



Department for  
International Trade



# The United Kingdom's Future Trading Relationship with Japan

Presented to Parliament

by the Secretary of State for International Trade

by Command of Her Majesty

October 2020





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## Introduction

1. This report explains the Government's proposed free trade agreement that will underpin the United Kingdom's ("UK") trade relationship with Japan now that the UK has left the European Union ("EU") to become an independent trading nation.
3. The UK's current trading relationship with Japan is governed by the Economic Partnership Agreement between the European Union and Japan (the "EU-Japan Agreement"). The EU-Japan Agreement entered into force in February 2019.
4. The Agreement between the United Kingdom of Great Britain and Northern Ireland and Japan for a Comprehensive Economic Partnership (the "UK-Japan CEPA") is based on the EU-Japan Agreement with enhancements that go beyond the EU-Japan Agreement, providing UK business with additional benefits in a range of areas.
7. At the point at which the EU-Japan Agreement ceases to apply to the UK, the UK-Japan Agreement can enter into force immediately, subject to the completion of domestic legal requirements and processes and an exchange of diplomatic notes between the Parties.
8. This report gives details of, and explains the reasons for, any significant differences or enhancements between the trade-related provisions of:
  - a. the UK-Japan CEPA; and
  - b. the EU-Japan Agreement.
6. The report first sets out the general drafting changes necessary across all the UK's continuity trade agreements and which have no significant impact on the UK's current trade relationships. It then considers Articles of the UK-Japan CEPA, in turn explaining any significant differences or enhancements between the trade-related provisions of the UK-Japan CEPA and the corresponding provisions of the EU-Japan Agreement. To assist the reader, some discussion of the economic impacts has been included where appropriate. This report focuses solely on the changes made to the trading arrangements between the UK and Japan when the UK ceases to be bound by the EU-Japan Agreement and the UK-Japan CEPA enters into force. Any wider economic impacts resulting from the UK's exit from the EU or the nature of the UK-EU free trade agreement have been excluded from this report.

## Resources

1. This report is intended to aid businesses, consumers and parliamentarians in understanding any significant differences made to the UK's trade relationship with Japan, by the UK-Japan CEPA and the reasons for any changes, and their impact.
2. Should you wish to view the EU- Japan Agreement as originally published, it can be found online on the [European Commission's website](#). You can also find the EU-Japan Mutual Recognition Agreement referred to below on the [European Commission's website](#).
3. More detail, including decisions of the Joint Committee established under the EU-Japan Agreement can be found on the [EUR-Lex website](#). The consolidated text is not an authoritative version of the EU-Japan EPA but will assist readers to understand how the Agreement has been amended since its entry into force.

4. Should you wish to view the full text of the UK-Japan CEPA, it will be laid in Parliament alongside an Explanatory Memorandum as part of the UK's treaty ratification process in accordance with the Constitutional Reform and Governance Act 2010. The text will also be available on GOV.UK. A full impact assessment for the UK-Japan CEPA will also be published prior to entry into force of the agreement.



# Economic Background

## Trade between the UK and Japan

5. This section provides a country-specific background analysis of trade between the UK and Japan.
6. Japan is the UK's 11<sup>th</sup> largest trading partner (4<sup>th</sup> largest non-EU trading partner) accounting for 2.2% of total trade. Total trade in goods and services between the UK and Japan was £31.6 billion in 2019.<sup>1</sup>
7. In 2019, UK exports to Japan were £15.2 billion, making it the UK's 11<sup>th</sup> largest export partner (accounting for 2.2% of all UK exports). UK imports from Japan were £16.3 billion making it the UK's 11<sup>th</sup> largest import source (accounting for 2.3% of all UK imports).

Table 1: Trade between the UK and Japan, 2019 (£ billion)

	Trade in goods	Trade in services	Total trade
UK exports to Japan	7.3	8.0	15.2
UK imports from Japan	9.7	6.6	16.3
Total trade	17.0	14.6	31.6

Source: ONS (2020) UK total trade: all countries, non-seasonally adjusted (accessed 26<sup>th</sup> August 2020)

8. Using ONS data, Table 2 shows in 2019 the top goods exported to Japan were mechanical power generators (such as turbines, engines and generators) (£1.2 billion) and cars (£1.1 billion).<sup>2</sup> The UK's top goods imported from Japan were cars (£1.5 billion) and mechanical power generators (£1.1 billion).

Table 2: Top 3 UK goods exports to and imports from Japan, 2019 (by 2-digit SITC, £ billion)

Top 3 goods exported to Japan	Value	Top 3 goods imported from Japan	Value
Mechanical power generators	1.2	Cars	1.5
Cars	1.1	Mechanical power generators	1.1
Medicinal & pharmaceutical products	0.8	Electrical goods	0.8

Source: ONS Trade in goods: country-by commodity exports; ONS Trade in goods: country-by commodity imports.

9. In 2019, the UK exported £8.0 billion in services to Japan and imported £6.6 billion in services. Table 3 shows that in 2019 financial services was the largest UK service exported to Japan, valued at £4.2 billion, with 'other business services' the second largest UK service.<sup>3</sup> 'Other business services' captures professional services, including auditing, accounting and legal services. Intellectual property was the largest UK service imported from Japan, valued at £2.5 billion, with financial services the second-largest import.<sup>4</sup>

Table 3: Top UK services exports to and imports from Japan, 2019 (£ million)

<sup>1</sup> [ONS \(2020\), UK total trade: all countries, non seasonally adjusted](#), for total trade and rankings

<sup>2</sup> [ONS Trade in goods: country-by commodity exports; ONS Trade in goods: country-by commodity imports](#)

<sup>3</sup> [ONS, UK trade in services by partner country, non-seasonally adjusted \(2020\)](#)

<sup>4</sup> Trade data on Intellectual property (IP) services captures 'Franchise and trademarks', 'Outcomes of research and development', 'Distribution of computer software' and 'Distribution of audio-visual and related products'. These are different to services supplied in support of IP such as legal services or graphic design.

Top 5 UK service exports to partner, 2019	Value	Top 5 UK service imports from partner, 2019	Value
Financial	4,216	Intellectual property	2,470
Other Business Services	1,645	Financial	2,404
Travel	438	Other Business Services	1,154
Telecommunications, computer and information services	407	Transportation	264
Intellectual property	375	Travel	221
Total	7,987	Total	6,615

Source: ONS (2020). UK trade in services by partner country, non-seasonally adjusted (accessed 25<sup>th</sup> August 2020)

10. Trade with Japan is integral to UK jobs and businesses. In 2018, around 9,500 VAT registered businesses, employing 2.4 million people, exported £6.3 billion worth of goods to Japan. Around 6,700 VAT registered business, employing 2.5 million people, imported £9.9 billion worth of goods from Japan.<sup>5</sup> As these figures only include businesses trading in goods, they are likely to underestimate the total number of businesses trading with Japan.

## Economic impact of the UK-Japan CEPA

11. The potential benefits from free trade agreements (FTAs) include better jobs, higher wages, more choice and lower prices for all parts of the UK.

## Potential loss to UK if the UK-Japan CEPA is not brought into force

12. Not being able to ratify the UK-Japan CEPA would result in the re-imposition of many tariffs, returning to Most Favoured Nation (MFN) treatment with Japan. The possible benefits derived from trading under preferences within the EU-Japan Agreement, such as increases in trade flows, may then be reversed.
13. The size of the impact of not ratifying the UK-Japan CEPA would depend on the responsiveness of trade flows to increased costs brought about by the loss of provisions within the Agreement.

## Immediate impact if not brought into force

### Impact of tariffs under current MFN rates<sup>6</sup>

14. Much international goods trade takes place in products for which MFN rates are already zero. However, FTAs provide additional opportunities by reducing tariffs in products where this is not the case. If the UK-Japan CEPA could not be relied upon, tariffs between the two countries would risk reverting to MFN rates for all trade. This would lead to an increase in duties on some UK exports to and imports from Japan.
15. To estimate the potential impact of losing tariff preferences, assumptions have to be made. It is assumed that all current trade between the UK and Japan occurs at the negotiated preferential tariff rate and current patterns of trade remained unchanged in the future, and ignores the effect of plurilateral agreements and tariff rate quotas. Under these assumptions, reverting to the UK's current MFN tariff rates would result in an implied annual increase in

<sup>5</sup> [HMRC UK trade in goods by business characteristics 2018](#)

<sup>6</sup> Tariff schedules used in this Parliamentary Report are the applied tariff rates, not bound tariff rates.

import duties of up to £84.8 million in the short term and £137.1 million in the long term.<sup>7</sup> The annual increases in duties on UK exports would be around £30.4 million in the short term and £34.9 million in the long term.

16. However, these estimates assume that all tariff preferences offered under the current agreement are fully utilised by exporters. This is unlikely to be true. In 2019, DIT estimates show that 29% of the UK's eligible goods imports from Japan (defined as those which occurred in tariff lines where a preferential rate was offered under the agreement) actually utilised the tariff preferences.<sup>8</sup> However, it is worth noting that agreements often have low utilisation rates soon after their entry into force while traders become accustomed to the new rules.
17. The total duties which would in fact be charged on exports and imports would depend on how quantities and prices of traded products adjusted to the imposition of tariffs. If UK producers were not previously utilising the preferential rates or producers and consumers changed their behaviour in response to higher tariffs, this cost would be lower than estimated above. In view of the low preference utilisation at present, that is indeed likely to be the case, although as mentioned above, utilisation is expected to rise over time. The assumption that traders would not change their behaviour is strong, so this figure should be treated as an indicative estimate of the magnitude of the trade barrier.
18. In the absence of the agreement, the indicative estimates show that the largest potential increases in UK export duties would be for articles of apparel or clothing not knitted or crocheted (HS62) of around £3.7 million and plastic products (HS39) of around £2.7 million in the short term and long term. The largest potential increases in UK import duties, in the absence of the agreement, would be for vehicles, parts and accessories (HS87) of around £40.2 million in the short term and £88.4 million in the long term.<sup>9</sup>
19. Indicative estimates of implied additional tariff duties are provided to give a sense of scale of possible additional costs of trade. Tariff duties are transfers, where the cost to business is equal to the benefit felt by the UK Exchequer and the Japanese government which could collect more tariff revenue. However, depending on businesses' response to the change in duties, there could be wider effects of increased costs of trade, including negative impacts on consumer choice, prices, and ultimately economic growth and welfare. Estimates of implied additional duties therefore do not constitute an estimate of the overall impact.

## Businesses

20. Additional duties that would be incurred in the absence of the agreement could be absorbed by either UK or Japanese businesses, passed on to consumers, or existing trade patterns could be interrupted. This could impact UK competitiveness, leading to disruptions in supply chains and job losses in the short term.

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<sup>7</sup> Short term refers to 2021. Long term refers to the end of the liberalisation period for the UK and Japan schedules which are 2033 and 2038 respectively. Source: DIT Internal analysis (HMRC 2019 and Eurostat). Implied additional duties are calculated using the difference in MFN and preferential tariff rates and the 2019 value of trade for each product at CN8 (for the UK) or tariff-line (for Japan) level. Different approaches and data sources for this analysis are likely to yield different results. Export calculations also assume trade is not eligible for relief under inward/outward processing and specific plurilateral agreements such as those covering civil aviation and pharmaceuticals, nor do they account for TRQs. Import calculations account for inward/outward processing and plurilateral agreements, but do not account for TRQs.

<sup>8</sup> DIT internal analysis using 2019 Eurostat data. <http://epp.eurostat.ec.europa.eu/newxtweb/>

<sup>9</sup> Short term refers to 2021. Long term refers to the end of the liberalisation period for the UK and Japan schedules which are 2033 and 2038 respectively. HS87 covers vehicles other than railway or tramway rolling stock (e.g. cars, motorcycles, tractors etc.) and parts and accessories.

21. UK businesses that rely on imports as part of their supply chains may be affected if import prices rise, including exporters that rely on Japanese inputs to export goods to the rest of the world. In 2016 (latest data), around 15.4% of the value added in UK's total world exports reflected imports from abroad.<sup>10</sup> Japan accounted for 0.4% of the total value added in the UK's gross exports. We would expect these impacts to be relatively small overall, but noticeable for specific companies and/or in certain regions.

## Consumers

22. In the absence of the agreement, imported products could be more expensive for consumers if retailers pass on additional duties to consumers through increases in domestic prices. This could disproportionately affect certain groups of consumers. Higher income groups spend more of their income on imported goods, so it may be expected that they benefit from the largest savings, but lower income groups spend a higher proportion of their income on imported essential goods, so the overall picture is complex. Consumers might also see a reduction in choice of products available. Given the small share of UK-Japan trade in total UK trade, this impact may be relatively small overall, but could be noticeable on specific product lines.

## Longer term impact if not brought into force

23. As set out in the Department's Scoping Assessment and Final Impact Assessment of the UK-Japan CEPA, a trade agreement with Japan is expected to benefit the UK through an increase in Gross Domestic Product (GDP), trade, wages. Output is expected to increase for all regions and nations of the UK.
24. The scale of the macroeconomic impacts of the UK-Japan CEPA is estimated using external Computable General Equilibrium (CGE) modelling undertaken on behalf of the Department for International Trade by CEPR (Professor Joseph Francois).<sup>11</sup>
25. The modelling shows that in the long run, UK GDP could increase by 0.07% compared to the UK not having a trade agreement in place. This is equivalent to £1.5 billion compared to its 2019 level.<sup>12</sup> The agreement could also increase UK-Japan trade by £15.7 billion and UK workers' wages by £800 million.<sup>13</sup> All regions and nations of the UK are expected to benefit economically from the UK-Japan CEPA, with London, the East Midlands and Scotland expected to expand output the most. Annex B provides further detail on the model structure, methodology and derivation of modelling inputs.
26. In the long run, the UK would forgo the longer-term benefits outlined above that the UK-Japan CEPA would have brought to the UK.

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<sup>10</sup> [OECD Trade in Value Added database \(Origin of Value Added in Gross Exports\), December 2018](#)

<sup>11</sup> Joseph Francois: Professor of International Economics, University of Bern. Managing Director, World Trade Institute, Director, European Trade and Study Group. Director FP7 Pronto. Research Fellow, Centre for Economic Policy Research. The CGE model used for this assessment is consistent with the modelling used in the Scoping Assessment for Japan (May, 2020).

<sup>12</sup> DIT Internal Analysis. Based on external CGE analysis.

<sup>13</sup> DIT Internal Analysis. Based on external CGE analysis, compared to 2019 level.

# Explanation of this Agreement, including any Significant Differences or Enhancements between the UK-Japan CEPA and the EU-Japan Agreement

27. This section provides an explanation of changes in the UK agreement with Japan as compared to the EU agreement with Japan.

## Institutional, General and Final Provisions

### Removal and replacement of references to the EU

28. Where necessary, references to the “European Union”, “the European Community”, the “EU” “EU Party”, and “Member States” are replaced by the “United Kingdom”. Similarly, references to EU institutions have been replaced with appropriate references to the equivalent institutions in the UK.

### Territorial Application

29. Territorial application provisions in a treaty outline the territory to which the treaty applies and how it applies to them. In the EU-Japan Agreement, the relevant provisions define the territorial application of the Agreement by reference to the EU Treaties and EU legislation. In the UK-Japan CEPA, Article 1.3. clarifies that the Agreement applies to the territory of the United Kingdom and provisions related to customs matters, and the Protocol on Mutual Recognition, also apply to the Crown Dependencies (Isle of Man, Jersey, Guernsey).

30. The UK-Japan CEPA also includes a mechanism which will allow for extension of provisions in the agreement to the Crown Dependencies and Overseas Territories in Article 1.3.5 at the point of ratification of the agreement or any time thereafter. The Department for International Trade (“DIT”) is working with the Crown Dependencies and Overseas Territories, including Gibraltar, to identify when and in which areas such extension will be possible.

### Continuation of Time Periods

31. Certain provisions of the EU-Japan Agreement provide for a transitional period, requiring a party to complete an action within a certain timeframe, but which may not yet have been fulfilled under the conditions of the agreement. These periods have generally been amended in the UK-Japan CEPA so that the agreement reflects the remaining time in which the obligation must be fulfilled, including removing reference to them when they have been fulfilled. In some instances, such as Article 2.28 (Review, consultations and temporary suspension of self-certification), both Parties have agreed to restart the time period as agreed in the EU-Japan Agreement.

### Institutions and Committees

32. Most of the institutional provisions and bodies provided for in the EU-Japan Agreement are incorporated and retained in the UK-Japan CEPA, although some modifications have been made to the composition and function of these bodies to ensure they operate appropriately in a bilateral context.

33. A new Working Group on Trade and Women's Economic Empowerment is established by Article 23.4.2 to oversee delivery of the new Trade and Women's Economic Empowerment Chapter. This provides a forum within which the Parties can undertake cooperative activities and provides opportunity for monitoring and review as may be agreed by the Parties.
34. The EU-Japan Agreement established a Committee on Cooperation in the Field of Agriculture, whereas the UK-Japan CEPA will facilitate discussion through the establishment of a new Working Group on Cooperation in the Field of Agriculture.

## **Amendment Clauses**

35. Amendment clauses set out the process that must be followed if the parties agree to amend the provisions of the agreement after it enters into force. Though parties to an agreement are generally free to amend it as they deem necessary, amendment clauses serve to make the process clearer and more transparent.
36. Amendment provisions vary from agreement to agreement. Pursuant to the principle of continuity, the UK-Japan CEPA retains the amendment mechanisms provided for in the EU-Japan Agreement.
37. Amendments agreed by the Parties under Article 24.2.1, in the UK, are subject to the Parliamentary scrutiny procedures set out in section 20 of the Constitutional Reform and Governance Act 2010 ("CRaG").
38. Trade agreements require regular review during implementation that can result in amendments to ensure that they continue to operate effectively. To ensure that more technical amendments can be done efficiently, it is common to provide for such amendments to be made by decisions of the Joint Committee. This approach is reflected in Article 24.2.3, which enables the Joint Committee to decide to amend a limited list of Annexes and Appendices set out in Article 24.2.4. Such decisions of the Joint Committee are binding on the Parties and are not, in the UK, subject to the Parliamentary scrutiny procedures in CRaG. Such decisions of the Joint Committee are binding on the Parties and are not, in the UK, subject to the Parliamentary scrutiny procedures in CRaG because acts of the kind specified in section 25(3) and (4) of CRaG are not required.

## **Entry into Force**

39. Entry into force provisions specify the date from which the terms of the agreement will bind the parties. Existing entry into force provisions have been replaced with new provisions to ensure that when the EU-Japan Agreement ceases to apply to the UK, the UK-Japan CEPA enters into force as swiftly as possible. For the UK-Japan CEPA to enter into force, the Parties must have completed their domestic legal requirements and procedures and identify the date for entry into force in an exchange of diplomatic notes. In the UK, before an agreement subject to ratification (as that term is defined domestically) may be formally ratified, it must be laid before Parliament under CRaG.

## **Protocol on Ireland / Northern Ireland**

40. The agreement includes a new clause relating to the Protocol on Ireland/Northern Ireland (the Protocol) at Article 1.9.5.

41. Article 1.9.5(a) provides that in the event of an inconsistency between the Protocol and the UK-Japan CEPA, the UK-Japan CEPA shall not prevent a Party from taking measures relating to their commitments under the Protocol. This makes clear that the UK-Japan CEPA is legally coherent with the Protocol and the UK's commitments under the Protocol.
42. Article 1.9.5(b) provides for information sharing and consultations between the Parties if such measures are taken, enabling the Parties to seek a mutually acceptable solution. The ability to take measures in accordance with Article 1.9.5(a) is not conditional on consultations having been held or a mutually acceptable solution having been found.

## **Security Exceptions**

43. A change was made to Article 1.5 to increase the scope of the Security exception, allowing the UK Government to protect legitimate domestic security priorities.

# Chapters, Annexes and Protocols

## Trade in Goods

44. Goods chapters in trade agreements set out the treatment and the level of access to the domestic market granted to goods of the respective parties. Such provisions can include setting tariff levels and quotas on various products and establishing agricultural safeguards. Commitments on tariffs for the overwhelming majority of trade between the UK and Japan have, other than in those cases detailed below, been transitioned without changes. This means that tariff preferences set out in the agreement for products being traded between Japan and the United Kingdom will be almost identical to those between Japan and the EU.

45. In the EU-Japan Agreement, on the import side:

- 47% of tariff lines have UK global tariff (UKGT) MFN rates set at 0%, which covers 61% of UK goods imports from Japan by value.
- 49% of further tariff lines are liberalised at entry into force, which covers 20% of UK goods imports from Japan by value.
- 3% of tariff lines are staged to zero, this covers 19% of UK goods imports from Japan by value.
- In summary, in the long term more than 99% of UK tariff lines and trade will be fully liberalised.

On the export side:

- 39% of tariff lines have MFN rates currently set at 0%, which covers 88% of UK goods exports to Japan by value.
- 45% of tariff lines are reduced to zero at entry into force, which covers 10% of UK goods exports to Japan are in products that Japan liberalised at entry into force.
- 11% of tariff lines are staged, which covers only 1% of UK goods exports to Japan by value.<sup>14</sup>
- In summary, in the long term 94% of Japanese tariff lines and 99% of trade will be fully liberalised.

46. In order for the tariff preferences in the UK-Japan CEPA to keep pace with those in the EU-Japan Agreement the tariff treatment descriptions in Annex 2-A have been altered to reflect the difference in the entry into force date of the UK-Japan CEPA. This means that, other than in those cases detailed below, there will be no change of the tariff rates available to exporters under the UK-Japan CEPA compared to if the EU-Japan Agreement had continued to apply to the UK.

47. In the UK's tariff schedule, 21 industrial goods tariff lines which have duties eliminated in the UK Global Tariff schedule also have their duties eliminated in the UK-Japan CEPA tariff schedule. Tariffs on two tariff lines covering electrical control units often used in cars were also eliminated at entry into force, instead of in 2024 in the EU-Japan Agreement.

48. In relation to tariff treatments which include the Entry Price System or Agricultural Component, a change was made to Annex 2-A Part 2. This replaces references to the relevant EU regulations, which will not be retained in UK law, with references to the UK's WTO Goods Schedule. The UK's WTO Goods Schedule sets out the bound duties that

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<sup>14</sup> Based on historic trade flows: 2017-18 averages for exports; 2019 for imports.



apply for these tariff treatments.

49. In Japan's tariff schedule, nine tariff lines covering certain leathers and hides were improved to become duty free in 2026 rather than in 2028 under the EU-Japan Agreement. One tariff line covering industrial ethanol, which became duty free in 2028 under EU-Japan Agreement had duties immediately eliminated.
50. The Trade in Goods chapter text remains very similar to the text in the EU-Japan Agreement. Some provisions no longer relevant given the UK is not part of the EU Customs Union have been removed. The five-year review in Article 2.8 has been extended to cover all agricultural products and the terms of reference for the Committee on Trade in Goods have been expanded.

### Tariff Rate Quotas

51. Tariff-rate quotas (TRQ) allow a certain volume of a product to enter the market at a zero or reduced tariff rate. Imports above the quota are subject to a higher tariff rate – usually the MFN rate. The EU-Japan Agreement includes 25 TRQs covering a range of different agricultural products although in the 2019 financial year, the UK utilised only five of the TRQs making up less than 0.1% of the UK's overall exports.<sup>15</sup>
52. In the UK-Japan CEPA, the UK will continue to benefit from the same preferential tariff rate as in the EU-Japan Agreement for 10 TRQs<sup>16</sup> where the UK has identified an interest, for any surplus TRQ volume not utilised by the EU in the previous year. Based on historical trade volumes, this is not expected to have a significant impact on trade flows. For 15 of the EU-Japan TRQs the UK will no longer have access. 14 of these TRQs had no utilisation in the 2019 financial year and one had minimal usage (certain butter products). Japan also provided a Ministerial side letter stating their support for the UK's quick accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and set out their intention to provide meaningful market access to the UK, including for the TRQs already established in that agreement which cover very similar products to those in the EU-Japan Agreement (see Annex A of this document). Future UK membership of CPTPP will open up 11 key Pacific markets for exporters, reducing tariffs for UK business (95% of goods traded between members are tariff-free).
53. Under the UK-Japan CEPA the paperwork requirements for accessing the preferential rate are lower than the EU-Japan Agreement.
54. Instead of receiving continued access to a country-specific TRQ for malt, Japan provided a Ministerial side letter (see Annex A of this document) guaranteeing that the UK will continue to have access to Japan's duty-free global TRQ which, unlike a country-specific TRQ, does

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<sup>15</sup> Calculations based on data covering April 2019 and March 2020 from JP customs (<https://www.customs.go.jp/kyotsu/kokusai/toukei/>). Please note this was shortly after EIF of the agreement so the figure might be expected to rise in future.

<sup>16</sup> A full list of the products covered by TRQs under the UK-Japan CEPA can be found in Annex 2-A, Part 3 Section B of the UK-Japan CEPA. To summarise the UK has maintained access to products covered by the following TRQs of the EU-Japan Agreement, though note the more restrictive TRQ treatment is often only for a narrow subset of the products covered by the description: TRQ 1 – Wheat products; TRQ 2 – Mixes and doughs and cake mixes; TRQ 3 – Food preparations made primarily of wheat; TRQ 8 – food preparations of barley; TRQ 11 – Coffee, tea mixes, food preparations and doughs; TRQ 12 – Food preparations; TRQ 15 – Food preparations containing more than 50 per cent of sucrose, and cocoa powder; TRQ 19 – Food Preparations containing cocoa; TRQ 20 – Food Preparations containing cocoa (for the preparation of chocolate); TRQ 25 – Cheeses.

not require additional documentation providing evidence of originating status.

55. Japan has also provided a Ministerial side letter committing to work closely with the UK to ensure the effective operation of the new scheme such that the UK receives unfettered access to any under-utilised EU quota for the 10 TRQs covered by the scheme (see Annex A of this document).

## **Agricultural Safeguards**

56. Agricultural safeguards are intended to respond to unforeseen volatility in certain agricultural industries in order to protect domestic markets. The agricultural safeguards in the EU-Japan Agreement cover imports from the EU into Japan and cover beef, pork, processed pork, whey, oranges and racehorses. There are no agricultural safeguards for imports from Japan into the EU. The agricultural safeguards each expire after a certain number of years. These measures have been transitioned into the UK-Japan CEPA. The agricultural safeguards applied by Japan have been transitioned in a way that allows them to function in materially the same way as they did when the EU-Japan Agreement applied to the UK.
57. For Japan's safeguards on beef, pork, processed pork, whey and oranges, Japan will aggregate imports of relevant products from the UK with imports from the EU for the purposes of applying the relevant safeguard to the UK. Japan may trigger the safeguard to apply to the UK only if the combined total of imports from the UK and the EU exceed the trigger volumes determined in the EU-Japan Agreement for that given safeguard period. As a result, the UK will be no worse off than it was when the EU-Japan agreement applied to the UK. For racehorses, the safeguard (which is price triggered) is identical in design and function as the safeguard in EU-Japan Agreement. All the safeguards are synchronised in terms of timing with those in the EU-Japan Agreement so that when the safeguards expire in the EU-Japan Agreement, they also expire in the UK-Japan CEPA.

## **Customs and trade facilitation**

58. The UK-Japan CEPA replicates customs provisions in the EU-Japan Agreement. Commitments on customs and trade facilitation for both the UK and Japan have, other than in those cases detailed below, been transitioned without changes.
59. A technical amendment was made to Article 4.14 (Committee on Rules of Origin and Customs-Related Matters). The amendment removes the requirement to hold joint meetings with the Joint Customs Cooperation Committee (JCCC) established by the Customs Mutual Assistance Agreement (CMAA), a bilateral customs arrangement being negotiated separately to the UK-Japan CEPA. The JCCC under the EU CMAA includes a number of different government bodies in addition to customs authorities. The UK CMAA will only include customs authorities and not the wider range of government bodies participating in the Committee on Rules of Origin and Customs-Related Matters. Retaining a requirement to hold joint meetings between the Committee on Rules of Origin and Customs-Related Matters and the JCCC would therefore have been overly restrictive.

## Rules of Origin

60. In FTAs, Rules of Origin are used to determine the economic nationality of a good. In order to qualify for preferential tariff rates, a good must “originate” in one of the parties to the agreement. Trade agreements may also allow materials originating and/or processing in a country other than the exporting Party to count towards meeting the specific origin requirements for preferential treatment, a process known as “cumulation”<sup>17</sup>.
61. There are two categories relevant to determining whether goods “originate” in the exporting country for the purposes of a free trade agreement:
1. Wholly obtained – These are goods that are wholly obtained or produced entirely in a single country. Examples include mineral products extracted from the soil and live animals born and raised there.
  2. Substantial transformation – These are goods that are made from materials which come from more than one country, and the origin is therefore defined as that of the country where the goods were last substantially transformed. This can be determined in three ways:
    1. Value added – This type of rule requires that a particular proportion of the final value of the product be added in the exporting country.
    2. Change in Tariff Classification (“CTC”) – This type of rule requires that the final product be sufficiently different from the imported materials so that it moves to a different tariff classification altogether.
    3. Specific processing or manufacturing – These rules typically apply where value added or CTC rules may not adequately determine originating status, and where specific processes are required to meet originating criteria.
62. As a member state of the EU, and during the Transition Period, all UK content has been considered as “originating” in the EU, and UK exports are designated as “EU origin”. This means that originating materials from, and processing in, the UK and the rest of the EU can be used interchangeably in bilateral trade with existing EU FTA partners. This will no longer be the case when existing EU FTAs stop applying to the UK. At this point, the designation of UK exports will shift from “EU” originating to “UK” originating and EU content will (unless specific provisions are made in new agreements) no longer count towards meeting the origin requirements for preferential treatment for either party. This would have implications for goods traded between the UK and Japan.
63. In order to address these implications and to ensure continuity for businesses, the UK and Japan have agreed that EU materials and processing can be recognised (i.e. cumulated) in UK and Japan exports to one another for all products that currently rely on EU inputs to access preferential tariffs. The products covered by this arrangement are ones that are economically significant for the UK and ensure continuity for those businesses that currently use inputs from the EU in their exports to Japan. A list of all goods covered by this arrangement is contained in Annex 3-C of the Agreement.
64. The UK and Japan have also agreed a provision that seeks to ensure continuity for UK exports to the EU which contain Japanese inputs. If such an arrangement is also agreed

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<sup>17</sup> In the UK-Japan Agreement, this is referred to as “accumulation”, however, for the purposes of this report, the term “cumulation” has been used.

between the UK and the EU, then this 'diagonal cumulation' provision would allow UK manufacturers to continue using Japanese components to meet the rules of origin requirements for onward export to the EU. The cumulation provisions are set out in Article 3.5.

65. The UK-Japan CEPA replicates the requirements for wholly obtained (i.e. originating) products, contained in Article 3.3. On fishing vessels, the Agreement delivers continuity by allowing for vessel ownership by the UK and Japan, as well as the EU. This agreed provision (Article 3.3.2(c)) recognises the ownership structures that UK fishing vessels could currently operate under, namely part ownership by companies in the EU.
66. In terms of the Origin Procedures (Chapter 3, Section B), the UK-Japan CEPA in most cases replicates the provisions of the EU-Japan Agreement. However, some changes were made to make the UK-Japan CEPA more flexible and give either party the ability to make further changes which would be more facilitative for businesses.
67. The UK and Japan have also agreed certain changes to the Product Specific Rules contained in Annex 3-B. These changes go beyond the existing rules that are contained in the EU-Japan Agreement. For example, on various agriculture goods (such as pet food, sugar confectionary, baked goods), and other goods including certain textiles, the UK and Japan have agreed to remove certain restrictions from the rules contained in the EU-Japan Agreement. This will allow UK exporters of those goods to import key ingredients from other countries and use them in their exports to Japan. This opens up new opportunities for UK exporters that previously may have not been able to access the EU-Japan Agreement due to the strict rules for those goods.
68. In Article 3.17.4, the UK has negotiated a change to the period of validity for a statement on origin used for a single shipment. This now allows the importing party to set the validity of this statement for a period longer than the 12 months set in the EU-Japan Agreement, which will allow the UK to extend the period of validity. Article 3.22.2 was amended to state that a request for information when conducting a verification may be made either by the end of two years after importation, or by the end of 38 months after the statement on origin is made out, whichever is earlier. This places a practical limit on an extension of the validity period, which must be for a period of less than 38 months in order to allow a party to make a request for information under a verification. Japan requested the change to Article 3.22.2 in order to ensure consistency with their domestic record-keeping requirement.
69. The UK and Japan have agreed a change to the waiver limit, in Article 3.20.2, which waives the requirement to produce a proof of origin for goods below a certain monetary value. The EU-Japan Agreement previously stipulated the EU's waiver limits. To allow the UK greater flexibility in setting its own waiver limits, the UK and Japan have agreed that the limit may be set by the importing party and then communicated to the exporting party.
70. The UK-Japan CEPA has also gone beyond the EU-Japan Agreement in certain areas. The extended cumulation arrangement for a significant majority of goods will allow exporters to continue using EU content in their exports to Japan. The majority of product groups, comprising £688.9 million worth of UK exports (88% of all exports which attract MFN tariffs), will be eligible for extended cumulation. A further £88.2 million (11%) will see a change in their PSRs such as those listed in paragraph 73. The remaining £7.0 million (1% of goods) will retain the existing PSRs contained under the EU-Japan EPA and will also not

be included in the extended cumulation arrangement. These goods will still be able to benefit from bilateral cumulation between Japan and the UK.

71. Moreover, UK fishing vessels currently exporting under preference will be able to continue doing so, as a result of our negotiated outcome on the fishing vessel ownership requirements. We have also negotiated further market access than allowed for under the EU-Japan Agreement for certain agriculture and industrial goods, which will open up new opportunities in Japan for UK businesses.
72. Regarding origin procedures, the UK and Japan have agreed to measures that makes the UK-Japan CEPA easy and predictable to use. We have also agreed joint guidance that gives greater clarity on the importer's knowledge provisions contained in the agreement.

## **Technical Barriers to Trade**

73. Technical Barriers to Trade (TBT) articles in trade agreements cover aspects relating to regulations, standards and conformity assessment for goods. TBT provisions in FTAs play an important role in reducing non-tariff barriers for businesses, for example, through increasing the transparency of a trading partner's regulatory requirements.
74. TBT commitments in the EU-Japan Agreement have been transitioned in the UK-Japan CEPA, except in the cases detailed below where the UK and Japan agreed to build on the agreement, or where amendments were required to update the text. Continued regulatory cooperation between the UK and Japan will ensure that technical regulations and standards do not become unnecessary obstacles to trade. It will also ensure that rights for product testing and inspections on goods will be transitioned.
75. A new article on lot identification codes (Article 7.12) was incorporated into the TBT chapter. A lot identification code allows UK wine and spirits manufacturers to track and trace their products, and discourages counterfeit of high value products, such as Scotch Whisky. This Article requires the UK and Japan to exchange information, experiences and best practices regarding the prevention of the removal or deliberate defacement of lot identification codes for the supply of wine and spirits. The greater cooperation and increased ability of manufacturers to track and trace their products may have a positive economic impact, although it is not possible to quantify this due to lack of data.
76. The TBT chapter also incorporates new text concerning the Committee on Technical Barriers to Trade (Article 7.14) to facilitate cooperation with third countries, reflecting the interest on both sides in discussing support for developing nations.
77. Annex 2-C of the agreement which covers Motor Vehicles and Parts was amended to remove Article 19, paragraph f of the EU-Japan Agreement. This provision had the effect of reducing the time that either party had to wait before applying temporary remedies for non-compliance from 15 days to 10 days, and broadening the available remedies. It was agreed that neither Party would need this type of mechanism when both Parties have access to the standard dispute settlement mechanisms in the UK-Japan CEPA if needed.
78. Annex 2-D of the agreement which concerns Shochu has been amended to provide for sale of Shochu in a new 900ml bottle size. Single-distilled Shochu (commonly known as Honkaku Shochu) is an artisanal product and this will allow Japanese producers to sell in the UK in the traditional bottle size. Given the limited size of the UK market for Japanese spirits, this is not expected to have a significant economic impact.

79. Both Parties agreed to a replication of the Agreement on Mutual Recognition between the European Community and Japan (EU-Japan MRA), and to incorporate it as a Protocol to the UK-Japan CEPA. The Protocol on Mutual Recognition (MRA Protocol) will maintain trading arrangements between the Parties by reducing technical barriers to trade and facilitating market access. The MRA Protocol covers electrical products, good laboratory practice for chemicals, good manufacturing practice for medicinal products (human), telecommunications and radio equipment. This requires the Parties to recognise each other's inspection and audit systems, and waive batch testing of products on import into their territories. The MRA Protocol provides continuity of effect of the EU-Japan MRA.
80. The MRA Protocol requires both Parties to accept the results of conformity assessment performed by the other Party's designated Conformity Assessment Bodies (CABs), to show compliance with the first Party's requirements, and vice versa. This promotes trade by enabling exporters to obtain conformity assessment certification from CABs in their home market, which is recognised in the export market. As the MRA Protocol provides continuity of the EU-Japan MRA, it is not expected to have additional economic benefits beyond those of replication under the continuity approach.
81. This negotiation is an opportunity to bring these two important trade agreements together in a way that ensures clarity for businesses.

## **Sanitary and Phytosanitary measures (SPS)**

82. Sanitary and Phytosanitary ("SPS") provisions in trade agreements concern the application of food safety and animal and plant health regulations. SPS provisions in trade agreements build on the SPS obligations at the World Trade Organization ("WTO") and allow countries to set standards and regulations that allow for the protection of human, animal or plant life and health. SPS provisions in trade agreements can increase transparency in trading by allowing the recognition of equivalent measures in relation to health, and import requirements, including health certification.
83. The UK-Japan CEPA transitions commitments on SPS in the EU-Japan Agreement without change, except for the three amendments outlined below which reflect and support the UK's new status as an independent trading nation.
84. Article 6.3 (Definitions) of the UK-Japan CEPA has been amended to remove the possibility for the development of custom definitions and to only apply the definitions adopted by the World Trade Organization in the SPS Agreement and the Codex Alimentarius, the OIE and the IPPC. The changes made to Article 6.3 prevents potential inconsistencies that may otherwise have resulted from references to custom definitions and undefined international organisations and ensures the primacy of the WTO SPS Agreement for this chapter.
85. References to 'protected zones' in Articles 6.3 and 6.10 have been deleted, as this is EU-specific terminology.
86. Article 6.16 (Dispute Settlement) has been amended to make the entire SPS chapter no longer subject to the dispute settlement mechanism of the UK-Japan CEPA. Both Parties want to take all possible steps to ensure that any differences are resolved in an amicable and expedient way through regular conversations and technical consultations, as provided for within the SPS Chapter. Where Parties do have to seek a resolution through a dispute, any differences can be settled through the WTO dispute settlement system.

87. The above changes are expected to have no economic impact. The UK-Japan agreement does not compromise on the UK's high animal welfare, environmental protection and food standards.

## **Cooperation in the Field of Agriculture**

88. This chapter enables both the UK and Japan to promote further cooperation in the field of agriculture, including on sustainable agricultural practices. In the future, sustainable agriculture will continue to grow in importance and the UK is supportive of continued collaboration with Japan on this matter. This chapter also promotes cooperation around mutual trade in food and agricultural products between Japan and the UK, including facilitating the exchange of technical information on food safety. Helping to maintain high food quality is in the interests of producers and consumers in both Japan and the UK. The Chapter enables both Parties to cooperate on measures to improve the business environment for agriculture and foods in both countries.
89. The UK-Japan CEPA broadly replicates the EU-Japan Agreement commitments on Cooperation in the Field of Agriculture. In the UK-Japan CEPA, the UK has secured continued commitment to work with Japan to facilitate bilateral cooperation across these areas. The EU-Japan EPA established a Committee on Cooperation in the Field of Agriculture, whereas the UK-Japan CEPA will facilitate discussion through the establishment of a new Working Group on Cooperation in the Field of Agriculture.

## **Good regulatory practice and regulatory cooperation**

90. The UK-Japan CEPA replicates the effect of the EU-Japan Agreement commitments on Good Regulatory Practice and Regulatory Cooperation. This chapter provides for the Parties to be working together to prevent regulations becoming unnecessary barriers to trade, while respecting each Party's right to regulate in the public interest.

## **Transparency**

91. The transparency provisions within the UK-Japan CEPA ensure that businesses have clear and easy access to the rules and regulations of the Parties and that Parties can effectively make enquires as to each other procedures. The UK and Japan have maintained commitments from the EU-Japan EPA which provide necessary levels of transparency between Japan and the UK, for example regarding the publication of certain laws, regulations and procedures in English.
92. New wording has been added to the UK-Japan CEPA covering anti-corruption, which signals our shared ambition to combat the distorting effects of corruption on trade. The UK-Japan CEPA reinforces the obligations that the UK and Japan have in relation to Anti-Corruption and their efforts to eliminate bribery and corruption in international trade and investment by affirming the Parties adherence to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, and the United Nations Convention against Corruption.

## **Corporate Governance**

93. The UK-Japan CEPA replicates the effect of the EU-Japan Agreement commitments on Corporate Governance. This chapter requires the Parties to take measure to develop an

effective framework for corporate governance. A minor change was made to remove a footnote to Article 15.3.4 but this deletion is not expected to detract from the substance of the Article.

## **Trade in services**

94. Services provisions and corresponding annexes in trade agreements set out the treatment and the level of access to the domestic market that trade partners commit to grant each other's service suppliers and services. These obligations build upon the level of access and the treatment granted to all WTO members, whilst protecting governments' right to regulate the domestic markets.
95. Amongst the EU's FTAs with third countries, the content of the services provisions and depth of the market access offer vary considerably. The variety of services provisions have in some cases necessitated a bespoke approach to deliver continuity in services commitments between the UK and the third country. Some agreements have not required amendment whilst others have required technical alteration to their text to deliver continuity of effect. Where such technical changes have been necessary the effects of the original market access offer have been replicated as far as possible.
96. Services make up around 53% of the UK's exports to Japan, worth £7.5 billion in 2018. Continuity for cross-border trade in services (Section C) and key sectoral elements, including postal and courier services, telecommunications and international maritime transport services (section E, sub-sections 3, 4 and 6) have been achieved in the UK-Japan CEPA with only minor changes. A change was also made to Article 8.56 to make clear that that the provision should be subject to parties' domestic laws and regulations, recognising the relevance of national security considerations. Services provisions and corresponding annexes have been subject to cross-cutting changes outlined below. We have transitioned the services provisions and corresponding annexes into the UK-Japan CEPA, ensuring that text with specific reference to the obligations and commitments of EU Member States has been removed where it no longer applies in the UK-Japan bilateral context.

## **Schedules of reservations**

97. The schedules of non-conforming measures, also known as reservations, are found in Annexes 8-B-I (existing measures) and 8-B-II (future measures) of the UK-Japan CEPA. With respect to the UK schedules, technical changes have been made throughout. Minor drafting errors have been corrected. Most references to EU measures have been retained because they will be read as references to the measures as retained in UK law. References to EU law, EU Directives, and EU Treaties which are not applicable in a bilateral context or will not be retained have been removed.
98. In the UK schedules, text has been removed where it is not applicable in a bilateral context, including references to: implementation of EU directives; the difference between reservations at the EU and Member State levels; the rights and obligations of the Member States under EU law; and treatment pursuant to the TFEU. The descriptions of some reservations have been modified to achieve continuity of effect in a bilateral context as far as possible. A new paragraph has been inserted into the headnotes for the avoidance of doubt as to the UK's ability to apply measures to branches of Japanese companies for prudential reasons.
99. Three further technical changes have been made to the UK schedules under Annex 8-B-II:



- a) A reservation that clarified recognition of Diplomas is required in order to practise regulated professional services by non-Union nationals remained within the competence of each Member State has been removed as this is not applicable in a bilateral context. There is no envisaged economic impact of this change;
  - b) A footnote has been inserted to the list of existing measures for Reservation No. 1(b) to clarify the status of the agreements listed; and
  - c) Reservation No. 13(d) has been modified to guarantee non-discriminatory treatment to Japanese entrepreneurs and enterprises with respect to measures affecting rail passenger transportation.
100. With respect to the schedules of Japan, revisions have been made to reflect changes to domestic legislation since the EU-Japan EPA came into force in respect. The three key changes are:
- a) Annex 8-B-I Reservation No. 2 has been updated to reflect amendments to Japan's Road Vehicle Law.
  - b) A reservation on the provisions of Japan's Wholesale Market Law relating to agricultural products has been removed.
  - c) An Annex II reservation on water transport has been removed, providing greater certainty for UK suppliers. A technical amendment has been made to provide greater clarity on the scope of water transport covered by Annex 8-B-I Reservation 49.

### **Domestic regulation**

101. Domestic regulation disciplines in trade agreements seek to address the 'behind the border' barriers that services suppliers often face in overseas markets, with provisions committing to streamline procedures for qualifications and licenses and increase transparency on technical standards. The Domestic Regulation section of the UK-Japan CEPA (Chapter 8 Section E subsection 1) incorporates some key additions beyond the EU-Japan EPA. This text has been largely drawn from the World Trade Organization Joint Initiative on Services Domestic Regulation draft text, reflecting the UK and Japan's shared ambition in this area. These additions provide certainty and clarity for UK service providers and professionals seeking to engage in activities within the scope of the sub-section. This should benefit a broad range of UK services providers – especially micro, small and medium sized enterprises – and could significantly reduce the costs and uncertainties associated with trading in Japan.

### **Business mobility**

102. Annexes 8-B-III, 8-B-IV, and 8-C of the UK-Japan CEPA contain the commitments (the guaranteed level of access granted for entry) taken by both the UK and Japan on business mobility. Technical modifications have been made to lengths of stay and sector-specific commitments. References to the EU or its Member States have either been replaced with references to the UK or removed as appropriate to achieve continuity of effect.
103. There are improvements made to the level of commitments taken by the UK and Japan in the EU-Japan Agreement. In addition to the existing EU-Japan Agreement commitments, the UK and Japan have improved commitments on the temporary movement of highly skilled professionals. Definitions of the intra-corporate transferee and investor categories have been improved for both the UK and Japan. Japan has expanded the scope

of their intra-corporate transferee category, and the investor definitions have been amended to focus on investment in UK industry and jobs, rather than the amount of capital. In addition to those in the EU-Japan Agreement, the UK has taken new commitments for Japanese investors who are coming to the UK to establish a new company or running an existing branch, and for the entry and temporary stay of the partners and dependent children of intra-corporate transferees. The EU's obligation to process visa applications in 90 days has been amended for the UK to match Japan's commitments.

## **Audio-visual services**

104. The UK and Japan agreed to cooperate on Audio-Visual Services (Articles 8.4.2(b) and 8.4.2(d)), supporting the UK's important media and creative industries sector and recognising the importance of open dialogue to facilitate trade and investment between the UK and Japan.

## **Financial services**

105. Financial services are our biggest export to Japan, accounting for 28% of all UK exports. The EU-Japan Agreement baseline for financial services has been transitioned. The UK-Japan CEPA contains enhancements such as providing additional legal certainty and recourse to UK financial services suppliers operating in or trying to access the Japanese market, that will provide additional benefits for the UK financial services sector.
106. The UK and Japan have agreed additional safeguards on the ability to use, store and process financial data on a cross-border basis (Article 8.63). This means that UK businesses supplying financial services in Japan cannot be obliged to store financial data in Japan. This avoids the associated costs of maintaining multiple data servers across jurisdictions. It also supports innovation driven by the aggregation of data sets and the use of bespoke data storage solutions, e.g. cloud computing services, to the benefit of consumers and overall financial inclusion. Appropriate regulatory safeguards remain to ensure that appropriate access to financial data by financial regulators and on the protection of personal data.
107. The provisions supporting the supply of new financial services (Article 8.60) have been broadened in the UK-Japan CEPA to capture all modes of supply, to services new to the territories of both Parties. Guarantees have also been made on processing authorisation applications in a reasonable period of time. This means UK businesses supplying new and innovative financial services in Japan have stronger guarantees of non-discriminatory treatment.
108. The commitments made on effective and transparent regulation in financial services (Article 8.64) have been bolstered in the UK-Japan CEPA to clarify the ability of an applicant for authorisation to provide additional information to complete an ongoing application and to receive reasons for rejection of an application. The transparency commitments on the rules made by self-regulatory organisations have also been appropriately strengthened. This means that UK service suppliers operating in Japan or seeking authorisation to provide a financial service can have greater confidence that they will receive transparent and reasonable treatment by Japanese regulatory authorities.
109. The agreement also includes an enhanced annex on regulatory cooperation in financial services between the UK and Japan (Annex 8-A), that builds on the less detailed and ambitious annex in the EU-Japan Agreement. The annex creates a forum for ongoing regulatory cooperation between HM Treasury, the Bank of England and Financial Conduct

Authority and the Financial Services Agency of Japan The enhanced annex and new Financial Forum will seek to facilitate the development of more consistent regulatory approaches, greater deference to each other's regulatory and supervisory frameworks, and better cooperation in international standard setting bodies. The successful outcome of such activities will make it easier for firms to operate between the UK and Japan, supporting bilateral trade and investment in financial services.

## Electronic commerce

110. Electronic commerce ("e-commerce") provisions in trade agreements usually address digitally enabled trade in goods and services that can either be digitally or physically delivered, and that involve consumers, businesses and governments.
111. The UK and Japan have agreed new ambitious commitments on e-commerce that reflect the fact that the UK is amongst the most forward-leaning countries on digital trade in the world. The UK-Japan CEPA includes several new commitments that enhance the EU-Japan Agreement and strengthens existing provisions on e-commerce. This cross-cutting package of measures positively impacts multiple sectors, while also helping the UK to benefit from the opportunities digitisation provides trade and the wider economy, such as by boosting and protecting innovation, a major driver of competitiveness and long-term economic growth.
112. The EU-Japan Agreement only contained text committing both Parties to review the need for the inclusion of provisions on the free flow of data in the future. The UK and Japan have built on the EU-Japan Agreement and agreed new, ambitious provisions on data:. Specifically, the UK and Japan have agreed: provisions on cross-border data flows (Article 8.84), providing assurances to businesses that they can transfer data between the UK and Japan without facing overly burdensome restrictions on such transfers; commitments on data localisation, ensuring that neither Party will unnecessarily require the use or location of computing facilities in a Party's territory as a condition of market access (Article 8.85); and commitments to adopt or maintain a legal framework that provides for the protection of the personal information of users of e-commerce (Article 8.80). The commitments in the UK-Japan CEPA will allow the UK to promote data protection standards globally. The EU takes a more protectionist stance on data so does not have substantive provisions in its agreement with Japan. Regarding personal data transfers, these commitments support and complement the UK's International Data Transfers Framework which provides several mechanisms in our domestic legislation for the transfer of personal data with high protections. Under this framework, the UK has transitionally recognised Japan's EU adequacy decision, and the UK has received a reciprocal assessment of adequacy from Japan.
113. The UK and Japan also agreed a new provision, Article 8.82, on open government data to encourage the Parties to publish anonymised datasets in a machine-readable format and cooperate in identifying appropriate ways to expand Government datasets that are publicly available.
114. The UK and Japan have added Article 8.78 to strengthen and uphold the principles of net neutrality as a means of developing an open, secure and trustworthy online environment.
115. The UK and Japan also agreed to new commitments on Information and Communication Technology Products that Use Cryptography (Article 8.86), which will help to ensure that the proprietary information of suppliers of these products is protected.
116. Amendments have also been made to strengthen or clarify several provisions already in the EU-Japan Agreement, such as those concerning customs duties on electronic

transactions (Article 8.72), online consumer protection (Article 8.79), e-authentication and e-signatures (Article 8.77), source code (Article 8.73) and mechanisms for future cooperation (Article 8.83). Positive economic impacts are expected as a result of the new provisions in this chapter.

## Investment

117. The UK and Japan have a strong and developed investment relationship, with a stock of £89.2bn of Japanese investment in the UK and £7.3bn UK investment in Japan in 2018. The UK-Japan CEPA provides for continuity in the investment relationship, making it easier for UK firms to invest in Japan and reinforcing the UK's position as the top destination in Europe for investment, and third in the world.
118. The EU-Japan Agreement already reflects an ambitious baseline for an agreement on investment, and we have transitioned these far-reaching provisions into the UK-Japan CEPA. In doing so, we continue to provide legal certainty to UK and Japanese investors on the open and stable investment environments in the UK and Japan.
119. We have made minor technical changes to the Prohibitions of Performance Requirements article (Article 8.11). These amendments do not change the scope or intent of the article, but rather better reflect the UK domestic regime, providing greater clarity to businesses as to the operation of the UK competition, mergers, and takeovers regime.
120. The EU-Japan Agreement does not include provisions on investment protection or dispute settlement and, in line with the broadly continuity approach on investment, the UK-Japan CEPA does not include these provisions either. We have agreed to continue discussions on these topics when appropriate, through a review clause in Article 8.5(3).
121. Changes relating to investment are not expected to have significant economic impact.

## Intellectual Property

122. The UK-Japan CEPA retains all the substantive provisions on copyright, trade marks, geographical indications, industrial designs, patents, regulatory test data exclusivity, new plant varieties, trade secrets, domain names, and enforcement as under the EU-Japan Agreement with some amendments to ensure legal continuity for the UK. However, the UK-Japan CEPA builds on the EU-Japan Agreement in a number of areas which are outlined below.
123. The UK-Japan CEPA removes the commitment to 'make reasonable efforts' to ratify the following international agreements:
- the Patent Law Treaty
  - the Trademark Law Treaty
  - the Singapore Treaty on the Law of Trademarks
  - the Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Designs

- the Marrakesh Treaty to Facilitate Access to Published Works for Persons Who Are Blind, Visually Impaired or Otherwise Print Disabled
124. Under the UK-Japan CEPA, Parties affirm their commitment to the above Treaties, as both Parties have already ratified these Treaties. Although the Marrakesh Treaty has not yet been ratified by the UK, it is in line to be ratified ready for the end of the transition period and the entry into force of the UK-Japan CEPA. Additionally, the Parties affirm their commitment to the following additional two agreements:
- Locarno Agreement Establishing an International Classification for Industrial Designs signed at Locarno on 8 October 1968, as amended on 28 September 1979;
  - the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks done at Nice on 15 June 1957, as revised at Stockholm on 14 July 1967, and at Geneva on 13 May 1977, and amended on 28 September 1979;
125. The UK-Japan CEPA improves on Article 14.12 of the EU-Japan Agreement on phonograms, which provides that the Parties will continue discussion on adequate protection for the use of phonograms for all communication to the public. The UK-Japan CEPA provides that both Parties agree to discuss measures to ensure adequate remuneration for performers and producers of phonograms. These discussions will aim to facilitate the introduction of measures in Japan which allow performers and producers to be fairly remunerated for the commercial use of their work for broadcasting and communication to the public. Economic benefits from fair remuneration may benefit artists, but this is likely to be minimal and depends on the outcome of discussions.
126. The UK-Japan CEPA improves on Article 14.16 of the EU-Japan Agreement on collective management, which stipulates that Parties shall recognise the importance of cooperation between their collective management organisations. The UK-Japan CEPA includes a new provision that recognises the importance of fostering cooperation between respective organisations, ensures each Party shall encourage collective management organisations to collect and distribute revenues to right holders in a fair way and adopt transparent record keeping and encourages Parties to facilitate non-discriminatory treatment by collective management organisations of the rightsholders they represent. This could have an economic impact on artists who are represented by a collective management organisation.
127. The UK-Japan CEPA includes a new article (Article 14.18) on technological protection measures. This article ensures Parties provide adequate legal protection and effective legal remedies against the circumvention of technological measures that are used by authors, performers or producers of phonograms.
128. Additionally, the UK-Japan CEPA includes a new article on rights management information (Article 14.19). This article requires both Parties to provide adequate and effective legal remedies against any person knowingly performing certain acts knowing, or with respect to civil remedies having reasonable grounds to know, that it will induce, enable, facilitate or conceal an infringement of copyrights and related rights.
129. The UK-Japan CEPA includes a new article on the registration and renewal processes for trade marks (Article 14.25), encouraging both Parties to maintain a streamlined trademark registration system that adapts to the latest technological advances and exercising and sharing best practice, where possible. This is of particular importance, to future proof the trade mark system.

130. In the UK, well-known marks are protected through various provisions of our Trade Marks Act 1994. Rights holders of unregistered marks well-known in the UK, can also use the common law tort of passing off to protect their rights. The UK-Japan CEPA now provides an additional provision on well-known trademarks (Article 14.23). When determining whether a mark is well-known, neither Party shall require a trademark to have been registered in the Party or in another country, included on a list of well-known trademarks, or given prior recognition as a well-known trademark. This provision reflects UK legislation and practice.
131. A new article on bad faith trade marks has been included (Article 14.24). The key rationale for finding bad faith in the UK relates to the motivation of the applicant and whether that person's behaviour in filing the mark falls below the normal standard of acceptable commercial behaviour. For example, the trade mark has been filed to capitalise on a third party's reputation. The UK-Japan CEPA commits both Parties and their competent authorities to refuse an application or cancel a registration where the application to register the trademark was made in bad faith.
132. On industrial designs, the UK-Japan CEPA provides an uplift in the guaranteed term of protection from 20 to 25 years (Article 14.35). This is in line with UK legislation. The agreement further stipulates that 'offering for sale' is an exclusive right for the owners of a protected industrial design, and that a design having 'individual character' is 'original'. This provision could create a small economic benefit to UK designers registering designs in Japan, however it could also increase the cost of products for consumers.
133. The UK-Japan CEPA includes a new article on multiple design applications (Article 14.36), requiring a system in each Party whereby multiple designs can be registered through the filing of one application for the registration of industrial designs. This could have a minor economic impact by locking in time and cost savings for UK designers registering in Japan.
134. The UK-Japan CEPA includes updates to the article on Patents and Public Health (Article 14.39) under which each party shall respect Article 31bis of the TRIPS agreement and the TRIPS Amendment which entered into force on 23 January 2017. Article 14.38 of the UK-Japan CEPA has also been adjusted to list 'exporting' as an exclusive right of the patent holder, although, as per UK law, this may fall within the scope of 'offering for sale'.
135. On geographical indications (GIs), negotiations have secured continuity plus the opportunity for additional UK and Japanese products to be protected in the UK-Japan CEPA. The GIs already protected in Japan and the UK via the EU-Japan EPA continue to be listed for protection in Annex 14-B of the UK-Japan CEPA. Japan has reassured the UK that it will complete its necessary domestic procedures by the time of entry into force of the UK-Japan CEPA in order to ensure continuity of protection for all the UK's listed GIs, including Scotch Whisky and Blue Stilton cheese. In the meantime, there will be no impact on the continued use and protection of the GIs because they will continue to be protected under the EU-Japan Agreement until the end of the transition period. As provided for in a footnote to Annex 14-B, the UK has no obligation to protect any of Japan's GIs listed in Annex 14-B until Japan has completed procedures on the UK's GIs and those GIs are protected in Japan and each Party receives a notification from the other Party informing it of the completion of the domestic procedures of the other Party and that the GIs are to be protected in accordance with Sub-Section 3 of Chapter 14.
136. Additionally, the UK-Japan CEPA protects the trans-border GIs Irish Whiskey/Uisce Beatha Eireannach/Irish Whisky and Irish Cream. Footnotes in Annex 14-B note that these products are produced on the island of Ireland, including Northern Ireland.

137. Additional UK GIs can be protected in Japan in the future. The UK-Japan CEPA includes a provision (Article 14.34) that stipulates that as soon as practically possible after entry into force, each Party shall consult and provide a list of GIs to the other Party for addition to the Agreement, subject to examination and opposition procedures. Consequently, it is anticipated that a significant number of additional UK GIs will have the opportunity to be protected in Japan in the future. This would lead to improved recognition of key UK brands in the Japanese market and has the potential to benefit the UK food and drink industry.
138. GIs which relate to EU Member States that are not the UK are not incorporated into Annex 14-B of the UK-Japan CEPA. This is because the UK-Japan CEPA is a bilateral agreement, and therefore can only protect GIs of States that are party to the agreement. This has no effect on existing GI protections relating to EU Member States in Japan, which will remain protected under the EU-Japan Agreement. We do not expect these changes to have an impact on bilateral trade flows between the UK and Japan.
139. An additional footnote on Article 14.33.2 stipulates that there is a three-year transitional period for prior users (starting from the entry into force of the UK-Japan CEPA), for the UK's spirit GIs listed in the Agreement at entry into force. This means that UK spirit GIs will effectively continue the five-year transitional periods for prior use, as contained in the EU-Japan Agreement, dating from the entry into force of the latter. There has not been any identified prior use of any of the seven UK GIs listed in the agreement in Japan. Additionally therefore, a footnote relating to prior use on the Scotch Whisky GI (in Annex 14-B of the EU-Japan EPA) has been removed because that instance of prior use in Japan did not fulfil the criteria to permit a transitional period.
140. Due to Japanese regulations, agri-food GIs will be subject to the standard seven-year transitional period, starting from entry into force of the UK-Japan CEPA. However, the Government of Japan has advised the UK that there has been no prior use identified in relation to the UK GIs protected under the EU-Japan Agreement. Therefore, prior use under the transitional periods provided for under the UK-Japan CEPA is not foreseen.
141. On enforcement, there is an additional article on access to justice (Article 14.55), stipulating that Parties recognise the importance of ensuring that IP right holders have access to justice in an effective judicial system to enforce their rights without any unwarranted delay or unreasonable cost. This enhancement goes beyond the EU-Japan Agreement and will support UK rights holders.
142. We have gone beyond the EU on provisions that tackle online infringement of IP rights, such as film and music piracy. There is a new article on enforcement in the digital environment and public awareness (Article 14.59), which sets out a requirement for Parties to ensure that existing enforcement procedures can allow action against online IP infringement. The text recognises the specific issues surrounding the infringement of trade marks as well as copyright and related rights online. The text also encourages the Parties to tackle online infringement through voluntary initiatives and impresses the importance of awareness-raising among the public.
143. The cooperation provision on best practices, projects and programmes related to the fight against infringements of IP (Article 14.60) has been updated to include measures in respect of websites registered outside of the territories of the Parties.
144. British businesses can now be confident that their brands and innovations will be protected. The UK-Japan CEPA includes a new article on criminal remedies for certain IP rights infringement (Article 14.58). The provisions stipulate that both Parties shall provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright or related rights piracy on a commercial scale. Additionally, both

Parties shall henceforth treat wilful importation or exportation of counterfeit trademark goods or pirated copyright goods on a commercial scale as unlawful activities subject to criminal penalties. The provisions also stipulate the powers to be given to judicial and other competent authorities in dealing with counterfeit or pirate goods. This is likely to reduce the scale of counterfeiting and pirating in relevant industries.

## **Competition, Subsidies and State-Owned Enterprises**

145. Chapters or articles in trade agreements relating to competition, subsidies and state-owned enterprises help to ensure open and fair competition exists for businesses operating in the UK and Japan. They detail key principles and can refer to domestic laws for each party.

146. In most areas, minor technical changes have been carried out in the areas of competition, subsidies and state-owned enterprises to ensure that the effect of the provisions are replicated without altering the substance. The UK-Japan CEPA will not have any effect on the financial support the Government provides to UK agricultural and fishing industries.

147. In some areas the UK and Japan have agreed more ambitious terms than the EU-Japan Agreement. These are listed below for the Competition, Subsidies and State-Owned Enterprises chapters.

### **Competition**

148. Competition chapters help to ensure fair and open competition exists for firms at home and abroad. They detail key principles and can refer to domestic laws for each party.

149. Building on the EU EPA baseline, a number of changes were made to reflect this being a UK Agreement and not an EU one. Article 11.8 of the EU-Japan Agreement refers to the Agreement between the EU and the Government of Japan concerning cooperation on anti-competitive activities signed on 10 July 2003. We do not refer to that Agreement in the UK-Japan CEPA, as the UK is not a party to the 2003 agreement. This has been replaced by provisions allowing for the UK and Japan to make detailed cooperation agreements in the future. We do not expect this to have an impact on the meaning or intent of the cooperation provisions.

150. A consumer protection article (Article 11.7) has been introduced whereby Parties acknowledge the importance of consumer protection issues and commit to maintaining consumer protection laws and cooperating on matters of mutual interest concerning consumers.

### **Subsidies**

151. There was only one minor technical change from the EU-Japan Agreement in the subsidies chapter: Article 12.3 of the UK-Japan CEPA does not refer to the European Union when clarifying the scope of a national or global economic emergency. We do not expect this change to have an impact.

### **State-owned enterprises**



152. State-owned enterprises (SOEs) chapters in trade agreements help to ensure fair and open competition exists between private enterprises and SOEs by preventing discrimination and unfair practices.
153. The majority of the provisions in the SOEs chapter in the UK-Japan CEPA replicate the commitments under the of the EU-Japan Agreement. The chapter has however, been improved with the inclusion of a requirement for Parties to provide a list of SOEs which fall within the scope of the chapter. SOEs which come under the control of a Party through Article 13.1(h)(iv) or that are sub-centrally owned will not be required to be listed. This is to ensure the creation and maintenance of a list is not unnecessarily burdensome. For similar reasons, the definition of an SOE (which has remained mostly the same) has been altered in two ways: to now only include SOEs which are principally commercially engaged and delete the reference to direct or indirect control in ownership interests.
154. The UK and Japan have also agreed to include a two-month time limit to provide information about an SOE at the request of the other Party. This should speed up the process by which a Party tries to determine if its interests are adversely affected by the other Party's SOEs.

## **Government Procurement**

155. Government procurement commitments in trade agreements provide enforceable rules and standards for a transparent and non-discriminatory framework on government procurement. They also liberalise specific procurement markets between the parties and provide enforceable market access commitments.
156. The UK-Japan CEPA retains the commitments that were established under the EU-Japan Agreement and that are based on the EU's GPA Schedules. The UK-Japan CEPA will rely on the UK's independent GPA schedules once these come into force (30 days after depositing the UK's instrument of accession). The UK's independent GPA schedules will be substantially the same as when the UK was a member of the GPA via the EU. However, we have committed in the GPA to updating Annexes 1 to 3 within three months of the UK's accession to the GPA coming into force to reflect transfers of functions. These updates to coverage will be incorporated into the UK-Japan CEPA.
157. In order to ensure continuity, the UK-Japan CEPA also includes a bridging mechanism to cover any period during which the UK's independent GPA schedules may not yet have entered into force. The bridging mechanism temporarily incorporates the UK's GPA coverage as of the day before the end of the transition period, reflecting the UK's existing coverage as currently provided under the EU's GPA schedules. This will ensure that the UK and Japan continue to benefit from the UK-Japan CEPA procurement chapter even in the unlikely event that there is a gap between the end of the transition period and the UK's independent GPA membership coming into force and prevent any potential impact on trade flows.
158. Amendments have been made to Part 2, Section A of Annex 10 in relation to market access to ensure its functionality in a bilateral context and in light of the UK's exit from the EU. Firstly, in the note to paragraph 1, the existing text on the reporting of the population size of local administrative units has been adapted to ensure that sufficient data continues to be available after the transition period. The UK has also agreed to provide Japan with the URL

of a dedicated website on which this statistical data can be found. Secondly, in the note to Paragraph 4, the contract thresholds have been converted from euros into sterling based on the pre-existing exchange rate used in the EU-Japan Agreement. We do not expect either of these minor amendments to have an impact on trade flows.

159. No amendments have been made to the existing Japanese market access offer.

## **Sustainability, labour and environment**

160. The UK has long supported the promotion of our values globally. We want to ensure economic growth, labour and environmental protection go hand-in-hand. The UK-Japan CEPA replicates for the most part the Trade and Sustainable Development (TSD) chapter in the EU-Japan Agreement, including those related to the environment and climate change. Any changes are listed below.
161. Sustainability chapters often refer to other international agreements on issues like labour and environment, to which the UK and the partner country are parties in their own right and so these provisions will continue to apply in the UK-Japan CEPA.
162. Minor amendments have been made to the articles on Joint Dialogue with Civil Society and the Panel of Experts to allow for greater flexibility, whilst still providing for adequate monitoring and implementation of the chapter. The main changes are that the Joint Dialogue with Civil Society, as well as the Panel of Experts, are now to be convened no later than two years, instead of one year, after the date of entry into force of the UK-Japan CEPA.
163. Furthermore, the Review article in the TSD chapter of the EU-Japan Agreement has been removed from the UK-Japan CEPA. This is because there are equivalent functions to the Review article in the article on the Committee on Trade and Sustainable Development and in the Joint Committee provisions in the Institutional Provisions chapter, which are retained in the UK-Japan CEPA.

## **Women's Economic Empowerment**

164. The UK-Japan CEPA has a new, additional chapter on Trade and Women's Economic Empowerment which the EU-Japan Agreement did not contain.
165. Article 21.1 of this Chapter (Women and the economy) identifies the shared objective of enhancing opportunities for women including in their roles as business owners and workers to participate equitably in the domestic and global economy. Article 21.2 (Cooperation Activities) establishes channels for the UK and Japan to cooperate on matters furthering this aim. This includes sharing experience of programmes or best practice related to workplace flexibility, and improving the access of women to markets, technology and financing as well as the development of women's business and leadership networks.
166. A Working Group on Trade and Women's Economic Empowerment is established by Article 23.4, to support and oversee delivery of the cooperation activities, and provide a forum within which the Parties can develop this work over time.

## **Trade remedies**

167. Trade remedies provide a safety net for domestic industry against unfair or injurious trading practices caused by dumped, subsidised or unexpected surges of imports of goods. Most World Trade Organisation (“WTO”) members have a trade remedies regime. The UK will operate its own regime once outside the EU.
168. For the most part, the UK-Japan CEPA replicates the effects of the trade remedies provisions in the EU-Japan Agreement. Additionally, it goes further than the EU-Japan Agreement through the addition of a discretionary “lesser duty rule” (Article 5.15) which will help to ensure the proportionate application of trade remedies by both Parties.

## **Dispute Settlement**

169. The economic benefits of a trade agreement can only be realised if they are faithfully implemented and complied with. A dispute settlement mechanism in a trade agreement signals the parties’ intention to abide by the agreement, thereby increasing business and stakeholder confidence that commitments set out in the agreement can, and will, be upheld. The dispute settlement mechanism therefore provides an important deterrent function. It also provides an effective mechanism for enforcing those commitments, and for resolving any disputes arising.
170. The UK-Japan CEPA replicates the effects of the dispute settlement provisions in the EU-Japan Agreement. In the event that a dispute arises, the UK will be responsible for the relevant costs associated with the dispute settlement process.

## **Small and medium-sized enterprises**

171. The UK-Japan CEPA replicates the effects of the Small and Medium-sized Enterprises (SME) chapter in the EU-Japan Agreement, as well as a further provision set out below. This chapter ensures that UK SMEs are provided with the tools and resources necessary to seize the opportunities of exporting to Japan.
172. The SME chapter sets out how the UK and Japan will exchange information on rules and regulations important to doing business, including through the use of a SME website and a searchable database. This commitment also includes making information on doing business in Japan available to UK SMEs.
173. The UK and Japan have agreed an additional provision (Article 20.2) to undertake and strengthen cooperation to support SME trade and investment between the UK and Japan, which states that it is important to involve the private sector in this cooperation. This provision provides a number of examples of cooperation activities that may take place, such as developing and promoting seminars for SMEs or exchanging best practices in supporting exporting SMEs. Greater cooperation may bring some economic benefits, for example by further reducing trade barriers for SMEs, but the magnitude of these benefits will depend on the specific cooperation activities that are undertaken.

## Annex A - Exchange of letters

### Exchange of Letters covering UK access to Japan's quota on Malt

The Rt Hon Elizabeth Truss MP  
Secretary of State for International Trade  
The United Kingdom of Great Britain and Northern Ireland

Excellency,

In relation to the negotiations for the Agreement between the United Kingdom of Great Britain and Northern Ireland and Japan for a Comprehensive Economic Partnership, I have the honour to confirm the following understanding of the Government of Japan regarding the autonomous tariff rate quota (TRQ) on malt:

- With respect to the tariff rate quota set out by relevant cabinet orders of Japan for malt classified under HS subheadings 1107.10 and 1107.20, the Government of Japan confirms that it maintains that tariff rate quota in a non-discriminatory manner, and that a quota amount of malt imported from foreign countries including the United Kingdom will continue to be ensured for allocation to domestic brewers and distillers as they deem necessary in producing beer or whisky, when it decides the annual total quantities of duty-free autonomous TRQ in accordance with Article 8-5 and Annexed Table 1 of "Temporary Tariff Measures Act". Under the above framework, brewers and distillers in Japan will have access to duty-free malt imports from the United Kingdom every year.

I would be grateful if you would confirm that this understanding is shared by your Government.

Sincerely,

MOTEGI Toshimitsu  
Minister for Foreign Affairs of Japan

MOTEGI Toshimitsu  
Minister for Foreign Affairs of Japan

Dear Minister Motegi,

I have the honour to acknowledge receipt of your letter of this date, which reads as follows:

In relation to the negotiations for the Agreement between the United Kingdom of Great Britain and Northern Ireland and Japan for a Comprehensive Economic Partnership, I have the honour to confirm the following understanding of the Government of Japan regarding the autonomous tariff rate quota (TRQ) on malt:

- With respect to the tariff rate quota set out by relevant cabinet orders of Japan for malt classified under HS subheadings 1107.10 and 1107.20, the Government of Japan confirms that it maintains that tariff rate quota in a non-discriminatory manner, and that a quota amount of malt imported from foreign countries including the United Kingdom will continue to be ensured for allocation to domestic brewers and distillers as they deem necessary in producing beer or whisky, when it decides the annual total quantities of duty-free autonomous TRQ in accordance with Article 8-5 and Annexed Table 1 of “Temporary Tariff Measures Act”. Under the above framework, brewers and distillers in Japan will have access to duty-free malt imports from the United Kingdom every year.

I would be grateful if you would confirm that this understanding is shared by your Government.

I have the further honour to confirm that Her Majesty’s Government shares this understanding.

Sincerely,

The Rt Hon Elizabeth Truss MP  
Secretary of State, Department for  
International Trade  
& President of the Board of Trade  
United Kingdom of Great Britain and  
Northern Ireland

## Exchange of Letters covering UK accession to CPTPP

The Rt Hon Elizabeth Truss MP  
Secretary of State for International Trade  
The United Kingdom of Great Britain and Northern Ireland

Excellency,

In relation to the negotiations for the Agreement between the United Kingdom of Great Britain and Northern Ireland and Japan for a Comprehensive Economic Partnership, I have the honour to confirm the following understanding of the Government of Japan regarding the accession by the United Kingdom to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP):

- The Government of Japan expresses its firm determination to support the early accession of the United Kingdom to the CPTPP in accordance with the Accession Process of the CPTPP (Annex to CPTPP/COM/2019/ D002).
- The Government of Japan takes note of the United Kingdom's interest in its market access to Japan under the CPTPP. Without prejudice to its outcome, the Government of Japan affirms its intention to provide to the United Kingdom, when a formal accession process has commenced, meaningful market access to Japan's market, as the Parties of CPTPP have, for the application of customs duties, tariff rate quotas and safeguards in the Tariff Schedule of Japan under the CPTPP, whilst recognising that the United Kingdom will also need to seek approval from other Parties of CPTPP as per the Accession Process.

I would be grateful if you would confirm that this understanding is shared by your Government.

Sincerely,

MOTEGI Toshimitsu  
Minister for Foreign Affairs of Japan

MOTEGI Toshimitsu  
Minister for Foreign Affairs of Japan

Dear Minister Motegi,

I have the honour to acknowledge receipt of your letter of this date, which reads as follows:

In relation to the negotiations for the Agreement between the United Kingdom of Great Britain and Northern Ireland and Japan for a Comprehensive Economic Partnership, I have the honour to confirm the following understanding of the Government of Japan regarding the accession by the United Kingdom to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP):

- The Government of Japan expresses its firm determination to support the early accession of the United Kingdom to the CPTPP in accordance with the Accession Process of the CPTPP (Annex to CPTPP/COM/2019/ D002).
- The Government of Japan takes note of the United Kingdom's interest in its market access to Japan under the CPTPP. Without prejudice to its outcome, the Government of Japan affirms its intention to provide to the United Kingdom, when a formal accession process has commenced, meaningful market access to Japan's market, as the Parties of CPTPP have, for the application of customs duties, tariff rate quotas and safeguards in the Tariff Schedule of Japan under the CPTPP, whilst recognising that the United Kingdom will also need to seek approval from other Parties of CPTPP as per the Accession Process.

I would be grateful if you would confirm that this understanding is shared by your Government.

I have the further honour to confirm that Her Majesty's Government shares this understanding.

Sincerely,

The Rt Hon Elizabeth Truss MP  
Secretary of State, Department for  
International Trade  
& President of the Board of Trade  
United Kingdom of Great Britain and  
Northern Ireland

## Exchange of letters covering UK agri-foods export

The Rt Hon Elizabeth Truss MP  
Secretary of State for International Trade  
The United Kingdom of Great Britain and Northern Ireland

Excellency,

In relation to the negotiations for the Agreement between the United Kingdom of Great Britain and Northern Ireland and Japan for a Comprehensive Economic Partnership, I have the honour to confirm the following understanding of the Government of Japan regarding ongoing cooperation to support various agri-food exports from the United Kingdom to Japan.

- The Government of Japan commits to take all reasonable steps to maximise the utilisation of the scheme as set out in Annex 2-A Part 3 Section B of the Agreement (“the scheme”) and mitigate unnecessary costs or burdens for potential users. This will include, but is not limited to: proactively publicising the availability and operation of this scheme; proactively communicating the availability of UK-Japan Preferential Import Certificates on the website of the Government of Japan; providing a dedicated contact point for United Kingdom exporters and Japanese importers within the Government of Japan to respond to queries or requests for information; and providing upon request in a timely manner any data available on the volume and timing of imports registered under the scheme.
- The Government of Japan commits to collaborate closely with the Government of the United Kingdom on the design and operation of the scheme and will proactively engage with any feedback provided by relevant stakeholders to ensure that importers of goods from the United Kingdom under the scheme make maximal use of the market access it can provide.
- Prior to the issuance of UK-Japan Preferential Import Certificates, the Government of Japan will, in response to a request from an importer who imported goods from the United Kingdom under the scheme in the fiscal year, provide all relevant information about the scheme, which could encourage such importers of such goods to apply for a UK-Japan Preferential Import Certificates for these imports.
- The Government of Japan will operate the scheme in a way to provide the best possible market access for cheese imports from the United Kingdom.
- The Government of Japan commits that if, in a given year, under the scheme, preferential rate cheese imports from the United Kingdom fall lower than the preferential rate imports in previous years, Japan and the United Kingdom will examine whether the reasons for the fall are because of the design of the scheme, and if so review the scheme as it relates to cheese imports with a view to ensuring improved market access for the United Kingdom.

I would be grateful if you would confirm that this understanding is shared by your Government.

Sincerely,

MOTEGI Toshimitsu  
Minister for Foreign Affairs of Japan



MOTEGI Toshimitsu  
Minister for Foreign Affairs of Japan

Dear Minister Motegi,

I have the honour to acknowledge receipt of your letter of this date, which reads as follows:

In relation to the negotiations for the Agreement between the United Kingdom of Great Britain and Northern Ireland and Japan for a Comprehensive Economic Partnership, I have the honour to confirm the following understanding of the Government of Japan regarding ongoing cooperation to support various agri-food exports from the United Kingdom to Japan.

- The Government of Japan commits to take all reasonable steps to maximise the utilisation of the scheme as set out in Annex 2-A Part 3 Section B of the Agreement (“the scheme”) and mitigate unnecessary costs or burdens for potential users. This will include, but is not limited to: proactively publicising the availability and operation of this scheme; proactively communicating the availability of UK-Japan Preferential Import Certificates on the website of the Government of Japan; providing a dedicated contact point for United Kingdom exporters and Japanese importers within the Government of Japan to respond to queries or requests for information; and providing upon request in a timely manner any data available on the volume and timing of imports registered under the scheme.
- The Government of Japan commits to collaborate closely with the Government of the United Kingdom on the design and operation of the scheme and will proactively engage with any feedback provided by relevant stakeholders to ensure that importers of goods from the United Kingdom under the scheme make maximal use of the market access it can provide.
- Prior to the issuance of UK-Japan Preferential Import Certificates, the Government of Japan will, in response to a request from an importer who imported goods from the United Kingdom under the scheme in the fiscal year, provide all relevant information about the scheme, which could encourage such importers of such goods to apply for a UK-Japan Preferential Import Certificates for these imports.
- The Government of Japan will operate the scheme in a way to provide the best possible market access for cheese imports from the United Kingdom.
- The Government of Japan commits that if, in a given year, under the scheme, preferential rate cheese imports from the United Kingdom fall lower than the preferential rate imports in previous years, Japan and the United Kingdom will examine whether the reasons for the fall are because of the design of the scheme, and if so review the scheme as it relates to cheese imports with a view to ensuring improved market access for the United Kingdom.

I would be grateful if you would confirm that this understanding is shared by your Government.

I have the further honour to confirm that Her Majesty's Government shares this understanding.

Sincerely,  
The Rt Hon Elizabeth Truss MP  
Secretary of State, Department for International Trade  
& President of the Board of Trade  
United Kingdom of Great Britain and Northern Ireland

## Annex B Technical note on the external CGE analysis

The scale of the macroeconomic impacts is estimated using external Computable General Equilibrium (CGE) modelling undertaken on behalf of the Department for International Trade by CEPR (Professor Joseph Francois).<sup>18</sup> It should be noted that this external CGE model is different from that used for other HMG Economic Analyses, including DIT's Scoping Assessments related to the United States, Australia and New Zealand and Government published analysis related to EU Exit.<sup>19</sup> Further technical detail on the CGE model used to estimate the impacts of the UK-Japan CEPA can be found in DIT's Scoping Assessment that was published in May 2020.<sup>20</sup> The final UK-Japan Impact Assessment will be laid in Parliament alongside the Explanatory memorandum and treaty text should you wish to review.

### The CGE model

CGE modelling is a standard method for assessing the impact of Free Trade Agreements used by trade economists and international organisations. However, economic modelling is an inherently uncertain exercise and the analysis does not capture the full range of dynamic impacts of the trade agreement.

The external CGE model is based on the standard GTAP model and GTAP 10 (referenced to 2014 as the base year) and has been extended further to incorporate insights from modern economic trade theory. The GTAP model and dataset is one of the most widely used tools for international trade analysis.

The CGE model is a stylised model of the world economy capturing links between countries and sectors within those countries. Tariff data and estimates of non-tariff measures and regulatory restrictions to services from econometric modelling are used as inputs into the CGE model.

### Key baseline assumptions

The baseline is the state of the world against which the impacts of the agreement are compared. At the end of the transition period, the EU-Japan EPA would cease to apply in the UK. The impacts of the UK-Japan CEPA are therefore compared against a baseline in which the UK does not have a trade agreement with Japan. One of the most important baseline assumptions relates to the UK's future trading relationship with the EU over the 15-year time horizon for modelling. For the purposes of this analysis, stylised assumptions are made to represent the future trading relationship between the UK and EU based on a free trade agreement, with zero tariffs and average NTB costs.<sup>21</sup> These assumptions about the long-run relationship are required to establish a baseline for modelling new trade agreements, but do not represent government policy. The modelling does not take account of any impacts arising from the Protocol on Ireland/Northern Ireland (to the Withdrawal Agreement).

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<sup>18</sup> Joseph Francois: Professor of International Economics, University of Bern. Managing Director, World Trade Institute, Director, European Trade and Study Group. Director FP7 Pronto. Research Fellow, Centre for Economic Policy Research. The CGE model used for this assessment is consistent with the modelling used in the Scoping Assessment for Japan (May, 2020).

<sup>19</sup> EU Exit: Long-term economic analysis, November 2018.

<sup>20</sup> UK-Japan Free Trade Agreement: The UK's Strategic Approach

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/885176/UK\\_Japan\\_trade\\_agreement\\_negotiations\\_approach.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/885176/UK_Japan_trade_agreement_negotiations_approach.pdf)

<sup>21</sup> The details of the modelled average FTA scenario is described in the Government's publication on the long-term economic analysis of EU Exit. This represents a hypothetical FTA between the UK and EU in the long-run. HMG (2018), "EU Exit Long-term economic analysis".

## Inputs

The modelled scenario assumes substantial tariff liberalisation and deep reductions in the level of actionable non-tariff measures (NTMs) affecting goods and regulatory restrictions to services affecting services trade between the UK and Japan, compared to not having a trade agreement. This scenario is used to generate the potential magnitudes of impacts of the finalised UK-Japan CEPA. In line with the literature, the provisions within the free trade agreement are modelled as reducing the costs associated with trading between the UK and Japan.

The inputs represent the expected trade cost reductions achieved in each sector of the model, which in part reflect the provisions of the UK-Japan CEPA. The baseline tariff levels reflect the UK Global Tariff (UKGT) and Japan's MFN schedule.<sup>22,23</sup> The scale of tariff and non-tariff cost reductions used in the modelling are based on historical reductions in trade costs achieved in previous deep free trade agreements, derived from gravity modelling. These are in line with those agreed between the EU and Japan in the Economic Partnership Agreement as these are broadly similar to those agreed in the UK-Japan CEPA.

## Impacts on regions and nations

A range of tools are used to further assess the CGE outputs and to explore the potential impacts on key areas such as UK nations and regions where further modelling apportions the UK-wide Gross Value Added (GVA) shocks from the CGE modelling to the NUTS-1 regions of the UK nations and regions.<sup>24</sup> Further technical detail on the approach to estimating the impact on regions and nations can be found in DIT's Scoping Assessment that was published in May 2020 (Annex C).<sup>25</sup>

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<sup>22</sup> UK Global Tariff (UKGT): <https://www.gov.uk/guidance/uk-tariffs-from-1-january-2021>

<sup>23</sup> EU-Japan tariff schedules: Annex 2-A Tariff elimination and reduction  
<http://trade.ec.europa.eu/doclib/press/index.cfm?id=1684>

<sup>24</sup> NUTS-1 regions of the UK are used. These include Northern Ireland, Scotland, Wales and nine English regions. Further information on the NUTS-1 classification can be found at 'The establishment of a common classification of territorial units for statistics (NUTS)', Eurostat 2018.

<sup>25</sup> UK-Japan Free Trade Agreement: The UK's Strategic Approach

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/885176/UK\\_Japan\\_trade\\_agreement\\_negotiations\\_approach.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/885176/UK_Japan_trade_agreement_negotiations_approach.pdf)







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