

## **Speaking points on the launch of free trade talks between the EU and Japan**

### **Executive summary**

- Today EU/Japan automobile trade relations are already asymmetrical, with Japan exporting 4.5 times more cars than the EU<sup>1</sup>.
- A free trade agreement (FTA) with Japan would offer little prospect to the EU for boosting car exports.
- Far from increasing employment in the automotive sector, an FTA with Japan would put EU jobs at risk. The Commission's assessment under-estimates the impact on employment in the automotive sector.
- Japan is not a growth market even for domestically-manufactured vehicles, and the outlook is gloomy.
- The timing to open negotiations is inappropriate with the economic climate at its worst in Europe.
- The last thing the EU auto industry needs in this context is an unbalanced FTA with a major competitor.
- Reducing EU tariffs will be easy; removing Japanese non-tariff barriers (NTBs) will be far more time-consuming and complicated.
- To date the Japanese government has not made a clear commitment to dismantling NTBs.
- The necessary conditions for opening negotiations have not been met; any FTA should be fair and balanced, creating a level playing field.

### **Introductory statements about trade**

- Trade policy and industrial policy need to be aligned to create the conditions for a strong industrial sector.
- European automobile manufacturers are global companies.
- They therefore support fair and balanced trade agreements that create a level playing field.
- Full reciprocity must be the norm in negotiations with third countries.
- FTAs need to bring benefits to *all* EU businesses and sectors.

### **Part 1: The backdrop to the EU/Japan negotiations**

#### **EU/Japan automobile trade relations are already asymmetrical**

- Japan is already the largest exporter of passenger cars to the EU with more than 700,000 vehicles per year, worth around €9 billion<sup>2</sup>.
- The EU exports a little more than 155,000 passenger cars per year, worth €3.8 billion<sup>3</sup>.
- The EU/Japan trade deficit of the automotive sector currently stands at €5.6 billion in Japan's favour.
- Japan currently has the lowest penetration rate of foreign brands amongst OECD countries (less than 5%). An FTA is unlikely to change this.

<sup>1</sup> Average figures from the last 5 years

<sup>2</sup> Average figures from the last 5 years

<sup>3</sup> Average figures from the last 5 years

### **The Japanese have everything to gain.....**

- The FTA would require the EU to dismantle the existing 10% customs duties on passenger cars, representing a saving of €1.2 billion a year for Japanese manufacturers, which amounts to €1,500 for every Japanese car imported.
- This amounts to a 'gift' to one of the EU auto industry's main competitors, placing EU-produced vehicles at a competitive disadvantage. These huge savings for the Japanese come at a time when European manufacturers have to fight to cut costs wherever they can in order to maintain production in Europe and keep prices down amidst tremendous competition.
- The FTA would represent an opportunity for the Japanese to shore up export levels into the EU, thereby compensating for their own declining market and helping maintain their employment levels in the sector.

### **..... the EU has a lot to lose**

- The dismantled duties would trigger a higher flow of cars into the EU. Car production could go down by some 443,000 units as a result, leading to between some 35,000 and 73,000 job losses.
- The Commission's assessment under-estimates the impact on employment in the automotive sector.
- The trade agreement risks being used by the Japanese as a tool for passing on productive capacity that cannot be absorbed at home to the EU, a market which increasingly has its own issues of overcapacity.
- The FTA would also be likely to worsen the current EU/Japan trade deficit of the automotive sector.

### **Little potential in Japan for EU auto industry**

- It is highly doubtful that a FTA would help the EU automobile industry make stronger inroads into Japan, where EU-produced vehicles currently represent just 4%<sup>4</sup> of total market share.
- Japan is not a growth market even for domestically-manufactured vehicles, and the outlook is gloomy. According to the Mitsubishi Research Institute, between 2010 and 2020 Japan's domestic market is set to decline by 660,000 units.
- With or without the FTA, the EU industry will export fewer cars to Japan than today, given the demographics in the country.
- Only the premium segment of the market - which makes up the bulk of EU-produced cars sold to Japan - would derive some limited gain from improved market access.

### **EU's auto industry is a key player**

- Despite its shrinking market and decline in registrations, the EU auto industry remains a major pillar of the European economy.
- The automotive sector contributes positively to the EU trade balance with a €114.1 billion surplus. This contribution is highly significant today as the EU economy as a whole struggles with a total trade deficit for goods of €152.8 billion<sup>5</sup>.
- Some 11.6 million people - or 5.3% of the EU employed population - work in the sector<sup>6</sup>.
- The 3.2 million jobs in automotive manufacturing represent 10.2% of EU's manufacturing employment.
- Motor vehicles account for over €375 billion in tax contribution in the EU.
- The sector is also a key driver of knowledge and innovation, representing Europe's largest private contributor to R&D, with €26 billion invested annually.
- The EU should defend these assets, not jeopardise them.

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<sup>4</sup> Vehicles manufactured by ACEA members in the first 7 months of 2012

<sup>5</sup> 2011 figures - most recent full-year figures available from Eurostat

<sup>6</sup> 2010 figures - most recent available from Eurostat

### **However the timing is wrong with the economic climate at its worst**

- The economic crisis is taking a severe toll on the auto industry, which has to contend with a lack of demand and weak consumer confidence on its domestic market.
- With sales on a downward trend for the past five years running, most automobile manufacturers are losing money in Europe at the moment.
- Between 2007 and the end of 2012 new car registrations are expected to have dropped by over 3 million. This corresponds to the combined output of 10 factories running at full capacity.
- In 2012 new car registrations are expected to decrease by over 7% compared to 2011. Sales are set to drop from 13.1 million to 12.2 million in the EU, which is a record low since 1995.
- It is a question of survival for many manufacturers who are struggling to sustain the same level of capacity as in pre-crisis times.
- A number of European manufacturers have already announced that they have no alternative but to implement significant restructuring plans. Further such announcements are expected over the coming months.
- In such a contracting market, the burden of unfair foreign competition resulting from unbalanced trade agreements adds strong pressure on overcapacity and employment.
- We cannot afford to further open up our markets in times of crisis unless there is a level playing field.

### **The industry needs a supportive framework, not further hindrances**

- Given the economic crisis, the challenges ahead of the European industry are huge.
- However the industry is ready to meet these challenges. Many manufacturers are already in the process of restructuring.
- In order to be able to adapt to the changing demands as painlessly as possible, the sector needs a supportive framework, as highlighted by the CARS 21 final report. The last thing it needs in this context is an unbalanced FTA with a major competitor.

### **Part 2: Japan and South Korea**

- The launch of free trade talks with Japan comes just one year after the entry into force of the South Korean FTA.
- The EU is therefore opening the doors to the two countries which are both:
  - major car-exporting countries;
  - mature markets;
  - the region's main competitors.
- As it stands, Japan is the number one exporter of cars to the EU, both in terms of units and value.
- South Korea comes in second place in terms of units, and in third place (behind the US) in terms of value.
- In the 12 months since its implementation, South Korea exported over 430,000 domestically-manufactured passenger cars into the EU; a figure which is up 46% on the same period a year before. By contrast, over the same timeframe the EU exported 80,000 passenger cars, which represents an increase of just 7%.
- It is still too early to say if there is a direct relationship between the entry into force of the FTA and the increase in trade flows.
- What is clear however is that, one year on, EU car exports are being hampered by the continuing existence and the introduction of new automotive non-tariff barriers (NTBs).
- The impact of a Japanese FTA could be even greater since Japanese vehicle manufacturers have a larger share of imports to the EU market than their South Korean rivals (19.3% versus 16.6%).

### **Severe cumulative effect of unbalanced FTAs**

- The simultaneous accumulation of unbalanced FTAs with countries with protected automobile industries like South Korea and Japan will put the EU automotive industry under severe pressure.
- Such FTAs have a multiplier effect on the impact of each subsequent FTA. The share of imported vehicles could increase from 17.4 % today to 23% in the future.

### **Part 3: The necessary conditions for opening negotiations have not been met**

#### **We must have a level-playing field**

- The preparatory 'scoping exercise' for this FTA has been insufficient and does not create the right conditions for launching bilateral negotiations.
- The 'automotive roadmap' - one of the outputs of the scoping exercise - is too vaguely-worded, and lacks clarity in terms of the precise methods to be used to dismantle non-tariff barriers and the timelines for this to happen.
- The principle of reciprocity on full market access must be respected.
- If Europe cuts tariffs, Japan must remove non-tariff barriers. Otherwise there is no level playing field.
- Reducing tariffs is easy; removing non-tariff barriers is far more time-consuming and complicated, as the South Korean experience has shown.
- Even if all non-tariff barriers were to be removed, however, there would still be a limited market potential in Japan for the EU auto industry.

#### **The 'rendez-vous' clause is politically not enforceable**

- The terms of the mandate are insufficient.
- For instance, insofar as the outcome of the scoping exercise does not set clear deadlines for non-tariff barriers to be removed, any commitments to suspend negotiations after one year are too open to subjective evaluation and hence difficult to enforce. What is more, as a matter of principle, any decision to suspend trade negotiations should be taken by the Member States and not by the Commission.

#### **EU manufacturers are locked out of over one-third of market**

- Another major concern is the so-called 'kei' cars - a classification of small cars unique to Japan.
- Kei cars enjoy a number of special financial and other regulatory advantages.
- They currently hold about 35% of the market<sup>7</sup>, and it is forecast that this figure will rise to 40% by 2020<sup>8</sup>. This means that EU manufacturers are effectively locked out of a huge chunk of the Japanese market.
- Like other passenger vehicles, kei cars should be taxed more directly in proportion to their engine size, so that all segments of the market, including European small cars, can compete on an equal footing.
- Other conditions that currently apply exclusively to kei cars, such as parking rules and motorway tolls, should be extended to all cars.

#### **Japan must accept EU type-approved vehicles without further testing or modification**

- The auto industry specifically requests that EU type-approved vehicles should be able to enter and be sold on the Japanese market without modifications. This is not the case today.
- European cars are amongst the safest and cleanest in the world, so there is no reason why a car that is suitable for EU consumers should not be suitable for Japanese consumers.

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<sup>7</sup> Figures for the first 7 months of 2012

<sup>8</sup> Figures from the Japanese Automotive Dealers' Association