

Japan's Message to the United Kingdom and the European Union

<Summary>

Japan shares basic values and enjoys strong partnerships with the United Kingdom (UK) and the European Union (EU) in various fields including politics, the economy and security. We expect to continue cooperating and collaborating closely for international peace, stability and prosperity.

It is in the interests of the world including Asia that an open Europe be upheld. Japan will continue to share with the UK and the EU the responsibility to lead the free trade system. In this regard, we will be sending a strong message by reaching agreement in principle on the Japan-EU EPA within this year.

Uncertainty is a major concern for an economy. We hope that predictability is secured whereby all stakeholders, not just the negotiating parties, have a clear idea of the post-BREXIT landscape. This will be possible if the BREXIT negotiations are conducted through an uninterrupted and transparent process, which could include arrangements such as the establishment of a provisional period and, if there need to be institutional changes, the granting of time for the transition and publicising of such changes.

A considerable number of Japanese businesses operating in Europe are concentrated in the UK. We have been informed of a variety of requests that these businesses have in relation to BREXIT including: maintenance of trade in goods with no burdens of customs duties and procedures; unfettered investment; maintenance of an environment in which services and financial transactions across Europe can be provided and carried out smoothly; access to workforces with the necessary skills; and harmonised regulations and standards between the UK and the EU.

The Government of Japan trusts that the UK and the EU, by heeding such requests to the fullest extent and responding to them in a cooperative manner, will maintain the current business environment or alleviate the impacts of any radical changes, so as to remain an attractive destination for doing business.

Japan is willing to cooperate so that the process of negotiations for the UK's withdrawal would move forward smoothly without causing major disturbance to the world economy.

(END)

Japan's Message to the United Kingdom and the European Union

The withdrawal of the United Kingdom (UK) from the European Union (EU) constitutes an event that will wield a substantial impact not only on the future of European integration but also on the international community as a whole, which is why the world including Asia is paying close attention to the BREXIT negotiations. This testifies to the expectation that the UK and the EU will continue to lead the world in enlarging and promoting a free and open market economy.

Japan respects the will of the British people as demonstrated in the referendum, and is keenly monitoring the actions of the British Government. We also admire the way in which the EU has responded to the outcome of the referendum in a quick and calm manner. Although the negotiations are sure to encounter difficulties from time to time, Japan has no doubt that the UK and the EU will overcome such difficulties and lay the foundations for the creation of a new Europe.

In the international community today, where the global order is beset with challenges, the presence of a strong, united Europe is essential. Japan hopes to further cooperate with Europe with a view to maintaining the rules-based global order in the international community, including Asia. It enjoys strong partnerships with the UK and the EU in the major areas of politics, the economy and security on the basis of our shared fundamental values and the global perspective that underpins our contribution to the international community. Japan expects to continue cooperating and collaborating closely with the UK and the EU for international peace, stability and prosperity.

Convinced that the UK and the EU will continue to share with us the responsibility to lead the free trade system, Japan expects the EU and the UK to demonstrate to the world their unequivocal commitment to this end. In this regard, we will be sending a strong message to the world by working together to reach agreement in principle on the ongoing Japan-EU EPA negotiations as early as possible this year. It is our sincere hope, in particular, that the UK, until the time it officially leaves the EU, will fully participate in the EPA negotiations in a responsible manner and will fulfil honestly what has been agreed.

Uncertainty is a major concern for an economy; it evokes a sense of anxiety, causing volatility in markets, and results in the contraction of trade, investment and credit. What Japanese businesses in Europe most wish to avoid is the situation in which that they are unable to discern clearly the way

the BREXIT negotiations are going, only grasping the whole picture at the last minute. It is imperative for the UK and the EU to regain the confidence of the world and ensure their unwavering competitiveness by increasing the predictability of the BREXIT process, ensuring the outcome is free of unpleasant surprises and reducing the risks emanating from uncertainty. From this perspective, we strongly hope that the UK and the EU will present to the world the whole picture of the BREXIT process as early as possible, cooperating to avoid a vacuum or stagnation in their relations and instead generating a seamless process towards BREXIT that could include arrangements such as the establishment of an extendable transitional period during which an interim agreement could be applied if required, and immediately disclosing measures to eliminate any harmful effects on businesses already investing in the UK and the EU.

There are numerous Japanese businesses operating in Europe, which have created 440,000 jobs. A considerable number of these firms are concentrated in the UK. Nearly half of Japanese direct investment intended for the EU in 2015 flowed to the UK, and the UK was one of the major destinations for Japan's investment stock within the EU as of the end of last year. While benefiting from the single market of the EU, Japanese businesses have contributed to the development of the European economy. Since Europe including the UK is a major trading partner and investment destination for other countries in Asia as well as of Japan, it is in the common interest of all Asian countries as a whole that they continue to have access to the free market of Europe, including the UK. It is of great importance that the UK and the EU maintain market integrity and remain attractive destinations for businesses where free trade, unfettered investment and smooth financial transactions are ensured. In light of the fact that a number of Japanese businesses, invited by the Government in some cases, have invested actively to the UK, which was seen to be a gateway to Europe, and have established value-chains across Europe, we strongly request that the UK will consider this fact seriously and respond in a responsible manner to minimise any harmful effects on these businesses.

We have been informed of a variety of requests from Japanese businesses operating in the UK and the EU that include clarity as to how the BREXIT process is set to unfold, and, where there are institutional changes, the granting of a sufficient time for the transition and publicising of the changes, safeguarding of market integrity between the UK and the EU, and the maintenance of the free trade system. They have also issued the requests outlined below so that they can carry on their economic activities as freely as before, regardless of the outcome of the negotiations between the UK and the

EU. (The detailed requests from Japanese businesses are presented in the attached document.)

[Requests directed at the UK and the EU]

- maintenance of the current tariff rates and customs clearance procedures;
- introduction of provisions for cumulative rules of origin;
- maintenance of the access to workers who are nationals of the UK or the EU;
- maintenance of the freedom of establishment and the provision of financial services, including the “single passport” system;
- maintenance of the freedom of cross-border investment and the provision of services as well as the free movement of capital, including that between associated companies;
- maintenance of the current level of information protection and the free transfer of data;
- unified protection of intellectual property rights;
- maintenance of harmonisation of the regulations and standards between the UK and the EU (including the maintenance of established frameworks of mutual recognition and equivalence);
- securing the UK’s function as a clearing centre for the euro and the location within the UK of EU agencies such as the European Medicines Agency (EMA); and
- maintenance of the UK’s access to the EU budget for research and development and participation in the Japan-EU joint research project.

[Additional requests directed at the UK]

- liberalisation of trade in goods without the burdens of customs duties and procedures;
- maintenance of access to workers with the necessary skills;
- maintenance of basic policies regarding the entry of foreign capital;
- implementation of measures to promote investment;
- maintenance of the current levels of information protection and the free transfer of data in case the UK establishes its own legislation distinct from the EU’s;
- ensuring the consistency of regulations and standards between the UK and the EU; and
- ensuring that the EU’s research and development budget applies to research institutions in the UK.

[Additional request directed at the EU]

- provision of transitional arrangements for the single passporting system

While trusting that the UK, on its part, will give due consideration to the context in which Japanese businesses have invested in the UK, and the EU, on its part, will deeply recognise that it is not easy for the UK to respond to some of the aforementioned requests solely on its own, we request the both to heed the voices of Japanese businesses to the fullest extent and to do their utmost to cooperate in taking the necessary measures to advance the BREXIT negotiations. Some Japanese firms, including small and medium-sized

enterprises, may not be able to respond sufficiently to the drastic changes in the business environment that could be caused by BREXIT, and they also have difficulty in articulating their requirements publicly. In light of the diversity in the backgrounds of the various Japanese businesses which have established their activities in Europe as well as the current state of their operations, their interests need to be catered for as precisely as possible. We request that the UK and the EU amplify appropriate opportunities to exchange views with the Japanese side, including a framework for dialogues where Japanese businesses can directly convey their specific requests to the UK and the EU.

With a view to maintaining the close bilateral relationships that Japan has developed with the UK and with the EU, it is desirable that the current business environment in Europe be maintained as much as possible. In particular, the existing legal frameworks based on international agreements that the UK and the EU have with Japan need to be preserved to the maximum extent. We also ask the UK and the EU to take appropriate measures to alleviate any drastic changes, allocating a sufficient period for transition and notification so as to minimize the impacts on business if, as a result of the BREXIT negotiations, it becomes unavoidable to make changes to the existing systems.

Japan earnestly hopes that the BREXIT process will move forward smoothly so that the world economy avoids major disruption. We trust that this message will contribute to attainment of this aim. Based on these requests, the Government of Japan is willing to cooperate with the UK and the EU in order to contribute to enhancing the appeal of both parties during the years to come.

Requests Directed at the UK and the EU

Requests directed at the UK and the EU regardless of the outcome of the BREXIT negotiations.

*Actual requests from Japanese businesses are listed in the boxes under the headings below.

1. General requests

● Ensuring transparency of the BREXIT negotiations

▫ To disclose information on the status and future prospects of the BREXIT negotiations in a regular and timely manner since uncertainty concerning the prospects for the negotiations can influence currency and stock markets, e.g. exchange rates and share prices, as well as business operations.

● Granting sufficient time periods for transition and publicising of the changes

▫ To introduce measures to alleviate drastic changes, including granting sufficient time periods for transition and publicising of changes.

● Safeguarding market integrity between the UK and the EU

▫ To safeguard to the greatest extent possible market integrity encompassing the UK and the EU.

● Maintaining the free trade system

- Reaching agreement in principle on the Japan-EU EPA within this year

▫ To prevent the UK's withdrawal from the EU from undermining the free trade environment of the global economy, because the promotion of free trade is extremely important for dynamic business activities and for maintaining cordial intergovernmental relationships.

▫ To realise reaching agreement in principle on the Japan-EU EPA as early as possible within this year, because there are concerns over possible delays to the Japan-EU EPA negotiations due to the UK's withdrawal from the EU.

2. Specific requests

● Maintaining the current tariff rates and customs clearance procedures

- To maintain customs duty-free trade between the UK and the EU
- To maintain a preferential tariff rate (0%) on imports to the

UK from emerging countries

- To maintain the framework of mutual recognition on Authorised Economic Operators (AEOs)
- To maintain the current quarantine systems for plants and animals as well as food items
- To prevent any additional burden from customs clearance procedures on trade between the UK and the EU

(Concerns over imposition of customs duties on trade between the UK and the EU)

- To maintain customs duty-free trade between the UK and the EU. The imposition of customs duties anew could suppress the revenues of businesses, which in turn could affect the sales prices of their products and their international competitiveness.
- Tight and integrated value chains have been established between the UK and the EU; with the imposition of duties, manufacturers, especially of automobiles, could have such levies imposed twice, once for auto parts imported from the EU and again for the final products assembled in the UK to be exported to the EU, which would have significant impact on their businesses.

(Concerns over burdensome customs procedures)

- To maintain the simplified customs clearance procedures between the UK and EU, especially the framework for the mutual recognition of AEOs and quarantine procedures for plants and animals as well as for food items. Changes in customs clearance procedures for exports to the UK and the application of complicated procedures due to the introduction of inconvenient rules of origin could delay and increase the costs of logistics operations, which would have a significant impact on business operations.

● Introducing provisions for cumulative rules of origin

- To apply the “accumulation” principle in the rules of origin in trade between the UK and the EU after BREXIT. For products such as automobiles, the division of production of materials and parts is in place between the UK and the EU. BREXIT would make such products unable to meet the rules of origin as EU products, which means that Japanese companies operating in the EU would not be able to enjoy the benefit of the FTAs concluded by the EU.

- Maintaining the access to workers who are nationals of the UK or the EU (especially protecting the status of those who are already employed or will be employed by Japanese businesses)

□ The European labour market could suffer great turmoil if workers who are nationals of either the UK or EU Member States could not freely travel between and stay in the UK and Continental Europe.

● Maintaining the freedom of establishment and the provision of financial services, including the “single passport” system

□ To allow the continuous functioning of the single passporting system applicable to the UK, since it is an important prerequisite for financial operations, including instalment sales, in the EU. If Japanese financial institutions are unable to maintain the single passport obtained in the UK, they would face difficulties in their business operations in the EU and might have to acquire corporate status within the EU anew and obtain the passport again, or to relocate their operations from the UK to existing establishments in the EU.

□ To disclose the information on systemic changes and adequate alternative measures at the earliest possible stage and to install a transitional period and measures to alleviate any drastic changes, in order to ensure a business environment where companies could provide financial services across the EU. This is because, if the single passport were not to be applicable to the UK, either option (in the bullet point above) would have a significant impact on their business strategy and require a considerable time for the adaptation.

□ To continue to converge the financial regulations of the UK and the EU in the mid and long term. If there were divergence in financial regulations between the UK and the EU and, as a result, the environment in which integrated financial services are provided no longer prevailed, the predominance of the UK/EU region as one of the world’s leading financial markets would be undermined.

● Maintaining the freedom of cross-border investment and the provision of services as well as the free movement of capital, including that between associated companies

- Maintaining tax exemption of dividends for transfer of capital between associated companies
- Maintaining licenses issued before the UK’s withdrawal

□ To maintain the free movement of capital and services. This, together with the free movement of goods, is the basis for most business operations. There would be a significant impact on business activities if investments or the provision of services between the UK and Continental Europe were to be restricted.

□ To enable Japanese businesses operating in Europe, including in the UK, to maintain continuity in their trade in services (shared services such as accounting and human resource management) among associated

companies as well as in their freedom of transfer of capital and restructuring of organisations.

- To maintain the privileges enjoyed by companies, including the continued use of licenses issued, e.g. those to operate vessels for the construction of offshore wind power stations, and the freedom to operate in the EU with a license issued in the UK even after the UK's withdrawal.

- Maintaining the current level of information protection and the free transfer of data

(Concerns over restrictions on the cross-border transfer of personal data)

- To maintain the level of information protection and free transfer of data. Once the UK is no longer bound by the EU's data protection legislation, the smooth cross-border transfer of personal data between the UK and the EU may become difficult. This could affect ICT businesses conducting data centre operations based on their establishment in the UK with declining demand from data centre users such as Cloud operators managing personal data within the EU. Furthermore, the transfer of information between a parent company and its subsidiaries could be affected.
- To establish close cooperation on the facilitation of data transfer among Japan, the UK and the EU.

- Unified protection of intellectual property rights

- Protection in the UK of registered Community designs and EU trademarks

(Concerns over treatment of intellectual property registered in the EU)

- To uniformly protect intellectual property in the UK and the EU in order not to create disadvantages for the right holders. If the UK's withdrawal had an impact on the rights and effects of registered Community designs and EU trademarks, this could generate disruption.

- Maintaining the harmonisation of the regulations and standards between the UK and the EU (including the maintenance of established frameworks of mutual recognition and equivalence)

- Continuous application in the UK of regulations and standards (or application of equivalent regulations and standards) such as European Standards, CE marks, REACH, RoHS, GMP and those in the field of plant and animal quarantine and food safety
- Ensuring mutual recognition by third-party certification

bodies

- To maintain or establish an equivalent framework for regulations and certifications of standards. Regulations and certification of standards in fields such as chemicals, medicines and medicinal products, radio and telecommunications terminal equipment and automobiles are managed uniformly across the EU and, if the UK were to establish regulations and certification procedures different from those of the EU, Japanese businesses operating in Europe would have to accommodate two different systems, creating disruption and increasing R&D and administrative costs.
- Japanese businesses have an interest in how the UK's withdrawal affects European Standards, CE marks, the RoHS directive, REACH regulations and mutual recognition on GMPs.
- With regard to CE marks, for example, for a product to be sold in the EU it must obtain certification by a third-party certification body and display the CE mark on it. However, with the UK's withdrawal, businesses are concerned that if the mutual recognition of certification by a third-party certification body is not ensured, they will have to obtain separate certification.
- As for the RoHS directive and REACH regulations, businesses are concerned that exemptions on tests and registrations for products manufactured in factories in the EU Member States may no longer be applicable to those from factories in the UK.
- In the area of plant and animal quarantine and food safety, there could be impediments to trade in agricultural and fisheries products and foodstuffs from Japan to the UK as well as between the UK and the EU, if the UK were to introduce regulations and standards different from the EU's. With regard to the Japan-EU Mutual Recognition Agreement, the certification of radio and telecommunications terminal equipment by conformity assessment bodies in the UK may not be recognised.

- Securing the UK's function as a clearing centre for the euro and the location within the UK of EU agencies such as the European Medicines Agency (EMA)

(Concerns over the transfer of such functions as clearing centre for the euro)

- To maintain the current framework to allow the flexibility of agencies' locations. London currently serves as the largest clearing centre for the euro in Europe. Confining the clearing function of euro to the Eurozone could not only diminish the efficiency of the financial centre for all of Europe, but also have a significant impact on various financial institutions, including those from Japan.

(Concerns over the possible transfer of EU agencies, including the European Medicines Agency)

- To maintain the current location of the European Medicines Agency

(EMA) and the certification system for medicines between the UK and the EU. Japanese companies are concerned about the relocation of EU agencies currently located within the UK. Many Japanese pharmaceutical companies are operating in London, due to the EMA's location in London. If the EMA were to transfer to other EU Member States, the appeal of London as an environment for the development of pharmaceuticals would be lost, which could possibly lead to a shift in the flow of R&D funds and personnel to Continental Europe. This could force Japanese companies to reconsider their business activities.

- Maintaining the UK's access to the EU budget for research and development and participation in the Japan-EU joint research project

- To allow Japanese businesses in the UK to continue their participation in various R&D projects and to obtain subsidies even after the UK's withdrawal.
- To establish a framework to allow British researchers to continue to participate in Japan-EU joint research projects.

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Additional Requests Directed at the UK

Requests directed only at the UK with regard to its policies and measures to be taken after its withdrawal from the EU.

*Specific requests from Japanese businesses are listed in the boxes under the headings below.

- Liberalising trade in goods without the burden of customs duties and procedures
 - To maintain the current level of import duties and to reduce the burden of customs clearance procedures in the UK

(Concerns over the UK's own tariff levels)

- To set tariffs on imports to the UK at a level as low as possible even after the UK withdraws from the Customs Union of the EU.
- Some Japanese companies import goods into the UK by utilising the FTAs or GSPs between the EU and third countries, and there are concerns over whether these frameworks could be maintained.

(Concerns over complicated and cumbersome customs procedures)

- To maintain the framework of mutual recognition regarding AEOs that Japan has with the UK as a part of the EU with a view to facilitating trade and the framework of information exchange for measures such as border control after its withdrawal.

- Maintaining access to workers with the necessary skills
 - To maintain an immigration system that allows the acceptance of highly skilled professionals in the banking and other sectors
 - To maintain an immigration system that allows the acceptance of workers for the construction of power plants
 - To give serious consideration to the appropriate visa procedures for foreign workers

- To maintain, at least, the current parameter of the immigration system. Japanese businesses are concerned at the possibility that the UK may impose further stringent requirements concerning visa applications by Japanese and other foreign workers in the UK, which would affect their business operations. In fact, the inflow of skilled labour from outside of the EU needs to be liberalised. In order to ensure stable staffing for business operations in the UK, the requirements for obtaining and extending visas need to be relaxed, especially for intracompany transferees.

- A certain number of employees hired locally by Japanese businesses in the UK are nationals of the other EU Member States. It is essential for those businesses to secure qualified human resources including highly skilled workers from Europe for their smooth business operations.
- It would create a huge clerical burden on Japanese businesses if they were required to prepare new UK visas for their employees who were nationals of other EU Member States as a consequence of the UK's withdrawal.
- With regard to unskilled workers, Japanese businesses rely on inexpensive labour from Eastern Europe in the manufacturing and agricultural industries in the UK. If their access to such labour were restricted, staff shortages and increased labour costs could be reflected in such firms' product prices.

- Maintaining basic policies regarding the entry of foreign capital

- To maintain the UK's basic policy of keeping its market open to foreign capital in the fields of nuclear power plant construction, water supply and sewerage systems, garbage incineration and power generation. It would have an especially significant impact on the investment projects of Japanese enterprises if the UK changed its energy policy.

- Implementing measures to promote investment

- To implement measures to promote further investment including the easing of regulations to make the UK a more attractive market.
- Some Japanese businesses have their bases in the UK to oversee their activities in the EU. The Japanese business community hopes to see the UK implement measures to promote investment including the easing of regulations to make the UK a more attractive investment destination. Japanese businesses with their European headquarters in the UK may decide to transfer their head-office function to Continental Europe if EU laws cease to be applicable in the UK after its withdrawal.

- Maintaining current levels of information protection and the free transfer of data in case the UK establishes its own legislation distinct from the EU's

- (Concerns over restrictions on the cross-border transfer of personal data)
- Japanese businesses have concerns that the free transfer of information might be impaired once the UK releases itself from the EU's data protection legislation and establishes its own legislation.

- Ensuring the consistency of regulations and standards between the UK and the EU

- Not to increase the clerical burden when applying certifications based on regulations and standards that have force only in the UK and distinct from European Norms.
- There are concerns over the possible occurrence of a cumbersome or lengthy process for pharmaceutical approvals and an increase in the clerical burden once the UK establishes its own framework distinct from the EU's, in a move away from international efforts at the harmonisation of pharmaceutical regulations, the framework of mutual recognition of GMPs and the approval scheme operated by the European Medicines Agency.

- Ensuring that the EU's research and development budget applies to research institutions in the UK

- To subsidise research and development or implement alternative support measures in case the UK loses subsidies from the EU.

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Additional Request Directed at the EU

A request directed only at the EU with regard to their policies and measures taken after the withdrawal of the UK from the EU.

*Specific requests from Japanese companies are listed in the box under the heading below.

- Providing transitional arrangements for the single passporting system

- To introduce grandfathering measures for branches established in the EU through companies' UK headquarters with the single passport. In case there is a need to establish a new base in the EU, it is important to ensure the dissemination of accurate information on licensing procedures and the timing requirements as well as on measures to avoid the creation of extra burdens.

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