

EU-Japan FTA: Crafting an Ambitious Deal

Speech by Cecilia Malmström

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Ladies and gentlemen,

Thank you to Keidanren for inviting me here today to speak, and for giving me this opportunity to hear your views.

I'm excited to be in Tokyo for the first time. Our EU-Japan Summit later today will be a confirmation of our strong friendship and a chance to deepen the relationship between the EU and Japan.

And thank you, Mr. Ito, for that kind introduction. ANA Holdings, Mr. Ito's company, is at the heart of the EU-Japan economic relationship. And having just bought almost 40 Airbus jets he's doing more than most of us to deepen it.

I am delighted to be here with you today.

This is my first time in Japan. And like so many Europeans, for so many centuries, I've always found this to be a fascinating country.

I come from Sweden. It's a country that prides itself on creativity and design. More specifically I'm from Gothenburg, a city in the south of the country. Being good Swedes, one of our city's most valued institutions is our museum of design.

Well, one of the most-prized collections of the design museum of my home town of Gothenburg, is of Japanese objects, particularly 600 netsuke miniature sculptures.

That collection – and the many others like it all across Europe – is evidence of the long and deep history of trade between our two great economies.

It's also an indication of the respect and admiration felt in the European Union for Japanese products.

But what I think is most relevant for our discussion today is how those objects – small but perfectly shaped – demonstrate this country's ancient ethos of craftsmanship.

The *shokunin kishitsu* – the spirit of the craftsman – is a deep commitment to working, over many years, towards perfection. It's been at the root of Japan's many global successes across so many areas – food, manufacturing, culture.

And it is also exactly the spirit we need when it comes to the EU Japan Free Trade Agreement.

This deal has enormous potential for both sides.

Japan and the European Union are both facing serious economic challenges.

We want to put our people to work today and we want to secure the prosperity of our societies for the coming decades. To do both of those things, we need more growth.

We are both now using the widest possible range of tools to try deliver that growth.

Here in Japan, Prime Minister Abe's three arrows are aimed precisely at a more prosperous future.

In the European Union, we are also innovating in fiscal policy, monetary policy and structural reform to produce the results that our people need. And we have the added challenge of coordinating 28 different archers, I might add!

For both sides, this trade agreement can be part of that process of economic renewal.

More open trade will boost demand for our exports on both sides...whether for our excellent cars and machinery, or for cosmetics, financial services or food.

And the scale of that effect will be huge because the European Union and Japan are respectively the largest and the fourth largest economies in the world. We are combining a great deal of demand, so this deal would give a significant boost to both our economies.

More open trade can also help make us more competitive. It will lower prices and widen choice for consumers, and for companies like yours. In a world of global value chains, you need access to the best imported parts, components or vital services if you want to support jobs here in Japan. The same is true for European firms.

Finally, more open trade between Europe and Japan will also drive our investment relationship – investment that both sides need.

We know all of this can work because the EU and Japan already have a deep and solid economic relationship between us. Japan accounts for over 3% of all EU trade and is our

second largest Asian trading partner. The EU makes up 10% of Japan's trade and is its third most important trading partner overall.

Our trade is also relatively balanced. While in the past the EU had a significant trade deficit with Japan that has fallen dramatically to slightly over €1 billion last year.

And we have a close investment relationship. Japan is a major investor in the EU, and innovative Japanese companies have not only created jobs in Europe, but become an integral part of our economic environment.

Nonetheless there is real untapped potential for closer ties. The fact that Europeans have not invested as much in Japan as we have elsewhere underscores that potential.

In short there is a huge amount to be gained from an agreement like this.

That's why the European Union is very pleased that Prime Minister Abe has given such clear and strong support for these negotiations. We share his enthusiasm.

Japan is also arguing for a quick result, in fact for a deal by the end of this year. Again, we in Europe share the enthusiasm that such an objective would represent.

However, we also believe that if this deal is worth doing, it's worth doing right.

We have to be ambitious on the substance as well as on the timing.

And that's where the shokunin kishitsu comes in.

We need to approach this negotiation like one of your country's inspirational craftsmen.

They would not be satisfied with a substandard product. And neither should we be.

We need an agreement that works. An agreement that helps us put our economies on the path to prosperity.

If we can create a good product quickly, we should do it and spare no effort. If it takes a bit longer to create that good product, we should take that time.

This is also something that I have discussed with several ministers during my days here in Tokyo, and I will continue those talks this afternoon.

What does that mean in practice? Four things.

First, tariffs. These are mostly low. But they are high on food, drink and agricultural products. And that means big opportunities. So we should be aiming to get rid of tariffs on both sides, including on food and agriculture as well as cars. Of course, we must respect each other's core sensitivities. But we in Europe can't accept a deal that's inferior to what we have negotiated with other countries, like Canada and Korea.

Second, an ambitious deal also needs to cover the climate for investment. We need strong tools to boost investment flows in both directions. And to bring the relationship more into balance.

Third, an ambitious agreement means tackling public procurement. We already have a good beginning. Because we've already reached an agreement on non-discriminatory and transparent access to procurement by Japan's major railway companies.

That deal will allow European companies to compete better for business in Japan. It will also allow Japan's train operators have access to excellent technologies at the best prices. And that means the passengers will ultimately be the winners.

This is exactly the kind of benefit that will come from showing similar ambition all across public tenders, whether at the level of cities and towns or central government. Open public procurement markets are of benefit for all. That's why we in Europe already have one of the most open systems in the world.

Finally, and perhaps most importantly, we need an agreement that makes European and Japanese regulation more compatible. I have heard many examples and stories from industry of very similar, but slightly different legislation. Such differences can be especially difficult for small companies, if you have to conduct almost identical testing twice, for example.

Making regulation more compatible is essential if we want to see real gains from trade. Regulatory cooperation is the future of trade policy, which is where the EU and Japan both need to be.

Let me be clear, regulatory cooperation does not mean undermining the rules that protect consumers or the environment. People in Europe and Japan need to be sure that the products they use are safe, effective, and environmentally friendly.

But it does mean trying to remove unnecessary technical differences between our systems, on the basis of international standards, in order to boost growth, and to save time, money and energy.

I was delighted to read in Keidanren's paper of this March that you strongly support this objective.

And I share your view that we should shift to a higher gear. These negotiations are an excellent opportunity to do that.

We're already making progress. For instance in the car sector, the EU and Japan recently agreed on the revision of the international standard for noise for passenger cars; a very complex and longstanding discussion on both sides. For medical devices, Japan has recently revised the rules governing the inspection of manufacturing sites to bring them more in line with international standards; as a result, they are now substantially in line with those in the EU. That shows the potential of this work.

And there are opportunities for gains like that in many other sectors too, like food, financial services, medicines and chemicals, electrical equipment and telecommunications to name just a few.

Across this whole range of issues, we should tackle existing barriers and also set up a mechanism that will enable us to address future ones.

Ambition here is particularly important because in some cases, the benefits will go beyond our bilateral relationship. Take the car business for example.

The EU and Japan follow international standards set in the United Nations Economic Commission for Europe. As a result our rules are similar, and we can therefore set an example that the rest of the world, particularly developing economies, can follow.

There are still differences that raise the cost of trade between our economies. A good deal will reduce them, and will also help us develop new international standards that can eventually be applied in other markets. That means we can make a contribution to an open global market for our products through this bilateral deal. That would be a major achievement in itself. And it would bring great benefits to our industries.

But that benefit – and all the others I have outlined – will only come if we are ambitious and if we, like the shokunin, are committed to our final goal.

Yes we must work hard today.

And we do need to move forward as quickly as possible.

But what will matter in the end is not the day or the month on which we reach agreement.

What will matter is whether the final agreement helps us create prosperity and real results for our people, and real opportunities for businesses like yours.

That's the opportunity we have on the table before us.

I know that the European Union is ready to work for it.

And I hope we can count on you, the business community of Japan, to support us in achieving this goal.