

HONDA MOTOR EUROPE
POSITION ON A UK – JAPAN FREE TRADE AGREEMENT
APRIL 2020

1. Honda Motor Europe welcomes the opportunity to respond to the International Trade Committee’s call for evidence on the UK’s trade negotiations. This paper sets out Honda’s position on a UK – Japan Free Trade Agreement and is based on an earlier submission made to the DIT.

ABOUT HONDA IN THE UK:

2. Honda is the largest engine manufacturer worldwide and is a leading global producer of cars, motorcycles and power products. The UK is Honda’s largest European market accounting for 53% of sales across cars, motorcycles and power products. Honda’s Swindon factory is currently the global manufacturing hub for the Civic 5 door hatchback. Our UK footprint also includes an R&D operation and a Formula 1 facility.
3. The planned closure of the Swindon plant does not mean that Honda is leaving the UK. With ongoing innovative work in energy management and R&D, the rollout of electrified vehicles and as home to a successful Formula 1 operation, the UK will remain an important and unique part of Honda’s European and global footprint. Additionally, Honda’s European Head office will remain in the UK. As an important part of the UK’s automotive industry, we look forward to engaging closely with DIT and other relevant departments in shaping the UK’s future trade agenda.
4. The UK is also a key pillar of Honda’s Accelerated ‘Electric Vision’ strategy, which will see all Honda’s European mainstream models electrified by 2022, three years earlier than previously planned. The UK is also a leading market for Honda’s new energy management business, with significant investment going into developing EV charging infrastructure and management. The UK will also be one of our launch markets for the world’s first flexible energy contract specifically tailored for electric vehicle (EV) owners.

SUMMARY OF VIEWS:

5. With a highly integrated global supply chain, Honda relies on free and frictionless global trade to support the movement of finished products to consumers around the world as well

as to ensure the flow of raw materials and parts to our manufacturing operations. We believe that free and fair trade, as well as a competitive business environment based on international rules, support the competitiveness of the auto industry, leading to consumer benefits, economic growth and the delivery of innovation.

6. We are therefore supportive of the UK government's wish to swiftly agree a new free trade agreement with Japan, building on the benefits provided by the EU-Japan Economic Partnership Agreement (EPA). Such an agreement should deliver:
 - a. A more ambitious timetable for liberalising tariffs on complete vehicles, power products and motorcycles than foreseen in the EU-Japan EPA
 - b. The immediate elimination of tariffs on Low Emissions Vehicles
 - c. A lower local content threshold for preferential origin
 - d. Simplify the transfer of workers between Japan and the UK
 - e. Create a framework for the barrier free flow of data and provision of services between Japan and the UK.

7. However, we would suggest that the most urgent priority for Japanese businesses in the UK is to avoid a no deal Brexit and to secure as deep and comprehensive trade deal with the EU as possible. In our analysis, an arrangement that provides the benefits of the Customs Union, with a significant degree of regulatory alignment and ambitious arrangements on services and mobility, would be the best framework to secure the competitiveness of the UK automotive industry and to rebuild the confidence of overseas investors. The UK should look to maintain preferential access to key markets, including Japan, by continuing existing trading arrangements with the EU and third country partners.

KEY REQUESTS

8. **Process and timing:** The UK's exit from the EU will result in UK businesses no longer being able to take advantage of the benefits of the EU – Japan EPA, creating a potential cliff edge moment when barriers are re-imposed on trade between Japan and the UK, and creating a gap between tariffs imposed on imports to the UK and EU markets.

9. The UK government should therefore aim to close this gap and avoid disruption for UK businesses by moving to quickly negotiate, ratify and implement a UK-Japan agreement that mirrors the provisions and benefits of the EU-Japan agreement.
- 10. Tariffs:** The EU-Japan Agreement will eliminate tariffs on passenger car imports to the EU over seven years from the date of entry into force. The reduction of tariffs provides benefits to UK consumers by reducing prices, increasing choice and driving competition and innovation. Moreover, the sudden reintroduction of tariffs on passenger cars, power products and motorcycles at the levels proposed in the Government's proposed "no deal tariff schedule" would significantly disrupt business planning.
- 11.** Under a new UK-Japan FTA, this tariff liberalisation should continue, but at an accelerated pace to avoid gaps opening between the UK and EU27 markets. At a minimum, the initial tariff rate for a UK-Japan agreement should be that applied by the EU at the moment of the UK's exit from the EU, or the end of the transitional period.
12. We would also argue that there is a case for moving more quickly to liberalise tariffs on Low Emissions Vehicles. Honda supports the government's ambitions to tackle emissions from transport, and by liberalising tariffs on the import of vehicles with electrified power trains prices would be reduced and consumer choice increased.
- 13. Rules of Origin:** Rules of Origin in a UK – Japan FTA should ensure meaningful preferential market access to both parties and should take into account the impact of Brexit on the ability of manufacturers to meet originating content thresholds currently set out in the EU-Japan EPA. The Government should seek to negotiate extended cumulation of EU-UK content to allow all EU originating materials and value add to be counted as local for the purposes of a UK-Japan Free Trade Agreement.
- 14. Retroactive Application:** Rules of Origin provisions in an UK – Japan FTA should be simple and user friendly, in order to encourage businesses to take advantage of the agreement. In particular, as manufacturers are not always able to demonstrate preferential origin at the moment of import, we would request that a UK – Japan FTA has clear provisions allowing for retroactive application of duty reimbursement. This would be an improvement over the current EU – Japan EPA, where a lack of clarity on this issue hinders the full application of the benefits of the EPA.

- 15. Automotive Annex:** Honda supports increasing global regulatory harmonisation, and thus we would request that a UK-Japan FTA preserves the Automotive Annexe of the EU-Japan EPA. By retaining the automotive annexe, a UK – Japan agreement would ensure that manufacturers do not face increased cost and complexity in importing vehicles or components to the UK from Japan after Brexit.
16. However, before seeking regulatory convergence with Japan via an FTA, the UK must prioritise agreeing a future relationship with the EU that maintains regulatory alignment between the EU and UK.
- 17. Movement of People:** While we are actively working to develop local talent, the needs of running an integrated global business, with a regional HQ based in the UK, means the ability to transfer and move people between the UK and Japan, and across the EU, is crucial. Japanese colleagues on expat contracts or short-term assignments play a vital role in our management, F1, R&D, sales and manufacturing activities.
18. A UK-Japan FTA should therefore contain provisions that would simplify the movement of Japanese employees to the UK. Such provisions must be complementary to a future EU-UK agreement that would facilitate the movement and transfer of both UK, EU and Japanese employees across our integrated European business.
- 19. Services and Data:** The automotive industry is undergoing a period of radical transformation, as electrification, automation and connectivity change the way cars are designed, made, sold and used. Automotive products therefore are increasingly offered in conjunction with a range of financial and data services, meaning that they rely on trade agreements going further than simply liberalising the trade in goods – barriers to the provision of services must also be removed.
20. Therefore, the future UK-Japan FTA should contain strong provisions to support the provision of services, facilitate cooperation on innovation and R&D, as well as to enable the secure exchange of data. These provisions should be at least as, if not more ambitious, than those of the EU-Japan EPA.
- 21.** In particular, the UK should seek to negotiate barrier free access to Japanese energy services and infrastructure markets. By allowing Honda and our partners to export the charging an

energy management products and services currently being launched in the UK to the Japan without having to overcome technical hurdles, an important opportunity would be created for the UK. Access to the electricity provision sector could be achieved by building on the procurement provisions in the EU-Japan EPA, but additional levels of ambition would be required to remove all barriers to the export of the full range of energy management products and services to the Japanese markets. Further examples of using trade agreements to liberalise the trade in energy can be the Energy Chapter of TTIP.

- 22. Investor Protection:** The signing of an UK – Japan Free Trade Agreement is an excellent opportunity to start to rebuild the confidence of Japanese investors in the UK as a place to do business. Including a strong set of investment protection clauses in the text of the agreement would help to further strengthen investor confidence.

SUMMARY:

23. As the UK exits the EU, it will cease to benefit from the benefits of the EU – Japan Economic Partnership agreement. This will create the risk for a cliff edge for companies such as Honda, with the potential for the re-imposition of tariffs and regulatory barriers, with an impact on our competitiveness and productivity. Honda therefore supports efforts to agree a UK – Japan Free Trade agreement which builds on the existing EU – Japan EPA and minimises disruption to British and Japanese businesses, and creates opportunities for the export of innovative new products and services from the UK to Japan.
24. However, the priority for the UK Government must be to secure as deep and comprehensive trade deal with the EU as possible. In our analysis, an arrangement that provides the benefits of the Customs Union with a significant degree of regulatory alignment and ambitious arrangements on services and mobility, would be the best framework to secure the competitiveness of the UK automotive industry and to rebuild the confidence of overseas investors.