

EU/Japan

## Trade talks with Tokyo hold high stakes for EU rail industry

By Isabelle Smets | Friday 17 January 2014

Tokyo will host the fourth round of talks meant to culminate in a trade agreement between the EU and Japan, from 27 to 31 January. While the focus is generally on the importance of these talks for Europe's automotive sector, the stakes are also high for the rail industry, which hopes to see a future trade deal enable it to boost its presence in Japan.

"This country's market is one of the most closed to our industry," confirms Philippe Citroën, director-general of UNIFE, the European rail industry association (Alstom, Siemens, Thales). In essence, there are two reasons for this state of affairs: first, the existence of an operational safety clause that de facto permits the Japanese to exclude European equipment by declaring it "not in conformity with safety standards". "The operational safety clause is used frequently to exclude foreign suppliers [...] in the rail transport sector," notes the Commission's impact study on the future agreement. Second, as a general rule, tendering procedures for Japanese public procurement lack transparency - "zero transparency," notes Citroën - complicating the process significantly for external suppliers.

As a result, Europeans have a very small presence on the Japanese rail market, accounting for barely a 3% market share. "Some manage to sell a bit of equipment - brakes, for instance - but this is a marginal phenomenon," continued Citroën. One firm that manages to do so is Thales (France). It has just been selected by the East Japan Railway Company (JR East) to modernise rail signalling equipment on a line in the Tokyo area. "Thales is the first non-Japanese company to penetrate the signalling equipment market," applauds Citroën. But such contracts are the exception and cannot compare, for example, with the one awarded to the Japanese rail equipment supplier Hitachi for renewal of the UK's ageing rolling stock from 2016, a contract worth GBP4.5 billion (€5.8 billion).

Does the Thales contract mark the start of an opening of the Japanese market? Some hope so. Others are more pragmatic, pointing out that it was foreseen from the start that the trade talks with Japan would be suspended if no progress was made on non-tariff barriers within a year. The deadline is close: the talks began in April 2013. The European Commission will be required to report and the Thales contract may come in handy to attest to the de facto openness of the Japanese market.

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