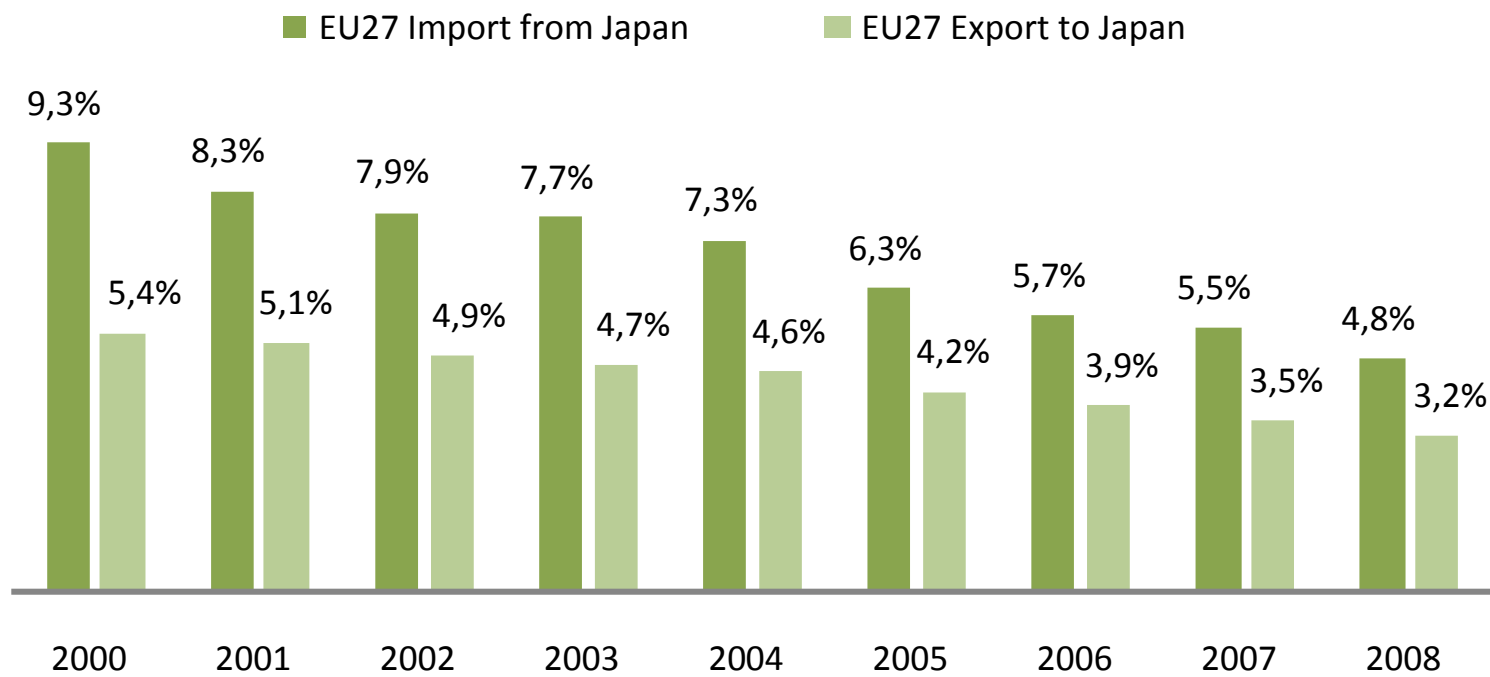


Barriers to trade between the EU and Japan

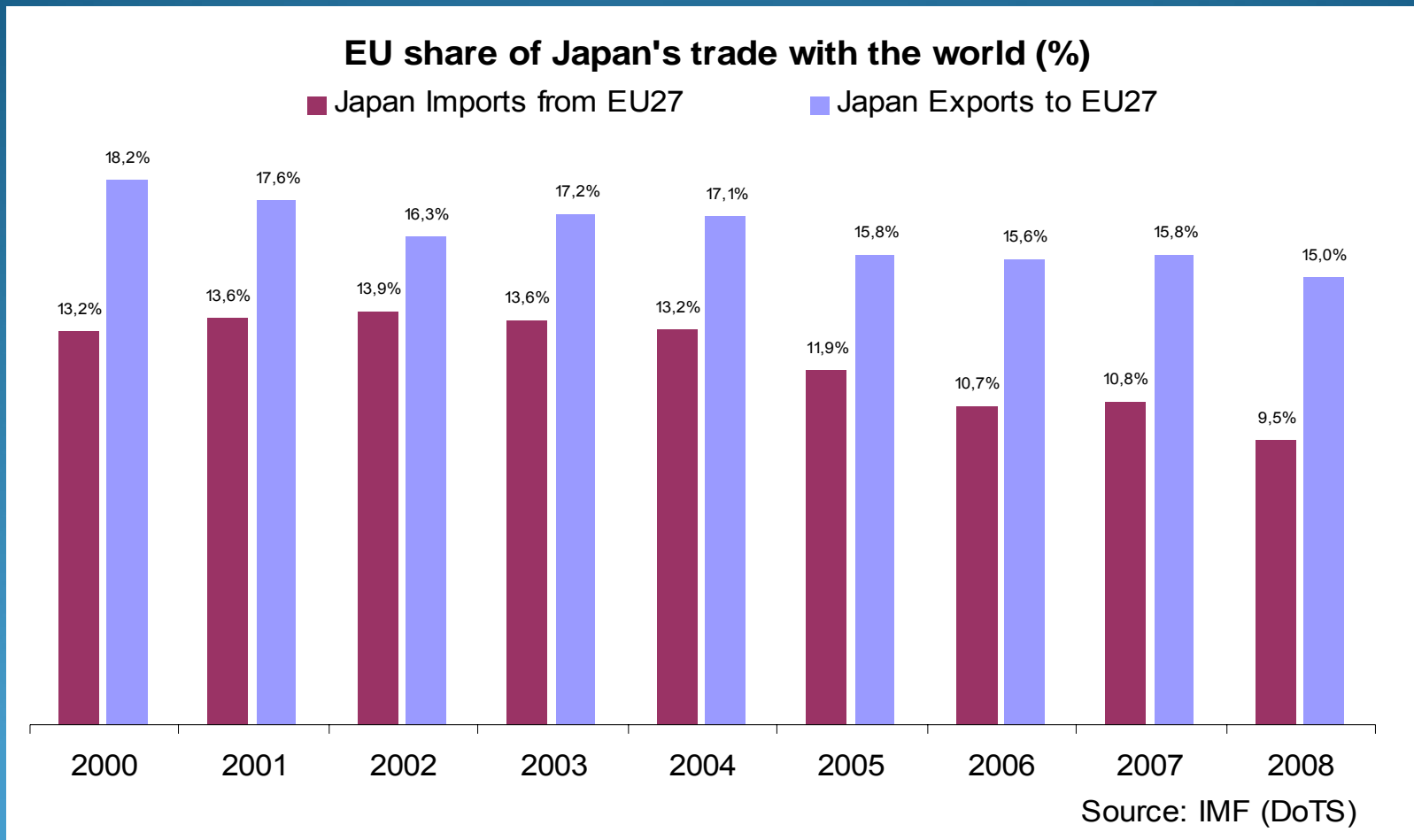
A study by Copenhagen Economics (DK)
For the European Commission (DG TRADE)

EU-Japan: a declining trade relationship ?

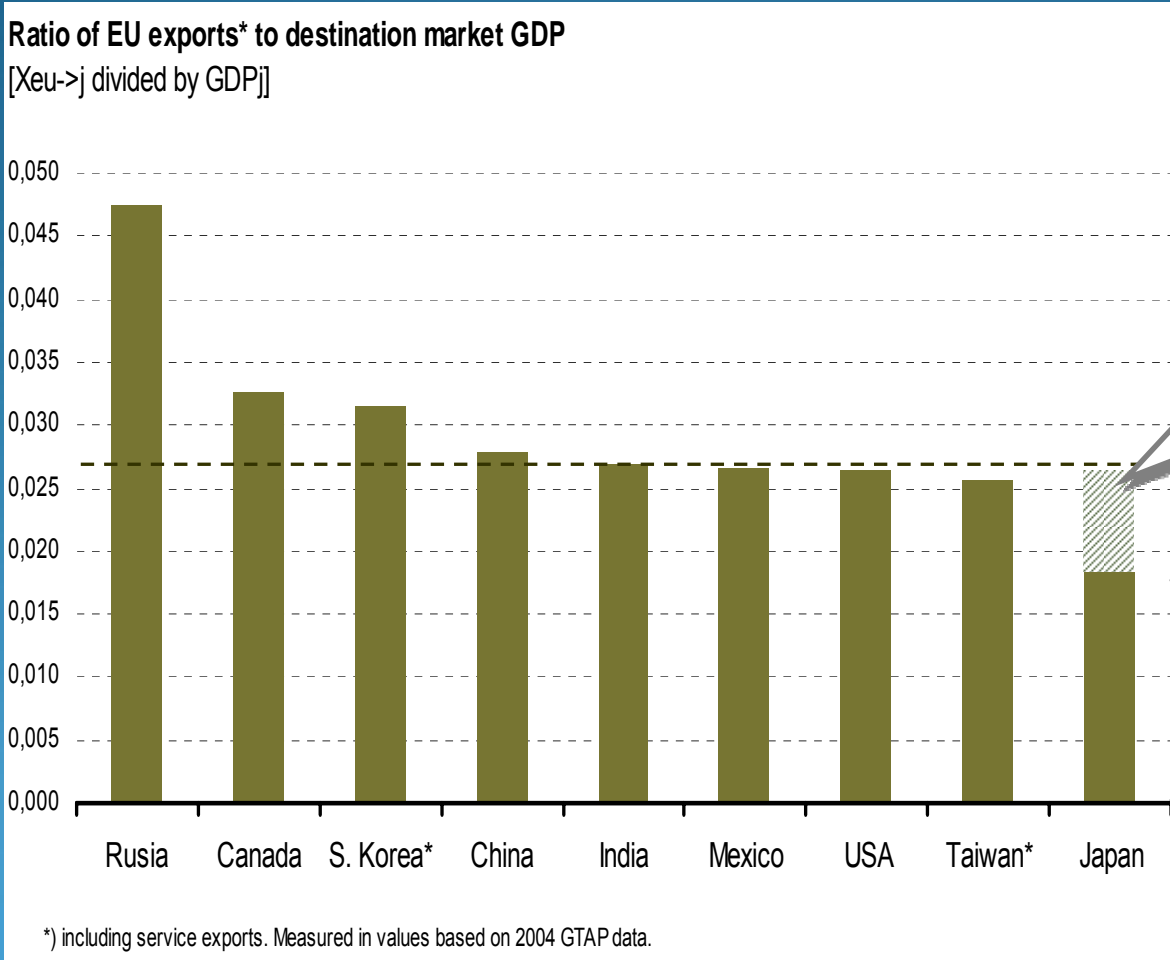
Japan's share of EU trade with the world



EU-Japan: a declining trade relationship ?



Japan: a difficult market for EU exports

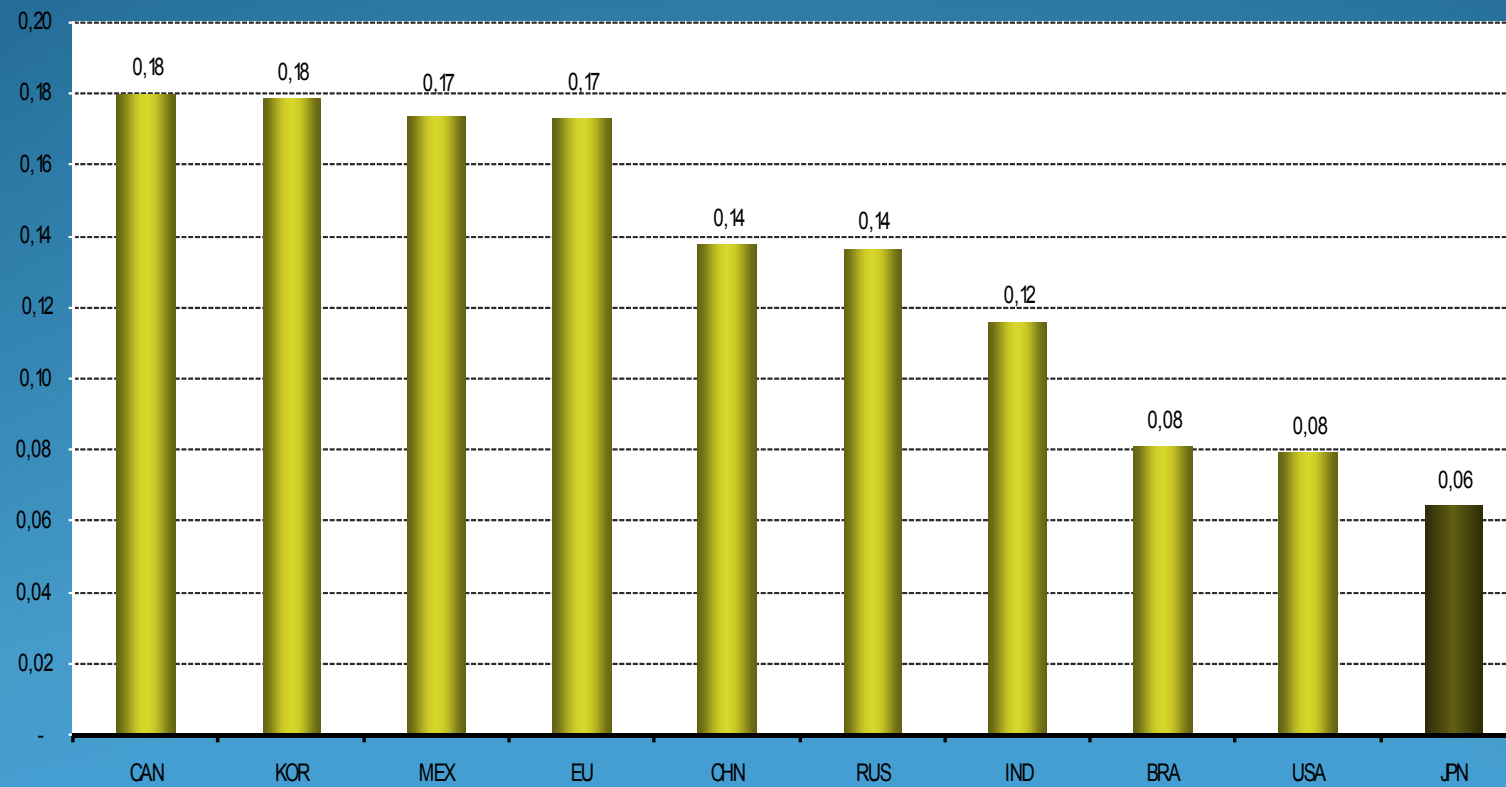


Exports
+ €27 bn
 (+ 44% increase)

Current EU exports
 to Japan
~ €61 bn

Import penetration is low in Japan

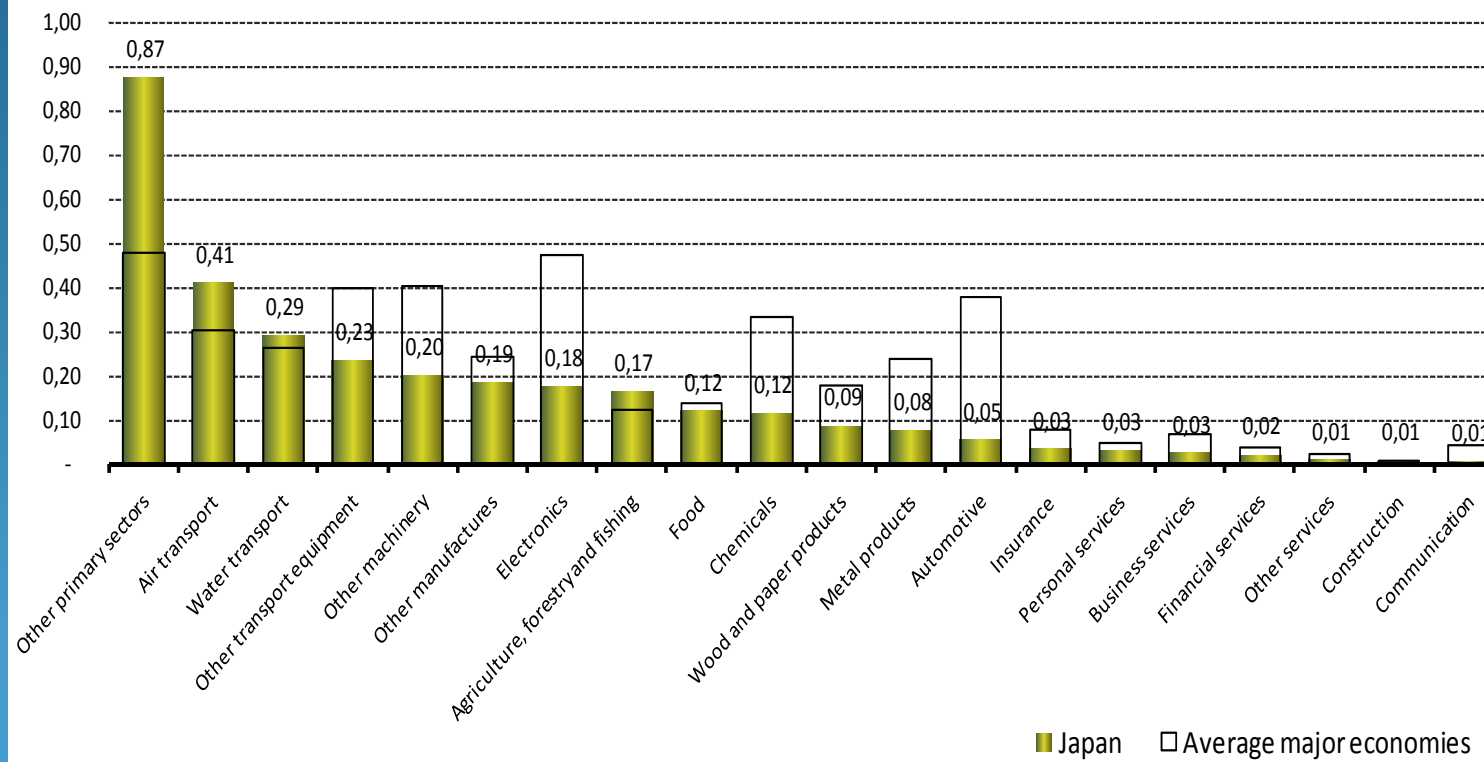
Import Penetration major economies, 2004
Imports as share of domestic demand



... Low in almost all sectors

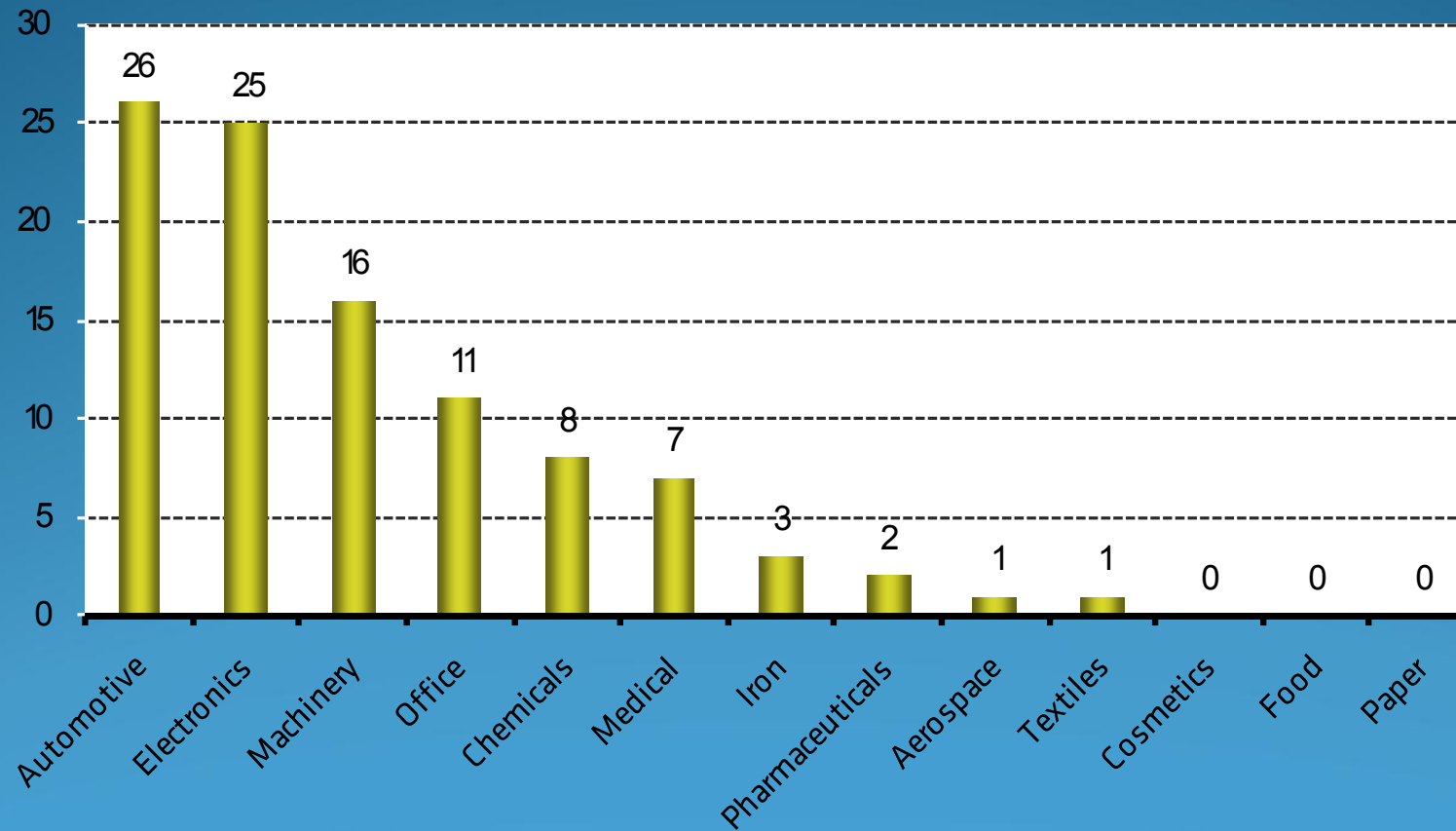
Import Penetration, 2004

Imports as share of domestic demand



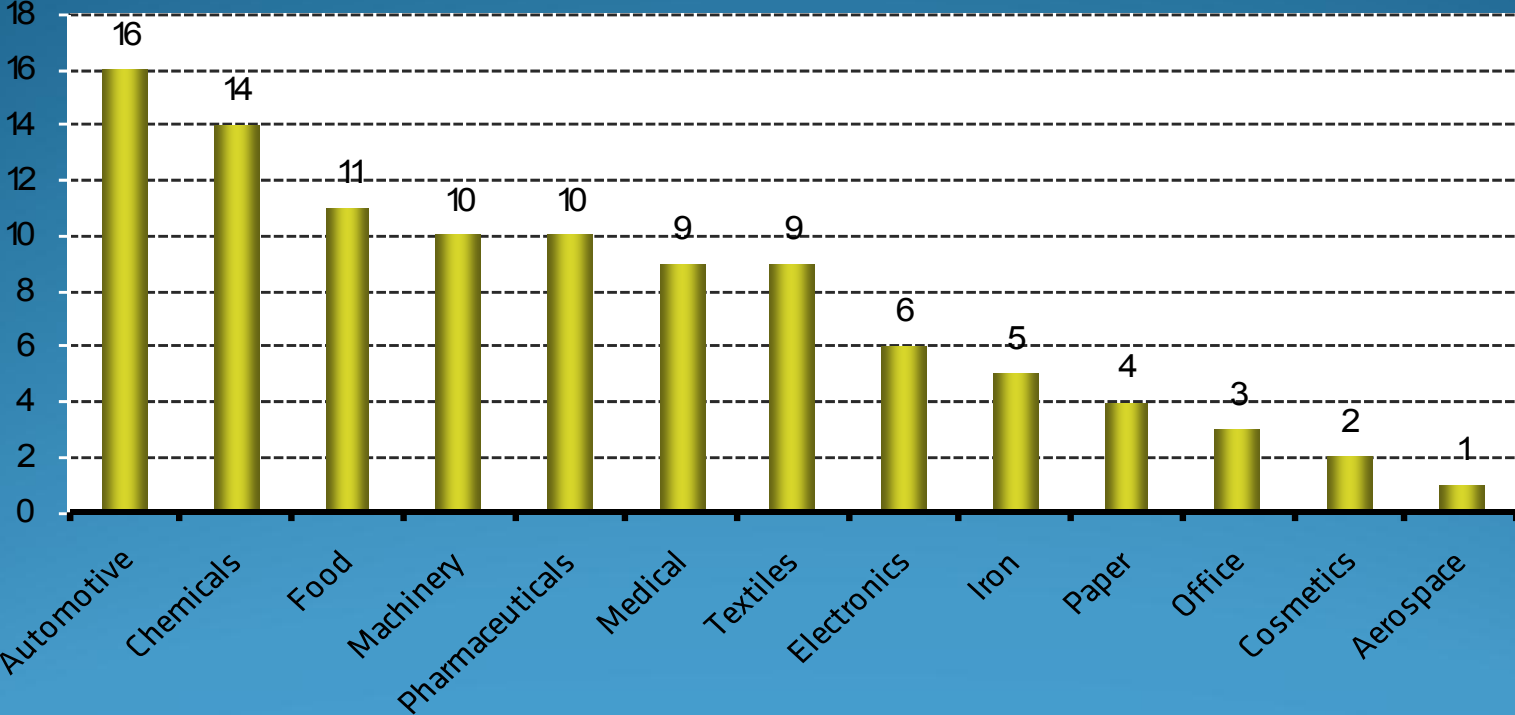
EU imports from JP are concentrated in a few sectors (4 sectors = nearly 80%)

Distribution of trade across sectors
(as a share of total trade)



EU exports to JP are more broadly distributed

Distribution of export across sectors
(as a share of total trade)



EU-Japan tariffs are low

	Tariffs faced by EU exports to Japan	Tariffs faced by Japan's exports to EU
Value of exports, 2008	€42.4 bn	€74.8 bn
Average tariff (on traded tariff lines)		
- simple	3.8	3.8
- weighted	1.7	3.4

Measuring the costs of NTMs in Japan

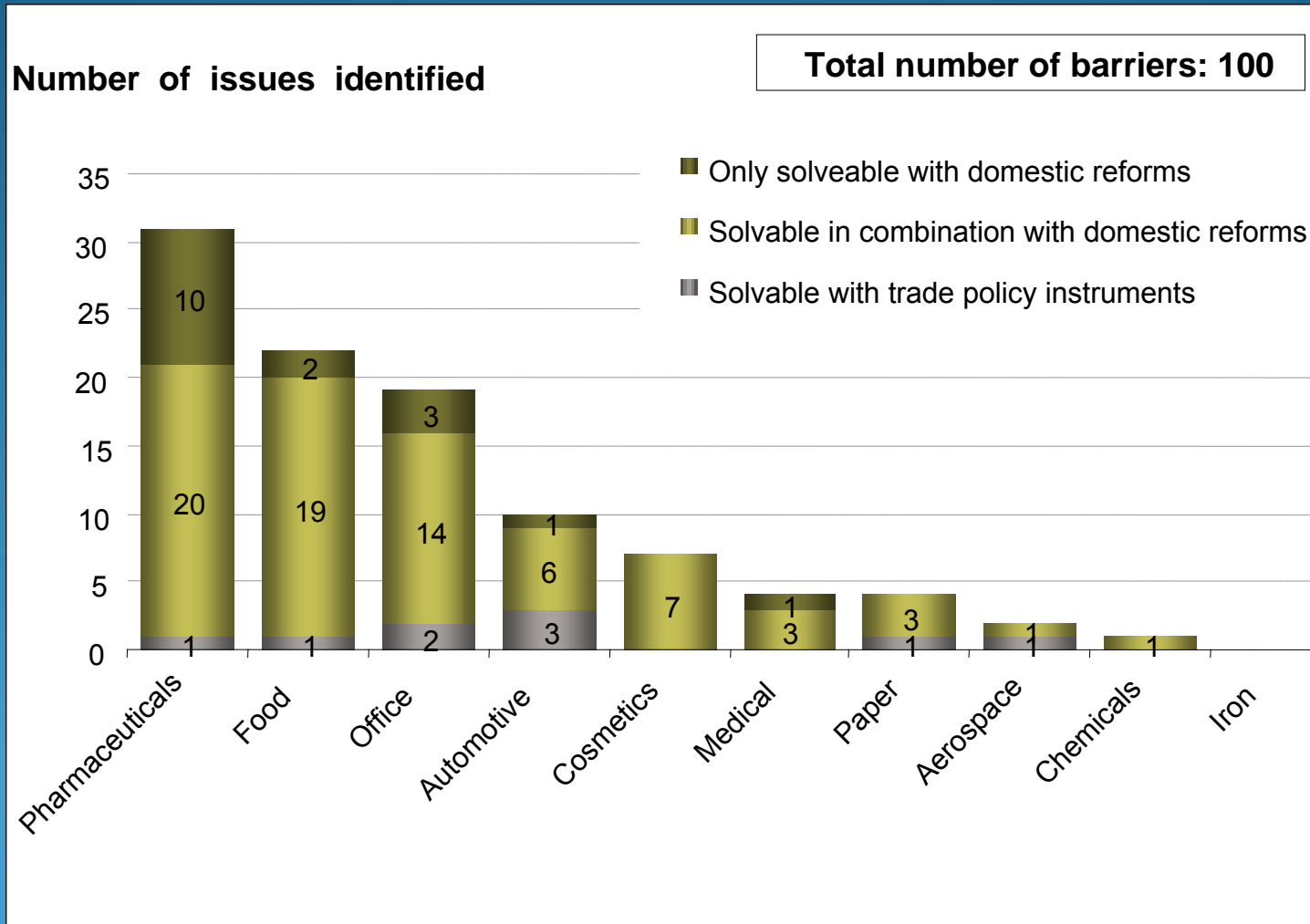
We know the NTMs faced by EU exporters

How do we measure their importance?

How do we measure their impact on trade?

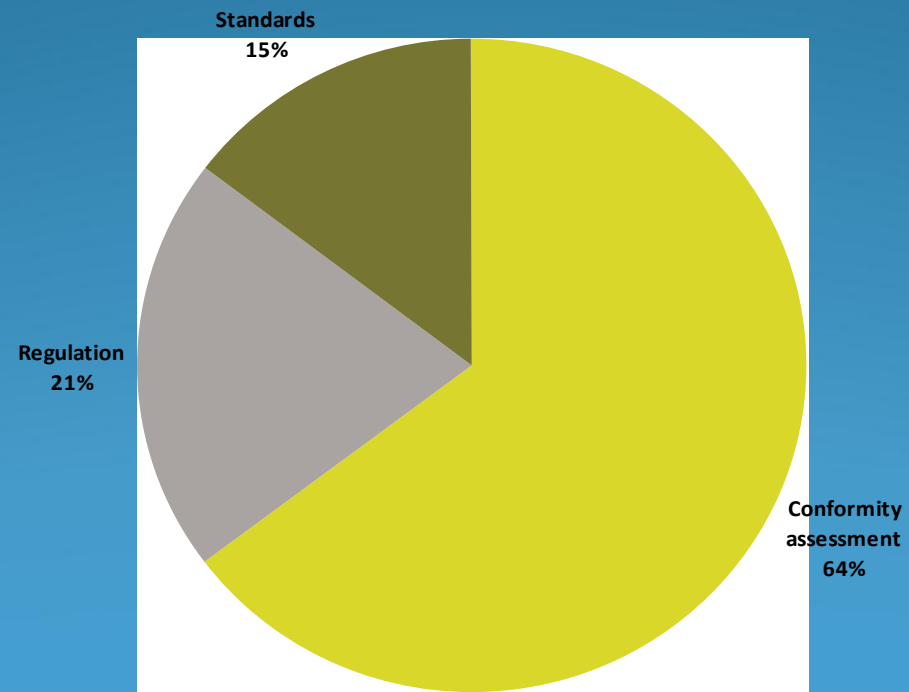
- Lists of NTMs identified by EBC and for the RRD
- Survey of EU companies operating in Japan

NTMs in Japan



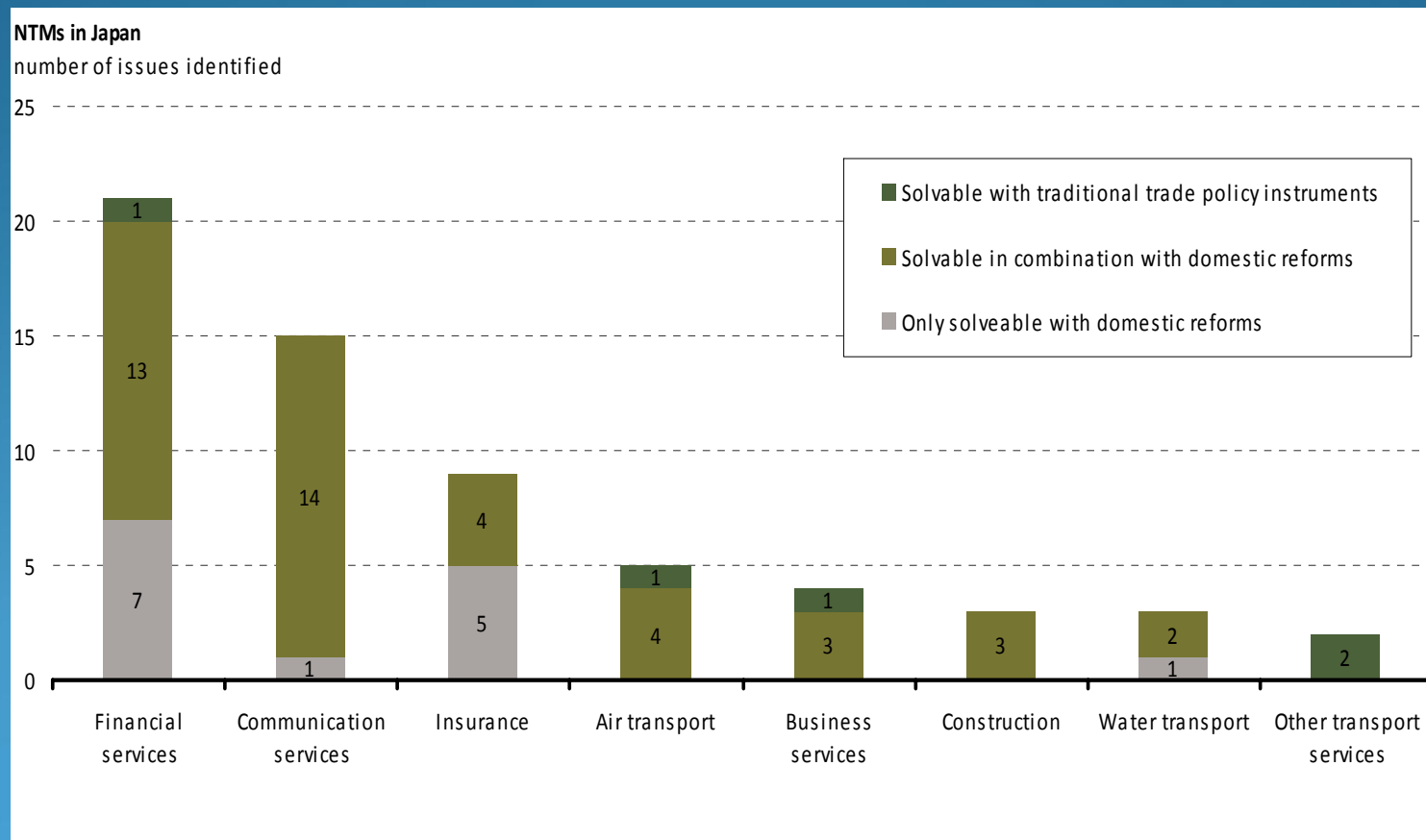
NTMs in Japan

Conformity assessment problems dominate



NTMs in Japan

Services sector issues:



Estimating the benefits of NTM reduction

- Take the trade cost of NTMs by sector
- Estimate a potential reduction in these costs
- Plug this into an economic model
- Calculate impact on trade, output, income

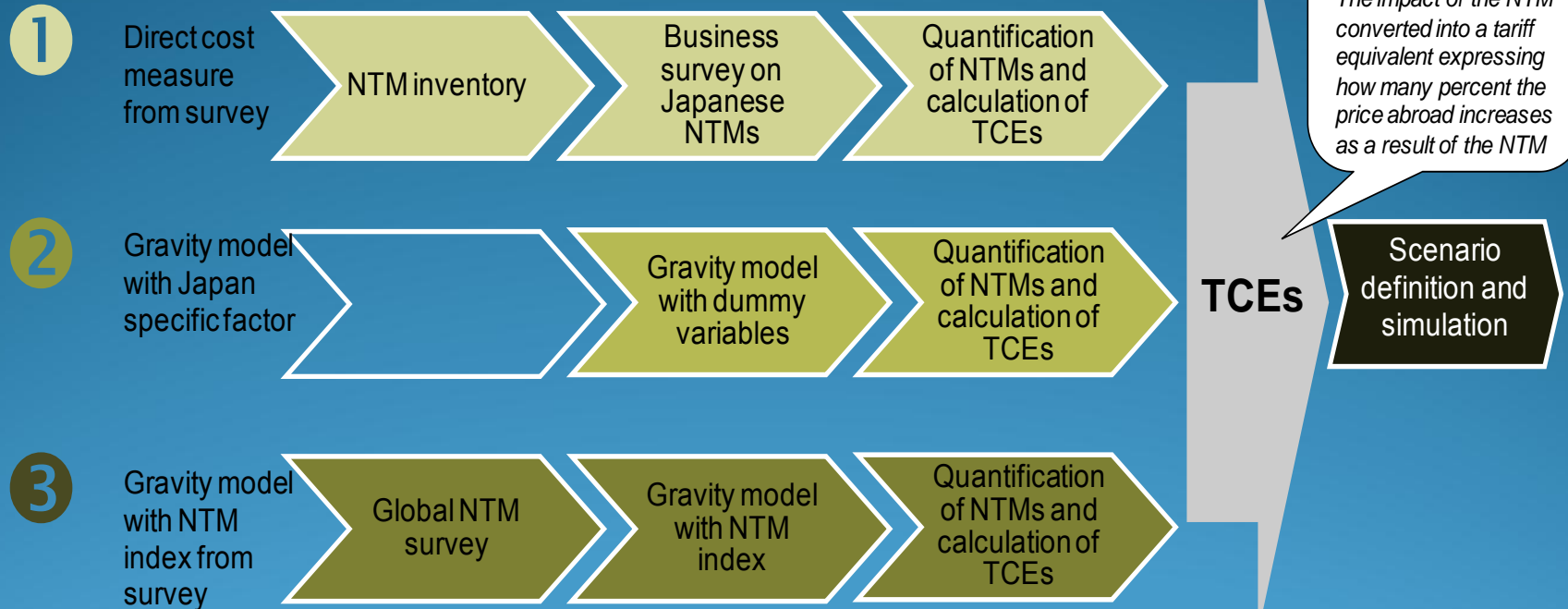
How to measure the trade cost of NTBs

1) Quantity approach > gravity model

- Crude: $NTM \approx$ residuals in equation
- Better: use NTM indicator : dummy or TRI
(used here for services and as checkpoint for goods)
- EU-US study: TRI based on survey of traders
(used here for NTMs on EU side)

2) Price approach > direct cost survey in Japan

Quantification of NTMs



The survey

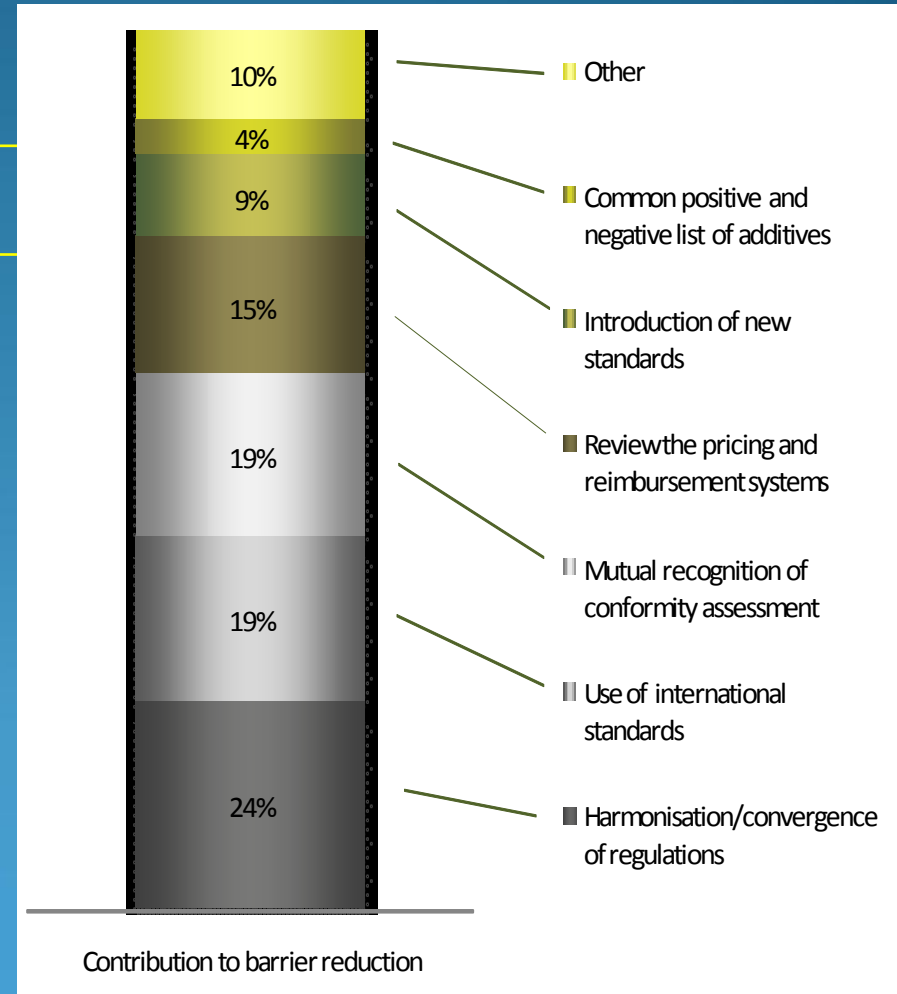
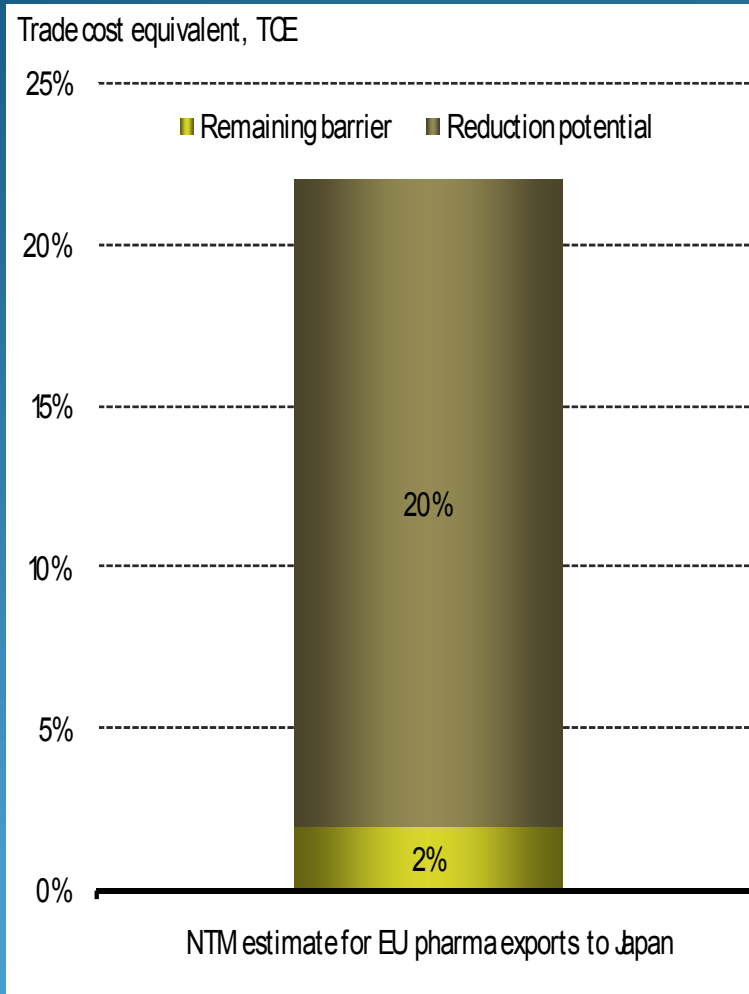
Survey of EU companies in Japan, in 7 sectors:

- Pharmaceuticals
- Medical devices
- Processed foods
- Motor vehicles,
- Transport equipment,
- Financial and telecom services

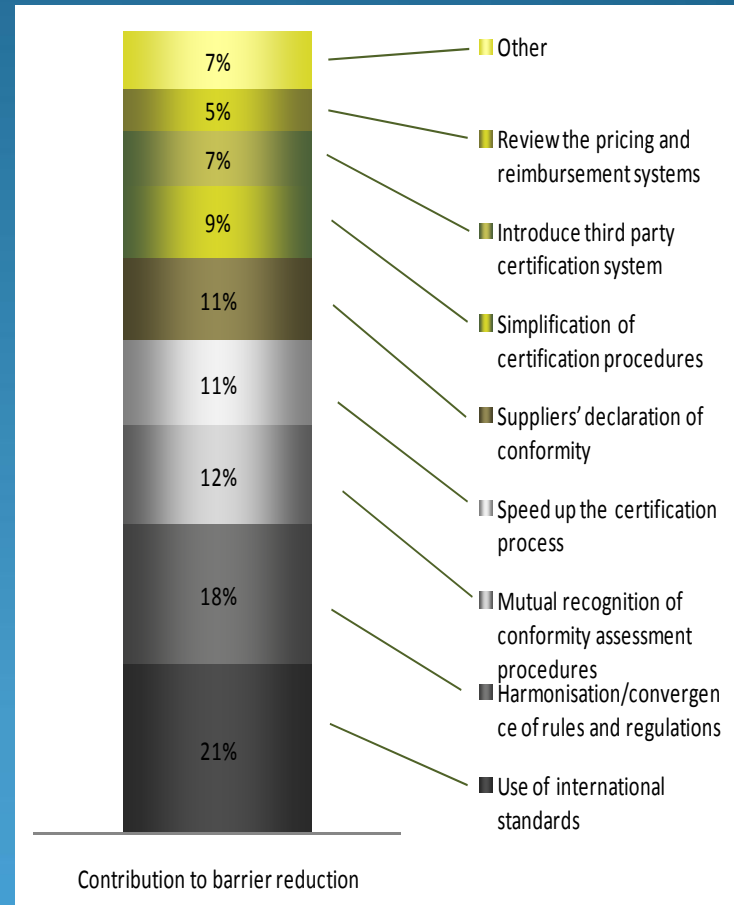
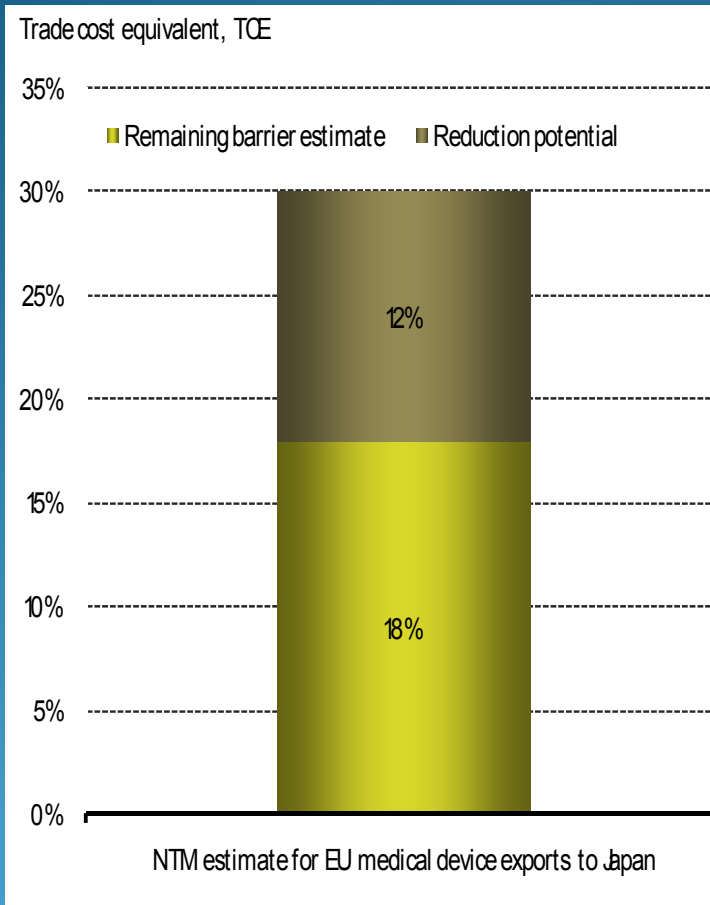
Questions:

- Most important NTMs in their sector
- Sources of NTM costs
- Trade cost estimate

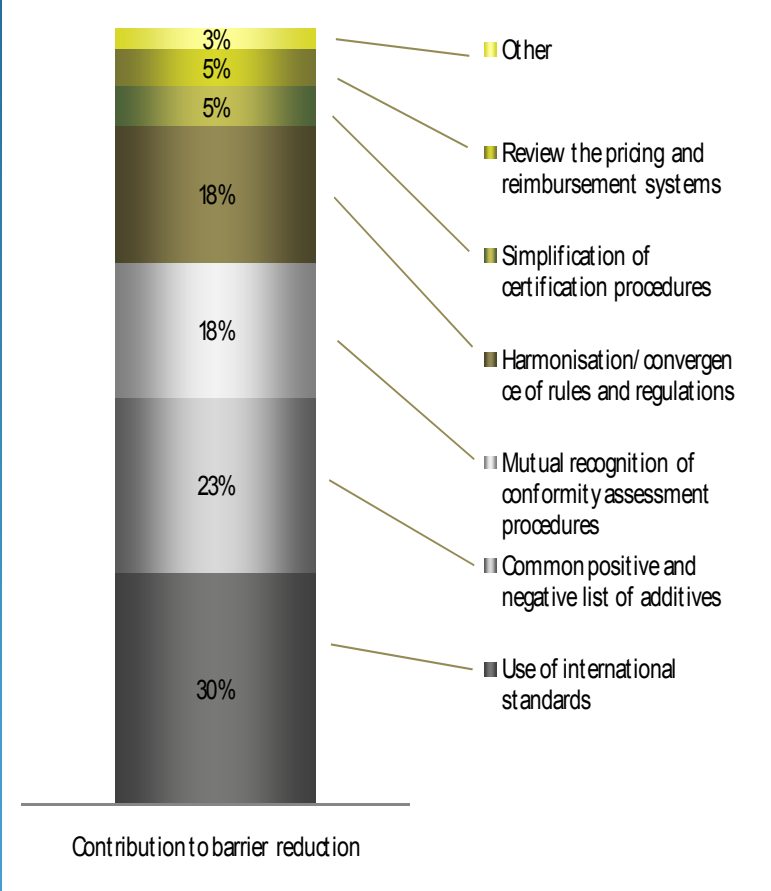
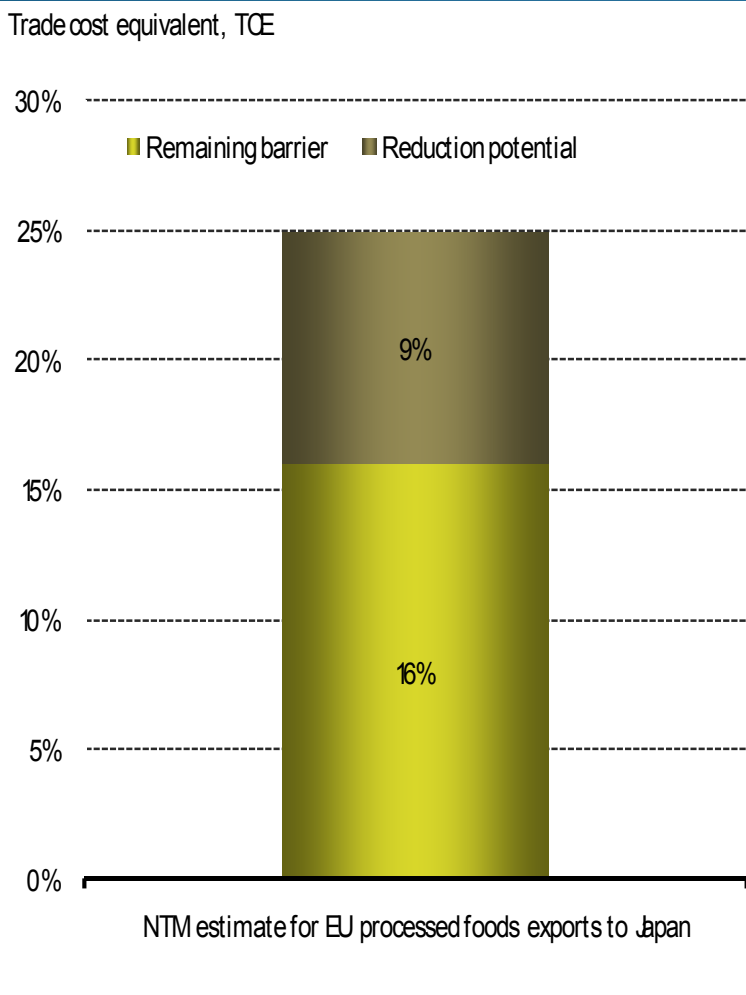
Pharmaceuticals



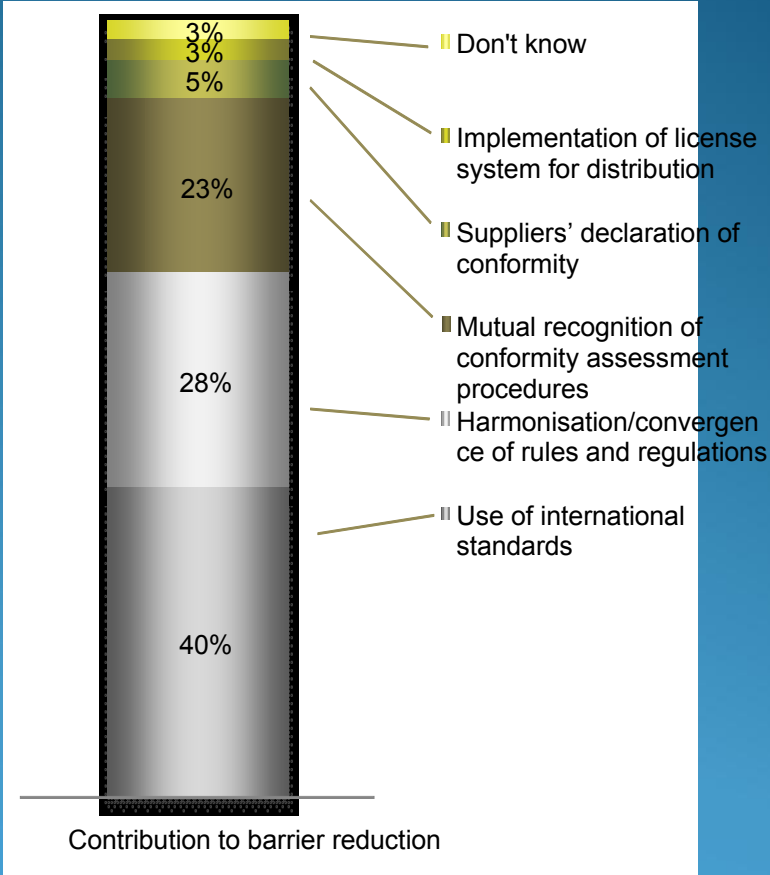
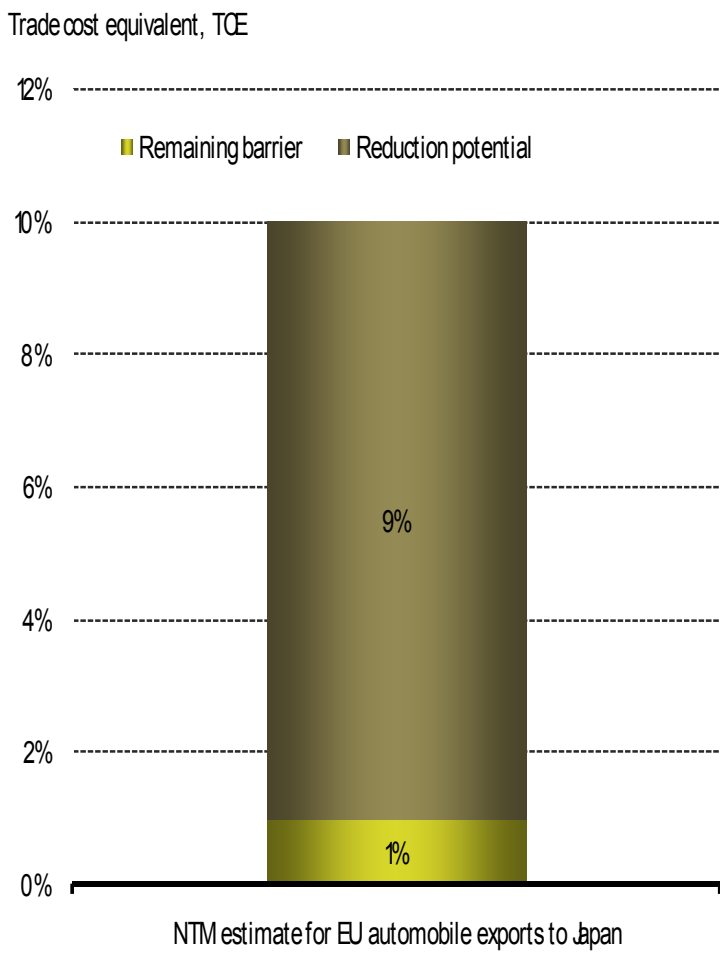
Medical devices



Processed foods



Motor vehicles



TCEs in services: separate study

Service sector	Japan barriers against EU	EU barriers against Japan
Finance	15,8	11,3
Insurance	6,5	10,8
Business and ICT	2,5	14,9
Communications	24,7	11,7
Construction	2,5	4,6
Personal, cultural, other services	6,5	4,4

Output impact in EU

	Baseline	Max. scenario	Change in pct.
Goods			
Processed foods	2,73	2,74	0,4%
Chemicals (incl. pharmaceuticals)	2,66	2,66	0,0%
Motor vehicles	1,59	1,54	-3,1%
Transport equipment	0,46	0,46	0,0%
Machinery (incl. medical devices)	3,18	3,20	0,6%
Metals and metal products	1,54	1,54	0,0%
Wood and paper products	2,12	2,13	0,5%
Other sectors (incl. agriculture)	10,77	10,79	0,2%
Services			
Finance & insurance	3,53	3,53	0,0%
Transport service	1,05	1,06	1,0%
Business services	18,17	18,20	0,2%
Communications	2,08	2,08	0,0%
Construction	6,12	6,14	0,3%
Personal services	3,70	3,71	0,3%
Other services	40,29	40,34	0,1%
Total	100,00	100,14	0,01%

Output impact in JPN

	Baseline	Max. scenario	Change in pct.
Goods			
Chemicals	2,56	2,57	0,4%
Electrical machinery	1,56	1,65	5,8%
Motor vehicles	2,16	2,43	12,5%
Other transport equipment	0,42	0,45	7,1%
Other machinery	3,54	3,34	-5,6%
Metals and metal products	1,91	1,90	-0,5%
Other sectors (incl. agri.)	9,82	9,72	-1,0%
Services			
Finance & insurance	5,39	5,40	0,2%
Transport service	1,13	1,13	0,0%
Business services	9,72	9,74	0,2%
Communications	2,34	2,34	0,0%
Construction	5,67	5,71	0,7%
Personal services	3,45	3,45	0,0%
Other services	50,33	50,50	0,3%
Total	100,00	100,31	0,03%

Impact on EU exports to Japan (bln €)

	Baseline trade volume	Removing Tariffs	Reducing NTMs		Combined scenario	
			Min.	Max.	Min	Max
Processed foods	4,3	4,8	0,3	1,0	5,1	5,9
Chemicals (incl. pharma)	9,1	1,0	5,3	10,0	6,3	11,0
Motor vehicles	5,6	0,6	1,8	4,7	2,4	5,4
Transport equipment	0,7	0,1	1,6	2,8	1,7	2,8
Machinery (incl. medical)	6,1	0,4	1,6	3,1	2,0	3,5
Metals and metal products	1,4	0,4	0,9	2,6	1,3	3,0
Wood and paper products	1,9	0,3	1,0	2,5	1,3	2,7
Other sectors (incl. agri.)	10,8	6,1	0,2	0,5	6,3	6,6
Services	21,2	0,4	1,0	2,2	1,4	2,6
Total EU exports to Japan	61,0	14,1	13,7	29,4	27,8	43,4

Impact on JP exports to EU (bln €)

	Baseline trade volume	Removing Tariffs	Min. NTM	Max. NTM	Combined scenario	
					Min	Max
Chemicals	9,0	1,5	2,8	7,6	4,3	9,1
Electrical machinery	8,8	2,2	1,5	4,0	3,7	6,2
Motor vehicles	20,2	15,9	4,2	11,3	20,1	27,2
Other transport equipment	4,4	1,5	0,9	2,8	2,4	4,3
Other machinery	25,0	3,2	-0,3	-1,5	2,9	1,7
Metals and metal products	1,3	0,7	0,2	2,5	0,8	3,1
Other sectors (incl. agri.)	3,5	0,7	0,3	0,6	0,9	1,2
Services	16,4	-0,3	0,5	1,3	0,2	1,0
Total Japan exports to EU	88,6	25,2	10,1	28,5	35,3	53,8

Impact on national income

	Combined maximum scenario	Tariffs	Min. NTM	Max. NTM
(in € bln/year)				
European Union	+ 33.2	+ 11.2	+ 9.4	+ 22.1
Japan	+ 18.2	+ 2.8	+ 6.9	+ 15.4

Note: baseline without Doha and EU-Korea FTA

Other issues: public procurement

- EU and JPN PP markets: about 19% of GDP
- Estimated at 565 bln € in JPN (2007)
- Less than 23% open to EU tenders (high threshold, low commitments, exception rule)
- In EU: 70% open to JPN tender

Railway equipment & Aircraft

- Aircraft market in JPN 4.5 bln €: 10% EU, 85% US
- Worldwide: EU/US equal split
- EU exports could go up by 2 bln €

- Railway equipment market in JPN: 2 bln €/y
- EU share: 3%
- Worldwide: EU share = 60%, JPN = 10%

Other issues: Competition

- Rules exist, weak enforcement
- JPN ranks low on OECD competition indicators
- Services sectors:
 - Very closed to import competition,
 - High access costs
 - Low productivity growth in services



Thank you

Method 2: Dummies & TCEs

Sector	Tariff elasticity	Importer specific factor		Imputed Trade Cost Equivalent (TCE)	
		EU	Japan	EU	Japan
Chemicals	-3,315	-1,292	-1,296	32%	32%
Pharmaceuticals	<i>insign.</i>	-1,418	-1,680	-	-
Cosmetics	-0,639	-2,076	-1,713	96%	93%
Machinery	<i>insign.</i>	-1,663	-2,914	-	-
Electronics	-5,461	-0,975	-2,665	16%	39%
Office	-2,193	-1,102	-2,054	39%	61%
Medical	-3,250	-1,289	-2,127	33%	48%
Automotives	<i>insign.</i>	-1,673	-2,500	-	-
Aerospace	<i>insign.</i>	-0,676	-3,971	-	-
Food	-1,352	-1,202	-0,767	59%	43%
Iron	-6,386	-1,283	-2,241	18%	30%
Textiles	-3,058	-0,688	-1,419	20%	37%
Paper	-5,993	-1,523	-2,233	22%	31%

NTMs trade costs: EU, US and JPN

Sector	NTB trade costs US exports to EU	NTB trade costs EU exports to US
Financial services	11,3	31,7
ICT services	14,9	3,9
Insurance	10,8	19,1
Communications	11,7	1,7
Construction	4,6	2,5
Other business services	14,9	3,9
Personal, cultural & recreational services	4,4	2,5
Chemicals	23,9	21,0
Pharmaceuticals	15,3	9,5
Cosmetics	34,6	32,4
Electronics	6,5	6,5
Office & communications equipment	19,1	22,9
Automotive	25,5	26,8
Aerospace	18,8	19,1
Food & Beverages	56,8	73,3
Metals	11,9	17,0
Textiles & clothing	19,2	16,7
Wood & paper products	11,3	7,7

Trade Cost for exports to Japan

	Baseline (%TCE)	Lower bound (%-pt change)	Upper bound (%-point change)
Food and beverages*	25.0	-6.0	-9.0
Chemicals (incl. pharmaceuticals)*	22.0	-15.0	-20.0
Electrical machinery	11.6	-2.6	-3.9
Motor vehicles*	10.0	-1.2	-3.8
Transport equipment (incl. aircraft and rail)*	45.0	-33.8	-41.0
Metals and metal products	21.3	-4.3	-6.5
Wood and paper products	15.4	-7.1	-10.6
Other machinery (incl. medical devices)*	30.0	-2.9	-3.9
Air transport	2.0	-0.9	-1.3
Water transport	8.0	-3.5	-5.2
Finance*	15.8	-5.8	-8.7
Insurance	6.5	-0.8	-1.2
Business and ICT	2.5	-2.5	-3.7
Communications*	24.7	-12.8	-19.2
Construction	2.5	-1.2	-1.9
Personal, cultural, other services	6.5	-2.5	-3.7

Trade Cost for exports to EU

	Baseline (%TCE)	Lower bound (%-point change)	Upper bound (%-point change)
Food and beverages	n.a.	-	-
Chemicals	18,0	-7,3	-12,1
Electrical machinery	4,5	-1,7	-2,8
Motor vehicles	16,3	-3,5	-5,3
Transport equipment	18,8	-3,1	-5,6
Metals and metal products	6,0	-1,9	-5,2
Other machinery	n.a.	-	-
Air transport	2,0	-0,4	-1,1
Water transport	8,0	-1,4	-4,5
Finance	11,3	-2,9	-7,0
Insurance	10,8	-2,8	-5,6
Business and ICT	14,9	-2,5	-4,3
Communications	11,7	-4,3	-8,2
Construction	4,6	-1,9	-2,6
Personal, cultural, other services	4,4	-1,0	-2,5