

The Europe- United States-Japan trade controversy

European File

The European Community, with its 270 million people, the United States (220 million) and Japan (116 million) are the three great bastions of the industrialized world. They account for more than half of the gross national product of the free world and 60% of its trade. The figures indicate the crucial role of this trio in international relations and the degree of their responsibilities to one another and the rest of the world.

The international economic crisis has brought trade tensions between these three great industrial powers to an almost unprecedented pitch. It is worthwhile, however, before turning to these problems and the current world situation, to recall the genuine and long-standing cooperation which exists between these trading partners. Trade disputes are only one side of the story.

The Community, the United States and Japan have very close economic and political relations. At the annual 'world economic summits' the Heads of State or Government of the United States, Japan and Canada consult with those of the Federal Republic of Germany, France, Italy and the United Kingdom and representatives of the Community itself. Cooperation is also enshrined in the Organization for Economic Cooperation and Development, the General Agreement on Tariffs and Trade (GATT) and a variety of other international organizations. High-level bilateral talks between the European Commission and the Japanese or United States governments take place several times a year. Each has a permanent diplomatic representation with the others.

The United States has always supported the goal of a unified Europe. Community-US agreements include a treaty on the peaceful use of nuclear energy and the supply of

enriched uranium to European industry. Others cover fishing rights and information exchanges on research and the environment. Alongside the settlement of immediate trade problems, the Community hopes to strengthen its cooperation with Japan on the industrial front and develop links in other areas, including energy, science and technology and the environment.

The interdependence of the three leading economies of the industrialized world is self-evident. Recession in the United States causes unemployment in Europe. Fluctuations in the dollar and the yen have a negative influence on world trade and the European economy. To shake off the present recession and generate new jobs multilateral cooperation must be strengthened in a number of fields:

- Energy: At the Tokyo summit in 1979, the United States, Japan and the Community, who cooperate in the International Energy Agency, agreed to limit their imports of petroleum. The European Commission believes that further joint efforts are necessary to improve control over fluctuations in the supply and demand for energy.
- Currencies: the instability of currencies is impeding investment. The Commission has urged a degree of concertation to reduce the variations in the value of the yen and the dollar against the European ECU. Recent US and Japanese statements favouring greater monetary stability have been received with interest.
- Opening up to the Third World: In 1981 Community public aid to the Third World represented 0.52% of its gross national product, compared to 0.20% for the United States and 0.28% for Japan. The Community would like to see coordinated efforts to boost the development and buying power of the Third World, to bring order to the world markets in raw materials and resolve the acute debt problems of poor countries.

In the trade field proper the Community has always urged the maintenance of an open world trading economy as a fundamental precondition for economic recovery. This position was recently reaffirmed by Mr Wilhelm Haferkamp, the European Commission Vice-President responsible for external trade. Any drift towards protectionism would clearly raise serious dangers for the Community as the largest world importer of energy and raw materials. The Community can only balance its trade books and safeguard jobs by exporting manufactured goods. The Community is in fact also the world's largest exporting power. Its sales outside the Community accounted in 1981 for 18.2% of world exports. The United States share was 13.5% and Japan 9.1%. Exports and imports combined represented 26.5% of the gross domestic product of the Community, compared to 17.7% in the United States and 26.1% in Japan. And yet Japanese imports of manufactured goods totalled only 2.5% of gross domestic product, against 5.7% in the Community and 5% in the United States.

The Community's trade with the United States and Japan has one thing in common. In both cases, the Community runs a large trade deficit, although for very different reasons. The combined deficit of the Community in trade with these two countries accounted in 1981 for 62% of its total deficit.

Community trade in 1981 with...

	United States			Japan		
	Millions of ECU ¹	% of Community trade	% of US trade	Millions of ECU	% of Community trade	% of Japanese trade
Community imports	49 585	16.3	22	16 204	5.3	13 ²
Community exports	37 169	13.9	16	5 604	2.1	6 ²

¹ One ECU (European Currency Unit) = about £ 0.60, Ir.£ 0.71 or US \$ 0.93 (at exchange rates current on 1 April 1983). In 1981, 1 ECU was about 1.1 US \$.

² 1980

Source: Eurostat.

The Community is in a unique trading position *vis-à-vis* the United States, Japan and every other country. As a corollary to the abolition of customs duties in trade between themselves, the Community countries have established a common customs tariff for imports from the rest of the world. It is therefore the European Commission, following the instructions of the Council of Ministers, which has the task of negotiating external trade agreements. As we shall see later, the experiment has been a success. It has allowed Europe to make itself better understood in the world by speaking with a single voice.

It should also be pointed out that the Community import tariff is one of the most liberal in the world. It was established by taking an average of the national tariffs previously in force, thereby reducing the highest rates. As a result of GATT negotiations, the average Community import tariff is to be reduced from around 9% to 7.5% between 1982 and 1988. At the same time, the Community and other GATT countries have agreed to take a series of measures to resist the protectionist trend provoked by the deepening recession.

This is not a simple task. More than ever, free trade cannot be allowed to become a one way street. At Bruges on 4 October 1982, Mr Gaston Thorn, President of the European Commission said: 'In times as troubled as these, governments are increasingly inclined to draw back into their shells. Let's be honest. No-one can completely resist this temptation, not even we in Europe. The Commission is constantly confronted by protectionist tendencies. We have the greatest difficulty in persuading our farmers, our industries and our governments of the dangerous boomerang effects of these protectionist temptations in a world so economically interdependent as ours. Neither can we afford to wallow in utopian illusions. At a time when the unemployed in the Community run into millions, no government can afford to be guided by theoretical models of perfect competition and insist on free trade at any price. What is needed is an agreement with all our trading partners on an acceptable balance between the advantages of untrammelled competition and the political and social constraints which make protective measures necessary from time to time. It is establishing this balance, in my opinion, which is the central problem of our trading relations with the United States and Japan.'

Europe-United States: the principle issues

The recession has hit hard in the United States as well as in Europe. It is hardly surprising therefore that complaints are made more vigorously than ever before, about certain

aspects of policy on both sides of the Atlantic. The Community believes it is vital to defuse these disputes through a dialogue on a basis freely agreed by equal and sympathetic partners.

- Criticism of the common agricultural policy is a constant theme of the US attitude to the Community. The United States accuses Community subsidies of creating unfair competition for American food exports. The Community's unflinching reply is that European food exports are sold at the world price and that the cost per head of subsidizing farmers is less in the Community than in the United States. In 1979 the comparative outlay was 1.05 ECU in Europe for every 1.28 ECU in the United States. Furthermore, GATT rules do not outlaw subsidies; they only forbid their use as a way of capturing an unfair share of the market. It is important to recall that the Community is the largest importer of agricultural goods in the world. Its agricultural trade deficit with the United States — which sells four times more foodstuffs to Europe than it buys — totalled 5 000 million ECU in 1980. From 1970 to 1980 the Community share of world agricultural trade fell from 16.6% to 14.9%. The US share increased from 38.9% to 44.8%. It is difficult, in the light of these facts, to justify accusations of an aggressive Community policy in agricultural trade. The US Government has lodged complaints under the GATT in many sectors — sugar, fruit preserves, grapes, poultry, pasta and flour — but no evidence can be produced to show that American difficulties are caused by subsidized Community sales. The Community showed that it was ready to enter into a dialogue on these issues when it recently agreed to take part in a two year programme of study and discussions in the GATT framework. But there can be no question of abandoning either the main principles of the common agricultural policy or the preferential agreements with Mediterranean countries, whose political importance has been recognized by the United States. Nor can the Community accept savage acts of retaliation by the United States, such as the recent agreement to sell wheat flour to Egypt at prices far below those on the world market. A complaint has been lodged under the GATT about this deal.
- Community exports of steel to the United States have also been called into question. The ten Community governments agreed to joint negotiations with the United States in this sector, one of the few not directly covered by the common overseas trade policy. The Community managed to substitute the threat of a severe import duty for a voluntary export restraint agreement, which was not so damaging to European exporters, although nevertheless a substantial sacrifice. The Community argued that public subsidies to European steel firms were strictly controlled and intended to restructure the industry, not to subsidize exports. The Community pointed out that its steel exports had remained at broadly the same level for a long period. The battle is not over yet. American companies have started an offensive against European exports of special steels, not covered by the original agreement.
- Another transatlantic bone of contention was the dispute lasting several months concerning the unilateral US decision to impose sanctions on European firms making parts, under American licence, for the Siberian gas pipeline to Europe. The stakes for the Community were considerable — the survival of a number of large firms but also its plan to reduce its dependence on imported energy from traditional sources. The volume

of gas imported from the Soviet Union will not be large enough to create a new form of dependence.

- Remaining in the energy sector, the artificially low price of hydrocarbons in the United States since the beginning of the 1980s has given a competitive edge to US exports of chemical fibres and intermediate petro-chemical products. The Community reacted by imposing countervailing duties as part of an anti-dumping action. The gradual increase in US oil prices from 1981 only partially resolved the dispute. American natural gas remains far cheaper than in most other countries.
- Since 1972 the Community has been contesting under the GATT the fiscal arrangements of the American Domestic International Sales Corporation (DISC) which amount to an export subsidy. American exporters operating under this system are spared a proportion of their turnover tax. Following constant pressure from the Community, the American authorities have recently promised to propose to Congress an alternative system which would be compatible with international trade law.
- The Community has also drawn the attention of the US authorities to the protectionist clauses in a number of draft laws tabled by members of the Congress.
- Other sensitive sectors are footwear and cars. In the first case American firms, in the second case European ones, fear that protectionist measures will cause a flood of exports from third countries onto their own markets.
- There are also a number of points of conflict between the Community and the United States on economic and even social policy. The strategy of economic stringency pursued by President Reagan has caused disputes with Europe over interest and exchange rates. The high value of the dollar and its fluctuations have hampered the management of European economies and increased the Community's balance of payments deficit. At the same time, American multinational companies have complained about a number of draft Community directives on the publication of company accounts and the right of workers to consultation and information.

Europe-Japan: closing the trade gap

Three major factors have created problems for relations between Europe and Japan:

- The imbalance in trade. There is no reason to expect all trade between all partners to be balanced at all times. The Community deficit in trade with Japan is actually slightly below that with the United States. But it is a matter for greater concern because the gap arises from one quarter of the overall volume of the US-European trade. Japanese penetration of European markets is constantly increasing. Community exports to Japan represent only one third of Japanese sales to the Community. It is especially worrying that the deficit is steadily rising, from 500 million ECU in 1970 to 10 600 million ECU in 1981. This structural imbalance in trade with Japan afflicts almost all industrialized countries. A major importer of energy and raw materials, Japan imports

the same quantity of manufactured goods as Switzerland, whose GNP is ten times smaller.

- One reason for this deficit is the innumerable obstacles faced by European firms wishing to export to Japan. Japanese customs duties are, on average, no higher than those in the Community. But problems are caused by their wide divergence on either side of this theoretical average. The duties are very small in sectors where there is no threat from international competition but much higher where the threat exists. In addition, quota arrangements and niggling standards regulations make importation virtually impossible in many cases. Perhaps still more important are a series of hidden obstacles, created by the close-knit relationships between Japanese industry, bankers, distributors and even certain arms of government. European industry has, in many cases, been slow to grasp the importance of the Japanese market but they have hardly been encouraged by the many barriers which protect Japan from foreign competition.
- The third problem has been the concentration of Japanese exports on the most sensitive sectors of the European market: cars, motor-cycles, televisions, video recorders and certain machine tools. Despite the restrictions imposed in some countries, Japanese exports in these sectors have increased to the point where they constitute a real threat to European jobs. Japanese video recorders have, for instance, captured more than 80% of the European market.

To combat these problems, the Community has taken action ranging from statistical monitoring of Japanese imports to complaints under international agreements. It has tabled a global complaint under the GATT, protesting against the economic structure which reduces the likelihood of Japan importing manufactured goods. The Community claims this distorts the rights and obligations which flow from the various GATT negotiations. This Community complaint is of obvious interest to Japan's other trading partners, who experience the same difficulties in penetrating the Japanese market.

The Community has also taken positive measures. Since 1979 it has financed a programme which aims to promote European exports (seminars, market studies, training of European executives in Japan). At the same time, it has asked Japan to increase its volume of manufactured imports to a level comparable with those of other industrialized countries. To this end, the Community has suggested a number of concrete changes, involving customs duties, taxes and quotas on a whole series of agricultural products, foodstuffs and industrial goods. Other changes have been proposed for the standards, testing and agreement procedures affecting pharmaceuticals, agro-chemicals, cosmetics, food additives, electrical and household goods and motor vehicles. The Community has also called for an opening up of the banking, distribution and insurance sectors as well as a 'gesture' by Japan in the purchase of European aeronautical equipment.

In 1982 the Japanese government announced a series of trade liberalization measures which, although a step in the right direction, covered only 10% of Community exports. These measures, mainly involving changes in import duties, were followed up early in 1983 by promises of reductions in a whole series of non-tariff barriers. At the same time, the Community has recently persuaded the Japanese authorities to moderate their exports

to Europe of a dozen products in sectors which have still to be fully restructured in the Community (video recorders, colour television tubes, cars and machine tools amongst others).

Nevertheless, there is still a long way to go. The President of the Commission has pointed out that it is the entire shape of the Japanese economy which must be modified to open itself to imports to the same degree as its major trading partners. Moderation of exports, the reduction of duties and abolition of import quotas are not, in themselves, sufficient. In a world shaken by the recession, growing protectionist pressures can only be resisted if all trading partners live up to responsibilities, equal to their economic and political powers.



All Community institutions have focused their attention on the trading problems which have arisen with the United States and Japan. The European Commission has spared no efforts to reach settlements satisfactory to both the Community and its partners. But the response to the challenge thrown down by the United States and Japan cannot be simply a commercial one. The industrial and research strategies outlined by the Commission for key sectors such as information technology, steel, cars and machine tools aim to promote the industrial modernization of the 'old continent' and ensure the medium and long-term competitiveness of Europe. The jobs of tomorrow and the orderly development of international trade depends, possibly above all, on the progress Europe makes in this direction ■



The contents of this publication do not necessarily reflect the official views of the institutions of the Community.

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