VEHICLES AND PARTS

PRELIMINARY REMARKS

• The aim of these Factsheet is to explain to EU exporters of Vehicles & Parts, the Japanese market access opportunities offered by the EU-Japan Agreement for an Economic Partnership (EPA) as well as, in a brief overview, the relevant Rules of Origin.

• As regards product specification, only the Harmonised System (HS) code system at six-digit level, or the Japanese nomenclature at nine-digit level have been used. For detailed description of the Japanese nomenclature, reference is made to the Japanese Schedule in the Agreement.

• In the Japanese Schedule, a fiscal year (FY) means the period between 1 April of one year and 31 March of the next year. As the Agreement has entered into force on 1 February 2019, the first year was the period between 1 February 2019 and 31 March 2019.

• All quantities are expressed in metric tonnes (t), unless stated otherwise.

• The complete text of the EPA, and annexes, incorporating the Schedule of Japan, can be found on the following website of the European Commission: https://trade.ec.europa.eu/doclib/press/index.cfm?id=1684. Japan’s tariff Schedule is in Annex 2-A-4; “Notes for the Schedule of Japan” can be found in Annex 2-A-3. These Notes explain inter alia the various types of concessions.
VEHICLES AND PARTS

1. PRODUCT COVERAGE

Products classified under the following Chapters have been considered in this Factsheet:

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This document has been prepared with the sole purpose of simplifying the understanding of some parts of the EU-Japan EPA and bears no legal standing.
2. MARKET ACCESS

• Apart from leather parts of seats used in vehicles (940190.021)\(^1\), all EU exports of vehicles and parts thereof have been liberalised and enter duty free in Japan.
• A majority of these tariff lines have been liberalised at MFN level (and hence outside EPA context), others were liberalised at the entry into force of the EPA, as a concession in this Agreement.
• The Schedule of the EPA only lists products which were not liberalised at the entry into force of the EPA. Products which had already duty-free access in Japan before the EPA entered into force or which have been liberalised at the entry into force of the Agreement are therefore not listed in the EPA Schedule.
• The complete list of all products, together with the base rates and applied tariffs under the EPA, including those with duty free access, can be found on the website of the Japanese Customs: http://www.customs.go.jp/english/tariff/2019_4/data/e_50.htm.
Caution: updates are published regularly with the preferential tariffs of the relevant fiscal year.
3. SPECIAL EPA PROVISIONS APPLICABLE TO VEHICLES & PARTS (ANNEX 2-C)

- The Agreement reached in this annex applies to all products of vehicles, their parts and equipment regulated by the 1958 Agreement[2] and the 1998 Agreement[3], with the exception of vehicles, their parts and equipment thereof, used exclusively for agriculture and forestry.

- Under this Agreement both Parties share the following objectives:
  - The promotion of high levels of safety, environmental protection and energy efficiency.
  - Trade facilitation between the two Parties and access to respective markets through regulatory cooperation, and elimination and prevention of adverse effects of non-tariff measures.
  - Enhancing the international harmonisation of requirements in the context of WP.29[4], and the mutual recognition type approvals granted in accordance with UN Regulations without requiring any further testing, certification or marketing.
  - Achieving convergence of regulatory requirements of the Parties through the application of UN Regulations and GTRs[5].

- Each Party shall accept on its market products which are covered by a type approval certificate, under the 1958 Agreement for the UN Regulations, as specified in Appendix 2-C-1 of the EPA, as compliant with its domestic technical regulations and conformity assessment procedures, without any further testing, documentation, certification or marketing.

This means that the EU and Japan align themselves to the same international standards. As a result, EU and Japanese cars would be subject to the same requirements; and in particular, owing to the introduction of the international whole vehicle type approved, EU cars would no longer have to be tested and certified again when exported to Japan.

EU exports of cars to Japan will be significantly simplified. The agreement in this context allows that a limited number of hydrogen-fuelled cars that are approved in the EU can be exported to Japan without further modifications. However, there are still several specific restrictions in terms of the material specifications. The matter of material qualification is currently being discussed in phase 2 of GTR13.

The Agreement additionally foresees a strong cooperation between the Parties and obligations to guarantee that the conditions contained in this Agreement can be maintained over time. In this context relevant consultation procedures have been defined.

[2] “1958 Agreement” means the Agreement concerning the Adoption of Harmonized Technical United Nations Regulations for Wheeled Vehicles, Equipment and Parts which can be Fitted and/or be Used on Wheeled Vehicles and the Conditions for Reciprocal Recognition of Approvals Granted on the Basis of these United Nations Regulations.

[3] “1998 Agreement” means the Agreement concerning the establishing of global technical regulations for wheeled vehicles, equipment and parts which can be fitted and/or be used on wheeled vehicles.


[5] GTR means a global technical regulation established and placed on the Global Registry in accordance with the 1998 Agreement.
• The Agreement furthermore includes an accelerated **dispute settlement procedure** on domestic regulatory procedures.

• A **safeguard clause** reserves each Party the right, during 10 years following the entry into force of the EPA, to suspend equivalent concessions or further equivalent concessions, in the event the other Party does not apply a UN Regulation specified in Appendix 2-C-1, or introduces or amends any other regulatory measure that harms the benefits of the application of an UN Regulation.

[6] The level of the suspension of concessions or other obligations shall be no more than the level of the amount of the bilateral trade between the Parties of products covered by the relevant UN Regulation.

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4. RULES OF ORIGIN

4.1. GENERAL

• To benefit from EPA preferential tariff rates, the product needs to be originating in Japan or the EU. In order to be considered ‘originating’, the product needs to comply with the provisions “Rules of Origin” of Chapter 3 Section A and the Product Specific Rules – PSR - (Annexes 3-A, 3-B, Appendix 3-B-1) of the Agreement.[7]

• A product shall be considered as ‘originating’ in the other Party if:
  - Wholly obtained or produced products as provided for in Art. 3.3 of the Agreement;
  - Products produced exclusively from materials originating in the Party (EU or Japan);
  - Products produced using non-originating materials, provided they satisfy all applicable requirements of Annex 3-B (PSR).

  - The **Chapter 3 Section A** includes provisions allowing more flexibility to comply with these Product Specific rules (tolerance, bilateral full cumulation, absorption rule etc.).

  - **Chapter 3 Section B** (“Origin procedures”) of the EPA sets out the procedures to claim preferential treatment. The EPA is based on the **self-certification system**, therefore the EU or Japanese exporters self-certify that the product is originating by making a statement on origin in line with Chapter 3, Section A including its Annex 3-D (“Text of the statement on origin” – can be found on [http://trade.ec.europa.eu/doclib/docs/2018/august/tradoc_157231.pdf#page=149](http://trade.ec.europa.eu/doclib/docs/2018/august/tradoc_157231.pdf#page=149)). Moreover, the EPA gives for the first time a possibility for the importers to claim preferential tariff treatment on the basis of ‘importer’s knowledge’, which contributes to trade facilitation for the related companies.

[7] More information can be found on the following websites:
Japan’s Customs: [http://www.customs.go.jp/english/c-answer_e/imtsukan/1524_e.htm](http://www.customs.go.jp/english/c-answer_e/imtsukan/1524_e.htm)

- **Annex 3-A** contains Introductory Notes to Annex 3-B (the Product Specific Rules of Origin).
- It includes a number of definitions, including the below listed:

  - **“Chapter”** means the first two-digits in the tariff classification number under the Harmonized System;
  - **“Heading”** means the first four-digits in the tariff classification number under the Harmonized System;
  - **“Subheading”** means the first six-digits in the tariff classification number under the Harmonized System;
  - **“Wholly obtained”:** EU/JPN origin is required.
  - **“CC (Change of Chapter)”** means than non-(EU/JPN) originating materials (imported from non-contracting parties) may be used in the production of the goods concerned, if these materials are classified under another tariff chapter of the goods in the HS classification system (at 2-digit level).
  - **“CTH (Change of Tariff Heading)”** means that non-(EU/JPN) originating materials (imported from non-contracting parties) may be used in the production of the goods concerned, if these materials are classified under another tariff heading of the goods in the HS classification system (at 4-digit level).
  - **“CTSH (Change of Tariff Sub-Heading)”** means that non-(EU) originating materials (imported from non-contracting parties) may be used in the production of the goods concerned, if these materials are classified under another tariff sub-heading of the goods in the HS classification system (at 6-digit level).

It furthermore provides the provisions for the tolerance rules applicable to certain products. The tolerance rules permit manufacturers to use non-originating materials up to a specific limit.
• Product Specific Rules of Origin (PSR) are laid down in Annex 3-B of the Agreement. This annex sets out (per 4 or 6-digit tariff heading) the requirements to be originating. Further to the three conditions specified under the above 2nd indent, these requirements can be:
  - a change in tariff classification,
  - a production process,
  - a maximum value of non-originating materials, or a minimum regional value content, or
  - any other requirement specified in Annex 3-A and in Annex 3-B (PSR).

• As in most of similar Agreements the EU has concluded with third countries, the EPA provides for a clause of “Bilateral Cumulation”. This clause specifies that if a product qualifying as originating in one Party, it is considered as qualifying in the other Party if that product is used as a material in the production of another product in the other Party (Art. 3.5 of the Agreement), or in other words bilateral cumulation allows inputs/materials originating in Japan to be considered as originating in the EU when further processed or incorporated in the EU and exported to Japan (and vice and versa). Only materials deemed originating can benefit from this basic type of bilateral cumulation.
4.2. SPECIFIC RULES AS REGARDS CERTAIN VEHICLE PRODUCTS AND PARTS

- The respect of the RoO provisions as specified in the EPA are a condition to benefit from the preferences contained in that Agreement.

- As a result, the PSR only concern Japanese imports of EU products which have a preferential treatment under the EPA, and do therefore not concern for instance EU products for which Japan has already granted duty free access at MFN level before the entering into force of the EPA. This is the case for a large majority of the products covered in this Factsheet.

- The EPA Appendix 3-B-1[8], containing provisions on rules of origin related to certain vehicles and parts thereof, does therefore not concern EU exports of these products to Japan as duty free access at MFN level has already been granted by Japan.

- Below an overview of the few products on which Japan applies an EPA preference and on which, as a result, EPA PSR are applicable.

- **Heading 3819.00 - Hydraulic brake fluids**
  - CTSH, meaning that non-(EU/Japan) originating materials, i.e. imported from non-contracting Parties, can be used in the production of these goods if these materials are classified under another tariff sub-heading, or
  - a chemical reaction, purification, production of standard materials, isomer separation or biotechnological processing is undergone, or
  - MaxNOM 50% (EXW) – meaning that the value of the non-originating materials cannot be higher than 50% of the ex-works price of the product paid or payable to the manufacturer in who’s undertaking the last working or processing is carried out, or
  - RVC 55% (FOB) – meaning that the minimum regional value content of the product is 55% of the free on-board price of the product paid or payable to the seller regardless of the mode of shipment.

- **Heading 7318.16 - Nuts of iron or steel**
  - PSR: CTH, meaning that non-(EU/Japan) originating materials, i.e. imported from non-contracting Parties, can be used in the production of these goods if these materials are classified under another tariff heading.

- **Heading 7604.29 – Solid profiles of aluminium alloys**
  - CTH and
  - MaxNOM 50% (EXW) or
  - CTH and RVC 55% (FOB)

- **Heading 8302.10 – Hinges of all kinds, of base metal**
  - CTH, or
  - MaxNOM 50% (EXW) or
  - RVC 55% (FOB)

- **Heading 9401.90 – Parts of seats**
  - CC, meaning that non-(EU/Japan) originating materials, i.e. imported from non-contracting Parties, can be used in the production of these goods if these materials are classified under another tariff chapter.

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DISCLAIMER

The Report has been prepared with the sole purpose of clarifying and simplifying the understanding of some parts of the EU-Japan EPA related to vehicles & parts, and bear therefore no legal standing.

While utmost care was taken in the preparation of the report, the author, the EU-Japan Centre, and the European Commission cannot be held responsible for any error or omission.

This report does not constitute legal advice in terms of business development cases. As a result, only the legal text and annexes of the EU-Japan EPA, as well as relevant legislation in the EU and Japan prevail.

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