

**Note of meeting between Cabinet and ACEA
on 14 December 2016 at 11:00 a.m.**

Present: Maria Asenius (CAB), [REDACTED] (DG TRADE), Erik Jonnaert, Mate Kander and Anthony Millington (ACEA).

ACEA had requested the meeting to discuss the EU-Japan FTA. They explained that they had recently met with representatives of other Commission services, with the EU's negotiators and with JAMA. They aimed to be transparent and substance was more important than speed.

MA explained that Japan had been focused on TPP, but that was currently off the agenda so they could focus more on the EU.

ACEA said that their main interests in relation to both the Japan and Korean FTAs remained defensive, unlike some other FTAs where there was more potential upside. Unlike the US, Japan was a declining market. The biggest access problem was NTBs, which were de facto discriminatory and particularly affected the volume market. Some premium German brands had done well but the rest had been less successful. Under the FTA the EU would eliminate tariffs so Japanese imports would increase. Even in the last 6 months, the EU's trade deficit with Japan in cars was up by 50% although this was partly because the EU market had improved while Japan's had remained static. Exchange rates had also benefited Japan.

The FTA had 4 key elements for the EU automotive sector: (a) NTMs, (b) the tariff elimination schedule, (c) Rules of Origin, and (d) the automotive annex, which in particular was key.

On (a), Japan had made some progress, especially on the NTMs that had been identified in the scoping exercise.

Two key issues remained, of which the first was "Kei" cars which comprised a third of the market. The tax system in relation to these cars was de facto discriminatory because only Japanese firms made qualifying cars with engines below 660cc in size. These cars qualified for a much lower tax than EU sub-compact cars (about a third as much). This distorted the market and Kei cars were a direct result. There should be a much more consistent relationship between the size of a car's engine and the amount of tax payable. It would not be economically viable for EU car firms to produce qualifying Kei cars specifically for Japan.

MA explained that the FTA would be a multi sector agreement that would have to work for a wide range of different stakeholders. ACEA agreed.

Another issue for ACEA was (c), Rules of Origin. They supported the same approach as for Korea with a minimum of 55% qualifying content (which had originally been a concession). However the FTA was for the EU to negotiate.

It was not yet clear what effects developments like Brexit and tariff elimination would have but they could mean more Japanese branded cars were simply imported into the EU. Overall, since 2009 the EU industry had added jobs due to exports.

MA asked about wider priorities. ACEA said the most important FTA for them was still TTP, for which they had provided a lot of support and had developed a joint position with US manufacturers. Continuing with EU-US regulatory collaboration would still be important to them regardless of the future of TTP. Other important markets included India, ASEAN, Indonesia and Thailand although the latter had political difficulties. Despite big production investments by ACEA members in these and other markets, the sector still generated a large trade surplus for the EU, mainly because of premium brands.

The meeting closed at 11:40.

 DG Trade Unit G3.