



EUROPEAN COMMISSION  
IMPACT ASSESSMENT BOARD

Brussels,  
D(2011)

## Opinion

**Title**                    **DG TRADE - Impact Assessment on EU-Japan Trade Relations**  
**(draft version of 9 November 2011)**

### **(A) Context**

The EU and Japan are two important bilateral trade partners who, in May 2011, launched a scoping exercise to define the breadth and level of ambition of a prospective Free Trade Agreement (FTA). The agreement would be deep and comprehensive, and address all issues of shared interest including tariffs, non-tariff measures, services, investment, Intellectual Property Rights, competition and public procurement. Should the scoping exercise be successfully concluded, the European Commission would seek the necessary negotiation authorization from the European Council. To help define the content of such an authorization and its accompanying negotiation guidelines, the report analyzes the impact that FTAs with varying degrees of ambition would have on both partners.

### **(B) Overall assessment**

**The report provides adequate analysis to support action in this area but should be further improved in some respects. The role of the report with respect to the envisaged Commission decisions and accompanying background studies should be clarified. The content and design of the various scenarios should also be better explained, particularly with regard to the opportunity and feasibility of various asymmetric FTA scenarios and the role played by other EU or WTO policies. In addition, the report should provide sufficient information on the model and assumptions which underpin the estimated impacts and assess the robustness of the latter. Finally, the report should further clarify some impacts and their timing, including with regard to the preponderant role of "spill-over" effects and the differences with pre-existing studies.**

### **(C) Main recommendations for improvements**

**(1) Better put the analysis into context.** The role of the report should be clarified against the background of a more detailed presentation of the specific procedures envisaged for FTA negotiations. In particular, the type of Commission decision the report would support, the nature of the scoping exercise and its different objectives relative to those of the impact assessment report should all be made clearer. Similarly, the report should briefly describe how it would relate to the envisaged Sustainability Impact Assessment and how the analysis of impacts would be further developed as negotiations advance. These explanations should be used to justify why a more disaggregated level of analysis is currently not considered feasible or proportionate.

**(2) Better explain the policy scenarios.** The report should strengthen the presentation of the baseline scenario, clarifying how EU initiatives concerning access to third country procurement markets and/or investment agreements are taken into account. The report should also improve the presentation of the FTA scenarios in several respects. First, it should clarify how WTO provisions, other EU policy commitments and/or ongoing trade negotiations affect the design of options. Secondly, the report should present the stylized and aggregated nature of the scenarios under consideration more transparently. This would include a more reasoned explanation for the choice of the envisaged (20% and 50%) levels of aggregate reduction in Non-Tariff Measures (NTMs) costs. Third, the report should discuss more extensively the reasons why an asymmetric scenario is considered feasible (given potential Japanese opposition and since symmetric scenarios would lead to superior welfare outcomes). Finally, the report should justify why it does not consider alternative asymmetric scenarios, such as a less than complete elimination of EU tariffs or staggering the elimination of tariffs against set milestones in NTMs removal.

**(3) Provide information on the underlying modelling.** The report should be considerably more transparent about the methodology and the modelling choices and assumptions which underpin the estimated impacts. This should be done concisely in the main text and more extensively in an additional methodological annex. Greater clarity should, in particular, be provided on: the way changes in regulatory, competition and investment policy are modelled; the channels leading to "spill-over" effects vis-à-vis third countries; the assumptions made with respect to the bilateral or most-favoured-nation nature of NTMs reductions; the analysis underpinning the estimated wage premium.

**(4) Clarify some of the estimated impacts.** While analysing more explicitly the risk of trade diversion, the report should discuss in greater detail the very high contribution of "spill-over" effects to final outcomes, explaining the role played by the assumed nature of NTMs reductions. In this context, the report should also explain the reasons why an FTA would have a negative impact on chemical industry employment in both Japan and the EU. In addition, the report should better assess the robustness of the impacts identified, providing an indication of the reliability of these point estimates and discussing the reasons why they can significantly differ from the results of the three pre-existing analyses (and particularly so in the case of the motor vehicle industry). The timeframe for the realization of the expected impacts should also be explicitly indicated. Finally, impacts on the EU budget should be analysed.

*Some more technical comments have been transmitted directly to the author DG and are expected to be incorporated in the final version of the impact assessment report.*

#### **(D) Procedure and presentation.**

The length of the report should be shortened avoiding unnecessary repetition, simplifying the problem tree and making a greater use of tables for the presentation of the various impacts. A glossary of acronyms should be added along with a methodological annex. Annex 5 should further explore the findings of the underlying study with regard to the impacts on sectoral competitiveness, present sectoral breakdowns for all analysed variables and provide a brief explanation where results are missing.

<b>(E) IAB scrutiny process</b>	
Reference number	n.a.
External expertise used	No
Date of Board Meeting	7 December 2011