Japan’s Efforts to Encourage SMEs to Utilize EPAs

Submitted by: Japan
Japan’s efforts to encourage SMEs to utilize EPAs

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1. Development of Japan’s EPA/FTA Networks

- **Took Effect/Signed (12 countries and 1 region)**
  - Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia, Brunei, ASEAN, Philippines, Switzerland, Vietnam, India, Peru

- **Under Negotiation (4 countries and 1 region)**
  - Australia, GCC, S. Korea, Mongolia, Canada

- **Under Study/discussion by the governments and private sectors (1 country, 3 regions)**
  - RCEP, Japan-China-S.Korea, EU, Colombia

- **Switzerland**
  - Took effect in Sep. 2009

- **GCC**
  - (Gulf Cooperation Council)
  - Under negotiation
  - GCC: Saudi Arabia, Kuwait, United Arab Emirates, Bahrain, Qatar, Oman

- **ASEAN (AJCEP)**
  - Took effect in Dec. 2008

- **India**
  - Took effect in Aug. 2011

- **Japan-China-S.Korea**
  - Negotiation would be launched within this year

- **South Korea**
  - Negotiation suspended

- **Vietnam**
  - Took effect in Oct. 2009

- **Philippines**
  - Took effect in Dec. 2008

- **Singapore**
  - Took effect in Jul. 2006

- **Thailand**
  - Took effect in Oct. 2009

- **Malaysia**
  - Took effect in Jul. 2008

- **Brunei**
  - Took effect in Jul. 2008

- **Indonesia**
  - Took effect in Jul. 2008

- **Philippines**

- **Mexico**
  - Took effect in Apr. 2005

- **Chile**
  - Took effect in Sep. 2007

- **Peru**
  - Took effect in Mar. 2012

- **Canada**
  - Concurred to launch negotiations

- **Columbia**
  - Concluded joint study

- **NZ**
  - Under scoping exercise

- **TPP**
  - Entered into consultations toward participating with the countries concerned

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2. Increasing Utilization of EPAs by Japanese Companies

- The issuance of Certificates of Origin in Japan has been increasing since 2005.
- The EPA utilization by Japanese companies is steadily increasing and the number of issuances per month was over 12,000 in June 2012.

(Unit: the number of issuance in Japan)

- Indonesia: July 2008
- Thailand: Nov. 2007
- AJCEP: Dec. 2008
- India: Aug. 2011
Examining the issuance status of Certificates of Origin in June 2012, the largest number of Certificates of Origin were issued for the Japan – Thailand EPA, followed by Indonesia, India and Malaysia.
4. The utilization of EPAs by Japanese companies

- According to a survey conducted by JETRO, the utilization rate of existing EPAs of Japanese companies increased to about 40%.
- From 2009 to 2011, the utilization for imports increased 8% and on exports increased 4%.

5. Utilization of FTAs in terms of Paid-in Capital

According to a survey conducted by the Research Institute of Economy, Trade and Industry (RIETI), the EPA utilization rate of SMEs is much lower than that of large companies.

<table>
<thead>
<tr>
<th>Capital (yen)</th>
<th>Number of firms</th>
<th>Number of firms using FTA</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than 10 billion</td>
<td>79</td>
<td>15</td>
<td>19.0</td>
</tr>
<tr>
<td>1 billion – 10 billion</td>
<td>128</td>
<td>19</td>
<td>14.8</td>
</tr>
<tr>
<td>100 million – 1 billion</td>
<td>285</td>
<td>24</td>
<td>8.4</td>
</tr>
<tr>
<td>50 million – 100 million</td>
<td>226</td>
<td>13</td>
<td>5.8</td>
</tr>
<tr>
<td>10 million- 50 million</td>
<td>751</td>
<td>58</td>
<td>7.7</td>
</tr>
<tr>
<td>Less than 10 million</td>
<td>144</td>
<td>12</td>
<td>8.3</td>
</tr>
<tr>
<td>N.A</td>
<td>71</td>
<td>9</td>
<td>12.7</td>
</tr>
<tr>
<td>total</td>
<td>1,684</td>
<td>150</td>
<td>8.9</td>
</tr>
</tbody>
</table>

6. Reasons for low SME utilization of EPAs

According to a survey conducted by JETRO, the most common reason for small and medium sized enterprises (SMEs) to not utilize EPAs in exports was that they were not aware of the EPA system.

<table>
<thead>
<tr>
<th>Reasons</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not aware of the FTA/EPA system</td>
<td>29.9%</td>
</tr>
<tr>
<td>No need to use FTA since the general duty at the export destinations doesn't exist</td>
<td>17.7%</td>
</tr>
<tr>
<td>No advantage to an FTA since the difference between the general duty and the FTA duty is minimal</td>
<td>16.3%</td>
</tr>
<tr>
<td>No need to utilize FTA since import duty is already exempted at the export destinations through schemes other than the FTA such as export processing zones and various bounding systems</td>
<td>10.8%</td>
</tr>
<tr>
<td>Could not satisfy the requirements for the Rules of Origin</td>
<td>19.1%</td>
</tr>
<tr>
<td>Others</td>
<td>11.2%</td>
</tr>
<tr>
<td>No answer</td>
<td></td>
</tr>
</tbody>
</table>

8. Actions to Promote Further Utilization of FTAs/EPAs

- In order to increase the awareness of the EPA system among SMEs, METI set up a website, published brochures and established a contact point.

**METI Activities**

- **Maintenance of the Website**
  - Can get basic information for utilization of each EPA
  - To explain specific procedures and points of concern for using EPAs

- **Establishment of a Contact Point**
  - To set up specific e-mail address of the EPA/FTA Division of the METI:
    - epa-soudan@meti.go.jp
  - To give some advice to EPA users regarding ROOs and specific tariff rates

- **Publishing a Brochure on Utilizing EPAs**
  - To explain most basic points of EPAs, such as Tariff
  - Can download from METI, JETRO website etc.
    - (Japanese version)
    - (English version)

(URL)
9. Actions to Promote Further Utilization of FTAs/EPAs

In addition to METI, other business organizations provide information via their website and open seminars to raise awareness of the EPA system.

Activities of METI-related organizations

- **Maintenance of the Website**
  - JETRO's world tariff website
  - This page provides data on preferential tariff rates under Japan's EPA.

- **Establishment of Contact Points**
  - **EPA advisors**
    - JETRO set up advisors for EPA utilization in China, India, Thailand, Philippines, Vietnam and Singapore, etc.
  - **Information for issuing certificate of origin**
    - JCCI (Japan Chamber of Commerce and Industry) provides information on the issuance of rules of origin.

- **Conduct EPA Seminars**
  - **Domestic Seminar**
    - Holding a lecture on EPAs for economic organizations by METI, JCCI, JETRO, etc.
  - **Seminar in the Local Region**
    - Seminar in conjunction with local government by JETRO, METI, etc.

※Other business organizations’ efforts (Examples)

- Publishing brochures for the members of business organizations.
- Establishing websites providing data on preferential tariff rates under the EPAs.
10. Barriers for SME internationalization and trade

According to the OECD, SMEs face “Resource limitations” and “Trade barriers” in their internationalization and trade.

**Resource limitation**
1. Shortage of working capital to finance exports, 2. Limited Information to locate/analyze markets, 3. Inability to contact potential overseas customers, 4. Lack of managerial time, skills and knowledge

**Trade barriers**
1. Import tariffs, 2. NTBs, technical measures, customs procedures, etc. 3. Less direct and visible procedural barriers, etc.


**Resource Limitations**

- **Finance**: Accession to trade finance
- **Information**: Information about overseas markets, Information about business partners in overseas markets
- **Human Resources**: Lack of knowledge and skills in international trade

**Trade Barriers**

- **Tariffs**: High import tariffs
- **NTBs**: Trade-restrictive domestic (behind-the-border) regulations and policies
- **Transparency**: Customs rules and procedures
- **Less direct and visible “procedural” barriers**

*Need to discuss* cooperation to enhance the resource limitation

*Need to discuss* rules for eliminating trade barriers
11. Encouraging SME internationalization and trade by EPAs/FTAs

- SMEs face “resource limitations” and “trade barriers,” which prevent SMEs from internationalization and trade.
- It would be a solution to promote cooperation and to establish rules to encourage SME internationalization and trade.

**Possible cooperation to enhance the resource limitation (Examples)**

<table>
<thead>
<tr>
<th>Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Share information and best practices on trade financing</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Share information on foreign markets and businesses</td>
</tr>
<tr>
<td>● Share information on trade and investment related regulations, customs procedures and so on.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Human Resources</th>
</tr>
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<tbody>
<tr>
<td>● Provide training programs on international trade.</td>
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</tbody>
</table>

**Rules for encouraging SMEs’ trade (Examples)**

1. **Tariff reduction/elimination**
   - encourage SME trade by tariff reduction/elimination

2. **Rules of origin**
   - reduce procedural costs for obtaining ROOs

3. **Trade facilitation**
   - reduce procedural costs for customs clearance

4. **Protection of investment**
   - protect investment of SMEs

5. **Protection of intellectual property**
   - protect intellectual property of SMEs

6. **Increase transparency of regulations**
   - reduce costs of complying laws and regulations