

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(81) 123 final

Brussels, 12th March 1981

THE COMMUNITY'S TRADE RELATIONS WITH THE UNITED STATES AND JAPAN

(Communication from the Commission to the European Council,
Maastricht, 23 and 24 March 1981)

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This note sets out the main features of our trade relations and problems with the United States and Japan as background for the discussion by the European Council of the item "Relations with the other industrialised countries".

United States

2. The Community faces a new United States Administration which is still elaborating its trade policy. The Commission has already drawn the attention of the new team in Washington to some of the problems we face particularly in the textiles sector where artificially low prices for natural gas and controls on the exports of naptha have given American exporters of petroleum chemicals and synthetic fibres advantages resented as unfair by European producers particularly in the present depressed state of the European market. The new Administration has said that it is committed to the removal of these measures but progress in this direction will need to be watched carefully. And quite apart from the problem of differential pricing the level of import penetration of US textiles in certain regions of the Community continues to cause problems. Other problems relate to steel where the recent rise in American "trigger" prices applicable to imports may exclude to a substantial degree Community supplies for some of which a traditional American market is vital. On the American side, agriculture will bulk largely and it will be necessary to convince the new American Administration

that the Community is ready to cooperate on agricultural trade questions but that in relation to such matters as the prospective agricultural trade consequences of Spanish and Portuguese accession and of the Community's Mediterranean policies, the political necessities before the Community must be recognised.

3. In these matters the Commission is seeking to establish as rapidly as possible the kind of close day to day relationship with the American Administration which has prevailed over the last four years and which played a significant part in the successful conclusion of the Tokyo Round and of the avoidance despite a number of difficult and major problems of a trade war over the last 18 months.

Japan

4. But the major problems in the trade field which the Community faces relate to Japan. The essential components of the problem - a combination of a large bilateral EEC trade deficit with Japan, deep Japanese inroads in sensitive sectors in Europe and the impermeability of the Japanese market - will be familiar to the Council. In 1980 these problems accentuated. The Community's bilateral deficit with Japan rose to some \$10.7 billion, Japanese exports to the Community rose by some 31% compared with a small net fall of Community exports to Japan and with substantially bigger rises to the Community market for certain television tubes and machine tools and for automobiles to particular Community markets; this was not accompanied by any significant opening up of the Japanese market.
5. In November therefore the Council issued a declaration setting out a number of points on which it considered that action was necessary both by the Japanese side and by the European. This declaration was discussed with the Japanese Foreign Minister, Mr Ito, when he

visited Brussels in December. And the considered Japanese reaction was explored at official level in Tokyo at the end of January this year. The Commission reported to the Council following these discussions and on February 17 the Council accepted the substance of the Commission's recommendations. In particular the Council reaffirmed its statement of 25 November in which it expressed its serious concern at the present state of trade between Japan and the Community and its likely future development. It thought the Japanese response to this statement had not been such as to remove the Council's concern. The Community's concern was at the Council's request conveyed promptly to the Japanese Foreign Minister by the representatives of the Member States and the Commission in Tokyo.

6. The Council further took a number of particular decisions including the institution forthwith of Community-wide surveillance on imports from Japan of passenger cars, colour television sets and tubes and certain machine tools, the pursuit of work and contacts with the Japanese on Japanese exports in the automobile and other relevant sectors, the pursuit of studies on the concentration of Japanese exports to the Community, the continuation of pressure on the Japanese to open up their market and a decision that the question of trade with Japan should be raised with other major industrialised trading countries on every possible occasion and in particular at the Western Economic Summit in Ottawa in July of this year in the context of the customary exchange of views on world trading problems.

Outlook

7. Against this background the most urgent current problems are
 - (a) the need for improved assurances from Japan in particular in relation to restraint in exports of cars to the Benelux market; contacts are in train here actively between the Commission, the Japanese and the Benelux authorities in collaboration with the 113 Committee;

- (b) possible American action to restrain exports of Japanese cars to the United States. We have made it clear to the Americans that any action of this kind would exemplify the essentially triangular nature of the Japanese problem (Japan - US - EEC) and could place the Community before some difficult decisions. The Commission is in close touch with the Japanese and the US Administrations to this end.

Further work

8. The Commission will be reporting further to meetings of the General Affairs Council as appropriate and will submit a further report before the meeting of the European Council in June. The main avenues of action it envisages will be
- (a) the establishment of a close working relationship with the US Administration, continued pressure on the US in relation to artificial controls on natural gas and naphtha and a careful watch on other potential problems such as steel;
 - (b) contacts and work with the Japanese authorities, in particular on cars, efficacious institution of the surveillance system with a report to the Council once the results for the first three months have been obtained, pursuit of the studies mentioned earlier and continued pressure on the Japanese to open up their market;
 - (c) encouraging the development by European enterprises of positive strategies to deal with Japanese competition; fundamental to this must be an improvement in European productivity and greater efforts to export to Japan;

(d) careful preparation in particular of the discussion at the Western Economic Summit in Ottawa in July of the Japanese problem. It will be necessary to make clear to our partners attending the Summit that we are not seeking in this context either to discuss particular bilateral problems between the EEC and Japan or to gang up against Japan but rather to discuss a major macro-economic political problem of major importance to the smooth functioning of the world trading system and hence to all major industrialised countries.