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UPDATE: US, Japan Agree to Pursue Limited Bilateral Trade Agreement

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KEY POINTS:

1. After sustained Japanese resistance, President Trump and Japanese Prime Minister Abe announced yesterday that the two **countries agreed to enter into talks for a “US-Japan Trade Agreement on goods**, as well as on other key areas including services.” There is a focus on early harvest.
2. Both sides agreed to **“refrain from taking measures against the spirit of this joint statement,”** and Abe subsequently asserted that Trump pledged not to apply 232 tariffs on autos due to the launch of negotiations. However, inclusion of **US goals for the auto sector – “to increase production and jobs in the United States” leaves the door open for continued pressure** on Japanese autos.
3. Meanwhile, the promise by the United States to not press for agricultural concessions beyond those “reflected in Japan’s previous economic partnership agreements” (TPP, EU-Japan) **may allow US agriculture to enter Japan on equivalent footing to Europe and the CPTPP countries.**
4. As with all deals with the Trump White House, **this announcement likely reflects a reprieve, not a dodged-bullet**, on auto tariffs, but the temporary truce is a positive development, as is the chance to level the agricultural playing field.

The Beginning of “Free, Fair and Reciprocal” Trade with Japan

Speaking alongside Japanese Prime Minister Abe this afternoon in New York, President Trump announced that **the US and Japan agreed to begin trade negotiations.** Trump expressed optimism before his bilateral meeting with Abe, [saying](#) “I think it will be something very exciting... **It can only be better for the United States... So I think it’s going to be better, really, for both countries.**”

The [joint statement](#) states the two countries “will enter into negotiations, following the completion of necessary domestic procedures, for a **United States-Japan Trade Agreement on goods, as well as on other key areas including services**, that can produce early achievements.” These discussions will be followed by negotiations on “other trade and investment items.” USTR Lighthizer has stated that he will pursue Trade Promotion Authority to engage in the talks.

The **US and Japan agreed to respect each other's positions on market access in certain sectors.** For the US, **“market access outcomes in the motor vehicle sector will be designed to increase production and jobs in the United States...”** In return, the Trump Administration agreed to **respect Japan's resistance to exceed existing commitments from** the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) or the EU-Japan agreement on agriculture, forestry, and fisheries. Agriculture remains a politically sensitive issue for the newly re-elected prime minister.

The statement also touched on **strengthening bilateral and trilateral cooperation** with the EU to **tackle “unfair trading practices”** of third countries, namely China, and to **advance discussions on WTO reform, intellectual property protection,** and e-commerce. A day prior, USTR Lighthizer and his counterparts from Japan and the EU had concluded their fourth trilateral meeting with a [statement](#) reaffirming a commitment to these initiatives.

Akin to the [US-EU deal](#) reached in July, the US and Japan agreed to **“refrain from taking measures against the spirit of this joint statement during the process of these consultations.”** However, the **inclusion of agreement to respect the US position on market access in the auto sector leaves doubts as to the duration of any reprieve on auto tariffs.** Meanwhile, the American Automotive Policy Council (representing Ford, GM and Fiat-Chrysler) issued a [statement](#) Wednesday pressing for the inclusion of **enforceable currency provisions** in any deal with Japan.

The statement continues, saying the two sides “will make efforts for the early solution of other tariff-related issues,” a **possible reference to Section 232 steel and aluminum tariffs.**

Yesterday's announcement of a bilateral negotiation was long-pursued by the Trump White House and constitutes a **middle ground.** Rather than being pushed into a return to TPP, the **Trump Administration may engage in talks aimed at opening Japan's market to US agricultural goods while buying Japan time to deal with possible Section 232 auto tariffs.** Building upon their first round of bilateral “free, fair and reciprocal” trade [talks](#) in August, USTR Lighthizer and Japanese Economic Revitalization Minister Motegi met Tuesday to lay the groundwork for yesterday's summit. Motegi had [told](#) reporters after the meeting that the **two sides “were able to reach a common understanding over the broad direction” of US-Japan trade.**

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