

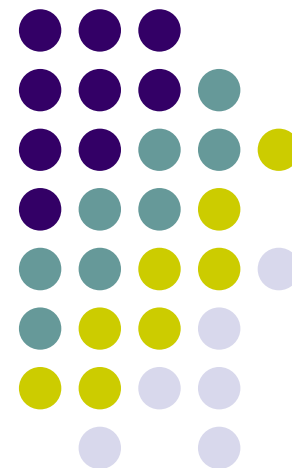
RIETI POLICY SYMPOSIUM

“Use of Preferential Treatment under FTA”

March 23, 2007

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Tokyo Chamber of Commerce & Industry



EPAs in Force and Preferential Certificate of Origin (COO)

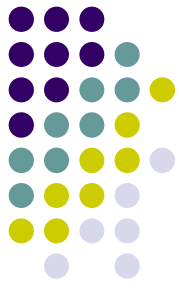


- Japan-Singapore EPA
 - Entered into force: November 30, 2002
 - Designated COO issuing authority: Chambers of Commerce & Industry
 - Specific products requiring COO: Beer & Ale, Stout & Porter, Medicated Samsou, and Other Samsou
- Japan-Mexico EPA
 - Entered into force: April 1, 2005
 - Designated COO issuing authority: 20 Chambers of Commerce & Industry, including Tokyo CCI and Osaka CCI
- Japan-Malaysia EPA
 - Entered into force: July 13, 2006
 - Designated COO issuing authority: Japan Chamber of Commerce and Industry



Findings of Questionnaire Survey on Use of EPAs

Questionnaire Survey on Use of EPAs (Tokyo CCI)



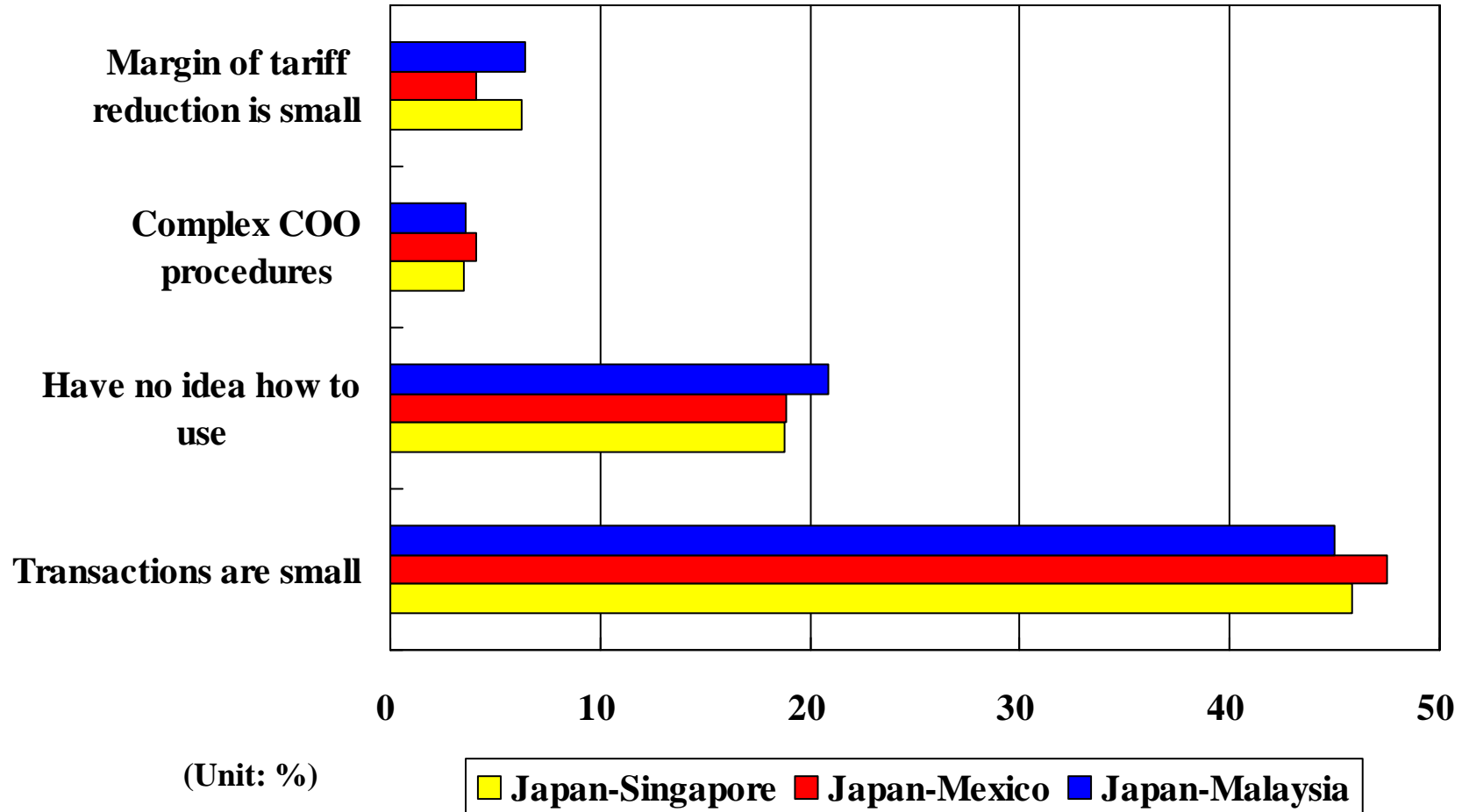
- A questionnaire was sent to 4,369 member companies of TCCI
- Period: Jan. 24, 2007 to Feb.16 2007
- Method: Mailing or e-mailing of a questionnaire
- Total number of respondents: 289
- Responses from small companies with fewer than 100 employees: 159

Q: Use of EPAs



- Using one EPA at least
 - All respondents: N=67 (23.7%)
 - Small company respondents only: N=14 (8.8%)
- Using Japan-Singapore EPA
 - All respondents: N=10 (3.7%)
 - Small company respondents only: N=1 (0.6%)
- Using Japan-Mexico EPA
 - All respondents: N=40 (15.1%)
 - Small company respondents only: N=10 (6.3%)
- Using Japan-Malaysia EPA
 - All respondents: N=17 (6.4%)
 - Small company respondents only: N=3 (1.9%)

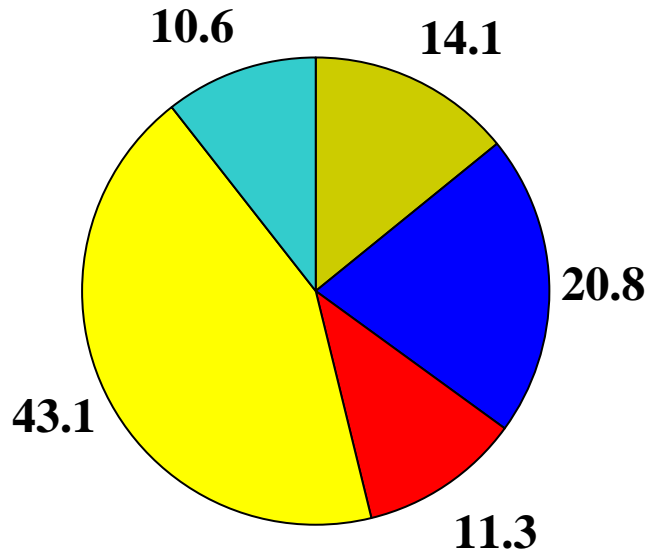
Q: Reasons for not Using EPAs While Having Interest



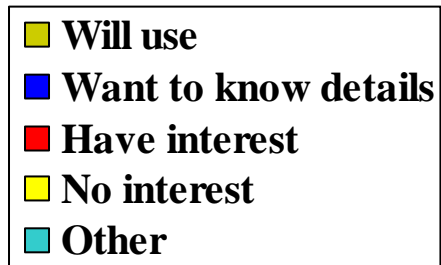
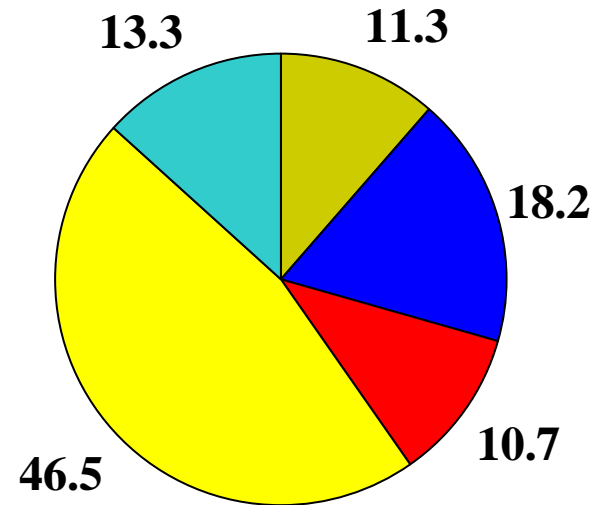
Q: Interest in the Japan-Philippines EPA



All respondents



Small companies only

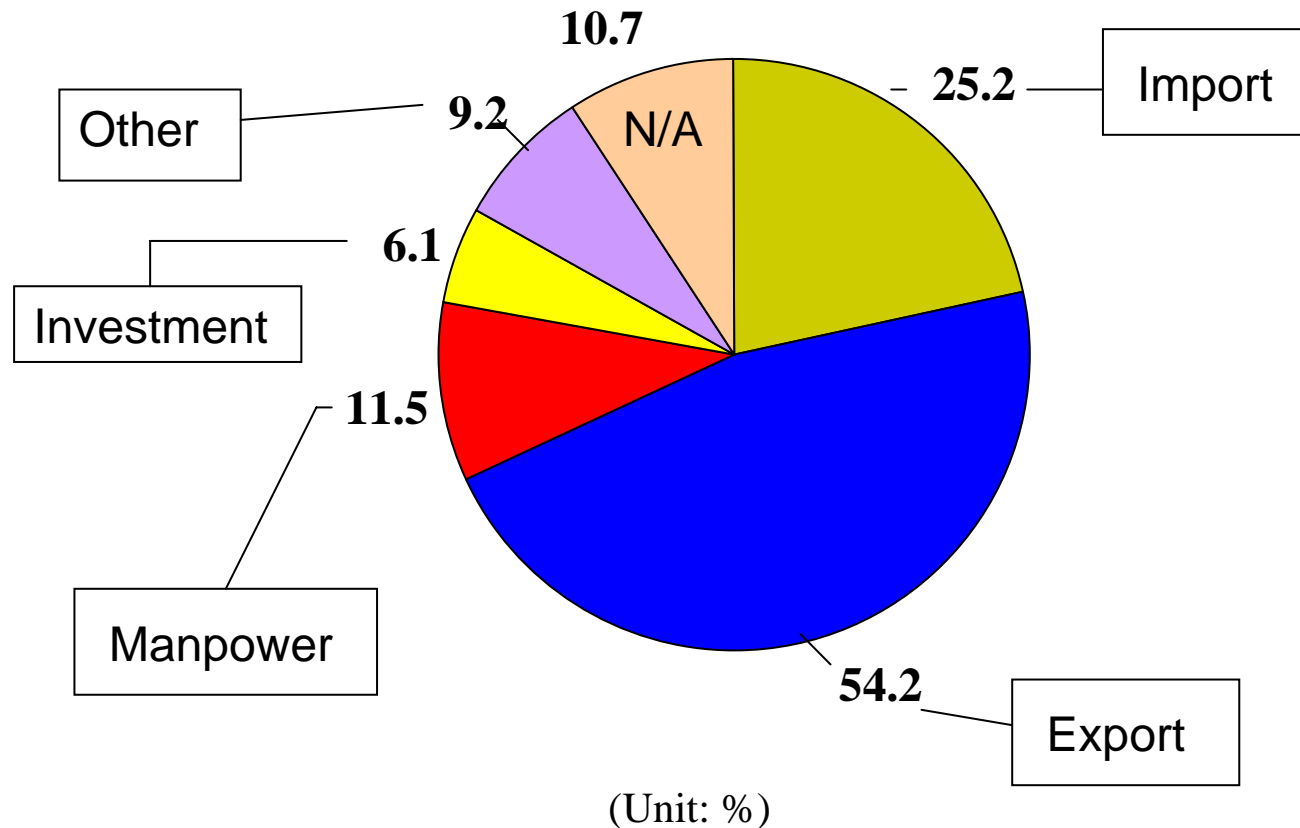


(Unit: %)



Q: Area of Interest in the Japan-Philippines EPA

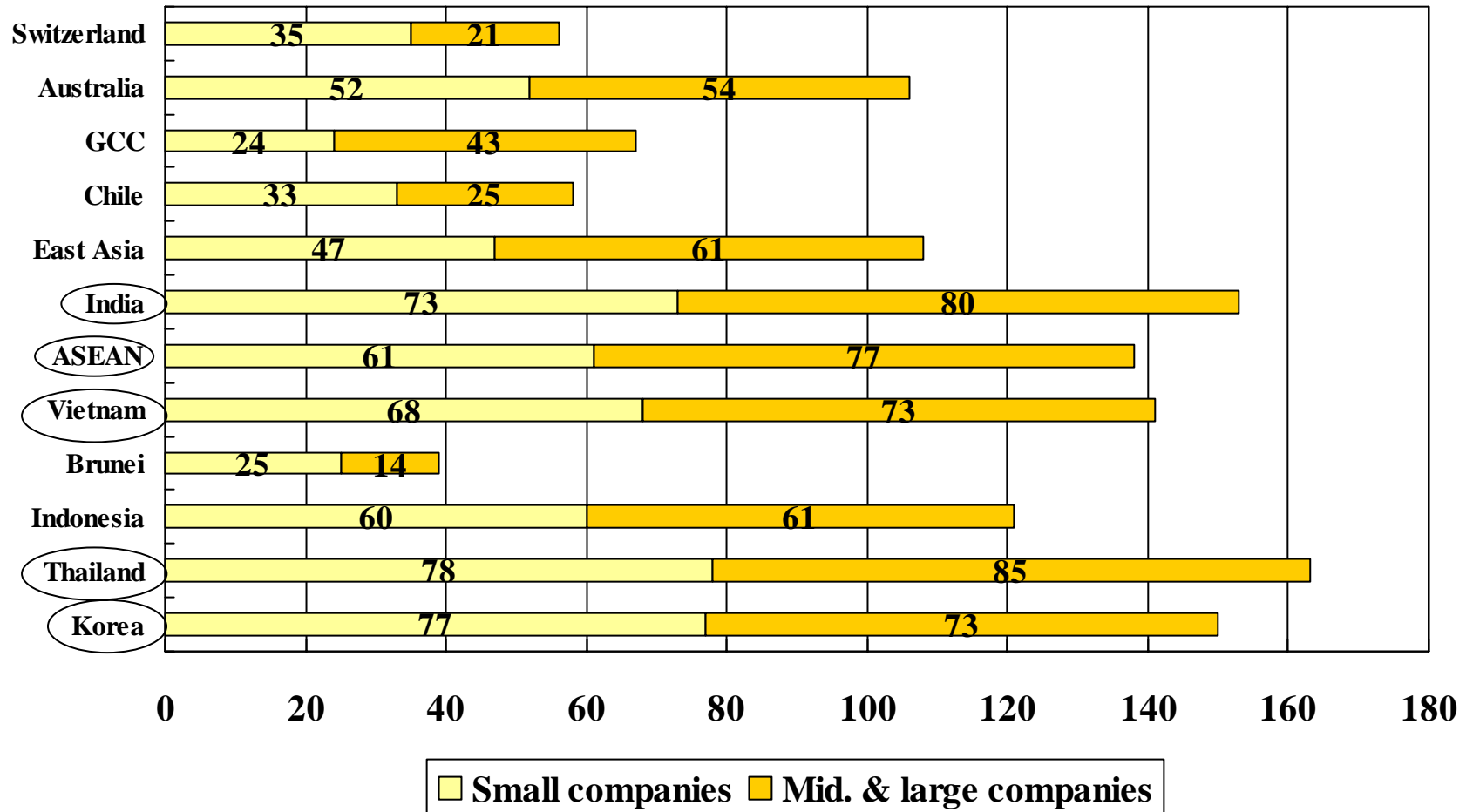
Area of interest of respondents that answered “Will use,” “Want to know details,” and “Have interest”



Q: Interest in EPAs under Negotiation or with Negotiation Expected to Commence

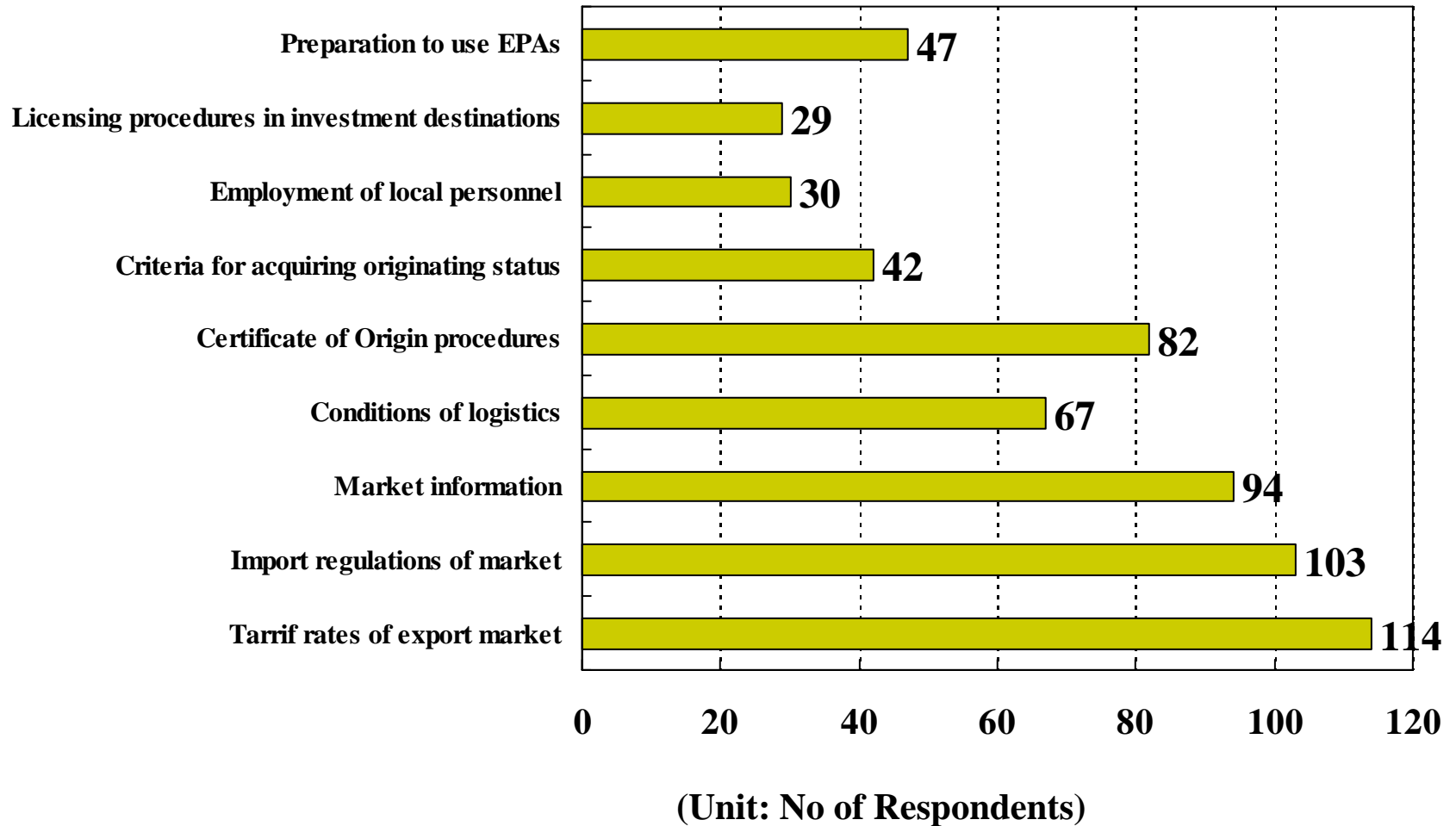


Number of companies answering “Have great interest” or “Have interest”





Q: Information Companies Want

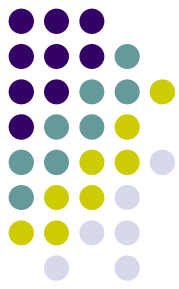




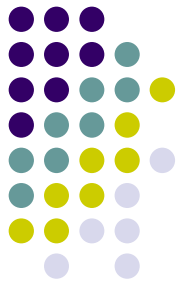
Q: Development of Strategy to Utilize EPAs

- 8 companies (2.8%) responded that their headquarters in Japan develop strategies to make use of EPAs and give instructions to subsidiaries and affiliated companies located overseas.
- 24 companies (8.3%) responded that their headquarters in Japan and subsidiaries located overseas jointly develop strategies to utilize EPAs.
- 6 companies (2.1%) responded that they leave decisions concerning use of EPAs up to subsidiaries located overseas.
- 17 companies (5.9%) are currently considering policies for developing strategies to utilize EPAs.

Summary of Findings



- Utilization of EPAs by the Japanese company is low.
- Many companies have interest in EPAs under negotiations, including Thailand, India, Korea, Vietnam, and ASEAN.
- A number of companies do not know how to utilize EPAs while they have interest.



Issuance of Preferential Certificates of Origin

Preferential COO under the Japan-Mexico EPA Issued by Tokyo CCI



- Apr.1, 2005 to Mar. 31, 2006
 - 173 separate products
 - 8,456 products in total
- Apr.1, 2006 to Feb. 28, 2007
 - 248 separate products
 - 23,289 products in total
- Total Number (Apr. 1, 2005 to Feb. 28, 2007)
 - 287 separate products
 - 31,745 products in total

Number of products: sub-heading (6 digit level) of HS

Major Products Issued (by Chapter of HS) (Apr. 2005 to Mar. 2006)



1. Chapter 72: Iron and steel (36.0%)
2. Chapter 87: Vehicles and parts thereof (30.9%)
3. Chapter 85: Electrical machinery and equipment and parts thereof (7.5%)
4. Chapter 84: Machinery and mechanical appliances; parts thereof (6.2%)
5. Chapter 40: Rubber and articles thereof (5.0%)
6. Chapter 90: Optical, precision, medical instruments and apparatus (4.8%)
7. Chapter 96: Miscellaneous manufactured articles (3.3%)
8. Chapter 32: Dyes, pigments and other coloring matter (2.1%)
9. Chapter 33: Essential oils, perfumery, cosmetic preparations (0.9%)
10. Chapter 29: Organic chemicals (0.7%)

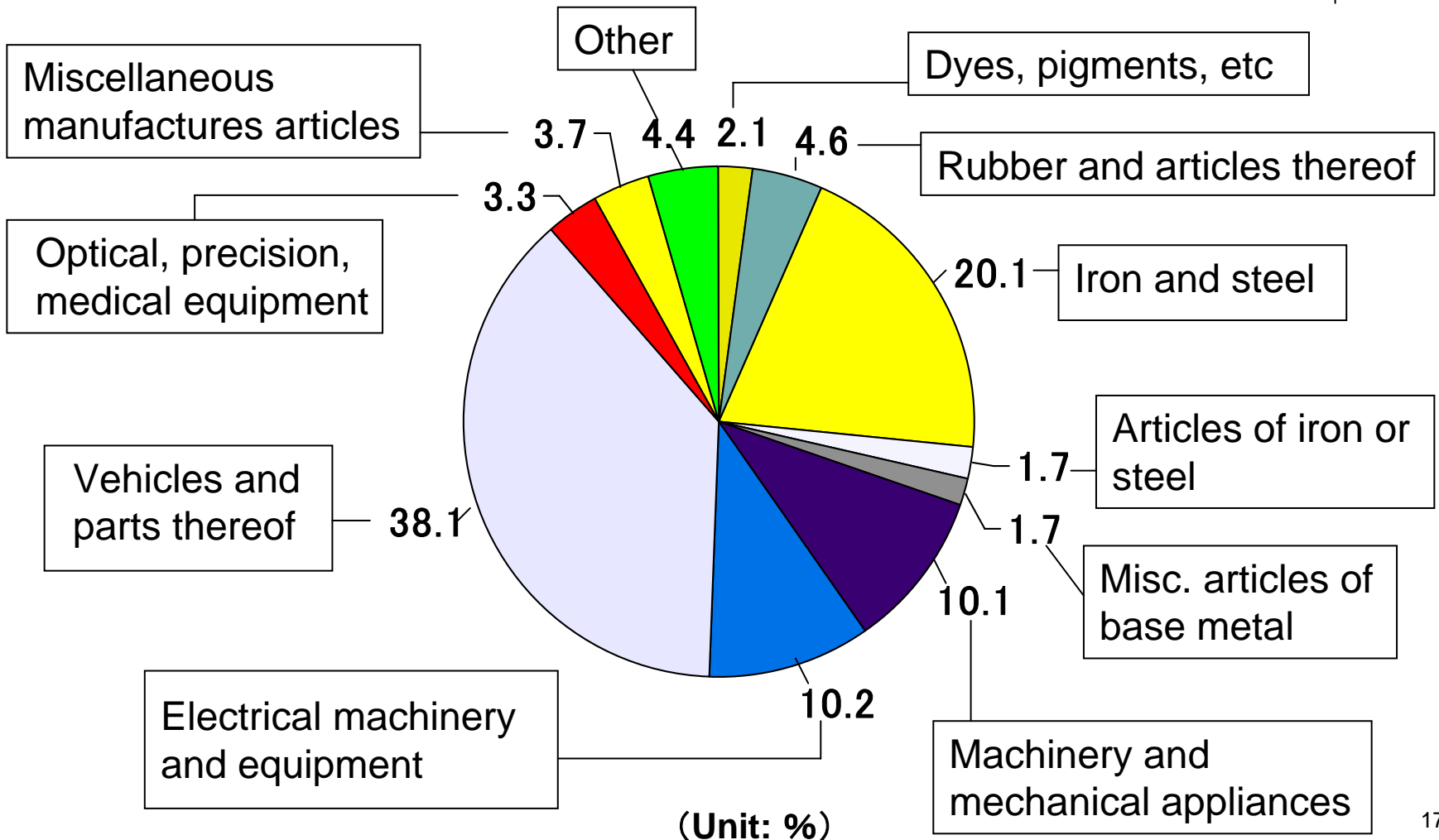
Major Products Issued (by Chapter of HS) (Apr. 2006 to Feb. 2007)



1. Chapter 87: Vehicles and parts thereof (40.8%)
2. Chapter 72: Iron and steel (14.3%)
3. Chapter 84: Machinery and mechanical appliances; parts thereof (11.6%)
4. Chapter 85: Electrical machinery and equipment and parts thereof (11.2%)
5. Chapter 40: Rubber and articles thereof (4.5%)
6. Chapter 96: Miscellaneous manufactured articles (3.8%)
7. Chapter 90: Optical, precision, medical instruments and apparatus (2.7%)
8. Chapter 83 Miscellaneous article of base metal (2.4%)
9. Chapter 73 Articles of iron or steel (2.3%)
10. Chapter 32: Dyes, pigments and other coloring matter (2.1%)

Major Products Issued (by Chapter of HS)

(Apr. 2005 to Feb. 2007)



Products for Which Most COOs Issued (by Sub-Heading of HS)



- 8708.29 Parts and accessories of motor vehicles
MFN 7% > EPA 0%
(Not all of products classified 8708.20 are duty free, but products for which a COO has been issued are duty free)
- 8703.23 Motor cars 1,500 cc-3,000 cc
MFN 50% > EPA (Over-Quota) 14.2% ('06), 11.4% ('07)
- 8512.20 Electrical lighting used for motor vehicles
MFN 10% < EPA 14.4% ('06), 12.6% ('07)
MFN 10% > EPA 9.0% ('09)
- 8409.91 Parts for engines
MFN 7% < EPA 7.8% ('06)
MFN 7% > EPA 5.2% ('07)
- 7208.27 Hot rolled steel
MFN 7% > PROSEC 3% > EPA 0%

Reasons for Low Issuance of COOs under the Japan-Mexico EPA



- The Mexican government cut tariffs twice since signing made the MFN tariff rates for around 5,000 products (in HS 8 digit) lower than the EPA tariff rates.
- Some import goods under the preferential treatment programs for duty (PROSEC, Regla 8a) of Mexico do not require submission of a COO to Mexican customs.
- Completely built-up vehicles (in-quota) do not require submission of a COO to Mexican customs.
- In case an originating good is trans-shipped in the U.S. or another country, it is not easy for an importer to obtain evidence that shows that the good has not lost its originating conditions.

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Reasons for Low Issuance of COOs under the Japan-Mexico EPA



- Since tariff classification or interpretation of tariff classification differ between Japanese customs and Mexican customs, exporters are carefully checking the tariff classifications of their export goods.
- Exporting companies narrow the range of goods regarding which they apply for COOs in view of related costs (fees and cost of tracing origin of materials) and time needed to prepare applications.

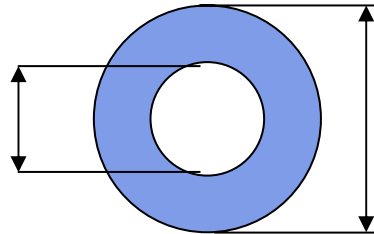
The use of an EPA cannot be measured by the number of COOs issued alone.

An Example of Difference in Interpretation of Tariff Classification



Rim size of tyre

Japan: inside diameter



Mexico: overall diameter

4011.62 Tyres used on construction or industrial handling vehicles and machines and having a rim size not exceeding 61 cm



Custom duties shall be eliminated in 10 equal annual installments from 13% or 23% to zero.

4011.63 Tyres used on construction or industrial handling vehicles and machines and having a rim size exceeding 61 cm



Customs duties shall be eliminated as from date of entry into force.

Issuance of Preferential Certificate of Origin under the Japan-Malaysia EPA



- Total number COOs Issued (July 13, 2006 to Feb. 28, 2007)
 - 91 separate products
 - 2,486 products in total
- Major products for which COOs issued
 - 8703.21 through 8703.23 Motor vehicles (CKD)
MFN 10% > EPA 0%
 - 8429.52 Excavators
MFN 5% > EPA 0%
 - 8409.91 Parts for engines
MFN 30% = EPA 30% (through 2007)
 - 8528.12 Color TV receivers
MFN 30% > EPA 27.3% ('06), 24.6% ('07)

(Cont'd)

Issuance of Preferential Certificate of Origin under the Japan-Malaysia EPA



- Number of item goods issued has continued to rise since beginning of this year.
- Manufacturers of electrical or electronic products have been using such duty free importation program as tax exemption for re-export long before the EPA was concluded do not have to submit COOs to Malaysian customs.
- MFN tariff reduction by the Malaysian government made the MFN tariff rates for certain products lower than the EPA tariff rates.

Frequently Asked Questions concerning Preferential COO



- How to make use of preferential COO
- How to look up tariff rates of importing countries
- How to look up HS tariff classifications of export goods
- Definition of terms used in agreements
(i.e. originating goods, non-originating goods)
- Product-specific rules of origin
- How to calculate regional value contents
- How to fill in an application form of origin attestation



EPA-Related Issues

Issues in Enhancing Use of EPAs



- Promotion of awareness of EPAs Japan has concluded
- Dissemination of information concerning contents of EPAs Japan has concluded
- Dissemination of information and education on ways to use EPAs Japan has concluded
- Dissemination of information concerning FTAs concluded by other countries, inter alia partners of Japan's EPAs (i.e. coverage, contents, and rules of origin)

Issues in Promoting Use of Preferential Certificate of Origin



- Dissemination of information and education on EPAs, system of Certificates of Origin, and rules of origin for company members not only of exporting companies but also of parts manufacturers that do not export their products by themselves
- Dissemination of information and education on EPAs, system of Certificate of Origin, and rules of origin for company members in charge not only of export documentation but also of procurement and accounting
- Development of sectoral or product-specific guidelines concerning necessary data for origin attestation to be used by chambers of commerce and industry
- Consideration of burden of expense arising from system development for issuance of preferential COOs and levels of fees for preferential COOs
- Development of EDI system to issue e-COO between Japan and parties involved in EPAs and burden of expense



Issues Facing Parties Involved in EPAs

- Adoption of the Harmonized System Nomenclature 2007 Edition, in tariff schedules and product-specific rules of origin
 - ✂ Classification of goods that fall under the scope of ITA have been broadly amended
- Ensuring sufficient lead time for COO application/issuance before entry into force
- Minimization of differences in judgment concerning tariff classification between the customs officials of parties involved

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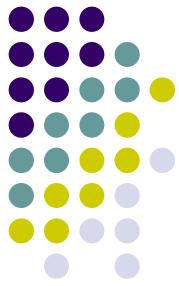
Issues Facing Parties Involved in EPAs

- Adjustment of base rate of goods duties to be phased out corresponding to another party's unilateral tariff reduction that diminishes the benefits of EPAs
- Relaxation of requirements for evidence that shows that a trans-shipped good has not lost its originating conditions
- Making advance rulings concerning origin, tariff classification, and tariff rates of goods obligatory
- Clarification of goods that do not require COOs to be presented at the customs of importing country

Issues Facing International Organizations



- WTO: Harmonization work for preferential rules of origin to avoid “Spaghetti Bowl Phenomenon”
- WCO:
 - Enhancement of work concerning development of unified explanation of classifications to avoid disparities of interpretation between and capacity building of customs officials to promote knowledge and understanding of tariff classification based on Harmonized System
 - Review of consignment criteria concerning preferential trade arrangements and development of guidelines concerning evidence of trans-shipped goods



THANK YOU FOR YOUR ATTENTION