

UK-JAPAN TRADE

CBI Submission to the International Trade Committee call for evidence on the UK-Japan Comprehensive Economic Partnership agreement (CEPA)

November 11 2020

Covering every nation and region of the United Kingdom, the Confederation of British Industry (CBI) is the UK's leading business organisation. The CBI speaks on behalf of more than 190,000 businesses of all sizes and sectors, who together employ around one-third of the UK's private sector workers. Our mission is to help business create a more prosperous society.

The CBI has operated a representative office covering the Asia-Pacific for over a decade and represents more than 500 members operating across the region. As the only internationally orientated business group representing British business in Japan, the CBI is well placed to comment on this issue and values the opportunity to contribute substantively to the debate on the nature of our future trading relationship with Japan.

Executive Summary:

1. This submission is a comparative analysis of the UK-Japan CEPA with the EU-Japan EPA against key UK business asks.
2. UK business argued that any gap between the EPA and a new UK-Japan CEPA, either in substance or in timing of application, would be a step backwards in the trade and investment relationship. Business shared UK government's ambition to secure continuity as a bare minimum to allow for undisturbed trade with Japan post-Brexit.
3. In two key areas where business asks were put forward, the agreement goes further than the EU-Japan EPA. -
 - o UK business saw the new UK-Japan CEPA as an opportunity to increase market access in Services, particularly by reducing obstacles to mobility and to the development of a more inclusive labour market. This is particularly important for financial services which are UK's biggest export to Japan, accounting for 28% of all UK exports¹.
 - o The main gain for business in this area is that CEPA contains some new Mode 4 provisions which broaden the scope for obtaining business visas for intra transferees.
 - o UK business also saw the agreement as an opportunity to tailor provisions to address UK specific concerns on data standards and protections bearing in mind the slightly different approaches to data taken in EPA and CPTPP, improve Intellectual Property rules to tackle counterfeiting of UK products and allow free bilateral data flows to take advantage of UK-Japanese partnerships in R&D and innovation in technologies.
 - o In these areas UK business will benefit from commitments such as prohibition of data localisation for stricter regulations on IP infringement.
4. The agreement in all other areas has broadly secured continuity of the existing EU-Japan EPA. Including in maintaining same market access levels for Pharma and Automotive sectors through the replication of mutual recognition agreements, which £1 billion worth of UK trade is reliant on.
5. The deal has further economic significance, because it lays the foundations for UK's future accession to the CPTPP.
6. Given Japan is the second largest investor to the North East of England, UK could have used the agreement to incorporate commitments to boost and diversify Japanese investment across the country.
7. But the pressure to secure a deal before the end of 2020 meant both sides had to limit their ambitions and be realistic about what an approx. 4-month negotiation can achieve.
8. While this deal could support UK exporters to expand afield outside the EU, key provisions to facilitate EU trade such as those achieving full accumulation of rules of origin, will depend on the UK being able to secure a deal with Brussels.

¹ Institute of Export & International Trade, *UK strikes trade deal with Japan - its first such independent agreement in 47 years*, 11 September 2020, accessible at <https://www.export.org.uk/news/525661/UK-strikes-trade-deal-with-Japan---its-first-such-independent-agreement-in-47-years.htm>.

9. Next step should be for DIT to monitor implementation and launch a targeted campaign to ensure business of all sizes and takes advantage of the deal. The CBI stands ready to work with government to promote the deal to business in all regions and nations of the UK.

What additional economic benefits does the agreement offer to business?

10. Japan is an important market for the UK and there is real scope for this deal to open future opportunities for business. Total trade in goods and services between the UK and Japan was £31.6 billion in 2019.² Japan is the world's third-largest economy (UK being 5th) and a major importer and exporter of goods. The UK is currently just Japan's twelfth largest trading partner, accounting for 2.1% of all Japanese trade.³
11. While most of Japan's trade is conducted between itself and other countries within the Asia-Pacific, the UK could look to Germany as an indicator of the size and scope of a future economic relationship with Japan. As it stands, Germany does close to 1.5 times as much trade with Japan as the UK does (whereas Germany's population is just 20% bigger than the UK's).⁴
12. To close the gap with competitors, the UK should focus on areas of complementarity between the UK and Japanese economy and build expertise in skills and technologies that Japan needs to acquire.
13. Areas of complementarity between the UK and Japan include research & development into robotics, software, programming, and computing technologies, as well as the sharing of best practise in financial and wider professional services and managing industry's transition towards low carbon. A deal which allows for better IP standards, data protection, bilateral data flows and movement of businesspeople will all help to enhance and facilitate future cross-border R&D and innovation partnerships.
14. The UK-Japan CEPA is estimated to increase the UK's GDP by 0.07%.⁵ Compared to UK GDP in 2019 (£2.2 trillion), this represents a £1.5 billion increase in GDP.⁶ This is welcome but relatively small. Larger gains could come if the government uses the Japan agreement as a platform for UK's accession to the Comprehensive and Progressive agreement for Trans-Pacific Partnership (CPTPP). The government's hope is that by joining the CPTPP (whose signatories make up around 13.5% of global GDP), UK businesses will have improved access to the fast growth Asia-Pacific region and the ASEAN trading bloc whilst increasing the resilience and diversity of UK supply chains in the area.⁷

Where has the CEPA gone further than securing continuity for business?

15. The agreement has broadly secured continuity of the existing EU-Japan EPA with some additional provisions that address business asks. The key areas where the agreement goes further than continuity include E-Commerce, Rules of Origin, Intellectual Property (IP) and Financial Services.

E-Commerce & Financial Services

16. The CEPA includes an ambitious digital trade chapter, with key provisions that will help enhance an already flourishing relationship between the UK and Japan tech sectors and creates significant opportunities for trade and investment for both our countries.

² Department for International Trade, The United Kingdom's Future Trading Relationship with Japan Report, October 2020, accessible at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/929179/UK-Future-Trading-Relationship-with-Japan-print.pdf.

³ Ibid

⁴ OEC, *Japan*, "Destinations & Origins," accessible at: oec.com/en/profile/country/jpn/ (Accessed 04/11/2019).

⁵ Department for International Trade, Final Impact Assessment of the Agreement between the United Kingdom of Great Britain and Northern Ireland and Japan for a Comprehensive Economic Partnership, October 2020, accessible at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/929059/final-impact-assessment-UK-Japan-comprehensive-economic-partnership.pdf.

⁶ Ibid

⁷ Government of Canada, About CPTPP, 16 July 2019, accessible at https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptppg/background-document_information.aspx?lang=eng.

17. Data protection standards, free flow of data and prohibition of data localisation are all areas where the agreement has gone further than before.

17.1 **Data Protection standards:** Businesses in banking and insurance sectors were concerned about upholding protection and data standards for personal data.

17.2 This deal goes significantly further in ensuring each party adopts a legal framework which provides protection of personal information to users of e-commerce. It also states that both parties should consider international standards on data protection with intent to adopt non-discriminatory practices. It goes further in ensuring transparency of data protection policies by publishing information on how business can comply, which will enhance opportunities for SMEs.

17.3 **Free flow of data and prohibition of data localisation:** Members were concerned about not securing free flow of data and did not want requirements for data localisation or disclosure of source codes. New provisions state that parties shall not prohibit cross border transfer of information electronically, and there will be no requirement for access or transfer of source code as condition for trading and to locate computing facilities locally to conduct business in Japan. Also, there are stronger commitments for open data and net neutrality to support innovation across borders.

Mobility

18. Mobility was a concern for the Services sector, who wanted to reduce restrictions on the temporary movement of businesspersons across borders. Greater freedom for temporary movement of goods as well as people is also important to the creative sector.

18.1 The Mode 4 elements in the agreement have been expanded to include a greater number of professionals who can travel to and from Japan for business purposes. Including greater freedom of travel for ICT Intra-transferees and more Junior level staff and their dependents.

Intellectual Property (IP)

19. The CEPA goes further in certain areas such as technological measures protections and rights management information.

19.1 Business in the creative sector was concerned that IP theft and counterfeit was still too easy, especially online.

19.2 This agreement strengthens commitments for stricter regulations on IP infringement with a provision for governments to provide adequate legal remedies against a person who infringes copyright and to those who conceal or facilitate the infringement. It also covers fair remuneration for the music industry on phonograms.

Rules of Origin (RoO)

20. The agreement allows for continuity in this space – securing a diagonal cumulation for certain products such as car parts.

20.1 This means British exports to Japan that have a high proportion of EU components (and components from 3rd countries with existing trade agreements with the UK) count as goods originating from the U.K. • For example, a clothing producer could sew together imported fabrics into a coat, and then export the final product to Japan under tariff preference, as long as 50% of the inputs are sourced domestically.

20.2 However, it doesn't facilitate access for British goods containing a high proportion of Japanese content which U.K. wants to sell into the EU. This full cumulation can only be achieved if agreed in the Brexit deal. But the administrative hook is there to achieve further cumulation in the Brexit deal.

20.3 With other products, there is more flexibility to source inputs from other countries. The UK has also secured more liberal rules of origin for sugar biscuits and Textiles. There is also a better preferential tariff for UK textiles, allowing more support for increasing diversity of supply chains.

20.4 This will not only help increase exports of UK clothing into Japan but will also secure jobs in a sector under strong pressure because of Covid.

Geographical Indicators (GIs)

21. The CEPA increases the number of GIs from 7 UK GIs in the EU-Japan EPA to 70 in the new CEPA.
- The new deal has more tailored GIs specifically for the top UK food and drink products being exported to Japan including Scotch beef, Welsh lamb, and English sparkling wine.

Tariffs and Tariff rate quotas (TRQs)

22. The CEPA has secured continuity on Tariffs. For goods exported from Japan to the UK, certain additional tariffs have been eliminated in line with the UK's Global Tariff regime.

22.1 According to government, the annual reductions in tariffs on UK imports from Japan are estimated to be £137.1 million, with £44.7 million on imported intermediate goods and £92.5 million on consumer goods in the long term.⁸

22.2 The EU-Japan EPA contains 25 agri-food tariff-rate quotas (TRQs). The Japan-UK CEPA contains 10, in which Japanese importers can retrospectively claim tariff relief for food importers from the UK, so long as EU imports have gone past their quota limits.

22.3 Consumers are expected to benefit most from tariff reductions on transport goods.

22.4 This will not only drive down costs but will also increase consumer choice.

A deal which broadly reflects continuity

23. CBI members a deal which broadly delivers continuity. For example, the agreement has secured a transition of the Mutual Recognition Agreements in key sectors like Automotive and Pharmaceuticals, which £1 billion worth of UK trade is reliant on.
24. The additional benefits that this deal provides are perhaps not as significant as they might have been, had the deal been negotiated from scratch over a longer period. Given the pressure to secure a deal before the end of 2020 both sides had to limit their ambitions and be realistic about what approximately 4 months of negotiation can achieve. The strategy has always been to secure continuity as a baseline and avoid defaulting to WTO terms. In that regard, DIT has achieved its aim and deserves credit.
25. While this deal could support UK exporters to expand afield outside the EU, key provisions will depend on the UK being able to secure a deal with Brussels.
26. Next steps should be to ensure that the deal is implemented and contributes to UK growth. CBI recommends that DIT puts in place monitoring mechanisms to ensure that both countries honour their detailed commitments on the ground. As the CBI argues in its recent report, [Partnership for prosperity building a long term UK trade strategy](#) UK companies have underperformed in EU league tables measuring so-called utilisation rates of trade deals with 3rd countries. The UK's new independent trade strategy is a chance to reverse that and make sure that UK companies capitalise on the benefits of trade deal. The CBI and its members will work closely with DIT and local government to promote the deal across the UK to help companies convert its provisions into contracts and jobs.

⁸ Department for International Trade, Final Impact Assessment of the Agreement between the United Kingdom of Great Britain and Northern Ireland and Japan for a Comprehensive Economic Partnership, October 2020, accessible at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/929059/final-impact-assessment-UK-Japan-comprehensive-economic-partnership.pdf.