the key elements that make Japan and the EU so close to each other. With such-like government types and strict respect for human rights and liberties, it is clear that both blocks share the same fundamental values. Then, their collaboration in different treaties or organisations helped binding and strengthening their relations. Both partners are members of the UN and the WTO, are supporters of the Iran Nuclear deal, of the Paris Agreements on climate change, and since 2018, signatories of a new Strategic Partnership Agreement, promoting collaboration in several areas of interest for both the EU and Japan. (The Diplomat, 2018). This new strategic partnership goes together with the 2017 series of defence cooperation agreements they signed with each other.

After attending several failed rounds of the World Trade Organisation, starting in Doha in 2001, with several returns, in Bali (2013), Nairobi (2015) or Buenos Aires (2017), the industrialized nations rushed toward the signing of bilateral trade agreements to make up for the lack of multilateral agreements. The European Commissioner for Trade at the time, Cecilia Malmström (2017) said that "*All WTO members must simply recognize that we have failed to achieve our objectives. We have not achieved any multilateral result*". The failure of these negotiations is a hit for the EU, as it could have opened more markets to the trade block. (Le Moci, 2017)

In Europe, the European Commission negotiated several Free Trade Agreements (FTA) and Economic Partnership Agreements (EPA) with extra-EU countries, slowly setting new ambitious standards in vastly different areas, and trying to set the new rules of global trade.

It was particularly the case with the TTIP (Transatlantic Trade and Investment Partnership) and the CETA (Comprehensive Economic Trade Agreement). The former, with the United States, and the latter, with Canada, were both criticized and saw the opposition of the Civil Society. The TTIP negotiations, unsuccessful, ended in 2016, and their directives were made officially obsolete by the Council in 2019. (Suzuki, 2017; EC, 2019) As for CETA, though being blocked by the Walloon Government for 6 months, the agreement was signed in October 2016, and partially adopted in September 2017. (EC, 2019; Le Monde, 2017)

While, as previously mentioned, these agreements were both highly criticized, it was not the case for the EU-Japan negotiations of an FTA. Four main reasons were put forward in different studies and analyses. Firstly, the EPA get to grips with old issues like tariffs on cars, agricultural products, and electronics. Though some companies and pressure groups in Japan emit hesitations toward the EPA, the lack of reaction from the civil society led their opinion to be left apart. Secondly, unlike the TTIP or CETA, the agreement does not bring any innovative proposals, such as the ability for multinationals to take legal actions against a State. Then, the Japanese experience difficulties imposing its regulations, both at the ministerial level and at the business level. Finally, the lesser scale of the agreement in comparison to TTIP or the TPP (Trans-Pacific Partnership).

However, though it seemed that both Parties were ready to close the negotiation quickly, it could have been only under the impulse of the failure of the agreements with the USA. Indeed, the EU-Japan negotiations started already in May 2011, under Prime Minister Naoto Kan, and was not the number one priority for both partners. As a matter of fact, it was more troublesome on the Japanese side than it was in Europe. In fact, many pressure groups, and politicians defending specific industries were firmly against the agreement, while some ministries did not know where to position themselves. Eventually, it is thanks to former Prime Minister Shinzō Abe's strong leadership, and the withdrawal of the USA, under the Trump Administration, of the Trans-Pacific Partnership, that Japan eventually signed the treaty. The void left by the new protectionist stand of the USA, and the imposition of tariffs on steel and aluminium, left the door open for the JEUFITA to set new standards in trade and fill this void

by endorsing a leadership role. This is what Mr Abe saw, and, honest toward his third Abenomics³, he moved the negotiations to a position of direct importance. (Suzuki, 2017)

To dig deeper into the TPP, and the impact of former President Trump's withdrawal from the agreement, Japan undoubtedly experienced a big loss. In truth, the TPP, in comparison to the JEUFTA, is more important, simply by the fact that the agreement encompasses 800 million people, while covering 40% of the world's trade. The withdrawal will have a more long-term impact, as said by Mr Abe, as it will no longer be negotiable. Hence, if the new Biden administration, or the next one, is willing to re-join the agreement, they will have to start negotiations from scrap. (BBC, 2017)

Another reason behind the common will to conclude the negotiations, is the decline of both blocks' shares in exports and imports toward each other. In fact, since 1990, Japan's share of EU's exports fell from 6.9% to 2.8%, while its share of EU's import dropped from 12% to 3.2%, at the year of the signature of the Agreement. This drop was a source of concern for both Japan and the EU, due to their political and strategical proximity. This drop could partially be explained by the EU-Korea FTA signed in 2011, which diverted some of the trade relations from Japan to South Korea, but also because of the growing importance of China and other smaller markets on the world's stage (Chowdhry, 2018) With both these agreements, the EU is reinforcing its presence in the Pacific region. (Binder, 2019)

Finally, another reason behind this pursuit of a strong partnership lies in China's Belt and Road Initiative. This initiative, named that way by President Xi in 2013, is a gigantic plan to connect through both terrestrial and maritime routes, Asia to Africa and Europe. To achieve this program, China is investing a colossal amount of money in poorer countries to improve their infrastructures (roads, ports, airports, telecommunications & power plants). (European Bank, 2020) Some consider that the EU-Japan deal is a way for PM Abe to show that Japan is the quality alternative to China, while former European Commission President Jean-Claude

³ A term used to refer to former Prime Minister Abe's three policy arrows. The one referred to, here, aims to implement structural reforms, including the establishment of economic partnerships.

Juncker (2019) said that *"It is a question of creating interconnections between all countries in the world, and not merely dependence on one country."*

Neither of them ever mentioned China directly, however this route created by the EU and Japan is an equivalent alternative to President Xi Jinping's silk road. Japan and the EU together have the capacity to counter China's growing influence, either through their respective investment abroad, or through the different trade deals they sign around the world, notably Japan with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. (Pesek, Asia Times, 2019)

Another event that led Japan to reinforce its drive to distance itself from China and to reinforce its relations with its allies, is the Covid-19 pandemic. Indeed, Japan, but also the EU had to acknowledge their excessive reliance on China, especially with Chinese produced critical goods. Through the relief package launched by the Japanese authorities to help the country, former Prime Minister Abe designated USD 2.1 bn to companies deciding to move supply chains back to Japan from China. The administration also granted a smaller package of USD 220 million to companies who were moving away from China into ASEAN countries. (Dharish and Simran, 2020; Kuo, 2020) This shift will, nonetheless, beneficiate other Asian countries, such as Vietnam, which is open to foreign investment, low energy costs and a pro-business government. (Takeo and Jamrisko, 2020) Other countries, namely India and Bangladesh, will also beneficiate from that, due to their opposition to China (especially India), and thanks to the Japanese initiative to add these countries as target locations for nearshoring. (TBS Report, 2020) As for the EU, the Commission released, in early 2021, its Indo-Pacific Strategy policy paper, that directly put the EU and China in a certain loggerhead. The paper put in perspective the rising concerns the EU has over China's geopolitical assertiveness. This situation is reinforced by the signature of the defence deal with Vietnam, one of China's maritime rivals, but also through tighter defence cooperation with South Korea, Australia and recently, Japan. Finally, the independent decision of some Member-states to condemn publicly the violence against the Uighurs and other Muslim minorities, combined with the critics over China's violation of national waters of its neighbours, helped to dig a trench in the diplomatic relations of the two powers. (Heydarian R.J., 2021)

Regardless of the reasons that pushed both blocks to negotiate a trade agreement, it covers one third of the world's trade, and over 25% of the world's GDP, while encompassing over 574 million inhabitants⁴. The EU now has a preferential access to the world's third largest economy and a market of 126 million people, while Japan beneficiaries from access to the single market and its 446 million inhabitants. (World Bank, 2021)

In addition to that, it is estimated that over 600 thousand jobs are tied to EU exports to the Japanese market, and that around 550 thousand people are employed by Japanese companies in the Union, or 8% of the EU-27 employment. However, the EU does not have such a strong presence in Japan, employing slightly over 167 thousand Japanese in European companies (1% of the employment). According to the European Commission's estimation, each billion euros worth of exports leads to the creation of 14 thousand jobs, another incentive toward promoting global trade and signing more free trade agreements. This deal, in terms of size, is the largest ever made, making it an historic agreement. (EC, 2018; Eurostat, 2019)

Analysis of the Agreement

The agreement, in force since March 2019, after 18 rounds of negotiation, will liberalize trade between both regions. The EU removed 97% of its tariff's barriers, and by the end of the 15 years transition phase, it will be up to 99% of tariffs line that will be removed. On the Japanese side, 86% of all tariff's lines have been abolished as of the entry into force of the agreement, and 97% will be removed by the end of the staging period. While some industries saw total removal of their tariffs to entry, others saw harsher negotiations from both partners, and saw only partial removal of the barriers. As for the lines of tariffs or quotas that were not removed, especially on the Japanese side, they will be given significant concessions.

⁴ This data is different than what could be find in most news, as this one does not include the UK's population.

As for duties, the EU immediately liberalizes less than 50% of them, while staging the rest will be removed over a period of 15 years. On the other hand, Japan liberalized over 50% of its duties, while removing the rest over a period of 15 years. However, around 99% of all duties will have been removed by 2026, for both partners. Due to the elimination of duties, the EU will lose EUR 2 Bn worth of duties, while Japan will lose half that amount. This led to Japan granting concessions to the EU in areas like non-tariff measures, government procurement, or services. (Directorate-General for External Policies [DGEP], 2018; Binder, 2019)

As a point of comparison, before the entry in force of the FTA, tariffs of the EU-27 for non-agricultural goods were on average at 4.2%, while those for agricultural goods were up to 11.1%. As for Japan, average tariffs for non-agricultural goods were 2.5% while those for agricultural products were at 13.1%. The European Union total average tariffs are higher than Japan, at 5.2% to 4%. (DGT, 2018)

The negotiations also tackled the rule of origin, the protected designation of origin, and several types of non-tariff measures.

Needless to say, the agreement, to be effective on the world's stage, must be guaranteed by the WTO. Before the official signature of the agreement by both partners, the JEUFTA was introduced and notified to the World Trade Organisation, who authorized and validated the agreement, under article 24 of the GATT. (WTO, 2020)

Tariffs & rules

Rule of origin

The WTO defines the Rule of origin as "*the criteria needed to determine the national source of a product. Their importance is derived from the fact that duties and restrictions in several cases depend upon the source of imports*". There is a need to define the origin of a product, though each country has its way to do it, as it will define whether the good is subject to tariffs or not, if anti-dumping duties or safeguards measures are to be implanted, or to define the labelling and the marking requirements.

The GATT impose no specific rules with regards to the rule of origin, leaving each state deciding its requirements. This leads to countries that have substantially different rules than others, complexifying trade and administrative procedures. The WTO often tried to harmonize the rule of origin, but it is not an easy task, yet there is a collective agreement that there is a need for a more harmonized rule. (WTO, 2021)

For a product, whether originating from Japan or the European Union, to enter the partner's market and beneficiate from the preferential tariffs, it must prove its origin through a certificate delivered by the competent authorities. Under article 3.2 and 3.3 of the JEUFPA are defined the requirements for originating products.

Article 3.2 defines the requirements for originating products as "*(a) wholly obtained or produced products as provided for in Article 3.3. (b) products produced exclusively from materials originating in that Party; (c) products produced using non-originating materials provided they satisfy all applicable requirements of Annex 3-B*". While Article 3.3 clarifies what is a wholly obtained product. (JEUFPA, 2019)

Agriculture

The tariffs mentioned in this and the following sections are available in full and exhaustive detail in Annex 2-A Part 2 Section B of the JEUFPA for the European Union, and Annex 2-A Part 3 Section D for Japan.

Japan is the 5th most important market in terms of exports for the EU agricultural industry and beneficiate from the fact that the Japanese have a Western-style of diet. This industry saw some of the harshest negotiations, as both partners have exacting standards toward it, as well as key interest in its protection. This can be seen in the high tariffs charged on agricultural products.

The agreement does not include rice and seaweed, highly protected by the Japanese authorities, while the EU refused any concessions on products prohibited in the Union, such as whale meat. A clause was included in the agreement that allows both partners to review the tariffs and duties of agricultural products in 2024, in order to reassess them or to make more favourable granting.

When looking more in detail and focusing on specific areas of importance to the EU, it can be put forward that some goods went from being almost unsellable in Japan, to viable exports.

As for wine and sparkling wine, the 15% tariffs imposed by Japan were removed at the entry into force. This removal allows the EU wine producers to be competitive with other exporters of wine such as Chile, which benefited from preferential access to Japan's wine market. Wines have seen themselves granted a specific section within the Agreement, under Section C of Chapter 2. The Articles referring to it, from 2.23 to 2.31, details the different phases of integration of the oenological practices of the Parties.

The poultry and egg sector did not see harsh negotiation and will see the removal of their tariffs (rounding at 10%) within 10 years.

On the other hand, beef, pork, and dairy products, which were put under high tariffs and quotas, will see substantial, but slow change and opening.

As for beef, Japan agreed on lowering its tariffs from 38.5% to 9% over 15 years. This diminishing will be guaranteed by a safeguard volume that will enable duties if not complied with. This volume amounted to 43,500 tons at the entry into force and will rise to 50,500 tons within 10 years. This safeguard mechanism is however usable only in the first 15 years of the agreement if not used over 4 consecutive years.

Regarding pork, Japan is highly protecting its pig meat sector, applying a complex import scheme, instead of high tariffs (4.3%). The market is currently gated by a 524 yen per kg price, or roughly € 4. The EU managed to secure a reduction of this gate price, with an immediate drop from YEN 524 to YEN 482 per kg (or € 3.7), and a progressive diminishing over 10 years, up to 50 yen per kg by the end, or around 40 cents per kg. These important concessions are guaranteed by a safeguard volume, just like beef, of 63 thousand tons. This sector is important to the EU, as it represents 30% of all EU exports of agricultural products to Japan.

Finally, another troublesome sector is the one of dairy products. The current Japanese system is based on a limitation of imports, and state-managed prices, through state trading,

supply and demand system and price building. Some sub-sectors of this industry saw full liberalization, as is the case for hard cheeses (total scrapping of their 29.8% tariffs over 15 years, with no volume quotas). Some geographical indications (GI) cheeses will also see the liberalization of their tariff under volume safeguard of 20 thousand tons at the beginning, up to 31 thousand tons over 15 years⁵. It is the case for feta, mozzarella, camembert, etc. As for other dairy products, they will also see considerable improvement, some experiencing full liberalization, other partial reductions of their tariffs, but all of them will be put under a safeguard volume anyway. (JEUFTA, 2019; DGT, 2019)

Comparison of European and Japanese agricultural tariffs pre and post FTA (in %)

	EU		Japan	
	Base tariff (%)	JEUFTA tariff (2035) (%)	Base tariff (%)	JEUFTA tariff (2035) (%)
Rice	26.4	26.4	231	231
Cereal and grains	3.9	0	1.5	1
Other primary ⁶	3.9	0.1	9.5	4.3
Livestock	0.4	0	3.6	0
Meat	2.2	0	5.1	1.1
Fishery	1.5	0	3	0
Dairy	14.6	0.4	28.9	2.9
Beverages	2.4	0	5.7	0

⁵ This volume will see continuous growth past the 15 years delay, but this one will be based on Japanese domestic consumption of cheese, and thus is not yet predictable.

⁶ Vegetables, fruit, nuts, oil seeds, sugar cane, sugar beet, plant-based fibres, crops neck, wool, and silk.

Tobacco	0	0	16	0
Processed food	8	0.3	12	0.4

Table 2. European and Japanese agricultural tariffs pre and post JEUFITA

Source: DG Trade Simulations

The safeguard volume mechanism is, based on article 14 of the GATT, a measure taken to protect a sector of production against a sudden and unforeseen thrust in importations. While the EU maintains safeguard measures for 712 tariff quotas, and Japan 101, with their foreign trade partners, the JEUFITA only grants Japan with safeguard possibilities. As inherently mentioned, these measures are only applicable during the transition phase, according to article 5.3 of the GATT. (WTO, 2020)

The industry will see very few rules of origin requirements applied to its products. The only ones will be on sugar non-origination materials, with a requirement oscillating between 20% and 40% depending on the goods. For highly sugary products, such as confectionery and chocolate, the requirements are kept respectively at 40% maximum non-originating materials in weight, and 30% maximum.

SMEs, representing 96% of the companies working in this industry on the EU side, and accounting for 94% of the share of value exports, will be the largest beneficiaries of these improvements. Hence, the important concessions from Japan were regarded as a huge improvement and will lead to a deeper connection between the EU and the Japanese agricultural industry, while having more local impact in the EU and improving the economy of rural areas.

Overall, the EU will be the main beneficiary with regards to agricultural products, as the Union is a large producer of agricultural goods. To put into comparison, the EU exported around EUR 6.43 bn worth of goods from the industry to Japan, while the island only exported EUR 0.33 bn to the EU⁷. (DGT, 2018)

⁷ This includes live animals and animal products, vegetable products, animal or vegetable fats and oils & foodstuffs, beverages, and tobacco.

However, tough tariffs will now be relatively small, a huge barrier remains, which comes even before exportation. As a matter of fact, the initial cost to validate a product for it to be sold in Japan is high, and some smaller companies might spend a lot of money and resources in its validation, for it to be rejected by the Japanese health authorities. Some fruits and vegetables, though being exempted from tariffs through the FTA, are yet prohibited at the import in Japan. It is notably the case, for European fruits and vegetables, including citrus fruits, red peppers, mangoes, pears, cherries, apples, peaches, walnuts in shell, etc. due to fruits flies and codling moths. If a European exporter yet wants to export its products to Japan, he can still require a test, however it is costly and must be repeated on a regular basis. (Ministry of Agriculture Forestry and Fisheries of Japan, 2021)

Automotive industry

Phasing out of the tariffs of 10% gradually over 7 years. The removal of those tariffs will have a direct impact on the cost-saving of EU car's exports.

However, the EU implemented a "Snap-back" procedure, which allows the Union to reintroduce tariffs if ever Japan failed to reach the levels of the agreements or were to reintroduce tariffs. This tool is available for 10 years. Despite that, the fact that Japan agreed on giving such a powerful tool to its partner only shows the importance and the seriousness of keeping a level-playing field in the industry.

The EU removed immediately all its tariffs on car parts, as this is a way to retain Japanese motor companies in the EU and keep the hundreds of thousands of jobs directly linked to those companies.

With regards to non-tariff measures (NTMs), both partners decided to align themselves to the same international standards for product safety and environmental production. This means that EU and Japanese cars will have the same requirement in both regions, and thus will not need to be assessed and certified when exported to its counterpart. This will lead to much simpler procedures to exports cars from the EU to Japan, but also that Japan and the EU are paving the way for stronger international norms.

The industry also saw negotiations revolving around the rule of origin. With regards to cars and other vehicles, the EU requires a 45% maximum non-originating material. However, for passenger cars, the Union granted a first 3-year where this percentage is at 55% maximum, followed by another 3 years period at 50% maximum.

As for car parts, there is a distinction between chassis with engines and bodies, that follow a 45% maximum non-originating material, and the rest of the vehicle parts at 50% maximum. They were both granted a 3-year period with an extra 5% NOM authorized.

Comparison of European and Japanese automotive tariffs pre and post FTA (in %)

	EU		Japan	
	Base tariff (%)	JEUFTA tariff (2035) (%)	Base tariff (%)	JEUFTA tariff (2035) (%)
Motor vehicles	7.8	0	0	0

Table 3. European and Japanese automotive tariffs pre and post JEUFTA

Source: JEUFTA

As seen and mentioned before, this industry is one of the most important for both partners, in terms of jobs and in terms of trade. In 2019, the EU exported almost EUR 8.3 bn worth of cars to Japan, its fourth-largest export market, after the USA, China, and Switzerland. Hence, Japan accounts for slightly over 6% of all cars sold by the EU on the external market. (DGT, 2018)

While Japan is an important market to the EU, it is not the largest one. However, the situation is not the same when it comes to car imports. Indeed, Japan pushes itself up the podium as the largest exporter of cars to the EU, accounting for 22% of all cars imported by the Union, or almost EUR 11.7 bn. (ACEA, 2019)

This market is also of importance for SMEs, as they account for 50% of all companies working directly or indirectly with the automotive industry. However, while they are almost a majority, they only account for 1% of the value of the market. These SMEs mostly work in insurance, repairing and maintenance, of the manufacturing of specific parts of a vehicle. (DGT, 2018).

Textile industry

The agreement established the elimination of duties immediately upon entry into force of the agreement.

Comparison of European and Japanese textile tariffs pre and post FTA (in %)

	EU		Japan	
	Base tariff (%)	JEUFTA tariff (2035) (%)	Base tariff (%)	JEUFTA tariff (2035) (%)
Textile, apparel, and leather	5.9	0	21.5	0

Table 4. European and Japanese textile tariffs pre and post JEUFTA
Source: JEUFTA

As for the NTMs, there were none to be removed. As a matter of fact, Japan used to require a specific label on each piece of clothes, but the country agreed on signing and joining the international textiles labelling system, removing the last NTMs to the entry. (DGT, 2018)

According to the Euratex, within the first 10 months of the entry into force of the agreement, European exports of textile and clothing products grew by 8.2%. The period, ranging from February 2019 until January 2020, saw EU exports grow from EUR 1.984 bn to EUR 2.151 bn by this time. (Euratex, 2019)

As for this industry, the small and medium enterprises will benefit most from the agreement. Accounting for over 96% of all companies, and accounting for 59% of the value of the industry, they will be the leaders in the growing future of the EU textile and clothing foreign trade. (DGT, 2018).

Chemical industry

The agreement saw the full elimination of duties upon entry into force of the agreement. The industry, though not highly protected, and not subject to a high number of NTMs. The largest improvements were made in line with the standardization and recognition of the analysis and certification that needs to be provided with different chemicals. (DGT, 2018)

Comparison of European and Japanese chemical tariffs pre and post FTA (in %)

	EU		Japan	
	Base tariff (%)	JEUFTA tariff (2035) (%)	Base tariff (%)	JEUFTA tariff (2035) (%)
Chemicals	4	0	1	0

Table 5. European and Japanese textile chemical pre and post JEUFTA

Source: JEUFTA

The industry is composed mostly of SMEs, at around 74% of all the companies active in chemicals. Though they only account for 12% of the value of the industry, they account for most of the employment and the competitiveness in the market lead them to intensive Research and Development initiatives. (DGT, 2018)

Corporate governance

The JEUFTA is unique in its kind, as it is the first international agreement that contains a provision on corporate governance. The provision aims at facilitating the access granted to investors and service providers and contains a binding commitment to the corporate governance of publicly listed companies in their national territories.

The Parties defined corporate governance, in Chapter 15, Article 15.2, as *“the set of relationships between a company's management, its board, its shareholders and other stakeholders; it also provides the structure through which a company is managed and controlled, notably by determining how the objectives of the company are set and the means of attaining those objectives, as well as by monitoring performance;”*

The provision aims at maintaining the effective exercises of shareholders' rights, management transparency regarding key information, independence of directors and accountability of the board, as stated in Article 15.3.1

The provisions on Corporate Governance are reflecting the EU's and Japan's commitments to respect their existing rules, and to showcase their best practices and rules in this area. The provisions are inspired by the one from the OECD code on CG.

As stated in Chapter 15, Article 15.1.2, this provision and insurance of mutual respect is aimed at reassuring EU investors toward Japanese companies. It is essential to attract and encourage investment through honesty and integrity. In addition, Article 15.5 defines the role of the Board of Directors, their responsibilities, the need for its members to be transparent and independent, and their accountability to the shareholders.

In conclusion, the provision has the ability to increase FDI quantitatively, but also qualitatively, by investing more sustainably and responsibly. (DGT, 2019; JEUFTA, 2019)

Public procurement

The European Union and Japan are already signatories of the WTO Government Procurement Agreement (GPA), which set the basic principle of non-discrimination, which ensures that each Party is obliged to provide equal treatment and chances to suppliers, goods, and services of the other parties than to its own. Chapter 10 of the JEUFTA [Government Procurement], under Article 10.1 to 10.7, precises the scope, the specifications, and the commitment to the GPA.

However, the partners included a Procurement Chapter, which widens the scope of application of the previously stated rules, by applying them to additional areas of public procurement. Other additional rules are for example, the commitment to publish procurement notices on a single electronic portal on the internet. Another being that the summary notice should be given in English. However, both sides keep the right to apply non-discriminatory environmental criteria within their own procedures, as given in Article 10.10 of the Agreement.

A significant improvement coming from Japan, is the newly granted access to the procurement of the railway sector, which was so far protected by a clause in the GPA (only 2% of the market was open to foreigners). As of the entry into force of the agreement, European railways companies will come into competition with the Japanese ones. The agreement also gives access to the procurement of telecommunication and insurance. Japan also granted EU companies the right to access the construction sector, after undergoing a business evaluation, called Keiejikoshinsa, as provided by article 10.6.2. (DGT, 2019; JEUFTA, 2019) The openness

to public procurement is a big step forward from Japan, as the public purchase of private goods and services, and the government payroll, accounts for 20% of the Japanese GDP. (Global Economic Dynamics, 2017)

Intellectual property rights and geographical indications

Based on the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights, and the existing EU standards on the topic, the partners included provisions on various aspects of intellectual property. It includes better copyright protection, rules on trade secrets, patent term extension for pharmaceutical product patents and several topics regarding the minimum duration of tests on pharmaceutical products and regulatory test data protection.

As stated in Article 14.2, the parties recognize the necessity of an agreement on the topic, as the goal of having efficient protection of intellectual property, is to “(a) promote innovation and creativity; (b) facilitate the diffusion of information, knowledge, technology, culture and the arts; and (c) foster competition and open and efficient markets”.

Japan and the European Union also affirm their commitment to other international agreements regarding intellectual property, including “(a) the TRIPS Agreement; (b) the Paris Convention; (c) the International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organisations, done at Rome on 26 October 1961 (hereinafter referred to as “the Rome Convention”); [...]; the Patent Cooperation Treaty, done at Washington on 19 June 1970”.

In Article 14, Section B, Sub-section 1, are listed several actors whose intellectual property rights shall be defended. This includes authors, performers, producers of phonograms, and broadcasting organisations.

Regarding geographical indications, the scope and rights are given under the article 14.22 of the Sub-section 3, the article also defines geographical indications as “indications which identify a good as originating in the territory of a Party, or a region or locality in that Party's territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin”. The agreement recognizes the existence of over 200 European agricultural products and offers protection to several dozen Japanese GIs.

The list of these GIs can be found in Annex 14-B under Part 1 (agricultural products) and Part 2 (wine, spirits, and other alcoholic beverages). A review mechanism is included under article 14.30, in order to add new GIs to the list of protected ones. (Ibid.)

Trade remedies

In case of a dispute, the agreement recognizes the right of both Parties to recourse to the WTO rules. It includes the acceptance of transparency and the right of defence during the investigations.

Both partners have also agreed on including a safeguard mechanism that allows the temporary suspension of preferences, in order to allow the domestic industry⁸ to face and adjust to any significant and unexpected increase of imports from the partner. It is under Article 5.2.1 from section B that the mechanism lies: *“If, as a result of the elimination or reduction of a customs duty in accordance with Article 2.8, an originating good from one Party is being imported into the other Party in such increased quantities, in absolute terms or relative to domestic production, and under such conditions as to cause or threaten to cause serious injury to a domestic industry, the other Party may adopt the measures provided for in paragraph 2 to the extent necessary to prevent or remedy the serious injury to the domestic industry of the other Party and to facilitate the adjustment of the domestic industry”*. While Article 5.2.2 showcases the different means a Party can use to face this serious threat.

In section D, Articles 5.11 to 5.14, the emphasis is made on anti-dumping and countervailing measures, made upon the existing rules of the Agreement on Anti-Dumping and the SCM Agreement⁹. (Ibid.)

⁸ Defined in article 5.1 as « the producers as a whole of the like or directly competitive goods operating in a Party, or those whose collective output of the like or directly competitive goods constitutes a major proportion of the total domestic production of those goods”

⁹ WTO Agreement on Subsidies and Countervailing Measures. Can be found on: https://www.wto.org/english/docs_e/legal_e/24-scm.pdf

State-to-State dispute settlement mechanism

The Dispute Settlement chapter ensures that both Parties observe their rights and obligations. It provides the agreement with an effective, efficient, and transparent mechanism to avoid or to solve a dispute, between the Parties, concerning the interpretation and application of the provision, as stated in Articles 21.1 (Objectives) and 21.2 (Scope) of the JEUFTA.

The partners, through this Chapter, made it so that there would be two ways to solve a dispute. The first one, considered as being the priority, is through a mediation committee, as stated in Article 21.6. This committee should try to solve the dispute without recourse to any legal means. However, if the committee does not reach a compromise, or if the notice is overdue, then the Party that launch the procedure can appeal to the panel, as granted by Article 21.7 Establishment of a panel.

This panel is composed of three independent arbitrators, taken from a pre-established list of nine individuals, approved by the Parties. Article 21.10, defines the qualities that arbitrators shall have as: *“(a) have demonstrated expertise in law, international trade and other matters covered by this Agreement and, in case of a chairperson, also have experience in arbitration proceedings; (b) be independent of, and not be affiliated with or take instructions from, either Party; (c) serve in their individual capacities and not take instructions from any organisation or government with regard to matters related to the dispute; and (d) comply with the Code of Conduct.”*

Articles 21.12, and the subsequent ones, defines the functioning of the panel, of the procedures, the rules of interpretation, the notice of information and the final report, while Article 21.20 and the following, are about the compliance with the final report, and the remedies in case of non-compliance by the Party.

The Chapter includes the Rules of Procedure for the Panel, with detailed rules on its proceedings, the Code of Conduct for the Panellists, and the Meditation Mechanism. All these items are made so that a Party cannot obstruct the proceedings, and that the Panel is independent and Impartial. (Ibid.)

Small and Medium-sized enterprises

As mentioned before, the agreement aims at benefiting both large and smaller companies. The Parties have recognized the importance of SMEs to each other's trade relations, as well as their national importance, it is therefore no surprise that a Chapter is dedicated to them within the JEUFTA. Chapter 20 of the Agreement aims at enabling free and easy access to all relevant information that SMEs could need in order to export their goods or services to the other partner. Hence, Article 20.2, make it so that this relevant information shall be accessible on a specific website, with clear and transparent data and procedures. The Article also provides the obligation to indicate all up-to-date information concerning the access to the partner's market, such as the rules of origin, the rates of customs duty, the markings, etc. (Ibid.)

Sustainable development

As part of the treaty, a chapter is dedicated to sustainability, and more specifically, as stated in Article 16.1.1, *"to the development of international trade in a way that contributes to sustainable development"*. The Parties go even further in their recognition, by stating in Article 16.1.2 that *"the contribution of this Agreement to the promotion of sustainable development, of which economic development, social development and environmental protection are mutually reinforcing components, [...] the purpose (of this chapter) is to strengthen the trade relations and cooperation between the Parties in ways that promote sustainable development, and is not to harmonise the environment or labour standards of the Parties"*. Yet the Parties still reaffirm their commitment and engagement toward the Paris Agreement on climate change. Article 16.4 grants and reaffirm the right that the parties have to adopt multilateral environmental agreements, unless they would constitute a means of arbitrary or unjustifiable discrimination to the other Party.

The chapter also emphasizes the need for the Parties to promote international trade in a way that generates *"productive employment and decent work for all"*. Through this chapter, both partners reaffirm their obligations toward the International Labour Organization, and that they *"shall respect, promote and realise in their laws, regulations and*

practices the internationally recognised principles concerning the fundamental rights at work, which are: (a) the freedom of association and the effective recognition of the right to collective bargaining; (b) the elimination of all forms of forced or compulsory labour; (c) the effective abolition of child labour; and (d) the elimination of discrimination in respect of employment and occupation". (Ibid.)

Sanitary and phytosanitary measures

One of the largest barriers to entry to the Japanese market, when exporting agricultural goods, are the sanitary measures. Japan currently holds many requirements for the entry of food in its market, and Article 6.4 grants the archipelago the right to keep those measures. However, Article 6.5 impose the country to state clearly what the requirements are. All in all, the Chapter is mostly included in order for the measures and the procedures to be clearly stated, while pushing for an improvement in sanitary restrictions in both countries.

Parliament's position

The European Parliament followed closely the development of the FTA's negotiation with Japan. In May 2011, in a resolution, it already stressed its support to the idea of an FTA with Japan. After a resolution in June 2012, that requires that the Council withhold approval before starting the negotiations, for the EP to rule on the proposed negotiating mandate, which was allowed in October 2012.

The EP presented several recommendations on the Commission's negotiating directives, requiring concessions on public procurement, granting market access in Japanese strategic sectors, such as railways. They also required a staggered schedule for tariff reduction for EU sensitive sectors, protection of several GIs in the agricultural industry, and a sustainable development chapter.

In 2014, the EP called for a swift conclusion of the talks, in an effort to provide a longstanding framework for a stronger relationship with Japan.

Even so, it is only 4 years later, on the 12th of December 2018, that the Parliament voted in favour of the Agreement, by 474 votes to 152, with 40 abstentions. As for the Japanese National Diet, its two houses voted in favour of the Agreement on the 29th of November and on the 8th of December 2018.

Position of the European advisory groups.

The day prior to the vote, two committees were received by the European Parliament to give their opinion on the Agreement.

Opinion of the Committee on the environment, public health and food safety, advice to vote in favour of the Agreement, by 24 votes in favour to 11 and 10 abstentions.

Opinion (in letter form) of the Committee on agriculture and rural development, advice to vote in favour of the Agreement, by 25 votes in favour to 10 and 1 abstention.

Position of the European Parliament's groups

Among the eight¹⁰ political groups of the European Parliament, five gave, prior to the vote, a positive opinion on the Agreement, and incited their deputies to vote in its favour. However, three groups gave a negative opinion. The opinion and the statement of the different groups can be found in annexe 4.

In favour of the Agreement

EPP, or the Group of the European People's Party (Christian Democrats). It is considered as a centre-right wing, made up of Christian-democratic, conservative, and liberal-conservative parties.

S&D, or the Group of the Progressive Alliance of Socialists and Democrats. It is from the centre-left wing and is mostly made up of social-democratic parties.

ECR, or the European Conservatives and Reformists Group. It is a right-wing group, made up of Eurosceptic, anti-federalist & nationalist parties.

RE, or the Renew Europe, through ALDE, Group of the Alliance of Liberals and Democrats for Europe. It is a centre-wing group, made up of liberal and pro-European political parties.

EFDD, or the Europe of Freedom and Direct Democracy Group, dissolved after the 2019 elections. It is composed of right-wing to far-right parties, that are Eurosceptic and populist. It was mostly made up of UK deputies.

Not in favour of the Agreement

GUE/NGL, or the Confederal Group of the European United Left - Nordic Green Left. It is a left-wing and far-left group, made up of socialist and communist parties.

Verts/ALE, or the Group of the Greens/European Free Alliance.

ENF, or the Europe of Nations and Freedom Group, dissolved after the 2019 elections. It is a right-wing to a far-right group, composed of nationalist and Eurosceptic parties. (EP, 2021)

¹⁰ Following the 2019 elections, two groups were dissolved, and a new one formed, the Identity and Democracy Group, hence the presence of 8 groups.

As can be seen, the groups that opposed the Agreement are the politically extreme ones, except for EFDD. The arguments put forward by the ENF are that the Agreement does not protect the citizens and the national economies, and is a nationalist speech, while the GUE/NGL put forward the potential loss of duties and the loss of employment in farms in both Parties. As for the Verts/ALE, their arguments revolve around the loss of power to the corporation on a local level, and the high privatization of former national responsibilities.

Critics from deputies

Younous Omarjee (GUE/NGL – France): The Agreement is bad for workers, our health and the planet, and is in line with the TAFTA and the CETA. It is totally anti-climactic, the most devastating agreement for the climate in a long time, while the EU claims to do everything to face climate change. This Agreement will lead to a downward spiral on workers' rights. It is anti-democratic, as national parliaments had nothing to say on that matter. The JEFTA is more in favour of multinationals than citizens and workers.

Marina Albiol Guzmán (GUE/NGL – Spain): 99% of the citizens of Europe have no idea about the negotiation and the existence of this agreement, because the European Commission has wanted it such. They negotiated about our rights and the planet, without anyone knowing about it. It is similar to the TTIP, giving more power to multinationals than the states, through arbitration tribunals. The agreement is supposed to support small producers and the workers, but in fact, the benefits will go to the multinationals.

Xabier Benito Ziluaga (GUE/NGL – Spain): It is the most ambitious treaty negotiated by the EU, but it was never debated or mandated in national government. The process was truly opaque, while the European Commission, in a fit of its supposed transparency, only consulted big business and corporate lobbies. The Agreement is an intolerable reduction of democracy, labour rights, and the ability to fight financial speculation.

Daniel Hannan (ECR – UK): In favour of free trade and especially the one with Japan. However, he feels like the treaty will not beneficiate the UK, and that the Island is being treated as a second-class State.

Reinhard Bütikofer (Verts/ALE - Germany): the agreement is not perfect. His group, the Greens, have deposed a list of amendments they wanted to be improved, yet they were not. The gentleman supports the agreement economically, and politically, especially since it defends multilateralism. However, he still voted no, in support to his group.

Japanese National Diet

The largest support to the Agreement was from the ruling coalition of the Liberal Democratic Party and Komeito. The concerns expressed by the opposition were the potentially negative impact of the Agreement on the Japanese dairy sector, due to a likely influx of European cheese. (Jiji Press, 2019)

4. Impact of the Agreement

Former Commissioner for Trade Phil Hogan commented:

The EU-Japan trade agreement is benefitting citizens, workers, farmers and companies in Europe and in Japan. Openness, trust, and a commitment to established rules help deliver sustainable growth in trade. The EU is and will continue to be the largest and most active trading block in the world. The EU is a trusted bilateral partner to more than 70 countries, with whom we have the biggest trading network in the world.

This statement was made on the first anniversary of the JEUFITA, and since the establishment of the trade agreement, export from Europe to Japan increased by 6.6% compared to the same period the year before, while Japanese exports to Europe grew by 6.3% in the same period. (EC, 2020)

The following analysis and the data provided are based on the quantitative analysis employing a variant of the Eaton-Kortum model, featuring multiple sectors, input-output linkages, services trade, and non-tariff barriers. The model is based on the existing data of the EU-Korea FTA to give an approximate of the gains of an expected reduction of NTBs. This model defined 3 scenarios. The following data are the ones provided in the third scenario, which simulates the EU-JPN EPA based on a world with a ratified TPP, and where Brexit only had a small impact on EU's trade¹¹. In addition to that, the scenarios did not consider the US-Japan Trade Agreement, which reduced some of the potential gains.

Trade wise, the EU-Korea FTA was much more in favour of the EU, as the agreement led to a staggering increase in exports from the EU, on average at 52%, while Korea saw its exports increase on average by 14%. Evidence suggests that this is due to more pronounced non-trade barriers in Korea than in the EU, now erased. This situation is similar to Japan. (Lakatos & Nilson, 2017).

¹¹ This decision was made as the 2nd scenario considered a world where the TPP was not ratified and where there was a hard Brexit.

Impact on the industries

Agriculture

The agricultural industry saw some of the largest growth in exports of its products. Some goods, which were not put under high tariffs or NTMs saw a good increase in its exports, but it is not comparable to the growth of other articles that sometimes reached over 200%. Notably, meat exports increased by 12% on average (12.6% for pork exports), while frozen meat exports export skyrocketed, growing by 221%. As for wines, the market saw a growth of 17.3%. More details can be found in annexe 3. Dairy exports, which were also previously under high tariffs and NTMs, now experience an average growth in export of 10.4%, with butter even reaching a 47% increase. However, those number yet need to reach the expectations of the European Commission, that predicted an increase of 215% for dairy products, or EUR 729 million.

Some sectors of the agricultural industry saw growth in their exports not only thanks to the agreement, but also through the work some cooperatives put up to promote them in Japan. It is notably the case of, for example, HEMP, a French farmer cooperative that specialized in producing and certifying seeds, and that currently work with the Hokkaido Hemp Association to restore the Japanese traditional hemp production. Another example would be the Bord Bia, the Irish Food Board, which has been promoting the high standards of food safety, quality, and sustainability of European meat. (EC, 2020)

On the Japanese side, the expected growth revolved around 22% for both cereals and meats, while beverages and tobacco grew by 7%. Like the Union, the single sector that saw the most growth was the dairy product industry, with a staggering 170%.

Overall, it is expected, in a non-covid situation, that Japan will see its imports of European agri-food increase by 11.51%. This increase led other countries to lose shares in Japan's imports of food, with China losing 1.74%, the ASEAN countries to decrease by 1.71%, but the largest losers would be the USA and Canada, with up to 6.15% decrease in exports to Japan. The island is expected to see its exports of agri-food products to the EU increase by

0.39% and see no change with the rest of the world. (Felbermayr, Kimura, Okubo & Steininger, 2019)

A threat other than the pandemic for this sector, is the US-Japan Trade Agreement signed in October 2019, which dismantles 90% of all tariffs on agricultural products between the USA and Japan. This trade agreement is in direct competition with the JEUFTA and will soften the impact the latter could have had on the industry, as Japan will now hardly substitute the USA with the EU. (US Department of Agriculture, 2020)

In the EU, some countries' agricultural industries will gain much more than others. It is notably the case of cheese exporting countries. While some like France have a high share of the world's market, they do not rely heavily on this sector, unlike Denmark, whose agricultural industry is the 3rd largest one in terms of export, with cheese accounting for 1.64% of all its exports, and Japan counting for 4.87% of its cheese exports. Belgium, as another example, could mildly benefit from the Agreement with regards to exports of chocolate, accounting for almost 1% of its total exports, and Japan being the 2nd largest extra-EU market for the country. (OEC, 2019)

Textile

The Textile industry was seen and expected to experience some of the highest annual growth rates of exports, at 220%, or a gain of EUR 5.21 bn in trade. Nevertheless, data based on the evolution of the first ten months since the entry into force shows a growth of 8.2%, far from what was announced by the European Commission. (EC, 2018; Euratex, 2020)

According to estimations and analysis by Felbermayr et al. (2019), Japan will see its imports of textiles and apparel from the EU increase by 2.2%, while its imports from China will decrease by 4.18%. On the other hand, Japanese exports of textiles to the EU will change by 0.94%, while not changing in other regions of the world.

Italy and France could be the winners in this industry, as Japanese consumers have a high appeal toward European luxury products, including clothing and textiles.

Chemicals

While the European Union is the largest winner in both previous industries, though Japan also experienced substantial progress, the Island saw its exports of chemicals to the Union grow by over 30%, or EUR 3.3 Bn, while the EU's exports of chemicals grew by 6.9%, or EUR 1.6 bn.

Japan will see its imports of chemicals from the EU grow by 3.91%, while China and the ASEAN benefited also from the agreement, experiencing an increase of 0.17% and 0.14% respectively. The USA and Canada are the losers, with a decrease of 0.02%. As mentioned before, Japan will experience a tremendous increase in its exports of chemicals, with the EU increasing its imports by 14.93%. (Felbermayr et al., 2019) Japan currently exports mostly to Germany, France, and Belgium, being its largest partners in this industry. The withdrawal of the UK from the EU might not have a large impact, as the EU does not rely heavily on the British chemical industry, but more on the intra-EU industry. (OEC, 2019)

Countries like Belgium or Poland could see an increase in their exports of chemical products to Japan, thanks to the highly developed industry both countries have, and to its relative importance to their national economy. Japan often comes 3rd in the export market for chemical products for these countries. (OEC, 2019)

Automotive

Japan will see its imports of EU automotive to increase by 2.83%, but unlike the other industry, this growth will be shared with the rest of the world, as China, the USA, Canada, and the ASEAN are expected to see an increase of between 0.06% and 0.09% of their exports to Japan. However, due to the current state of the industry, and the fact that Japan is manufacturing most of its cars sold on European ground within the EU territory, the increase will be lower. It is expected that the motor vehicle sector will suffer a marginal loss of 0.01%.

Based on general trends, from 2014 until 2019, we can see that the EU saw a mere increase of its motor vehicle exports, at 11.28%, while the exports on the 2018-2019 period decreased by 7.5%, or a 1.8% decrease in value. In comparison, from 2014 to 2019, EU imports of Japanese motor vehicles increased by 73.97%, while from 2018 to 2019, it increased by

11.9%, or an increase in value of 18.1%. These trends are similar for the more specific category of passenger car exports and imports.

Unlike the FTA with South Korea, which saw a drastic increase of EU exports of cars, to the detriment of the Korean manufacturers, the situation will be different with Japan due to its much more significant size. It is most likely that imports of cars to the EU will increase, as expected by the Japanese External Trade Organization, with pre-agreement statistics estimating an increase of up to 84%. (JETRO, 2019)

Changes in real income & global trade

European Union

The EU's economy is to gain EUR 33,874 Bn by 2035, from the agreement, or an increase of its GDP of 0.14%. This increase could seem small, but this is due to the relative importance of the EU's GDP, the size of its market, and the smaller importance of the Japanese trade relations, accounting for only 3% of total extra-EU exports of goods and services. The gain in terms of GDP differs from studies and on the date, it was held. For example, a study from the European Commission (TSIA), gave an increase of 0.76%, or 5 times higher than more recent studies. (DGT,2018; Felbermayr et al., 2019)

The individual impact on EU Member-State can be hard to assess, due to the impact of the pandemic and Brexit. However, the data and the expected impact gave Germany the biggest winner in terms of absolute numbers (EUR 3.4 bn), followed by France (EUR 1.2 bn) and the Netherlands (EUR 0.9 bn). However, in comparison to their current GDP, that would mean that Germany and the Netherlands are the ones experiencing the smallest improvement, with a respective increase of 0.11% and 0.14%. The effect of the FTA is the largest under Brexit because Germany will substitute some of the UK's existing trade with Japan. (Felbermayr et al., 2019)

As for imports and exports, it is expected, depending on the studies that the EU exports to Japan could increase by 13.2% (EUR 13 bn), while EU imports of Japanese goods and services could increase by 23.5% (EUR 22 bn). As we can see, Japan is given as the largest winner from the Agreement. Thanks to the Agreement, an increase in FDI between the Parties

can also be expected, as the erasing of trade and technical barriers leads to an increase in FDIs. It can be supported by the increase in FDIs between the EU and South Korea, following the entry into force of their Agreement (55% increase). (DGT, 2018; Felbermayr et al., 2019)

As previously mentioned, Japan employs directly, through its companies, 550 thousand people in the EU, and it is around 600 thousand jobs that are directly linked to European exports to Japan. With an expected 14 thousand jobs created by an increase of EUR 1 bn in trade with Japan, the EU can expect an increase in its employment. However, while some industries will see an increase, it is not the case for the automotive industry, and the chemical industry, which are expected to see a loss in terms of blue collars. However, the stop of several factories throughout the world due to the pandemic mitigated the potential benefits of the Agreement. (DGT, 2018)

Japan

Japan, through its lesser economy, in comparison to the EU-27, will experience in proportion a stronger impact, at 0.61% by 2035, or an increase of its GDP of EUR 29,066 Bn. However, the latter will be of lesser importance due to Brexit, since the UK was the second-largest trading partner of Japan within the EU. As mentioned above, it is expected that Japan will see an increase in its exports to the EU by 23.5%. (Ibid.)

Rest of the World

The JEUFITA did not only have an impact on both the EU and Japan's economy, but it also had an impact on foreign nations' trade and economy. Though this impact is of lesser importance, as more diffused, it is still perceptible. According to a quantitative study and a simulation made in collaboration with the IFO institute of Munich and the faculty of Economics of the University of Keio, Japan, the world will experience a growth of 0.05% of its real income.

However, this growth mostly comes from EU member-states and Japan, as most foreign countries experience close to no change in real income. Nonetheless, the study showed that the USA and Canada both lost close to 0.01% of real income to the JEUFITA. This loss appears to come from an increase in trade of agricultural products and cars between the two partners, to the detriment of trans-Atlantic or trans-Pacific trade. In 2017, the US and the

EU were at equal share in terms of Japanese imports of pork, both owning 33% of this market, while more generally, the US held 25% market share of Japanese agricultural imports, compared to the EU at 13%. However, with the EU-Japan FTA, and the TPP in place, the USA lost all advantage in the Japanese markets, as the EU and some Pacific states will see the dismantling of high Japanese tariffs on food. As of 2020, these changes have barely occurred, with the EU gaining a percent market share in Japanese imports, and the USA losing one. This is due to the entry into force of the US-Japan Trade Agreement (USJTA) in October 2019, dismantling 90% of US agricultural exports to Japan duty-free. (US Department of Agriculture, 2020; Felbermayr et al., 2019) As for Africa and the Middle East, they have both experienced a small but neglectable loss in real income. (Ibid.)

Asia, for its part, has seen the strongest impact outside the two partners. Indeed, there has been a switch in the continent, more specifically in the region surrounding China and Japan. The largest losses are seen in Taiwan (-0.02%), South Korea (-0.01%), and Thailand (-0.02%), due to Japan diverting its trade toward the EU, when the latter is now more inclined to buy high-end Japanese products than Korean or Taiwanese ones. Despite most countries losing real income, Vietnam was able to generate income gains (+0.02%). The reason behind this increase is linked to a higher demand for specific Japanese goods by the EU, which translates into Japanese producers increasing their supply demands to Vietnam. As already mentioned, Vietnam is increasingly becoming a key market for low-cost production, and a plausible substitution to China, with lesser bargaining power. China itself experienced a small decrease in its real income ($> -0.01\%$), however, the study could not analyse whether this is due to the JEUFITA, or due to a shift of the supply chain outside China, due to the detachment more countries are taking toward the Asian behemoth. As for South Korea, the impact was expected to be located mostly on the car manufacturing industry. As a matter of fact, the Ministry of Trade, Industry & Energy of the peninsula said that the Agreement with Japan will have a significant impact on the automobile and auto parts industry of South Korea. However, their experts said that other sectors like petrochemicals, consumer electronics and electric vehicle batteries are unlikely to be affected. This is because South Korea main clients are in Asia and not in Europe, while its main competitors are Europeans. (Felbermayr et al., 2019; Jung Min-hee, 2017) With regards to South Korea's agricultural exports to the EU, they were

close to not being impacted by the JEUFTA, as they rose to around EUR 380 bn in 2020. The Korean chemical industry is also prosperous, with an estimated increase of EUR 4.97 bn from 2010 to 2020. (Jung Suk-ye, 2021)

Since Brexit, the UK is not part of the European Union anymore, hence it is considered a foreign country to the FTA between the EU and Japan. According to the study, though the UK will not benefit from the agreement at its fullest, it still enjoys an increase in its real income ($> 0.01\%$), due to indirect trade channels. However, the pandemic and its impact on the British economy blurred the limit of the impact of the agreement, making it difficult to assess the proper gain of the UK. (Felbermayr et al., 2019)

EU-Korea Free Trade Agreement

The EU-Korea Free Trade Agreement is the EU's first FTA with an Asian country, and was partially established on July 1st, 2011, the entry into force taking place in December 2015. Nonetheless, most import duties were removed in 2011. A first modification of the Agreement was made in 2014, after the accession of Croatia to the European Union. The Agreement was a milestone in trade for both partners, as the EU was Korea's third export market, and that the Agreement was a milestone and a footstep for EU trade in far-east Asia. In 2021, South Korea is the EU's 8th largest export destination.

From 2010 to 2018, EU exports of goods to South Korea saw an increase of 77%, levelling out the previously negative trade balance. As for the export of services, they increased by 82% in the same period, while Korea's export of services to the EU increased by 66%. In terms of FDIs, they increased by 112% in favour of the EU, and by 39% in favour of Korea, making the Union, South Korea's largest foreign direct investor. It is clear and undeniable that the EU-Korea FTA is a success for both partners. (EC, 2021)

In their objectives, the two Agreements have common goals, with the elimination of duties for industrial and agricultural goods, the limitation or elimination of NTBs, the establishment of new competition policies, government procurement, intellectual property rights, transparency in regulation and sustainable development, all monitored by a special, newly founded committee. However, the difference lies in the goal of the Agreement, and its

impact. As a matter of fact, being the 12 largest economies, South Korea had less bargaining power toward the EU, and the Agreement has a less global impact. (Ibid.)

In terms of tariffs, South Korea is similar to Japan with regard to high tariffs on specific items. For example, Korean tariffs on cheese are extremely high, at 36%, compared to Japan's 29.8%. In table 6, it can be highlighted that products within average low tariffs before that FTA, have seen their tariffs totally removed in both FTAs. However, those with formerly high tariffs, have either seen partial removal of their tariffs, or a more substantial removal guaranteed by a safeguard volume or a fixed numeral tariff in the form of an entry price per kilogram.

Comparison of Japanese and Korean tariffs before and after the Agreements¹²

Products	South Korea		Japan	
	Pre-FTA	Post-FTA	Pre-FTA	Post-FTA
Beef	18%	0% + safeguard volume	38.5%	9% + safeguard volume
Pork	22.5%	0% + safeguard volume	4.9% + price/kg	0% + safeguard volume
Cheese	36%	0% + safeguard volume	29.8% - 40%	0% + safeguard volume
Processed food	30%	0%	12%	0.4%
Beverages	8-30%	0%	5.7%	0%
Wine	Quotas + 15% (sparkling)	0%	15%	0%

¹² For some of these lines, the tariff indicated is either an average of all the lines, or a bracket. These averages are made by the Directorate General for trade.

Tobacco	40%	0%	16%	0%
Chocolate	8%	0% + price/kg	10%-29.8% + price/kg	6% + price/kg
Cars	8%	0%	0%	0-10%
Textiles	8-13%	0%	9-21.5%	0%
Chemicals	5.5%	0%	1%	0%

Table 6. Korean and Japanese tariffs pre and post FTAs with the EU

Source: JEUFTA & EU-Korea FTA

The extensive list of the base rate for goods in Korea can be found in Annex 2-A of the Free Trade Agreement between the European Union and the Republic of Korea.

With regards to the public procurement, the Korean Agreement is more ambitious, granting the EU full access to its public market, while the Japanese one only gives access to some sectors, and only in a number of defined cities.

The Korea International Trade Association stated that

These days, the European Union is reshaping supply chains and strengthening environmental and human rights standards to rely less on China, and this can be a new opportunity for South Korean companies. Although Japan, Singapore and Vietnam are also doing free trade with the European Union, South Korea is the first Asian country that concluded an FTA with the European Union, and it needs to better utilize the zero tariffs".

This proves Korea's will to remain a key trading partner of the EU in Asia, and that the JEUFTA, though the largest trade agreement yet existing, will not deter the EU-Korea's relations, as proven with the increasing trade between both partners. (Jung Suk-ye, 2021)

Covid crisis

Only over a year after the entry into force of the JEUFTA, the world was struck by the Covid-19 crisis. The spread of the virus led to most economies closing their borders and imposing quarantines, slowing down their economies and the world's flow of trade. Notably,

the European Union's total trade flow in 2020 grew by -10.5%, while Japan's grew by -12.8%. (EC, 2021)

While some industries were less impacted by the crisis and the governmental restrictions, such as online services or remote working, others were badly hit. It is for example the case of the automotive industry, which saw the temporary closing of most of its factories in Europe. According to data gathered by the ACEA, over 1.1 million Europeans were affected by the factories' shutdown following the surge of the pandemic. The estimated loss in motor vehicle production borders on 2.4 million, or 13% of the production of 2019. (ACEA, 2020)

The impact of the crisis goes beyond local impact, as it broke trade's flow globally. In the first quarter of 2020, when most of the Western world was badly hit by the pandemic, exports in cars shrank by 12%, with a climax in April, where imports dropped by 60% compared to the previous year.

As for the Textile and Clothing industry, the estimated loss was up to EUR 50 bn, while exports contracted by 12% in the first semester of 2020. Even so, while most areas of the industry feared the recovery, the Euratex pointed out that there was no increase in price for the raw materials. (EURATEX, 2020)

However, the crisis also showcased the importance of the industry, as pointed out by the President and the Director-General of the Euratex, Mrs Paccanelli and Vantuyghem:

The corona crisis has confirmed the strategic importance of the sector: the safety of healthcare workers and the population at large depend on textiles, but their importance goes far beyond. Without textile materials, no cars, airplanes, or buildings can be built, nor can agri-food workers, defence and security forces or craftsmen, do their work in full.

Overall, every country saw its exports and imports sharply decrease by the early stages of the pandemic, while only experiencing a slow recovery by September 2020. As we can see hereunder (figure 7), Germany's exports to Japan dramatically dropped by the time Asia saw the first wave of the Coronavirus, in December, followed by a dramatic drop in April 2020, when Europe first confined itself. It is not until the end of the deadly first wave, in around

September, that Germany stabilized its exports, only to see them drop again in the last trimester of 2020. While the trends show only a seemingly small diminishing of Germany's exports to the world (figure 8), the ones to Japan clearly dropped, and have yet not seen any sign of net recovery. (Trading Economics, 2021)

Evolution of German exports to Japan since 01/2019 (in € bn)

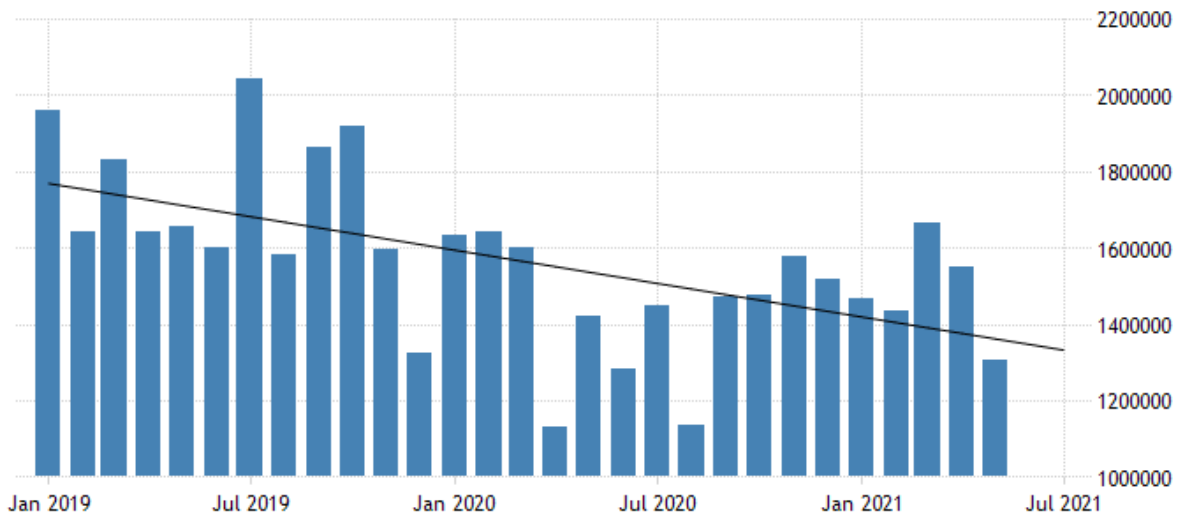


Figure 7. German exports to Japan since 2019

Source: Tradingeconomics.com – Federal Statistical Office, Germany

Evolution of German exports to the world since 01/2019 (in € bn)

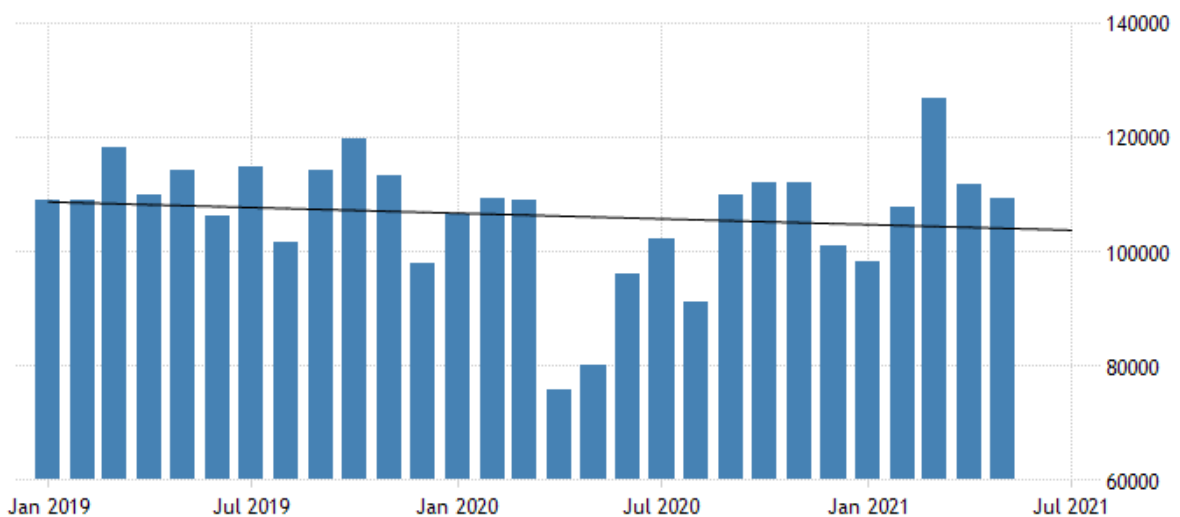


Figure 8. German exports to the world since 2019

Source: Tradingeconomics.com – Federal Statistical Office, Germany

This trend toward a drop in exports and imports (figure 9 & 10) is general to the EU, as we can see hereunder. The changes in exports from 2019 to 2020 or even 2021 are remarkably similar to what Germany experiences, with the difference being that the EU seems to have a stronger trend of diminishing exports.

Evolution of European exports since 01/2019 (in € bn)

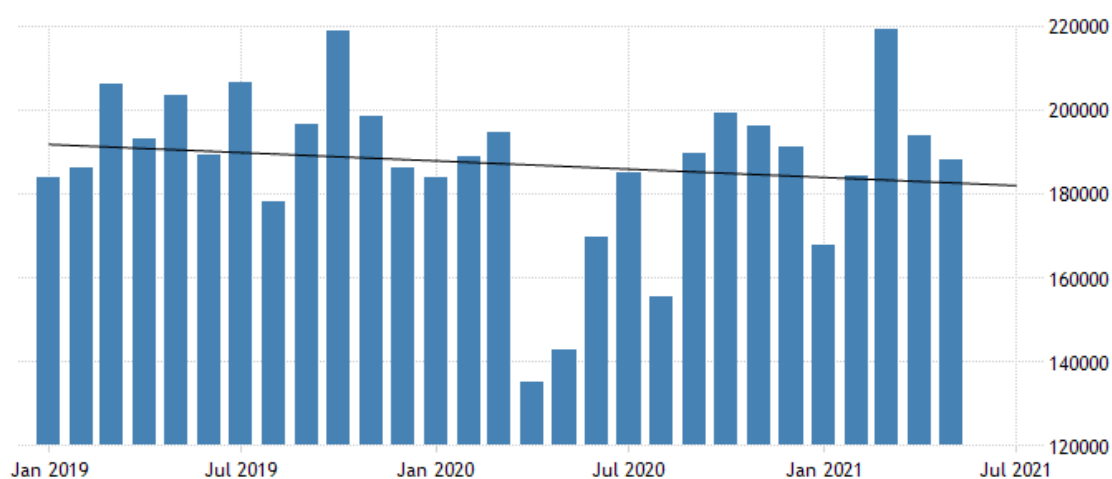


Figure 9. European exports since 2019

Source: Tradingeconomics.com – Federal Statistical Office, Germany

Evolution of European imports since 01/2019 (in € bn)

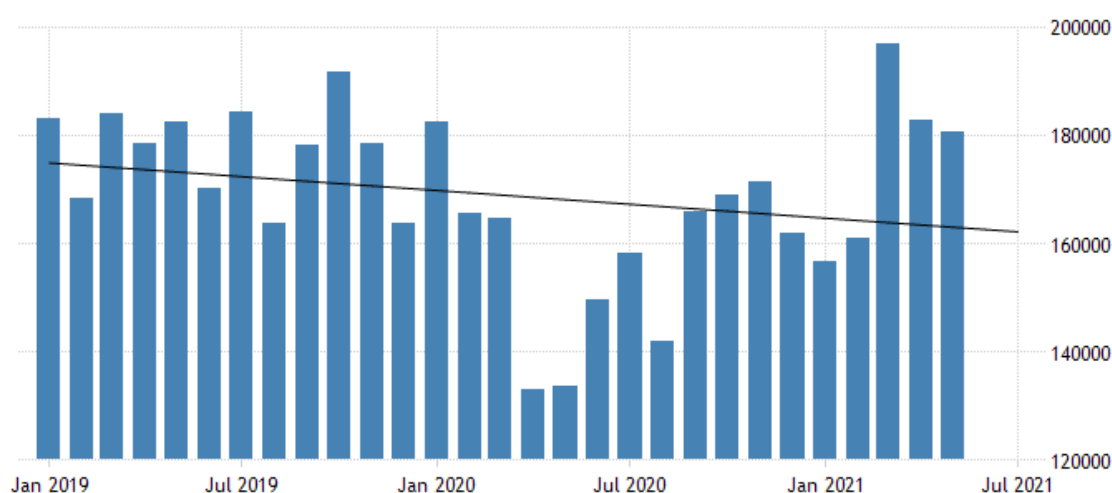


Figure 10. European imports since 2019

Source: Tradingeconomics.com – Federal Statistical Office, Germany

5. Limitations

This thesis, in its original form, was intended to compare the expected outcomes of the Agreement, as established in different studies, independent and ordered ones, to the real changes that occurred. By the time this thesis is rendered, almost two and half a year of EU-Japan trade have functioned under the JEFTA. This period would have provided sufficient data to start a first in-depth analysis of the real impact of the treaty, and thus make extensive projections of what the future would look like for the mentioned industries and the States.

Unfortunately, only a year of trade efficiently worked under the Agreement, 2020 and 2021 saw a tremendous drop in world trade and economy due to the Coronavirus pandemic. As showed in this thesis, the impact on trade was important, and led the EU and Japan to cease most of their relations with the world. This led to the partners trading with each other's less than before.

It is therefore hard to make the part between the real impact of the pandemic, and what the Agreement potentially saved. It has been showcased that the 2019-2020 period experienced good growth, which was stopped by this huge drop in trade.

In addition to that, as most factories were held hostage by the quarantine, production stopped and led to most statistics being unusable to calculate a real impact. This can also be seen in the fact that most relevant statistics or reports or analyses all date before the pandemic.

6. Conclusion

On the world stage, the EU-Japan Free Trade Agreement is intended to set high standards for trade and bring the world's leading economies into fierce competition. The Agreement, while not purely impressive in terms of the percentage added to the economies of the two Parties, is still strong in terms of numbers. Moreover, it is set to strengthen the relations between Japan and the EU, at its entry into force, in an era of protectionism, or now that the world is giving up the trade hegemony of some nations.

At the local level, the Agreement is expected to generate a positive number of jobs, and only a few industries will lose some, notably blue-collar workers in the European automotive industry, and those in the Japanese food industry, but in a much more mitigated manner. The Agreement, as seen through its first year of implementation and supported by the various studies on its potential impact, has already proven effective for some industries, notably the textile and clothing industry, or the agricultural industry, however, all industries are expected to feel a positive ripple from the Agreement. Some other industries, such as the Chemical industry, will experience non-proportional development, with, in this case, Japan benefiting from a high increase in exports to the EU, while the EU experiences a lower increase in its own exports. Unfortunately, the Covid-19 crisis has negated any potential growth in trade between the partners, and thus the Agreement will, in the next months, act more as a recovery device than a trade magnifier. In addition to that, some sectors, such as the agricultural industry, were expected to benefit from US isolationism by trying to be a substitute to the US dominance in Japan. However, the new US-Japan Agreement put a stop to that and put back the two trade behemoths on equal footing.

At the global level, the Agreement will set new rules for trade, and will force many nations to adapt their regulations in order to access both markets. The FTA will also have a mere, yet notable impact, on the economies of the rest of the world. While most Southeast Asian countries will see their real incomes improve, others will suffer, notably China and the USA. However, the United States, under its new administration may be able to make up for the damages caused by the previous one, which will not be the case of China. The Coronavirus has shown the parties their strong dependence on the Asian power, and while the EU is

struggling to adopt a uniform position toward the CCP, Japan has already implemented several financial measures in favour of Japanese companies relocating their supply chain in Japan, or at least, out of China. The agreement is not only intended to improve and enhance trade between the EU and Japan, but also made in order to divert it from the new Belt & Road Initiative of China, and to be a credible competitor. The emergence of countries such as Vietnam, as credible, but smaller, alternative market to China, while being more open to foreigners, is a threat for the Asian behemoth, while being an opportunity for the EU and Japan, which is already in the TPP with Vietnam. Moreover, Japan is already a large investor in Vietnamese companies, making the archipelago a direct competitor in China's race to investment in Southeast Asia. This competition is also a positive element for the EU, which will benefit from better price, and through Japan, easier access to those substitute markets.

In conclusion, the Agreement will certainly reinforce cooperation between Japan and the European Union and serve as a beacon for global trade and regulation. In the long term, it will have a positive impact on the economies of both partners, while challenging current supply chains.

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8. Appendices

Annex 1 – Japanese vehicle production

Japan's Motor Vehicle Statistics								
TOTAL BY MONTH			Prior 2 Years & Current Year-to-Date					
[Unit: Number of vehicles]								
Production								
	CARS	*CHANGE	TRUCKS	*CHANGE	BUSES	*CHANGE	TOTAL	*CHANGE
TTD '17	8,347,836	6.0%	1,221,043	1.7%	123,097	-5.6%	9,691,976	5.3%
Jan	659,307	4.9%	92,992	-1.0%	8,949	-12.2%	761,248	3.9%
Feb	734,560	12.7%	107,612	1.9%	10,354	8.3%	852,526	11.2%
Mar	806,967	6.5%	112,344	-6.4%	10,652	-10.6%	929,963	4.5%
Apr	638,295	16.8%	99,783	13.0%	11,146	21.7%	749,224	16.4%
May	593,895	7.2%	89,953	-2.8%	9,165	-10.4%	693,013	5.5%
Jun	740,349	8.9%	108,079	-4.1%	11,321	-4.3%	859,749	6.9%
Jul	703,208	2.0%	103,946	-1.5%	11,258	-12.7%	818,412	1.3%
Aug	596,706	6.9%	89,799	0.9%	9,256	-16.4%	695,761	5.7%
Sep	738,821	2.4%	105,703	-0.4%	10,753	-20.2%	855,277	1.7%
Oct	717,252	6.2%	103,260	8.7%	10,566	-4.3%	831,078	6.4%
Nov	729,799	-0.1%	107,673	7.5%	10,410	4.6%	847,882	0.9%
Dec	688,677	1.1%	99,899	9.5%	9,267	2.0%	797,843	2.1%
TTD '18	8,357,220	0.1%	1,244,447	2.0%	112,335	-8.7%	9,714,002	0.2%
Jan	640,043	-2.9%	84,828	-8.8%	7,221	-19.3%	732,092	-3.8%
Feb	741,417	0.9%	106,794	0.7%	8,911	-13.9%	857,122	0.7%
Mar	810,942	0.5%	112,067	-0.2%	8,994	-15.6%	932,003	0.2%
Apr	667,610	4.6%	100,438	0.7%	9,622	-13.7%	777,670	3.8%
May	617,109	3.9%	97,561	8.5%	9,546	4.2%	724,216	4.5%
Jun	702,993	-5.0%	108,659	0.5%	10,620	-6.2%	822,272	-4.4%
Jul	684,742	-2.6%	107,009	2.9%	10,027	-10.9%	801,778	-2.0%
Aug	595,931	-0.1%	88,672	-1.3%	9,374	1.3%	693,977	-0.3%
Sep	692,919	-6.2%	108,120	2.3%	8,845	-17.7%	809,884	-5.3%
Oct	758,010	5.7%	115,765	12.1%	9,976	-5.6%	883,751	6.3%
Nov	763,078	4.6%	113,202	5.1%	10,686	2.7%	886,966	4.6%
Dec	682,426	-0.9%	101,332	1.4%	8,513	-8.1%	792,271	-0.7%
TTD '19	7,706,756	0.4%	1,139,599	-1.4%	112,883	8.7%	8,959,238	0.3%
Jan	677,024	5.8%	104,623	15.2%	8,467	17.3%	790,114	7.0%
Feb	745,407	0.5%	109,605	2.6%	9,751	9.4%	864,763	0.9%
Mar	780,165	-3.8%	111,152	-6.4%	9,276	3.1%	900,593	-4.1%
Apr	699,356	4.8%	104,925	4.5%	10,070	4.7%	814,351	4.7%
May	676,431	9.6%	106,308	9.0%	10,180	6.6%	792,919	9.5%
Jun	696,692	-0.9%	104,242	-4.1%	9,254	-12.9%	810,188	-1.5%
Jul	773,181	12.9%	111,146	3.9%	11,495	14.6%	895,822	11.7%
Aug	585,883	-1.7%	83,693	-5.6%	8,970	-4.3%	678,546	-2.2%
Sept	714,844	3.2%	102,274	-5.4%	11,711	32.4%	828,829	2.3%
Oct	667,462	-11.9%	99,359	-14.2%	11,769	18.0%	778,590	-11.9%
Nov	690,311	-9.5%	102,272	-9.7%	11,940	11.7%	804,523	-9.3%

Data represents vehicles produced *in Japan*.

* Change = Percent change from same month, prior year.

Source: Japan Automobile Manufacturers Association

Annex 2 – World's 30 leading chemical companies

The world's 30 leading chemical companies in 2018

Ranking	Company	Country/Region	Chemical sales			Chemical operating profits		
			2018 (\$ million)	Change from 2017 (%)	Chemical sales as of total sales (%)	2018 (\$ million)	Change from 2017 (%)	Operating profit margin (%)
1	DowDuPont	US	85,977	37.6	100.0	8,412	56.2	9.8
2	BASF	Germany	74,066	2.4	100.0	7,462	-23.7	10.1
3	Sinopec	China	69,210	22.4	16.2	3,929	13.9	5.7
4	Sabir	Saudi Arabia	42,120	12.0	93.4	9,518	16.8	22.6
5	Ineos	UK	36,970	2.1	100.0	4,289	-9.3	11.6
6	Formosa Plastics	Taiwan	36,891	13.8	63.9	4,022	-17.5	10.9
7	ExxonMobil Chemical	US	32,443	13.1	11.6	4,162	-24.9	12.8
8	LyondellBasell Industries	Netherlands	30,783	8.7	78.9	5,615	-6.1	18.2
9	Mitsubishi Chemical Holdings	Japan	28,747	7.1	80.9	2,382	-12.1	8.3
10	LG Chem	South Korea	25,637	9.7	100.0	2,043	-23.3	8.0
11	Reliance Industries	India	25,167	37.3	22.3	4,706	51.9	18.7
12	PetroChina	China	24,849	N/A	7.0	1,184	5.9	4.8
13	Air Liquide	France	24,322	2.8	98.0	2,379	5.9	9.8
14	Toray Industries	Japan	18,651	8.7	86.2	1,378	-7.5	7.4
15	Evonik Industries	Germany	17,755	4.2	100.0	2,078	10.2	11.7
16	Covestro	Germany	17,273	3.4	100.0	2,982	-7.3	17.3
17	Bayer	Germany	16,859	49.0	36.0	3,708	154.1	22.0
18	Sumitomo Chemical	Japan	16,081	8.7	76.6	1,182	-23.3	7.4
19	Braskem	Brazil	15,885	17.7	100.0	2,250	-16.2	14.2
20	Lotte Chemical	South Korea	15,051	4.2	100.0	1,790	-32.8	11.9
21	Linde plc	UK	14,900	30.3	100.0	2,244	-10.2	15.1
22	Shin-Etsu Chemical	Japan	14,439	10.6	100.0	3,657	19.9	25.3
23	Mitsui Chemicals	Japan	13,432	11.6	100.0	846	-9.7	6.3
24	Solvay	Belgium	13,353	3.7	100.0	1,606	0.0	12.0
25	Yara	Norway	12,928	13.8	100.0	402	-12.0	3.1
26	Chevron Phillips Chemical	US	11,310	24.8	100.0	N/A	N/A	N/A
27	DSM	Netherlands	10,951	7.4	100.0	1,446	43.3	13.2
28	Indorama	Thailand	10,747	21.2	100.0	903	35.6	8.4
29	Asahi Kasei	Japan	10,654	8.1	54.2	1,174	6.3	11.0
30	Arkema	France	10,418	5.9	100.0	1,171	10.5	11.2

(Source) Chemical and Engineering News

(Note) 1 Pharmaceuticals is excluded.

2 N/A means not available.

Source: Chemical and Engineering News

Annex 3 – Growth in EU exports of agricultural products

Beverages	20%
Wine	17%
Cider	31.5%
Tea	39.8%
Pasta	14.9%
Sunflower seeds	39.9%
Meat	12%
Pork meat	12.6%
Frozen meat of bovine animals	221%
Dairy	10%
Milk and cream	120.7%
Butter	47.8%
Cheese	7%

Source: JEUFTA

Annex 4 – European Parliaments groups opinion on JEFTA

PPE

Madam President, the EU-Japan EPA is far from being Godzilla, as some have called it in the past. After six years of negotiations, it's high time we ratified this historical agreement with such a like-minded and outstanding partner. It is time for our businesses, especially SMEs, and our consumers to start enjoying the benefits of this landmark agreement. Why is this agreement of such importance? Well, for many reasons. First of all, the huge economic gains. The EUR 1 billion tariff cuts for our companies and farmers. Secondly, its chapter on sustainable development, including our renewed commitment to the Paris Agreement. It is a clear win-win agreement that comes at a critical geopolitical moment, where trade wars can be triggered by a simple tweet and unilateral tariffs barriers are raised. Responsibility lies heavily on our shoulders to stand up for our values and our social and environmental standards. I can think of no better ally than the Land of the Rising Sun for such a free, fair, and open trade regime.

S&D

First, on a geopolitical level, the Union is filling the void left by Trump's United States. We are building a new global trade order based on rules that counteract the negative effects of globalisation. Second, from an economic point of view, the agreement will support the agricultural sector, which will have full access to the Japanese market, with over two hundred protected geographical indications, help SMEs to internationalise, guarantee access to public procurement and provide for Japan's alignment with European standards, the highest globally. But an agreement, to be good, must also be sustainable, and this agreement is: it commits the parties to the implementation of the Paris Agreement, the ratification of the International Labour Organisation conventions, the protection of forests and animal welfare. Trade treaties are a means, not an end. The end is to create better

conditions for wealth, better distribution, welfare for all citizens and social inclusion. This treaty is good because it aims to meet all these needs.

ECR

Madam President, Japan is the world's third largest economy, with near record employment, solid economic growth, perspectives linked to external demand, and an ambitious international trade agenda. It is our strategic partner, our G20 colleague and a hugely important ally on the global stage on various fronts, starting with climate change, the sustainable development goals and WTO reform and defence of rules—based international trade. We now have a unique opportunity to finalise the ratification process and get the deal approved during this parliamentary term so that it can enter into force as soon as possible. The Commission has redoubled its efforts, the Austrian and also the upcoming Romanian Presidencies are committed to it, and we have to do our best to complete the consent procedure. We have to respect Japan and honour our commitments as soon as possible.

ALDE

Madam President, let me begin by emphasising the importance in this current global climate of working ever more closely with like-minded partners across the world. As the Chair of the Delegation for relations with Japan, I can say that Japan has been an extremely reliable partner on the international level. Also in this context, I warmly welcome both agreements. The Strategic Partnership Agreement (SPA) will see the EU and Japan stepping up our cooperation in around 30 areas. The Economic Partnership Agreement (EPA) is certainly the most wide-ranging, largest, and most modern bilateral agreement ever achieved. I would call on my colleagues who are considering not supporting this agreement to ask themselves whether they would also be against promoting cooperation in the world, economic growth in Europe, opening job opportunities to hundreds of thousands of citizens and bringing benefits for consumers. We must not let our

Japanese partners down and we must certainly not let ourselves and our citizens down.

GUE/NGL

Madam President, Commissioner, ladies, and gentlemen. Let me be clear: the Left Group rejects the Economic Partnership Agreement with Japan precisely because we recognise the long-term importance of a strategic partnership as a common framework for a joint contribution to stability, peace and, above all, to the implementation of the UN's 2030 Agenda for Sustainable Development over the next eleven years. We want fair and ethical trade, not modern free trade pure and simple. We take seriously the well-founded concerns expressed by thousands of citizens and non-governmental organisations, and that is where the agreement has big holes. There is no doubt that the agreement will massively accelerate the interdependence of our economies, but digitalisation and automation in production will intensify competition in many sectors of the economy and cost many jobs. However, you no longer see the necessary structural adjustments as your responsibility. The social consequences will be borne by the Länder and municipalities. The agreed dispute settlement mechanisms are not sufficient. We must also honestly acknowledge that the cheaper agricultural products exported from the EU to Japan will not only enrich the supply of goods in Japan but will also contribute to the death of farmers there. This is not a contribution to fair globalisation and distribution of wealth. And, Commissioner Jourová, on the important area of data trade: when we talk about global value creation: The progressive EU data protection is not reflected in this value creation process, because it is not part of the agreement. Against the backdrop of the future multiannual financial framework, it should be noted that the customs revenues of the Union will be reduced by 1.6 billion euros as a result of the agreement - more or less as much as if Finland were to leave the EU.

Verts/ALE

Madam President, the EU's JEFTA free trade agreement with Japan is another step away from democracy to corporate dictatorship. Trade with Japan is certainly important, but this agreement goes far beyond trade. It interferes with our basic democratic rights. On the ground, this affects local politics. Their tasks such as schools, waste management, hospitals, regional transport are being liberalised, that is, they are to be privatised as far as possible. Local citizens should no longer be allowed to take these tasks into their own hands. Once privatised, companies are privatised forever. They can no longer be returned to the citizens. Our governments also no longer have the right to pass the social and environmental laws they want. Laws must not be a significant barrier to trade and investment, or so the agreement says. A particularly important case is the ban on genetic engineering. The European Commission has failed here to reserve this right for us. It would have been possible, but the Commission obviously wanted to introduce genetic engineering to us. JEFTA also abolishes rules that are supposed to prevent a new banking crisis. We don't need a free trade agreement to enforce fair trade rules. The principles of our Basic Data Protection Regulation were already adopted by Japan before JEFTA.

EFDD

Madam President, ladies and gentlemen, the free trade agreement with Japan is the largest and most ambitious ever signed by the European Union, and it is certainly not perfect, but Japan is a market full of opportunities for our businesses. Until now, these opportunities were hidden behind a dense jungle of technical and discriminatory barriers, which penalised European products and investors. In spite of this, Italy already exports much more to Japan than it imports, especially in the agri-food sector, a situation that can only improve. To give an example, Japanese duties on pasta, wine and cheese will go from 24, 15 and 40 to zero. Zero! An enormous gain for those doing business in Japan, while European consumers and farmers will be protected, because GMOs are excluded from the agreement, as is rice. Of course, there are also elements that do not convince us: the provisions on

water, financial services and the protection of personal data are, unfortunately, insufficient, but, overall, the benefits in this case outweigh the risks because, unlike CETA, this agreement does not contain the ICS clause, that very dangerous mechanism that allows corporations to sue states, and I ask the Commission to exclude it in the future. In the past we have been accused of being no-globalists who oppose trade, but our only interest has always been to defend citizens. And when we are faced with a good agreement, our vote can only be positive.

ENF

Madam President, ladies, and gentlemen, I will not, of course, go back over the conditions under which this treaty was negotiated in just one minute, but I would like to denounce two scandalous elements here. In French Polynesia, where giant Japanese tuna boats are threatening small-scale fishing in the South Pacific. In the Mediterranean, where illegal Japanese industrial fishing is rampant, while our fishermen, who are concerned about the resource, scrupulously respect the moratoria that you have imposed on them. Before passing this trade agreement, the Commission would have been well advised to ask Japan to respect our maritime sovereignty and our French fishermen. By not doing so, Brussels implicitly authorises Japanese factory ships to plunder our stocks in the Mediterranean, and this is unacceptable. Fair trade treaties that respect our nations, our companies, their employees, and the environment are what our compatriots and the peoples of Europe are legitimately demanding, no more, no less, but no less. So let us hear them!

Source: European Parliament Debates

Abstract :

Two years ago, when the world was facing an unprecedented era of protectionism, where the global organisations could not resolve and fix the growing distance between the West and the emerging economies, an agreement was signed between two economic powers that both stood for liberalism. On the 1st of February of 2019, was signed the free trade agreement between the European Union and Japan, the JEUFJA.

This agreement, the largest of his kind, is the conclusion of over 6 years of negotiation between the two partners, and will surely, through its importance, set new standards on the world stage and resonate as the opposition to protectionism. The agreement aims to reduce and eliminate tariffs and non-trade barriers, and as a result, increase trade flows between the two partners.

[...]

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