

Section 4 Utilization of EPAs/FTAs and the provision of information to encourage their use

Although trade with EPA partner countries accounts for less than 20% of the total value of Japan's trade, this figure rises to in excess of 80% when potential partners in EPAs currently under negotiation are included. In the future, under existing EPAs, it is likely that phased tariff reductions on goods that were not subject to the immediate abolition of tariffs will progress²⁴; at the same time, if the EPAs/FTAs currently under negotiation are concluded, potential tariff savings brought by effective EPAs/FTAs will grow. Bearing this in mind, this section will analyze the current utilization of EPAs/FTAs and examine approaches to the provision of information to encourage the use of EPAs/FTAs, to facilitate their utilization by a wider range of users.

The economic advantages of EPAs include: 1) further trade liberalization than under the WTO and the creation of rules in areas not covered by the WTO; 2) liberalization of trade and investment, enhancing the environment for overseas expansion by Japanese companies and revitalizing the economies of both countries; and 3) stable imports of resources, energy, and food, and diversification of the sources of such imports. So what advantages do Japanese companies acknowledge EPAs/FTAs to have? According to the results of one questionnaire, among those that responded that they regarded EPAs/FTAs as being advantageous, the strengthening of export competitiveness through the abolition of tariffs in the counterpart country was cited by the largest number of respondents, followed by the reduction in procurement costs due to the abolition of tariffs in Japan. In addition, it is worth noting that respondents acknowledged advantages that, unlike tariff reductions/waivers, are hard to identify in numerical terms, such as the relaxing of foreign investment restrictions, the enhancement of the business environment, and a rise in turnover due to business expansion by Japanese companies (Figure III-1-4-1).

The preferential tariff rates offered under EPAs are thus acknowledged by Japanese companies to be the biggest advantage of EPAs, but how widely are they used? Since the EPA with Singapore entered into force in 2002, the number of certificates of origin (which are needed to utilize preferential tariff rates under EPAs) issued has risen as the number of countries with which Japan has concluded EPAs has grown (Table III-1-4-2 and Figure III-1-4-3). The top three countries for which such certificates are issued are Thailand (about 66,000 in FY2013), Indonesia (about 41,000 in FY2013), and India (about 26,000 in FY2013), which broadly account for the largest shares of exports from Japan (Figure III-1-4-4).

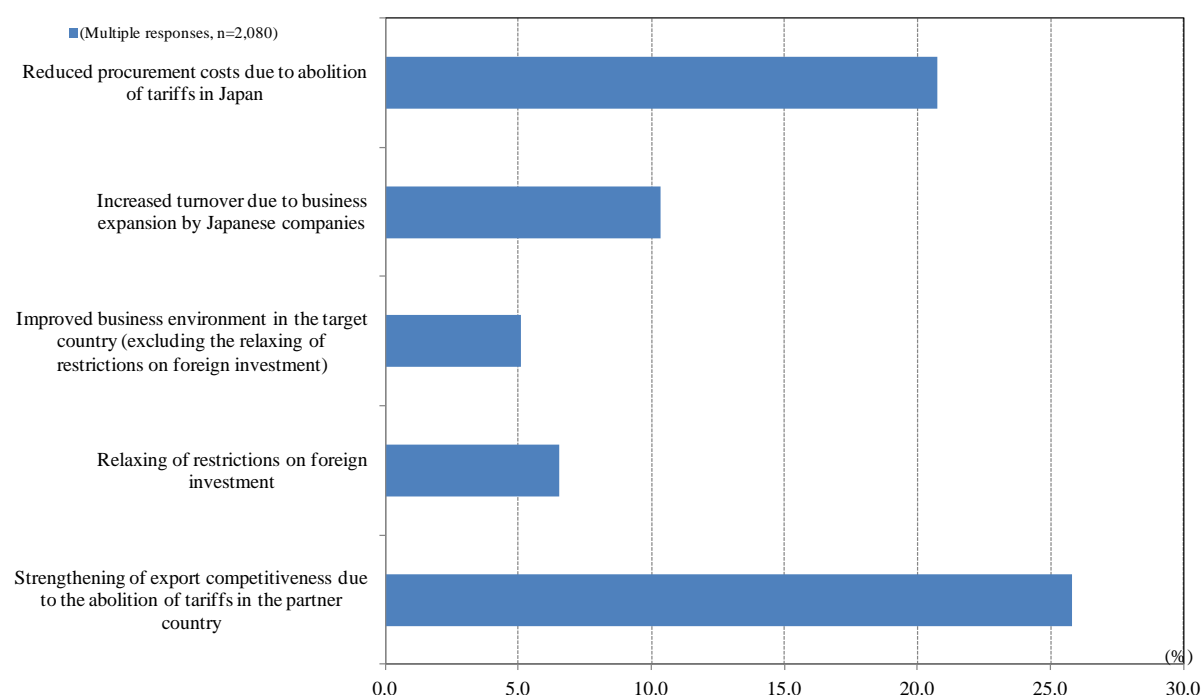
The results of a questionnaire conducted by JETRO among its members also show that the proportion of companies stating that they use preferential tariff rates under EPAs when exporting or importing is growing by the year (Figure III-1-4-5).

Although there are no statistics that provide a comprehensive picture of the usage of EPAs by individual companies, the overall picture gained from these data suggests that the ranks of Japanese companies benefiting from EPAs/FTAs are growing.

²⁴ One example of this is the abolition of tariffs on 18 types of motor vehicle component under the Japan-Philippines EPA; these had previously been subject to a tariff of 10-30% when exported from Japan. (Executive Order 147, Office of the President of the Philippines, 2014/2/13)

The next section looks at the usage situation by scale and category of business. The number of business establishments registered to obtain preferential certificates of origin is increasing year on year, and the proportion of SMEs among these is also rising (Figures III-1-4-6 and III-1-4-7). Given that SMEs have more business establishments than large corporations, it would be fair to say that the utilization rate among SMEs is lower than among large corporations when viewed on a business establishment basis. Among other reasons, this would appear to be because large corporations generally handle a larger volume of trade than SMEs, while SMEs make cautious judgments in weighing up the administrative burden involved in seeking the application of preferential tariff rates under EPAs/FTAs against the resultant tariff savings. Looking at the question of whether companies prepared their own documents to apply for a certificate of origin or used only those prepared by their suppliers, there was no great difference between SMEs in different industry types, nor between medium-sized enterprises and small enterprises. (Figure III-1-4-8) Looking at the number of certificates issued by item, although there are some differences among export destinations, Japan's main export items, namely steel, machinery, electrical goods, and motor vehicles and automotive components account for the largest numbers of issuances (Figures III-1-4-9, III-1-4-10, III-1-4-11, and III-1-4-12).

Figure III-1-4-1 Advantages of EPAs/FTAs as perceived by Japanese companies (multiple responses permitted)



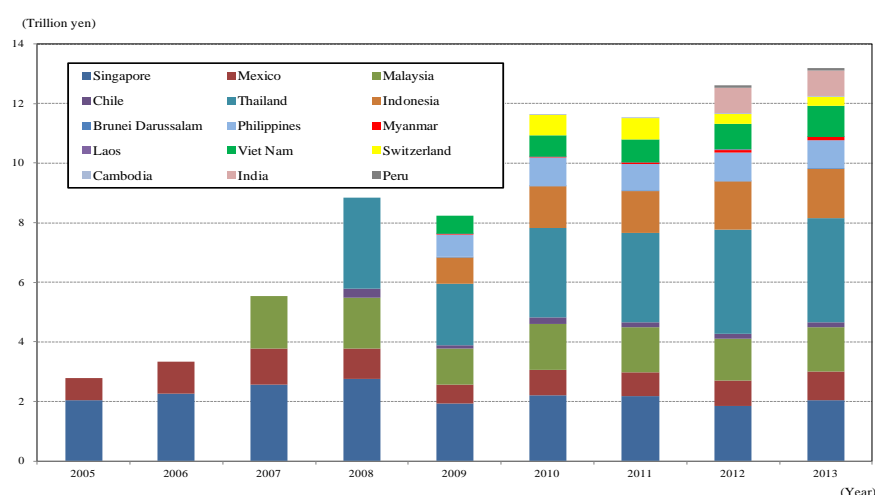
Source: *TSUUSHOU SEISAKU NO KENTOU NO TAMENO WAGAKUNI KIGYOU NO KAIGAI TENKAI NO JITTAI TO KOKUNAI JIGYOU NI ATAERU EIKEYOU NI KANSURU QUESTIONNAIRE(2014)* (Teikoku Databank).

Table III-1-4-2 Levels of liberalization under Japan's economic partnership agreements

Partner country	Entry into force	Proportion of goods on which tariffs had been abolished by the end of the implementation period (counterparty)
Singapore	November 2002	100% (by trade value)
Mexico	April 2005	94.1%
Malaysia	July 2006	98.9%
Chile	September 2007	94.3%
Thailand	November 2007	97.3%
Indonesia	July 2008	92.9%
Brunei	July 2008	99.4%
Philippines	December 2008	98.6%
Switzerland	September 2009	83.2%
Viet Nam	October 2009	91.6%
India	August 2011	86.6%
Peru	March 2012	97.9%

Source: WTO World Tariff Profiles 2013; Singapore is not listed in this source, so the figure used is based on the value of trade. The liberalization rate (trade value basis, using the value of trade in 2005 or 2006 as the benchmark) for partner countries in the Japan-ASEAN EPA is about 91%. (METI, 2014 Report on Compliance by Major Trading Partners with Trade Agreements, p. 476)

Figure III-1-4-3 Trends in the value of trade with countries where EPAs have entered into force



Source: Trade Statistics (Ministry of Finance); The year each EPA entered into force or the following year is used as the benchmark and the value of trade with the partner country has been added to this.

Figure III-1-4-4 Number of certificates of origin issued by EPA applied

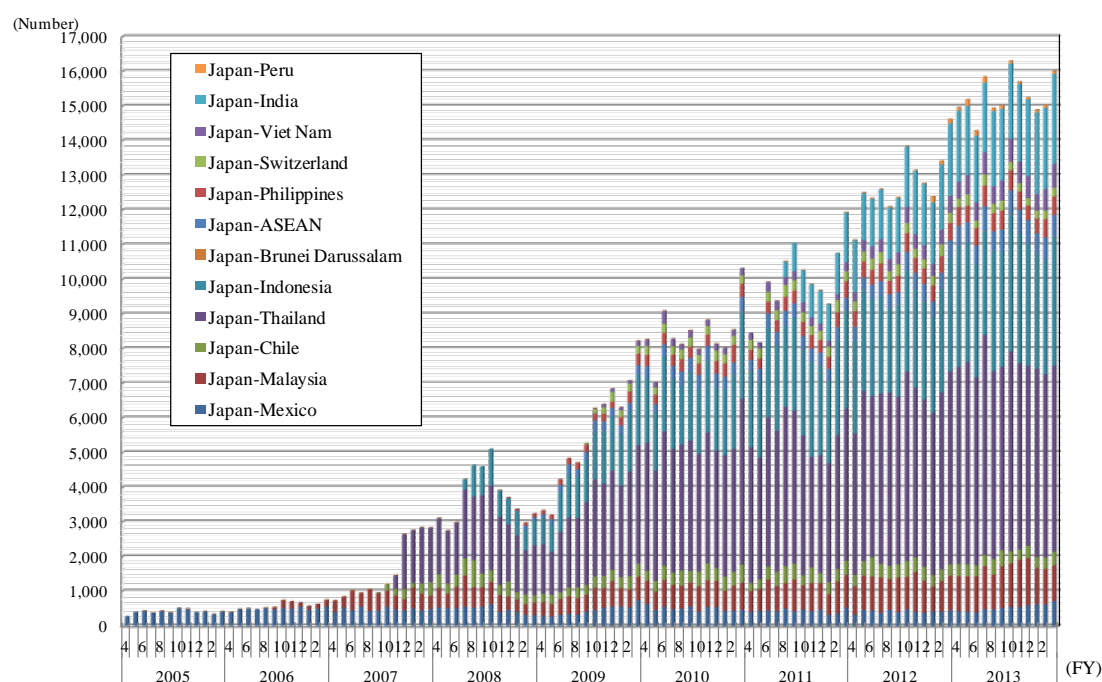
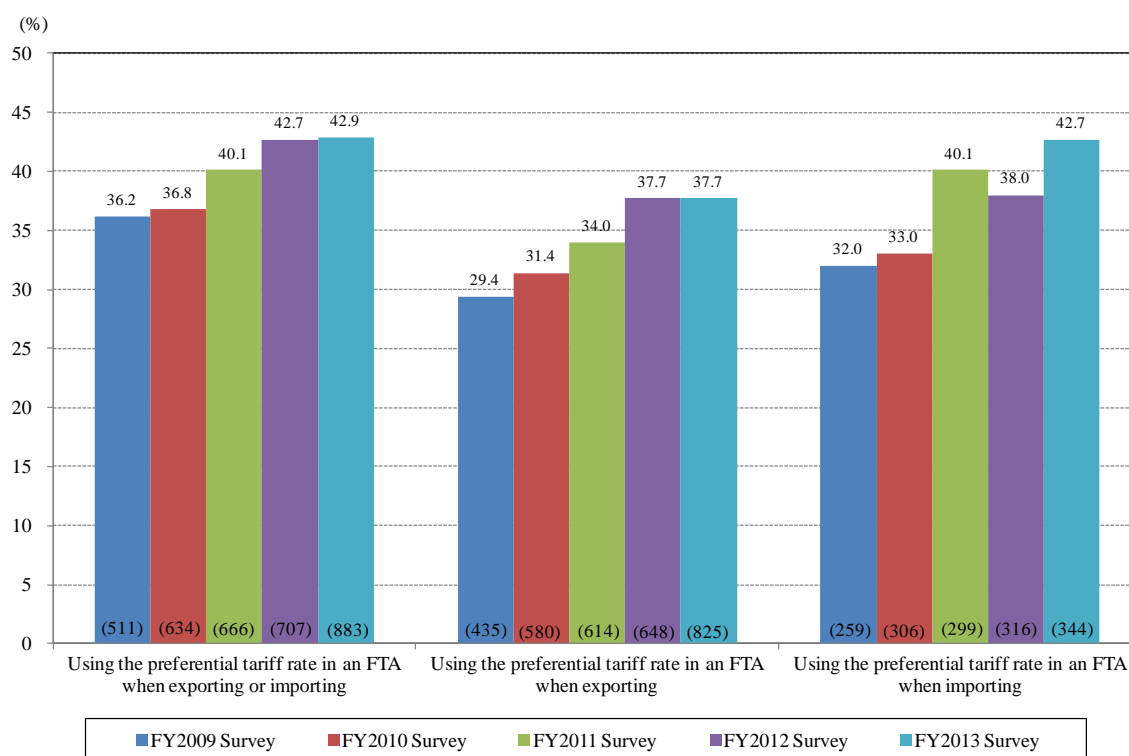


Figure III-1-4-5 Proportion of companies using EPAs/FTAs



Notes: () indicates the number of companies exporting/importing to/from at least one of the countries and regions concerned (Mexico, Malaysia, Chile, Thailand, Indonesia, Philippines, other ASEAN, Switzerland, Viet Nam, India, Peru. However, figures for India are from FY2011 onward, while those for Peru are for FY2012 onward.) In order for a comparison with past surveys to be made, only JETRO

member companies operating in the manufacturing, trade and wholesale, and retail industries were the subjects of the survey. Although Japan has concluded bilateral FTAs with Singapore and Brunei, they are included under “other ASEAN.”

Source: “2013 NENDO NIHON KIGYOU NO KAIGAI JIGYOU TENKAI NI KANSURU QUESTIONNAIRE CHOUA” (JETRO).

Figure III-1-4-6 Number of registered business establishments for the purpose of obtaining a certificate of origin (by region)

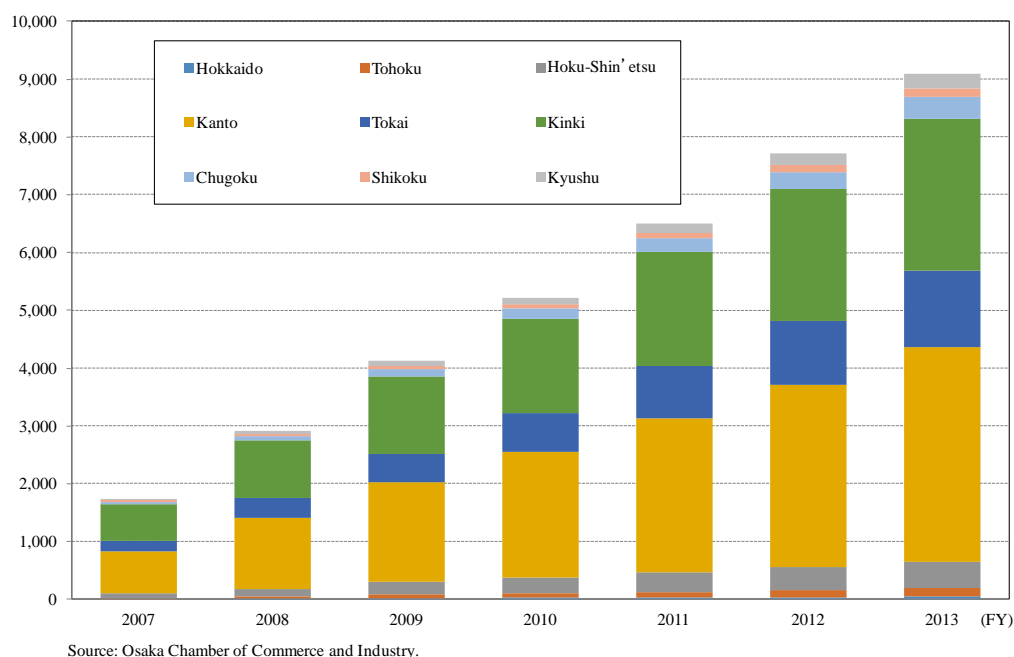


Figure III-1-4-7 Number of registered business establishments for the purpose of obtaining a certificate of origin (SMEs only) and proportion of SMEs

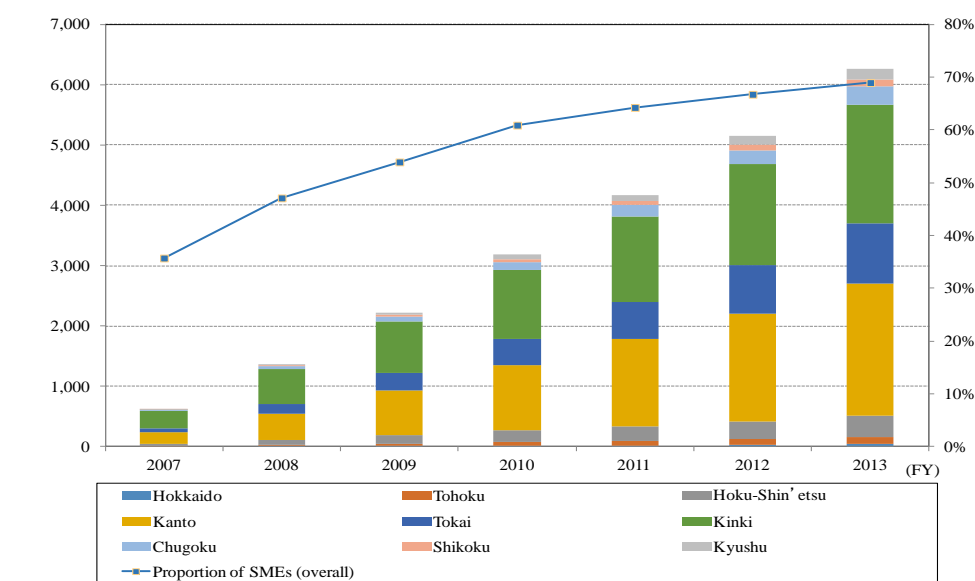


Figure III-1-4-8 Status of the preparation of documents for SME applications for certificates of origin

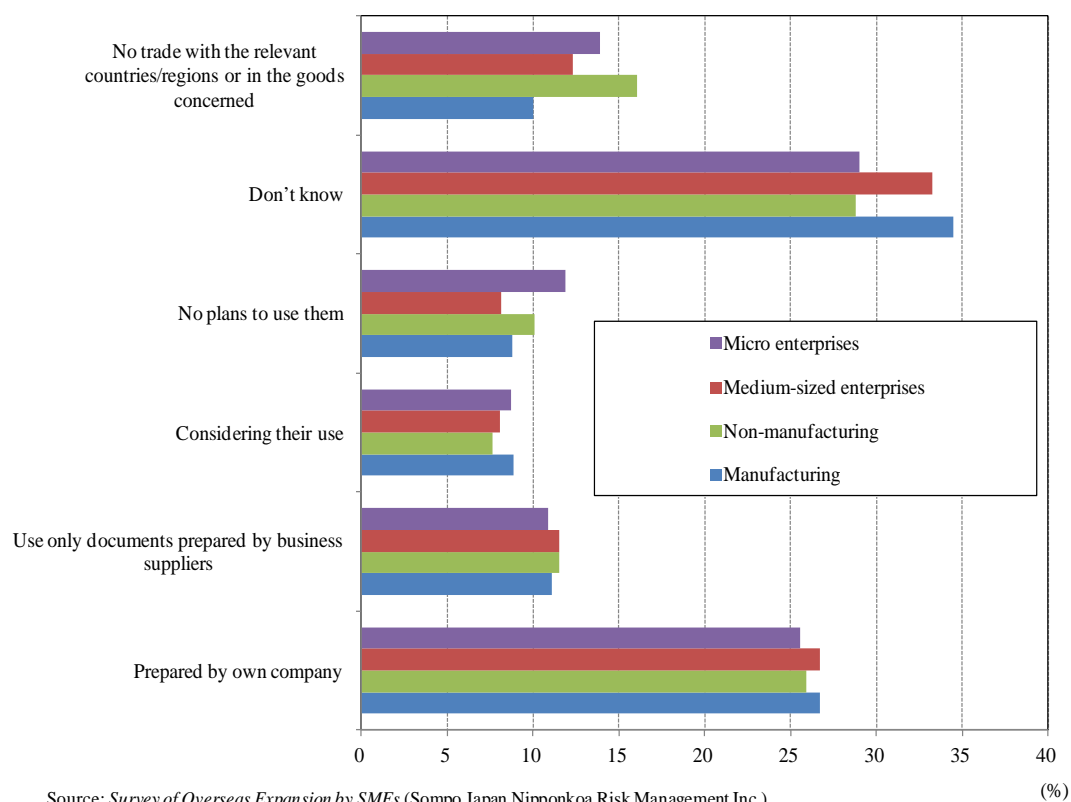
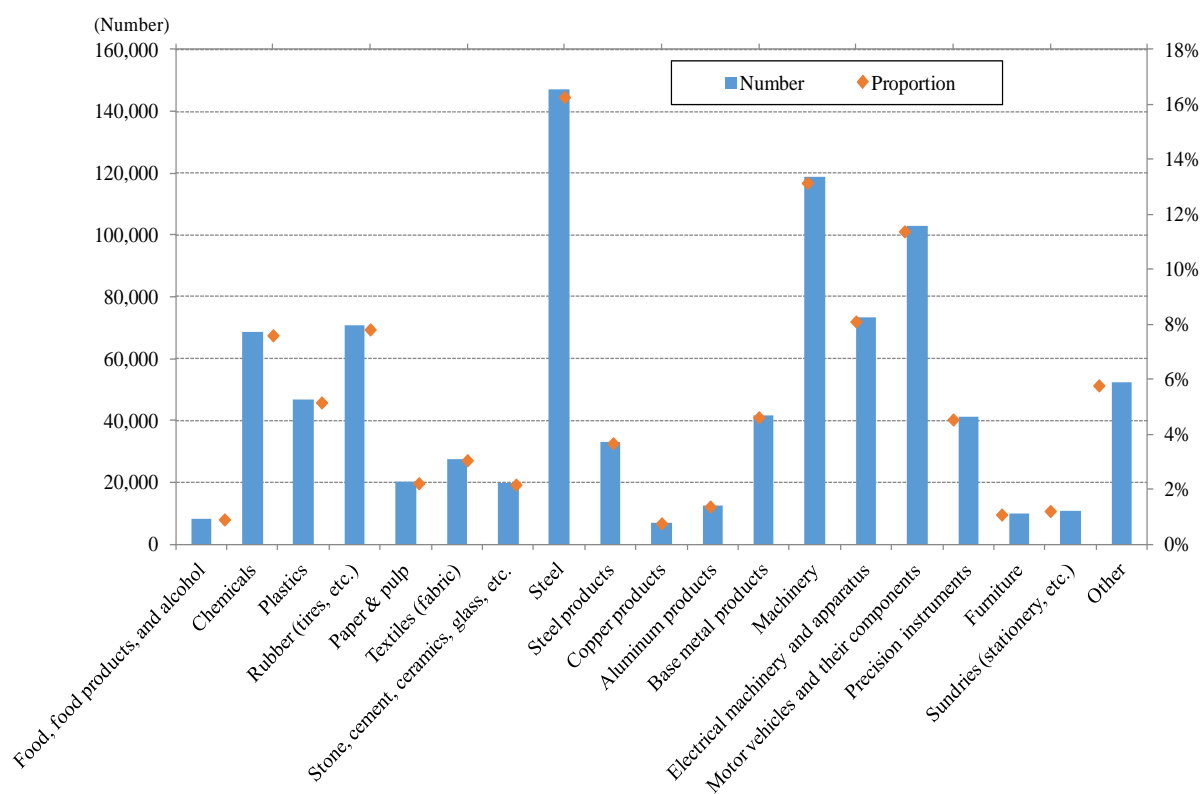
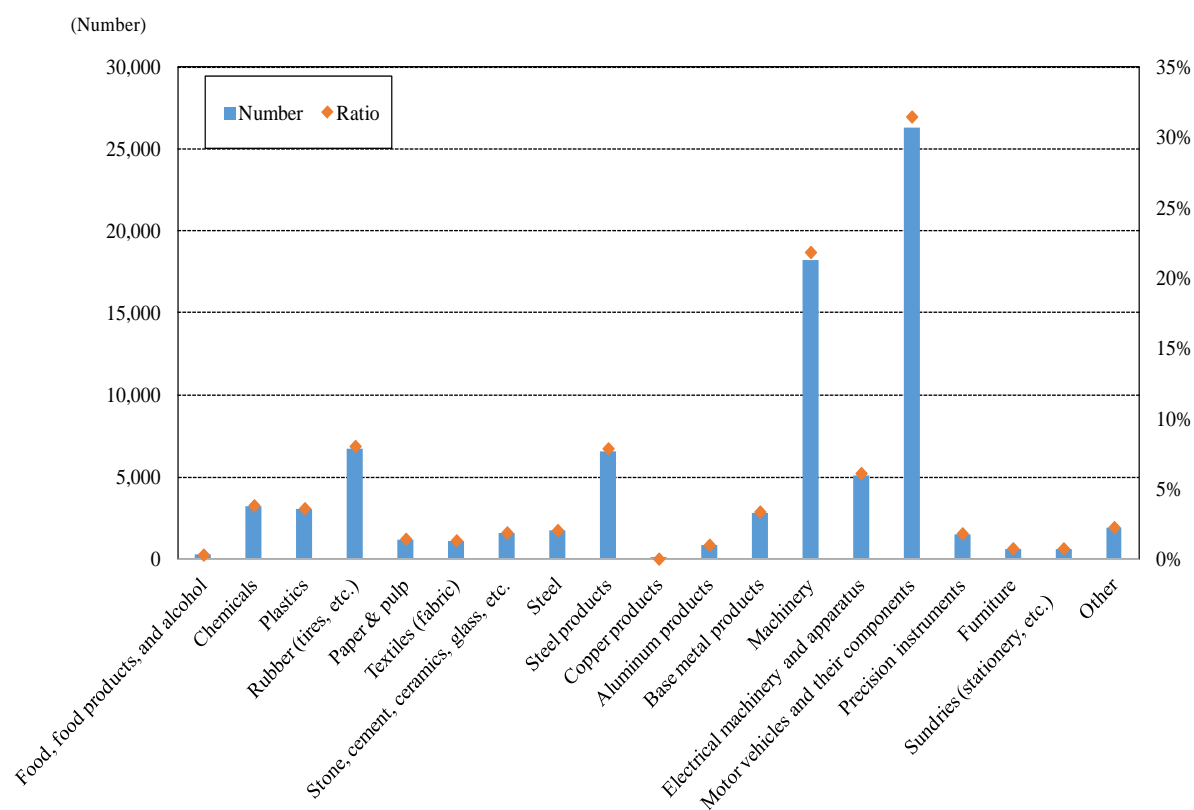


Figure III-1-4-9 Number of certificates of origin issued by item (all agreements)



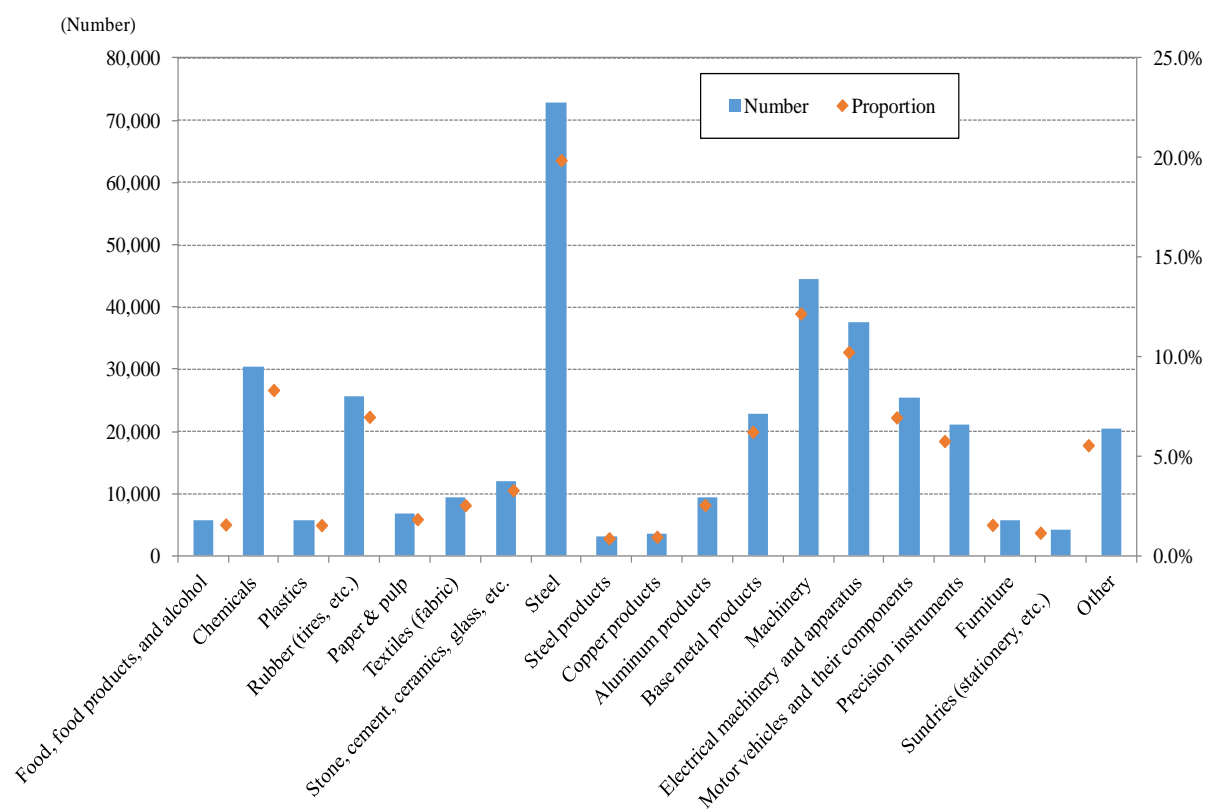
Source: Osaka Chamber of Commerce and Industry, compiled for the period April 1, 2005 to November 8, 2013.

Figure III-1-4-10 Number of certificates of origin issued by item (Japan-Malaysia EPA)



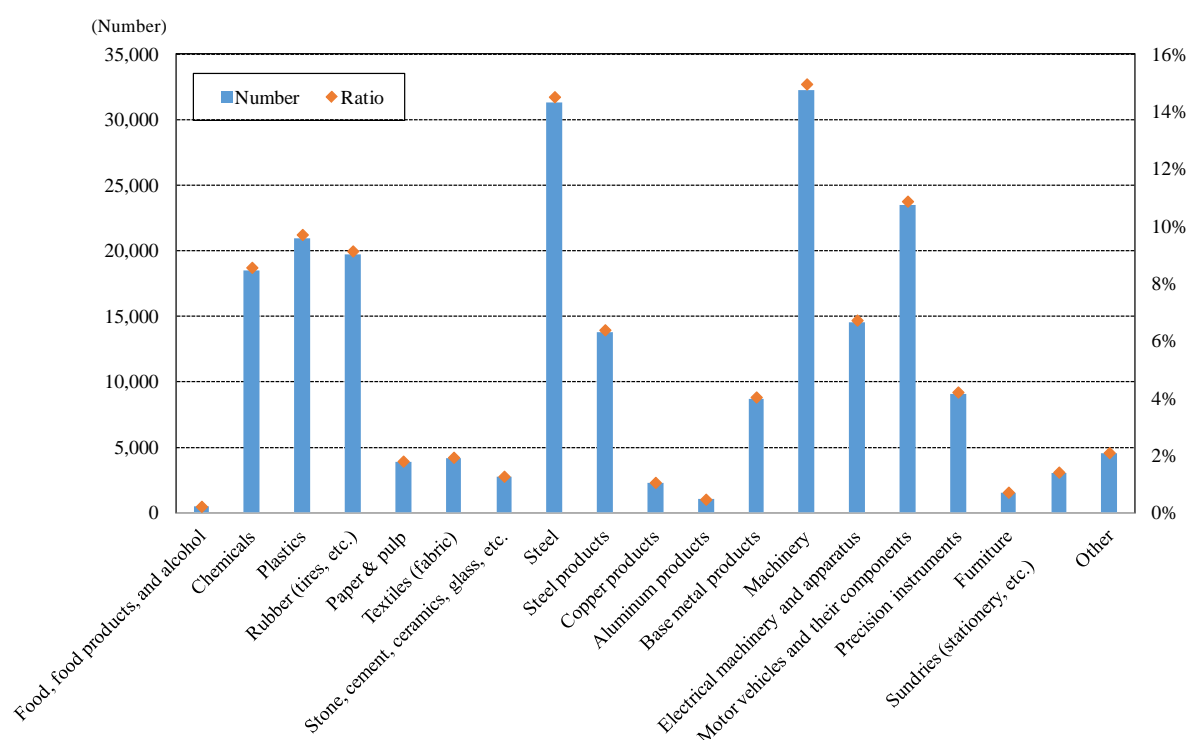
Source: Osaka Chamber of Commerce and Industry, compiled for the period April 1, 2005 to November 8, 2013.

Figure III-1-4-11 Number of certificates of origin issued by item (Japan-Thailand EPA)



Source: Osaka Chamber of Commerce and Industry, compiled for the period April 1, 2005 to November 8, 2013.

Figure III-1-4-12 Number of certificates of origin issued by item (Japan-Indonesia EPA)



Source: Osaka Chamber of Commerce and Industry, compiled for the period April 1, 2005 to November 8, 2013.

Figure III-1-4-13 outlines the process through to the use of preferential tariff rates under an EPA/FTA (hereinafter “the flow chart”). As shown here, a company cannot simply use an EPA/FTA just because it has been concluded between the country to which it is exporting its products and Japan; the item being exported must be eligible for the preferential tariff rate under the EPA/FTA and must satisfy the rules of origin. Furthermore, there are certain costs associated with the use of EPAs/FTAs, so companies must weigh these costs against the benefits arising from their use of the agreement in question.

Hitherto, judgments concerning cost benefits (step 4 in the flow chart) have been the focus of attention as reasons why EPAs/FTAs have not been widely used. Indeed, in the questionnaire conducted by JETRO, many companies cited the efforts required and administrative burden involved in obtaining a certificate of origin as a problem in utilizing EPAs/FTAs. Moreover, in a 2008 questionnaire conducted by JETRO, when asked how great the difference in tariffs would need to be to influence their decision on using an FTA, around two thirds of all respondents stated that their decision would be influenced if the difference rose to 5-7% (2012 JETRO Global Trade and Investment Report, p.64). In other words, although there are some differences according to the size of the company and the nature of the goods it is exporting, a tariff reduction advantage of at least 5% is acknowledged to be one criterion. Businesses in other countries have also noted that strict rules of origin impede the use of EPAs/FTAs.²⁵

²⁵ Intaravitak, Mudkum and Panpheng, “Rules of Origin and Utilization of Free Trade Agreements: An Econometric Analysis”, TDR Quarterly Review, Vol. 26, No. 3.

At the same time, it could be pointed out that potential users are not using EPAs/FTAs because they do not have adequate information about them or because it takes a great deal of effort to obtain such information (Figure III-1-4-16). According to the results of one questionnaire, although just under 30% of respondents (irrespective of whether they were large corporations or SMEs, or in the manufacturing or non-manufacturing sector) expressed the opinion that the current approach to the provision of information was adequate, respondents stated that they did not know which websites provided information (Figure III-1-4-15).

Furthermore, most stated that the information that they required when considering whether to use an EPA/FTA was a list of the countries with which EPAs/FTAs have been concluded, a list of goods eligible for application of each EPA/FTA, and the value of the tariff reduction; in other words, the information listed in steps 1 and 2 in the flow chart. Similar results were obtained from a questionnaire conducted by the Small and Medium Enterprise Agency (Figure III-1-4-17). This suggests that there are some potential users who have not actually reached the point of considering the advantages of using an EPA/FTA. Around 10% of respondents stated that they also required real-life examples of the use of EPAs/FTAs by other companies (Figure III-1-4-16). Information is provided on the websites of relevant Japanese government ministries and agencies, JETRO, and chambers of commerce and industry, and some companies are making use of this (Figure III-1-4-18). Accordingly, as well as further initiatives to encourage companies to visit these websites, it would be effective to provide information in a way that demonstrates in a more concrete manner the advantages of using EPAs/FTAs, using specific examples of success, as other countries do (Table III-1-4-19).

This section next looks at some companies that actually use EPAs/FTAs, as this could promote the use of EPAs/FTAs by providing information about what triggered their use by companies that already use them, as well as offering details of the departments that handle matters concerning EPAs/FTAs. Looking at whether the catalyst for starting to use an EPA/FTA differs according to company scale or industry type, it would be fair to say that the larger number of big corporations and companies in the manufacturing industry responded that their FTAs/EPAs utilization was triggered by the seminars or advice provided by JETRO, chamber of commerce and industry association than SMEs and those in non-manufacturing industry. No major difference according to industry type or scale was seen among those whose use stemmed from a request from the recipient of the exports (Japanese-affiliated company or foreign company) or those for whom a proposal from within the company was the catalyst (Figure III-1-4-20).

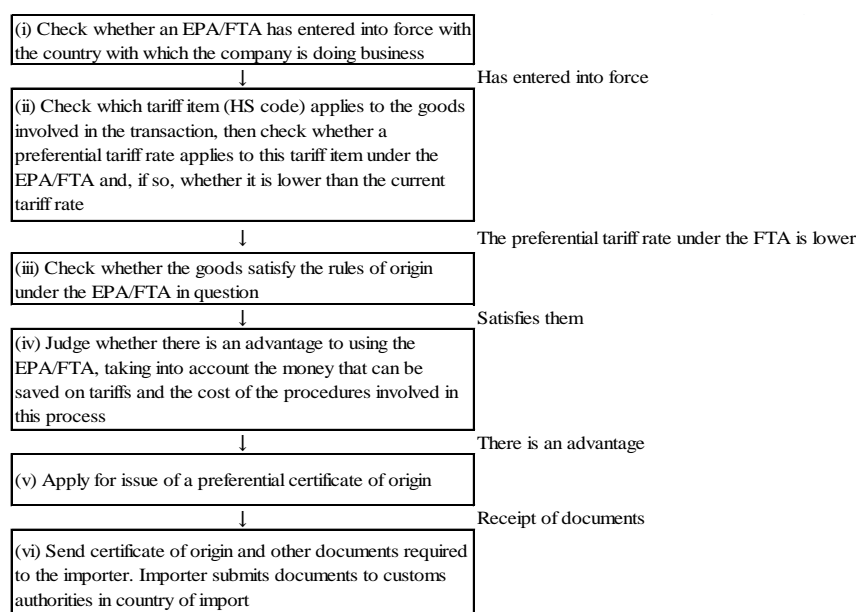
Next, let us look at the departments handling matters concerning EPAs/FTAs. In terms of which department considers and proposes the use of EPAs/FTAs, internal departments at the company itself accounted for the highest proportion, irrespective of scale and industry type, followed by overseas subsidiaries. Looking at the situation by scale, it can be noted that there is a greater tendency among large corporations than among SMEs for proposals about EPAs/FTAs to be made by the company's own business divisions or overseas subsidiaries (production/procurement bases), rather than by departments handling supervisory duties (Figure III-1-4-21).

In terms of which department handles the preparation of documents in order to obtain certificates

of origin, broadly speaking, this was dealt with by the company's own operating divisions or overseas subsidiary (production/procurement bases) in a high proportion of cases, reflecting the ease of obtaining information (Figure III-1-4-22).

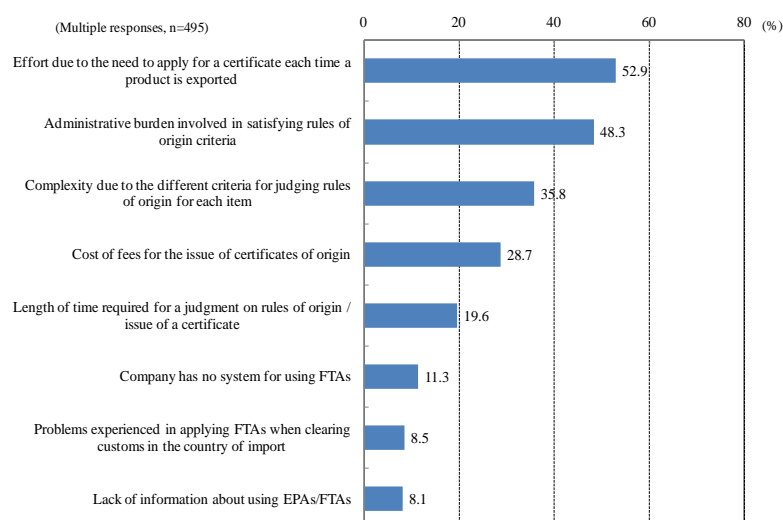
Finally, this section provides an outline of some companies that are actively using EPAs/FTAs, explaining what triggered their use of EPAs/FTAs, what strategies they have adopted to facilitate use, and information provision initiatives by industry groups that take into account the distinctive features of each industry.

Figure III-1-4-13 Outline of the process through to the use of preferential tariff rates under an EPA/FTA (flow chart)



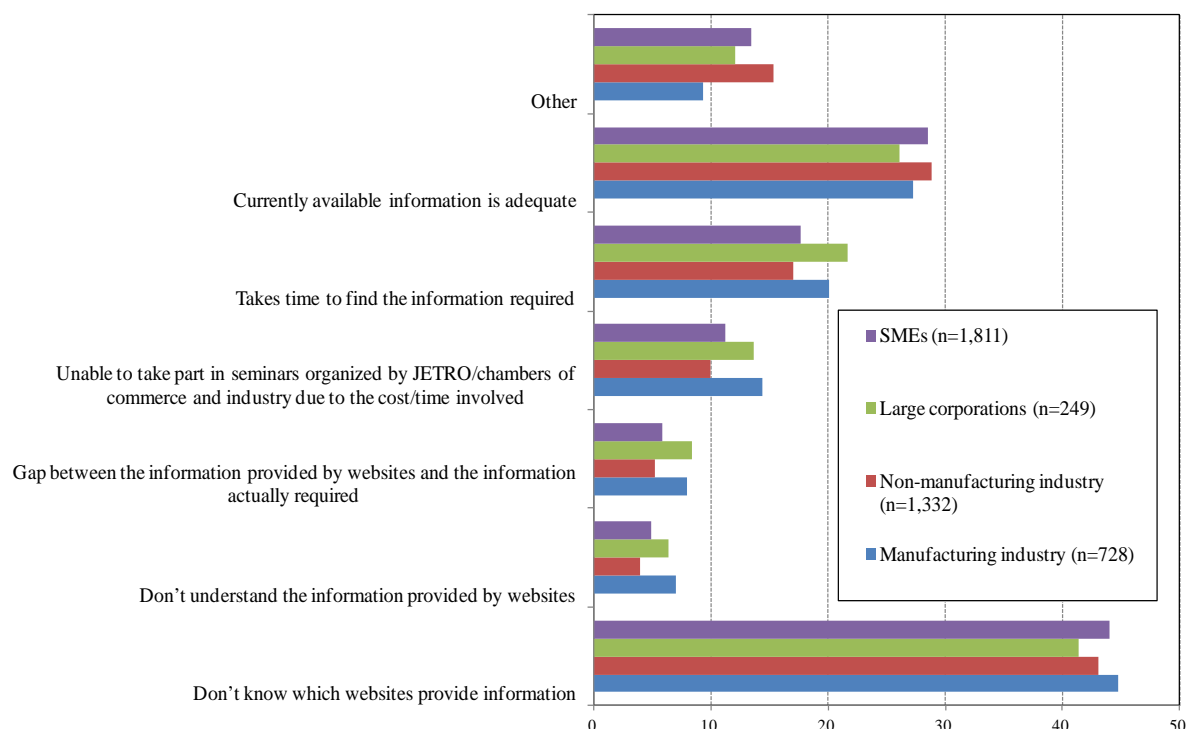
Source: 2012 JETRO Global Trade and Investment Report and materials distributed at various EPA seminars.

Figure III-1-4-14 Problems in using EPAs/FTAs (multiple responses permitted)



Source: "2013 NENDO NIHON KIGYOU NO KAIGAI JIGYOU TENKAI NI KANSURU QUESTIONNAIRE CHOU" (JETRO)

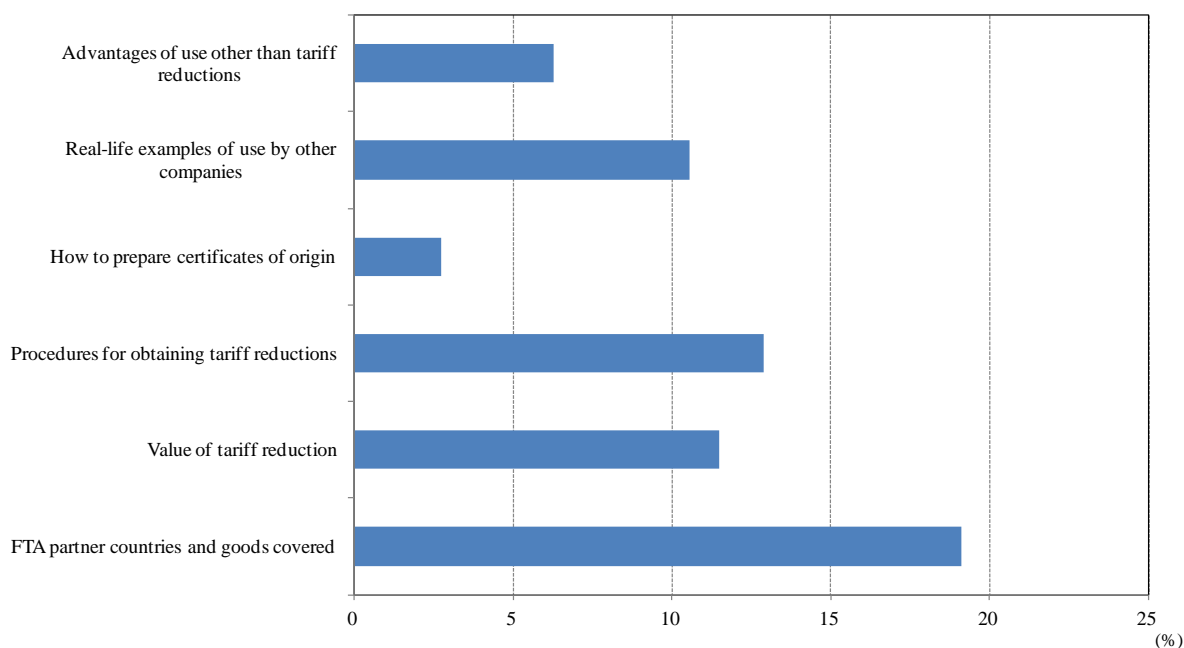
Figure III-1-4-15 Views on the provision of information about EPAs/FTAs (multiple responses permitted)



Source: *TSUUSHOU SEISAKU NO KENTOU NO TAMENO WAGAKUNI KIGYOU NO KAIGAI TENKAI NO JITTAI TO KOKUNAI JIGYOU NI ATAERU EIKYOU NI KANSURU QUESTIONNAIRE(2014)* (Teikoku Databank).

Figure III-1-4-16 Information required when considering using EPAs/FTAs (multiple responses permitted)

(Multiple responses, n=1,982)



Source: *TSUUSHOU SEISAKU NO KENTOU NO TAMENO WAGAKUNI KIGYOU NO KAIGAI TENKAI NO JITTAI TO KOKUNAI JIGYOU NI ATAERU EIKYOU NI KANSURU QUESTIONNAIRE(2014)* (Teikoku Databank).

Figure III-1-4-17 Information required when considering using EPAs/FTAs (SMEs only, multiple responses permitted)

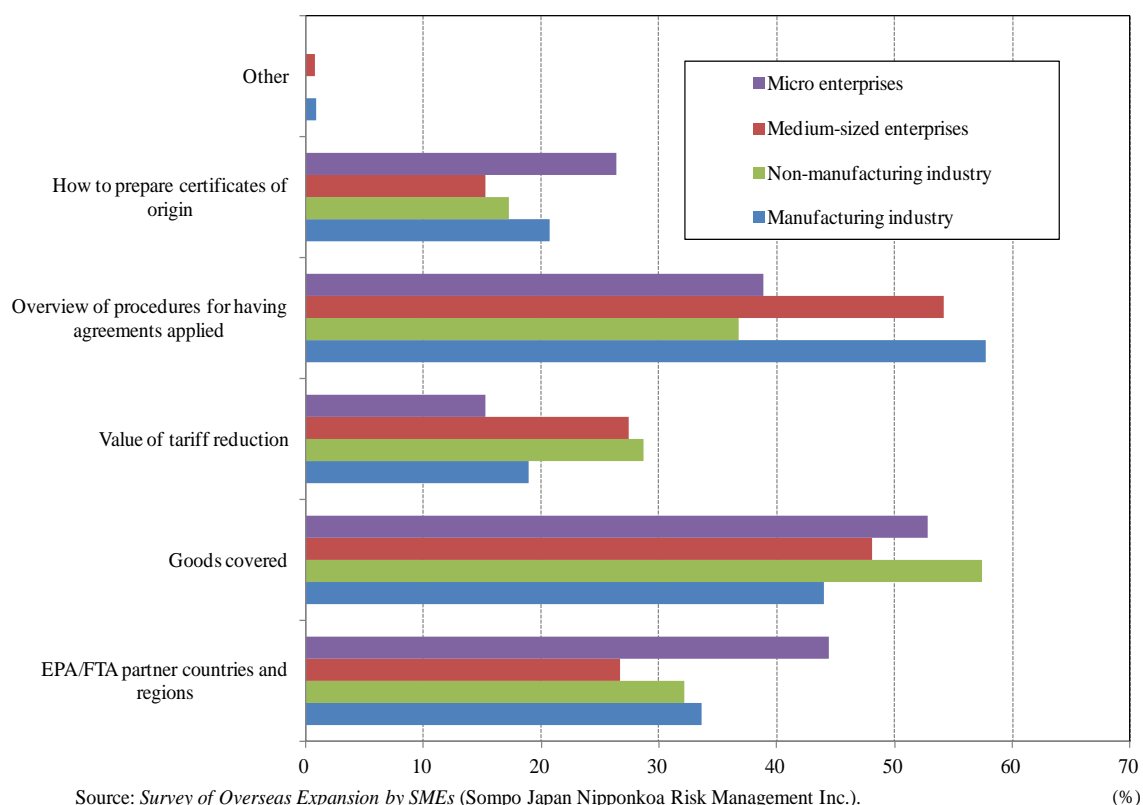


Figure III-1-4-18 Websites consulted when using EPAs/FTAs (multiple responses permitted)

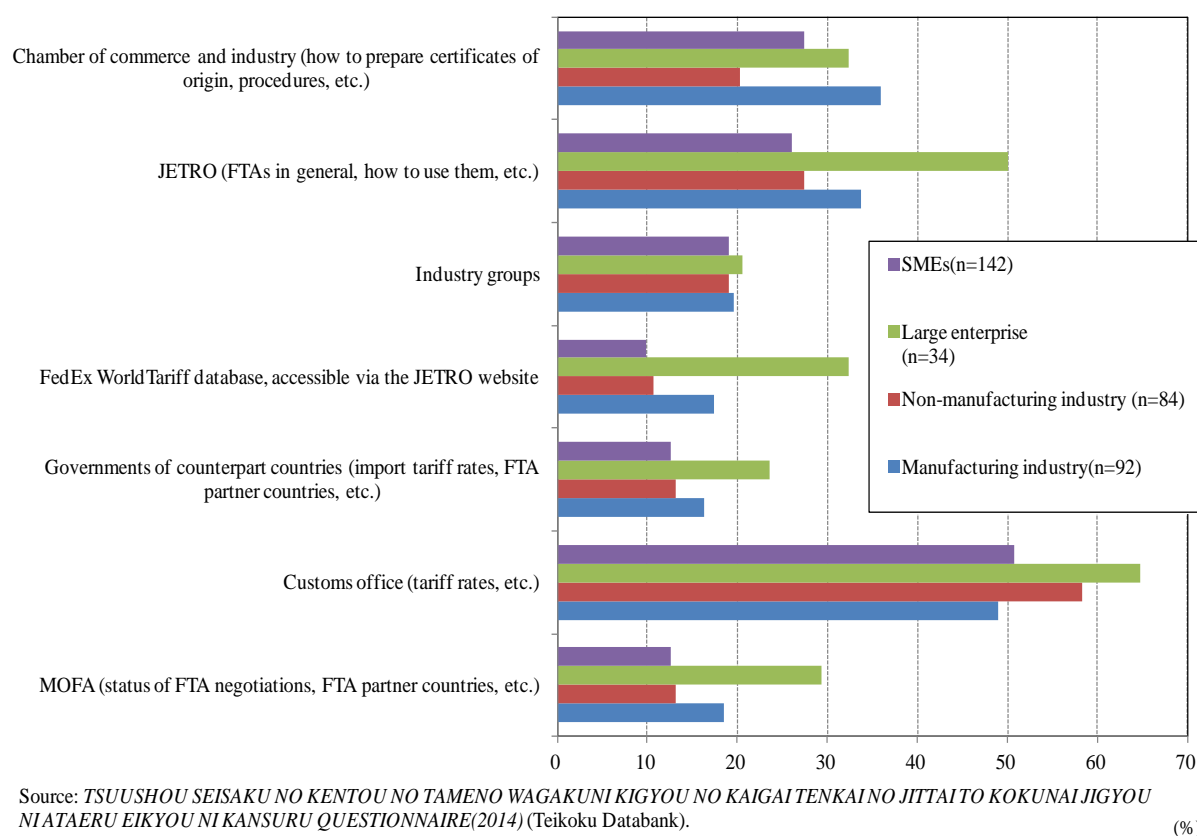
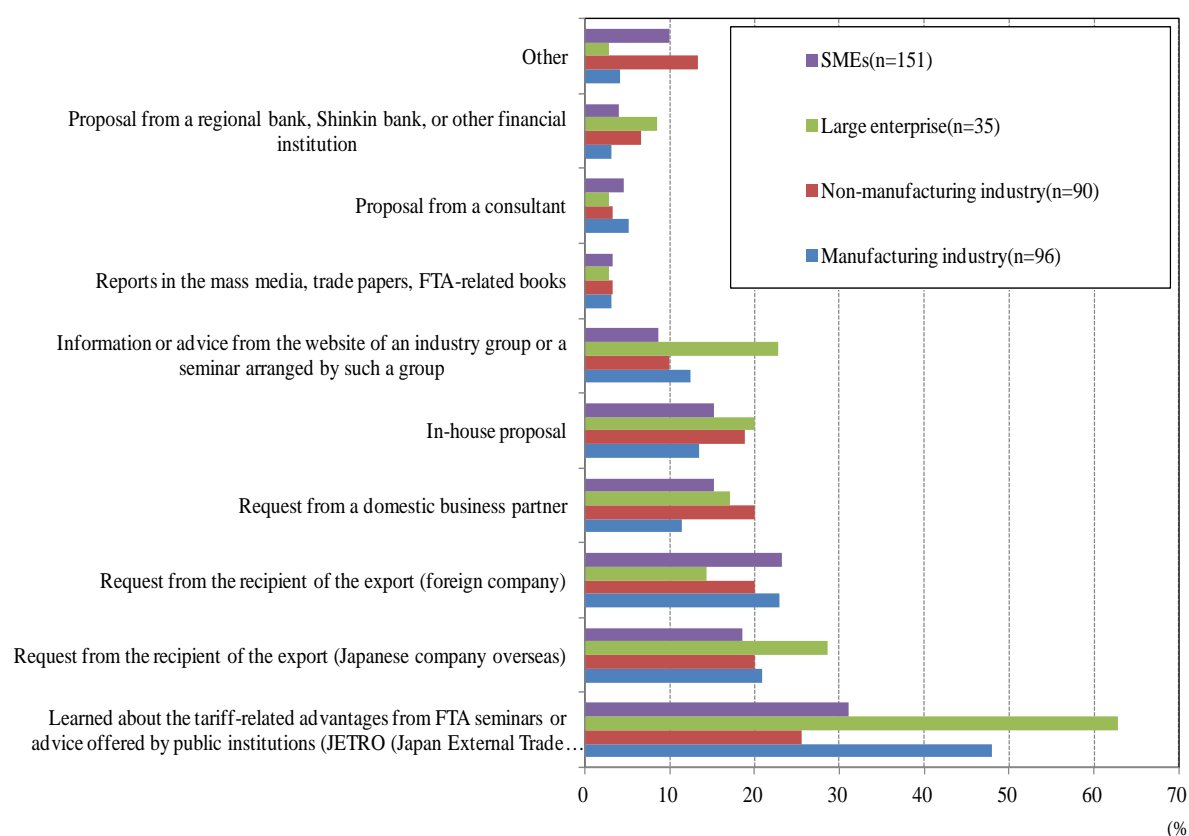


Table III-1-4-19 Information provided in each country to encourage use of EPAs/FTAs

	Singapore	ROK	the U.S.
Profiles of real-life success stories	International Enterprise Singapore website "Success Stories"	Ministry of Strategy and Finance Documentary focused on examples of success among companies actively using FTAs to open up overseas markets	Department of Commerce website "Industry Opportunity Reports"
Manual of matters to consider / usage procedures	International Enterprise Singapore website "Step-by-step guide to use Singapore's FTAs"	Ministry of Trade, Industry and Energy "FTA1380 Call Center"	Department of Commerce website
System for searching HS codes and preferential tariff rates under FTAs	International Enterprise Singapore website "FTA Tariff Calculator"	Ministry of Trade, Industry and Energy website "FTA 関税 KOREA"	Department of Commerce website "Schedule B Search Engine" "Tariff Search"
System for searching rules of origin	International Enterprise Singapore website "FTA Tariff Calculator"	Ministry of Trade, Industry and Energy website "FTA 関税 KOREA"	Department of Commerce website "Tariff Search"

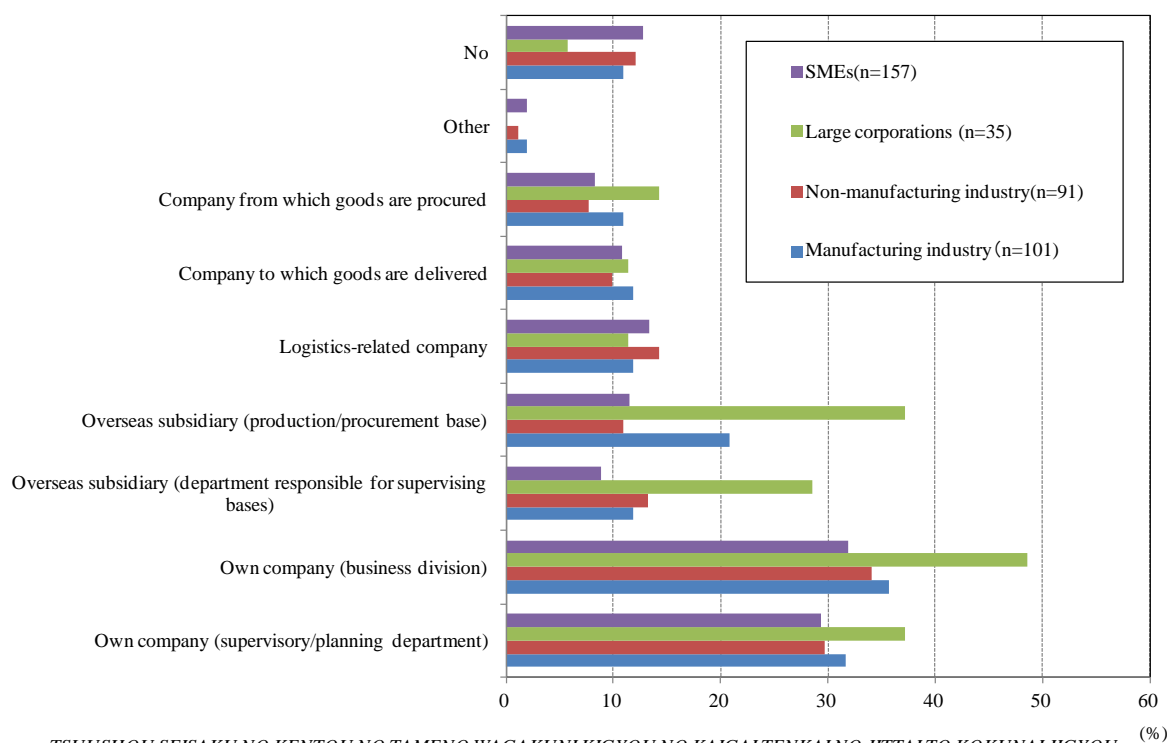
Source: Ministry of Economy, Trade and Industry, with reference to *FTA NO RIYOU SOKUSHIN NI SHISURU JOUHOU TEIKYOU NO ARIKATA : SHOGAIKOKU NO JIREI KARAI* (Arata Kuno (2014)).

Figure III-1-4-20 Catalyst for the use of preferential tariff rates under EPAs/FTAs (multiple responses permitted)



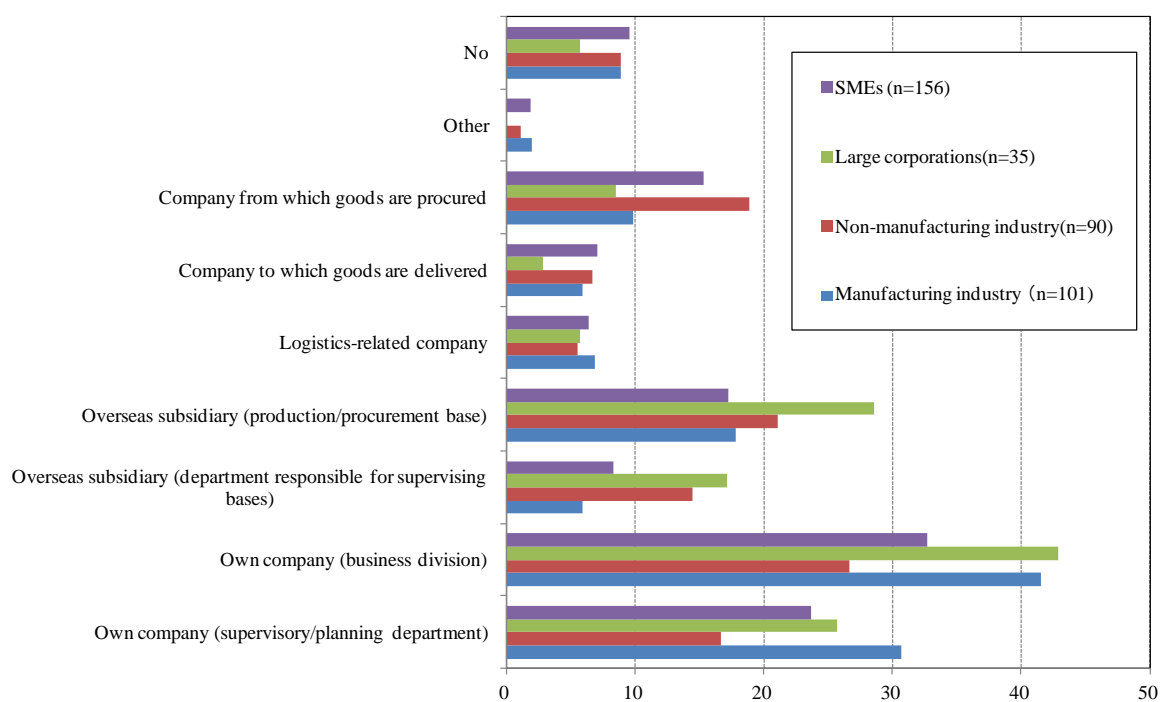
Source: *TSUUSHOU SEISAKU NO KENTOU NO TAMENO WAGAKUNI KIGYOU NO KAIGAI TENKAI NO JITTAITO KOKUNAI JIGYOU NIATAERU EIKEYOU NI KANSURU QUESTIONNAIRE (2014)* (Teikoku Databank).

Figure III-1-4-21 Departments involved in considering the use of EPAs/FTAs (multiple responses permitted)



Source: TSUUSHOU SEISAKU NO KENTOU NO TAMENO WAGAKUNI KIGYOU NO KAIGAI TENKAI NO JITTAI TO KOKUNAI JIGYOU NIATAERU EIKYOU NI KANSURU QUESTIONNAIRE (2014) (Teikoku Databank).

Figure III-1-4-22 Departments handling the preparation of documents for obtaining certificates of origin (multiple responses permitted)



Source: TSUUSHOU SEISAKU NO KENTOU NO TAMENO WAGAKUNI KIGYOU NO KAIGAI TENKAI NO JITTAI TO KOKUNAI JIGYOU NIATAERU EIKYOU NI KANSURU QUESTIONNAIRE (2014) (Teikoku Databank).

(1) Mitsuboshi Belting Ltd.

The main business of Mitsuboshi Belting Ltd. is the manufacturing and sale of power transmission belts and related equipment (for motor vehicles and office automation equipment), and conveyor belts and systems. It has 12 overseas offices, primarily in Asia, stated capital of ¥8.15025 billion, and 710 employees (4,400 employees throughout the group).

(A) Catalyst for starting to utilize EPAs/FTAs and current utilization

The catalyst for Mitsuboshi Belting's use of preferential tariff rates under EPAs/FTAs was a request it received about five years ago from its overseas manufacturing and sales subsidiary in Thailand, which wanted to use the preferential tariff rate under the Japan-Thailand EPA to import products (belts, etc.) from Japan. After that, the company began to use EPAs between Japan and Indonesia, Singapore, and Viet Nam when exporting materials and products (belts, etc.) from Japan to the production bases of its overseas subsidiaries. It also uses FTAs of which Japan is not a contracting party, such as FTAs between ASEAN member states (e.g. when exporting products from Thailand to Singapore or Viet Nam) and the ACFTA (e.g. when exporting products from China to Indonesia).

(B) Difficulties experienced in utilizing EPAs/FTAs, solutions developed, and advantages arising from their use

Mitsuboshi Belting currently has two staff members who deal with all the administrative procedures required when using EPAs/FTAs, such as checking HS codes, preparing documentation for obtaining certificates of origin, and storing documents²⁶. When the company first began using EPAs/FTAs, it encountered particular difficulties in relation to the large number of documents that had to be prepared to determine an item's country of origin, as well as in looking up HS codes to check which rules of origin criteria were applicable to each product. Moreover, problems arose in relation to the HS codes applicable to export products, as judgments differed between the customs authority in the exporting country and the customs authority in the importing country, resulting in judgments on the item's place of origin being revised a few months later. The company's staff members handling administrative procedures have gained know-how in various areas, adopting such strategies as liaising closely with departments handling technical matters and the overseas subsidiary on the import side when carrying out administrative tasks, so the administrative burden has lessened to some extent. However, this know-how is held by individuals and the company faces a challenge in terms of the difficulty of sharing this know-how or passing it on to successors within the company.

The benefits to Mitsuboshi Belting of using the preferential tariffs under EPAs/FTAs include the fact that it has an advantage over other companies in price competition because it can respond to requests from importers for cost reductions, as well as the fact that this helps to boost profit margins.

²⁶ The procedures are conducted for the issues between Japan and EPA counterparts. Concerning those between Japan and other third countries, the company's local staff will deal with such issues.

Figure III-1-4-23 Product photograph



Source: Mitsubishi Belting.

(2) Daifuku Co., Ltd.

The main business of Daifuku Co., Ltd. is the manufacturing and sale of conveyor/storage/sorting systems for production and distribution facilities in general, semiconductor and liquid crystal production lines, motor vehicle production lines, and airports. The group as a whole has 20 overseas offices and local subsidiaries, primarily in Asia, stated capital of ¥8.024 billion, and 2,284 employees (7,376 employees throughout the group, as of April 1, 2014).

(A) Catalyst for starting to utilize EPAs/FTAs and current utilization

Daifuku's utilization of EPAs/FTAs dates back to 2010, when, at the suggestion of its overseas subsidiary in Malaysia, it began using the Japan-Malaysia EPA to export products from Japan. Since the utilization of the EPA was profitable, the company sought to use EPAs in place between Japan and other countries where it had local overseas subsidiaries, but found it difficult to increase the utilization of EPAs because of fears that the application procedures would lead to additional work for the company.

However, following requests from overseas customers (mainly Japanese affiliate companies overseas), it now also utilizes EPAs that Japan has concluded with Thailand and Indonesia, as well as the EPA with Malaysia. In addition, it is currently using the ACFTA for trilateral trade between Japan, China, and ASEAN member states. For example, when contracts of sale are concluded between the head office in Japan and its customers in Malaysia, if part of the product is manufactured by a local subsidiary in China and shipped directly to the customer in Malaysia, re-invoicing (which is permitted under the ACFTA) is used for the goods shipped directly from China (Figure III-1-4-24).

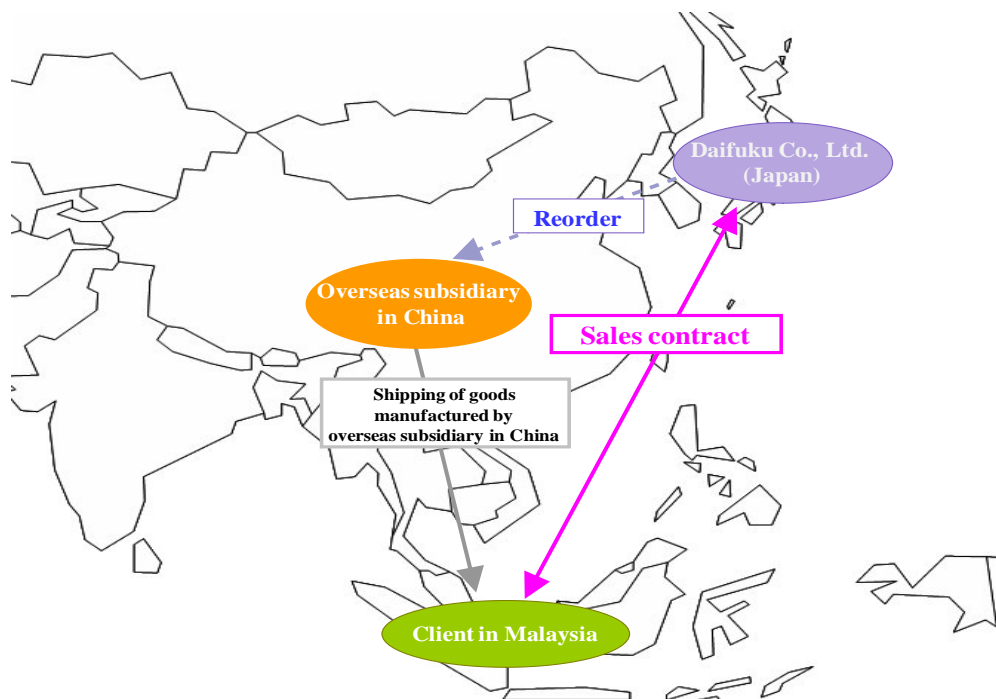
(B) Difficulties/problems experienced in utilizing EPAs/FTAs, solutions developed, and advantages arising from their utilization

At Daifuku, when utilizing EPAs/FTAs, each business division estimates what proportion has originating status, and the International Business Department carries out the various procedures, such as preparing documents so that certificates of origin can be obtained, as well as storing documents.

One problem that arose when utilizing EPAs/FTAs was the need to apply for a judgment on the country of origin of each product, because the company's products are basically made to order, so the components in each product vary. In addition, each product consists of a multitude of components, so it is difficult to estimate what proportion has originating status. To resolve these problems, the company basically regards all components that the company purchase from other companies as non-originating so that it can eliminate the work involved in estimating the proportion of those parts with originating status, thereby enabling it to prove originating status more quickly.

Even though its products would meet the rules of origin criteria and therefore would not be subject to tariffs if shipped as a whole product (system), the size of Daifuku's products means that it has to ship them separately. This means that the applicable HS codes change, with the result that tariffs are imposed because the rules of origin criteria are not met. To deal with this, Daifuku works with its business partners and overseas subsidiaries to consult with the customs authorities in each country to which it exports. The biggest advantage of utilizing EPAs/FTAs would seem to be that Daifuku can meet the price requests of its customers.

Figure III-1-4-24 Use of the ACFTA in trade involving three countries



Source: Daifuku.

(3) Diamond Electric Mfg. Co., Ltd.

The main business of Diamond Electric Mfg. Co., Ltd. is the manufacturing and sale of automotive electronics (ignition devices and electric devices) and home electronics. It has ten overseas offices, primarily in Asia, stated capital of ¥2.19 billion, and 936 employees (as of the end of March 2013) (2,164 employees throughout the group).

(A) Catalyst for starting to utilize EPAs/FTAs and current utilization

Diamond Electric first began using EPAs/FTAs in 2012, at the request of its overseas manufacturing subsidiary in India, using the Japan-India EPA when exporting raw materials and ingredients (resin) from Japan to India. Since then, it has begun using a number of EPAs/FTAs, including EPAs/FTAs to which Japan is not a contracting party. When it set up its overseas subsidiary in Thailand, the subsidiary requested that it expand its use of EPAs/FTAs, so it began using the ASEAN-India FTA (when exporting ignition coils from India to Thailand), the Japan-Thailand EPA (when exporting controllers from Japan to Thailand), and the ROK-ASEAN FTA (when exporting ignition coil components from ROKo Thailand). It received a similar request when setting up its overseas subsidiary in Indonesia, so it began using the Japan-Indonesia EPA, FTAs with other ASEAN member states, and the ASEAN-India FTA (when exporting ignition coils from Thailand and India to Indonesia).

(B) Difficulties/problems experienced in utilizing EPAs/FTAs, solutions developed, and advantages arising from their use

Diamond Electric has two staff members who deal with checking HS codes and the rules of origin criteria when utilizing EPAs/FTAs, and another two staff members who handle system registration and the acquisition of certificates of origin; all of these staff also carry out other duties as well. Similar administrative procedures when using EPAs/FTAs between third party countries are dealt with by overseas subsidiaries, although the head office conducts thorough checks to ensure that the appropriate HS codes are being applied. The company faces four main difficulties/problems when using EPAs/FTAs. The first is the effort required to establish with the customs authorities in both the exporting and importing countries which HS code is applicable. Sometimes, problems arise because the customs authorities in the two countries differ in their judgment on the appropriate HS code for a product. To resolve this issue, the company seeks an advance ruling from the customs authorities in each country, as well as querying HS codes and building up know-how via on-the-job-training within the company. The second issue is the need to provide a thorough explanation of product HS codes to overseas subsidiaries in advance, to convince overseas customs brokers. To ensure that this goes smoothly, the company provides overseas subsidiaries with a list of advance rulings, as well as sharing commentaries on tariff schedules, and providing engineers' manuals. The third issue is the need to check which HS code applies to each individual product manufactured by the company and what the tariff rate with each country is, to ensure that it can make efficient use of all EPAs/FTAs. Accordingly, the company is compiling a database showing the tariff rates by country and component. The fourth

issue is the need to ensure that the criteria concerning value added goods, products and services are completely satisfied when exporting products that use purchased components. The company takes steps to ensure that it does not end up being unable to use preferential tariffs due to a failure to meet the criteria for technical reasons. More specifically, it obtains data concerning components (a detailed parts breakdown) and other costs (processing fees, logistics costs, etc.) in advance, so that it can make an estimate.

Thus, the company has developed solutions to the various problems that it has faced and is successfully using EPAs/FTAs to improve its earnings and capture customers.

Table III-1-4-25 List of EPAs/FTAs used by Diamond Electric Mfg. Co., Ltd.

No.	Exports	Imports	Timing of start to use
1	Japan	India	2012/1
2	India	Thailand	2012/6
3	Japan	Thailand	2012/8
4	Japan	Thailand	—”—
5	Japan	India	2012/10
6	Japan	Thailand	2013/4
7	ROK	Thailand	2013/8
8	Japan	Indonesia	2013/11
9	Thailand	Indonesia	2013/12
10	India	Indonesia	2013/12

Source: Diamond Electric Mfg. Co., Ltd.

(4) Panasonic Corporation

Panasonic Corporation is a general electronics manufacturer that manufactures and sells a wide range of electronic and electrical equipment, including electronic components, household electrical appliances for consumer use, automotive systems, and home appliances. It has many overseas offices, stated capital of ¥258.7 billion, and about 270,000 employees on a consolidated group basis.

(A) Catalyst for starting to utilize EPAs/FTAs and current utilization

Panasonic’s business divisions proactively use EPAs/FTAs. It has experience of using regional free trade agreements, such as FTAs in ASEAN and NAFTA in North America; since Japan concluded EPAs/FTAs with ASEAN member states and countries in Latin America in the latter half of the 2000s, it has also been using these bilateral EPAs. More recently, it has engaged in even wider-ranging use of EPAs/FTAs, using FTAs when exporting products from its bases in China and ASEAN member states to other countries both within and outside the East Asian region.

(B) Difficulties/problems experienced in using EPAs/FTAs, solutions developed, and advantages arising from their use

Relevant departments at Panasonic's head office provide support to business divisions that are considering using EPAs/FTAs for the first time, and its liaison department provides information about EPAs/FTAs, as well as serving as a point of contact for queries about their use. Because Panasonic exports such a diverse array of goods, it is devoting considerable effort to developing an intranet system and providing information by e-mail, to facilitate the sharing of information between relevant departments at head office, its business divisions, and its overseas offices.

Based on inquiries received from within the company, it regards the main problems when using EPAs/FTAs as being (1) the fact that it takes time and effort to look up the applicable EPA/FTA tariff rates and FTA rules of origin; (2) the fact that it can be difficult to use EPAs/FTAs when the application of HS codes differ between the importing and exporting country; and (3) the fact that it is difficult to use EPAs/FTAs in business areas where order placement and receipt is carried out via a third party country (Table III-1-4-26). It is difficult to resolve such problems immediately, but the company's basic policy is to consider the costs and benefits of using an EPA/FTA and to put the requisite systems in place immediately if it deems the benefits to be greater than the costs.

Table III-1-4-26 Examples of rules of origin that differ between EPAs/FTAs

	ASEAN	ACFTA	ASEAN-India FTA
Microwave ovens	Regional value content of not less than 40% or change in HS code at the 4-digit level	Regional value content of not less than 40%	Regional value content of not less than 35% and change in HS code at the 6-digit level

	AJCEP	Japan-Malaysia EPA	Japan-Chile EPA	Japan-Mexico EPA	Japan-India EPA
Color TVs	Regional value content of not less than 40%	Regional value content of not less than 40% or change in HS code at the 6-digit level	Regional value content of not less than 40% or change in HS code at the 4-digit level	Change in HS code at the 4-digit level	Regional value content of not less than 35% and change in HS code at the 6-digit level
Lithium-ion batteries	Regional value content of not less than 40% or change in HS code at the 4-digit level	Regional value content of not less than 40% or change in HS code at the 6-digit level	Change in HS code at the 6-digit level	Regional value content of not less than 50% and change in HS code at the 6-digit level, or change in	Regional value content of not less than 35% and change in HS code at the 6-digit level

				HS code at the 4-digit level	
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Source: Ministry of Economy, Trade and Industry.

(5) The Japan Iron and Steel Federation

Some industry groups provide their member companies with a substantial amount of useful information. For example, the members-only section of the Japan Iron and Steel Federation provides information required when carrying out export procedures using an EPA (confirmation of the rules of origin and applicable EPA tariff rates, and comparisons between existing MFN tariff rates and EPA tariff rates) and carries materials that provide a concise commentary on rules of origin.

To give a specific example, selecting one of Japan's "export partner countries" on the screen on the aforementioned website brings up a table showing the EPA tariff concession schedule determined in EPAs with the country in question (for example, in the case of Thailand, the Japan-Thailand EPA and the AJCEP). Moreover, users can view a list of rules of origin for each EPA. Furthermore, it provides links to the text of FTAs between third-party countries, including ATIGA (the ASEAN Trade in Goods Agreement), the AKFTA, and the ACFTA, as well as to other related information.

This section analyzed the usage status of EPAs/FTAs, with a view to promoting their use by Japanese companies. The results of one questionnaire suggest that although the existing information provided by the government and relevant organizations is being utilized to some extent, there remains some scope for improving awareness. They also suggest that providing specific examples of the use of EPAs/FTAs by other companies could be the catalyst that triggers their use by companies that are not currently using them. In addition, examples of companies that are proactively using EPAs/FTAs reveal that companies are utilizing a range of information, as well as striving to use various methods tailored to their own company to ensure that the know-how acquired concerning the use of EPAs/FTAs does not merely end up as the know-how of certain individuals, but becomes explicit knowledge within the company. In future, it is hoped that increased awareness of the available information concerning EPAs/FTAs (websites, etc.) and the provision of more diverse information will reduce the costs involved in using EPAs/FTAs, thereby helping to promote their use.

Column 13 Committees for the improvement of the business environment

As a result of the deepening of international activities by businesses, such as increasing overseas expansion by Japanese companies, the problems that they and their overseas subsidiaries face in doing business internationally are also becoming more diverse in relation to various issues in the counterpart countries, including developing industrial infrastructure, improving transparency in administrative procedures and decisions and judicial decisions, simplifying and streamlining administrative procedures, increasing safety and protecting intellectual property rights, etc. Given this situation, it is vital to make appropriate requests to key figures in the governments of partner countries for improvements in areas where companies are facing issues relating to business environment in the partner country in question. When engaging in comprehensive discussions relating to such issues

concerning improvement of the business environment, there have hitherto been few cases in which a specific consultative body has been established, so the approach adopted involved either a company or an industry group discussing the issue individually with the government of the counterpart country, or the creation of a forum for various discussions between the governments of the relevant countries. Intergovernmental discussions included regular and ad hoc bilateral discussions concerning various matters concerning economic relations (dialogue on regulatory reform, regular talks between relevant ministries and agencies from both countries, etc.), which have been a fixture for some time, as well as discussions arranged when the opportunity arose. However, there were hopes that forums for close communication with government representatives – particularly those of countries with which Japan lacked adequate existing forums – would be established to improve the business environment in the counterpart countries, with a primary focus on the trade and investment environment between the two countries. Moreover, in terms of forums for the resolution of individual disputes that could be used at any time, procedures for the legal resolution of disputes had been developed in the WTO and other frameworks, but they were limited in that they did not cover matters in which compliance with the agreement was not in question.

Due to such considerations, most Japanese EPAs contain a chapter on the “improvement of the business environment,” which provides for the establishment of a “business environment subcommittee “as a forum for discussions regarding the development and improvement of the business environment in the partner country, in order to provide opportunities for the governments and companies of both countries to participate in intensive discussion concerning systems relating to trade and investment in the partner country, as well as their implementation status. The specific provisions vary from one EPA to another, but the functions of these committees broadly include: 1) conducting discussions regarding the improvement of the business environment; 2) reporting the findings of the subcommittee to each country and making recommendations; 3) reviewing each country’s implementation of those recommendations, where appropriate; 4) publishing its recommendations, where appropriate, and; 5) reporting its recommendations and its findings concerning the implementation and operation of provisions concerning the improvement of the business environment.

Representatives of both the public and private sectors are able to participate in these subcommittees, which allow the governments of both countries to raise all of the issues together, including problems faced by Japanese companies, problems that would be difficult for a single company to raise alone, and problems affecting an entire industry or all companies that have expanded into the counterpart country.

Meetings of these subcommittees within the frameworks of the Japan-Mexico EPA and the Japan-Thailand EPA were held in FY2013. It seems likely that holding annual meetings within frameworks under an even wider range of EPAs will help to put in place a better business environment.

The following provides an overview of the committees established within the frameworks of the Japan-Mexico EPA and the Japan-Thailand EPA that met during FY2013.

(1) Japan-Mexico EPA

(A) The significance of establishing a mechanism for improving the business environment

The Japan-Mexico EPA was Japan's first full-scale EPA covering all areas. Japan's first Committee for the Improvement of the Business Environment was established within this framework as a forum for considering various problems concerning trade and investment activities and identifying solutions together, with the involvement of representatives of the public and private sectors of both countries. This business environment improvement mechanism is a unique element in Japan's EPAs and is almost without parallel in other FTAs. In particular, one of its major features is the fact that the selection of the problems raised and the presentations to representatives of the government of the counterpart country are basically carried out at the initiative of the private sector representatives. In other words, it offers a mechanism with direct benefits for private sector companies.

Before the establishment of the Committee for the Improvement of the Business Environment, Japan's relationship with Mexico offered only very limited opportunities to lobby the Mexican government for the resolution of trade and investment problems faced by Japanese companies. One of the characteristics of the Mexican administration is that only a few government officials are involved in the decision-making process, so bottom-up decision-making does not take place, as a general rule. Accordingly, the Committee for the Improvement of the Business Environment has functioned extremely effectively as a means of pointing out problems and the factors behind them to relevant high-ranking officials in the Mexican government, as well as petitioning them directly for their resolution. The Mexican government is fundamentally pro-business and has actively sought to attract foreign capital to upgrade the nation's industry, especially in the motor vehicle sector. As such, it has taken seriously the various problems raised by the Committee for the Improvement of the Business Environment, which is a major reason why this committee's deliberations have resulted in examples of success. Furthermore, through participation in the Committee for the Improvement of the Business Environment, representatives of Japan's private sector companies have been able to build up networks of connections with high-ranking officials in the Mexican government, which has had the secondary effect of improving communication with the Mexican government during subsequent business development efforts.

As a pioneering example, the Committee for the Improvement of the Business Environment with Mexico became the touchstone for Japan's EPAs, and Japan included a business environment improvement mechanism or equivalent mechanism in almost all of the EPAs that it concluded thereafter.

(B) Specific outcomes

The first meeting of the Committee for the Improvement of the Business Environment with Mexico was held in April 2005, immediately after the Japan-Mexico EPA entered into force. Since then, it has met more or less every year. Its seventh and most recent meeting was held in August 2013. As the primary objective is to tackle business-related problems faced by Japanese companies in Mexico, all of its meetings have been held in Mexico City, to make it easier for high-ranking officials

in the Mexican government to attend. The most senior officials present from the Mexican side are basically those at the vice-ministerial level.

The diverse issues raised by the Japanese side to date include security, standards and certification, intellectual property, tax administration and customs clearance, immigration control, and tourism. Security was cited by Japanese companies with bases in Mexico as the biggest issue they faced there. In response to Japanese requests, the public security authorities held seminars for Japanese companies about security measures, provided information about public security officials and how to contact them, and put up Japanese language warning notices at airports. In the field of standards and certification, an equivalence-based certification system for medical equipment registered in Japan was established in Mexico, in response to Japanese requests. This has since been used to expand marketing channels for some Japanese-made medical equipment in the Mexican market. In the intellectual property field, Japan requested that measures to eradicate counterfeit goods be beefed up, to protect the trademark rights of Japanese products in Mexico. As a result, the Mexican authorities launched a system under which they take the initiative in measures to combat counterfeit goods, without individual companies having to file a lawsuit. In the area of tax administration and customs clearance, Japan had previously repeatedly requested improvements to the complex corporation tax system; Mexico has now made those improvements, thereby streamlining the tax system. In the fields of immigration control and tourism, Japanese language immigration control cards and customs declaration forms have been made available, in response to requests from Japan.

Thus, the Committee for the Improvement of the Business Environment with Mexico has already achieved concrete results, generating many improvement measures in response to Japanese requests about various problems, mainly those relating to investment activities.

(2) Japan-Thailand EPA

The chapter on cooperation in the field of enhancing the business environment (Chapter 7) in the implementing agreement of the Japan-Thailand Economic Partnership Agreement prescribes the establishment of Sub-Committees on Enhancement of the Business Environment and stipulates that a liaison office shall be designated as a point of contact for requests, etc. from local subsidiaries.

Meetings of the Sub-Committees on Enhancement of the Business Environment are held with the participation of the Japanese government (MOFA, METI, and the Embassy of Japan in Thailand), JETRO's Bangkok office, the Japanese Chamber of Commerce, Bangkok, and the Thai government (the Investment Committee and relevant ministries, agencies, and organizations involved with matters raised by the Japanese participants). The first meeting was held in Bangkok in September 2008 and subsequent meetings have been held every year or so.

Most recently, the fifth meeting was held in Bangkok on November 6, 2013, when the discussion covered a wide range of points. For example, when the Japanese side requested improvements to the information provided regarding measures to combat floods, the Thai side announced that it intended to improve the information provided on the English version of its website. In the intellectual property field, when requests were made for efforts to eliminate delays in the examination of patents, etc. and to

upgrade legislation, the Thai side stated that it intended to use cooperation based on the Patent Prosecution Highway to achieve improvements regarding the problem of examination delays, and that work was already underway in the area of legal reform. In response to Japanese requests concerning upgrades to the ports of Bangkok and Laem Chabang, the Thai side stated that it was working on eliminating congestion on the roads and bolstering rail transport. In addition, Japan has made requests concerning such matters as the relaxing of restrictions on foreign investment under the Foreign Business Act, as well as customs procedures, labor policy, and steel policy. Moreover, the Thai side has submitted requests and proposals concerning cooperative projects being undertaken by Japan and Thailand in the fields of steel, motor vehicles, and textiles.