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RELATIONS BETWEEN THE COMMUNITY AND JAPAN RECENT DEVELOPMENTS

(Communication from the Commission)

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RECENT DEVELOPMENTS IN RELATIONS BETWEEN THE COMMUNITY AND JAPAN

(Annex to Communication on relations between the Community and Japan)

The purpose of this paper is to describe both the general development of economic and trade relations with Japan and the progress of the policy initiatives the Community has launched in the fields of trade and cooperation.

I. GENERAL ECONOMIC AND TRADE RELATIONS

1. The Community has consistently pressed Japan to reduce dependence on exports and move towards an economy led by domestic demand. It is encouraging that the changes in taxation and public expenditure decided in September 1987 are apparently having an effect on the growth of domestic demand, compensating for the fall in export demand over the last two years induced by the revaluation of the yen. In 1987 Japan's GNP grew by 3.7% in real terms, to which domestic demand made a positive contribution of 4.3% and the external side a negative one of 0.6%. The Commission's forecast for 1988 gives broadly similar results, a growth of GNP of 3.5% to which domestic demand would contribute an increase of 4.1% and the external sector a decrease of 0.6%.
2. The Commission welcomes these developments, to which the economic measures taken by the Japanese government have certainly contributed. If such growth continues for a certain time and generates substantial increases in imports, particularly of manufactures, it should contribute significantly to the reduction of imbalances in the world economy. However, there are signs that the competitiveness of Japan's exports may well recover, so compromising the process of adjustment. It is essential, therefore, that the Japanese authorities continue adequately to support domestic demand, so inducing an increase in imports that will contribute to the growth of the world economy. They should give the highest priority to this goal, as well as to their programme of tax reform.
3. Another striking feature of the last year is that Japan's trade with the Community has developed differently from that with the world as a whole. As might be expected from the movement of exchange rates, Japan's exports(1) to the Community grew by 6.1% in yen terms, while those to the world as a whole and to the United States fell by 5.6 and 10.4% respectively. The main increases in exports to the Community came from motor vehicles including components, office machinery and

(1) All yen statistics from Japanese sources.

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telecommunications equipment and the principal decreases from videos, radios and iron and steel products. On the import side, Japan's purchases from the Community rose significantly, by 8.7% or 19.9% if non-monetary gold is excluded (1). The main increases came from motor vehicles, textile products, pharmaceuticals and organic chemicals, with a decrease in non-monetary gold. In contrast, imports from the world as a whole changed little, while those from the United States fell significantly (-7%).

4. The consequence is that Japan's trade surplus in yen with the Community in 1987 changed little as, in value terms, the increase in exports roughly balanced the rise in imports. In contrast, Japan's surplus with the world as a whole and with the United States fell considerably, by 15.6 and 12.4% respectively. In absolute terms, the Community's deficit in 1986 was 22 billion ECU and in 1987 is likely to be of the same order. This is unsatisfactory as it represents a cover ratio of slightly over one-third, which is out of step with general trade between industrialized countries(2).
5. There is now a growing concentration of Japanese exports on the Community, now the main open and profitable market available due to exchange rate movements, a situation which is likely to continue. A general recovery in the competitiveness of Japan's exports, of which there are signs, could well increase the concentration on the Community market. The result is that the Community is in the process of becoming an increasingly important trade partner for Japan, both as a market and as a supplier. A few years ago, Japan's trade with the Community amounted to around one third but has now reached roughly one half of that with the United States.
6. The counterpart to Japan's surplus on merchandise trade and the rise of the yen is the massive increase in her investment abroad. While most of this has been in financial assets, direct investment has been rising rapidly and this trend is likely to continue. Direct investment in the Community is increasingly having an impact on its economy, though this investment is not on the same scale as that in the United States. While direct investment used generally to be welcomed, discussion is now growing about its contribution to the European economy. On the one hand, Japanese investment is welcomed when integrated into the European economy, so contributing to production, employment and the transfer of technology. On the other, doubt is growing about the value of assembly operations, or of those with insufficient value added, and about the competition between national and regional authorities in offering incentives to attract investment; particularly when sectors in difficulty are concerned. With further increases in Japanese investment expected, it may be time to

(1) Japanese statistics include non-monetary gold at its full merchandise value, although this gold was not produced in the Community but only traded through it.

(2) In ECU terms the cover ratio was 37% in 1987 as compared with 33% in 1986. Community statistics.

reflect further on such questions, particularly in the perspective of the creation of the single market, while bearing in mind the evolution of negotiations on trade-related investment measures in the Uruguay Round.

7. In contrast, investment by Community firms in Japan has remained on a small scale. Clearly direct investment can be essential to the penetration of the Japanese market, so a significant increase would be valuable, as a complement to a rise in the Community's exports to Japan. This may be the moment for the Community further to reflect on the obstacles to investment by Community firms in Japan.
8. It is clear that changes are taking place in Japan's economic and trade relations with the world as a whole, and that these generally go in the right direction. The problem is rather that change is not fast enough to reduce trade tensions significantly - the danger of a general turn to bilateralism or protectionism is still present. In the case of the Community, there is the particular worry that Japan's surplus has changed little and trade is increasingly concentrated on its market. Unless balanced by faster growth of the Community's exports to Japan, this could increase tensions over trade. It is essential, then, that Japan makes faster progress in opening her markets, both implementing her statements of intention and taking account of the Community's requests in a way that reflects its growing importance as a trade partner, and fully accepts her responsibilities so far as surges of exports of sensitive products are concerned. As things stand now, a real balance of advantages in relations with Japan still does not exist, and so should be pursued in a vigorous and consistent way. The completion of the single market by 1992 has added a further dimension, as Japanese exporters will also benefit from it.

II. SECTORAL ACTIONS UNDERWAY

9. Motor vehicles, cosmetics and medical devices. In July 1987, the Commission reported to the Council (1) on the results of discussions with the Japanese authorities on motor vehicles, cosmetics and medical equipment. In its conclusion the Council requested the Commission to invite the Japanese Government to set specific dates for the implementation of measures already agreed on and to state whether they could meet the Community's other requests concerning these sectors. The Commission put these questions in an aide memoire to the Japanese authorities in August and received a reply in late December. The Council of July 1987 also asked the Commission to report on the progress of these sectoral actions by the end of 1987; this report which takes account of the replies given by the Japanese authorities is given in full in Annex I and summarised here.

(1) COM(87)344 final of 9 July 1987.

10. In the case of cosmetics, the Commission is satisfied with the progress achieved, in particular regarding a new procedure for informal approval of ingredients for cosmetics, the further development of the comprehensive licensing system for categories of products and the introduction of a system to approve quasi-drugs by category. The Commission, therefore, proposes a monitoring approach; if necessary, discussions with the Japanese authorities can take place on an ad hoc basis or on the occasion of other sectoral discussions with the Ministry of Health and Welfare.
11. Progress has also been made on medical devices. For instance, the Japanese authorities have published a new and expanded edition of the Guide to Medical Device Registration in Japan and promised to make every effort on a case-by-case basis to reduce the approval period for new medical devices. Further improvements, however, could still be made on these and other issues. It would be appropriate, therefore, to continue discussions.
12. As for motor vehicles, many changes in standards, tests and approval procedures have already been obtained. Some recent changes involve the approval of rear fog lamps and the acceptance of European test procedures for the acceleration running noise level, as well as for brakes. For some of these changes, the means of implementation is still under discussion or study. At the same time, a number of serious barriers still exist, not only as regards standards, tests and approval procedures, but also discrimination against imported motor vehicles in insurance premiums and commodity and road taxes. In view of the economic importance of the sector, the Commission proposes to continue giving full attention to it in sectoral discussions.
13. Kansai Airport and large infrastructure projects. If effectively opened to international competition, these projects could offer major new opportunities to Community firms. The Commission has therefore insisted with the Japanese authorities on open competition and on transparent and fair procedures for procurement. It has also expressed its concern about reports of preferential treatment for American firms and stressed the need to avoid discrimination. The Commission continues to follow developments closely and is studying the follow-up needed in the case of Kansai International Airport. It is also preparing an inventory of other large infrastructure projects, as a basis for possible initiatives.

Annex 2 gives further information.

14. Financial services. With the support of the Member States, the Commission has pressed the Japanese authorities for further liberalisation of financial markets, in particular for the deregulation of interest rates and improvements in the operation of the interbank market. In April 1987, the Japanese authorities introduced the deregulation of interest rates for deposits of ¥100 million or more. While welcoming this sign of Japan's

commitment to the liberalisation of the financial sector, the Commission believes that this threshold is too high and should be reduced at least to Y10 million. On several occasions, therefore, it has insisted with the Japanese authorities on the more extensive and rapid liberalisation of financial markets and will continue to do so.

15. As for the proposal to improve the facilities available to European banks for financing imports into Japan, the Commission received last December replies from the Japanese authorities to its formal requests. These replies indicated that the Bank of Japan was not willing to make formal amendments to the Import Bill Financing Scheme, but accepted to increase the quota for European banks and operate the scheme more flexibly; there are already signs of this greater flexibility in the Bank's practices. The Commission considers this a positive step but is reflecting on the follow-up required on other aspects.

Further information is given in Annex 3.

III. NEW SECTORAL ACTIONS

16. Following the conclusions of the Council of July 1987, the Commission has prepared initiatives on dairy products, pharmaceuticals and the protection of intellectual property.

Dairy and other products. The Commission has sent a memorandum (see annex 4) on dairy products to the Japanese authorities dealing with certain obstacles to trade, for example quantitative restrictions and high rates of tariffs, to which their reply was negative. The Commission intends to have discussions on dairy products as soon as possible, as well as on pigmeat, phyto-sanitary questions, and other agricultural issues.

17. Pharmaceuticals. Explanatory talks have taken place with the Japanese authorities, who have shown their willingness to continue with more substantial discussions. A request list is being prepared for submission to the Japanese authorities and further discussions are expected before the summer break.
18. Protection of intellectual property. The Commission is sending the Japanese authorities a memorandum on one specific aspect, counterfeiting, that requests them to intensify efforts to devise and implement more effective measures to combat it and to increase protection. It then intends to begin discussions, most likely before the summer break.

IV. ACTIONS UNDER GATT

19. Wines and Spirits. Since the adoption of the panel's report by the GATT Council, the Commission has taken every opportunity to insist on its rapid

and full implementation. The decision of the Japanese authorities to link the revision of taxes on wines and spirits to the general tax reform is a disappointment. The Commission has asked for a report by the Japanese authorities to the GATT Council in February. The Japanese reply was that it was impossible to give precise indications of timing and referred back to the proposals of the LDP on the basic direction of the revision of the liquor tax law, its main points being the abolition of the grading system for whisky and brandy and the abolition of ad valorem taxes (see annex 5). The Commission will continue to present to the Japanese authorities its views on the implementation of the revision of the Liquor Tax Law at each stage of the process, before definite positions are adopted.

20. Semi-conductors. Following a complaint by the Commission under Article XXIII-2, the GATT Council agreed last April to establish a panel on trade practices adopted by Japan under the arrangement with United States on semi-conductors. The panel has met several times and its report to the Council is expected immediately.
21. Leather and leather footwear. In January the Commission had new consultations in Tokyo with the Japanese authorities on the implementation of the agreements, which representatives of Community industry also attended. At these the Commission made suggestions for improving implementation, which the Japanese authorities are considering.
22. Article XXIV-6. The Commission is following closely the implementation of the commitments the Japanese authorities made on the occasion of the discussions on Article XXIV-6 (accession of Portugal and Spain). At present it seems that the Japanese authorities are progressively carrying out their undertakings, except in the case of fortified wines for which they have not proposed a reduction of duties for the fiscal year 1988.
23. Quantitative restrictions on agricultural products. The Commission is following closely the implementation of the recommendations of the GATT panel on quantitative restrictions on agricultural products (panel requested by the United States). The Community has substantial interests in these products, so the Commission plans to have discussions with the Japanese authorities.

V. PRIOR SURVEILLANCE OF CERTAIN IMPORTS

24. In April 1987, the government of the United States decided to impose 100% duties on imports from Japan of certain personal computers, colour televisions and electric hand tools. Faced with the danger of a harmful diversion of Japanese exports to its markets, in May 1987 the Community introduced for a period of six months the prior surveillance of imports of these products from Japan. In October it extended this arrangement until April 1988, as the American measures remained partially in effect. The data collected shows that until now there has been no diversion of Japanese exports to the Community.

VI. SHIPBUILDING

25. The Commission will soon present a communication on action to be taken on shipbuilding. For the industry to survive measures are needed to face competition from Japan and other Far Eastern countries. The purpose of the communication then, is to propose the negotiation of an agreement with Japan on the stabilization of the world market for ships and the elimination of distortions in it.

VII. EXPORT PROMOTION PROGRAMME (EXPROM)

26. The Commission is actively developing its programme to promote exports to Japan. The first element of this is the Executive Training Programme, under which the Commission sends fifty young executives each year to Japan for intensive language courses and for experience of work in Japanese firms. The second is the assistance the Commission gives Community industry to promote exports, particularly through market studies and participation at trade fairs. Through such actions, it can back up sectoral actions to open markets (for example, trade missions on leather shoes, the opening of the Tokyo Shoe Fair to foreign participants and the preparation of an inventory of large construction projects). A first study is also underway to explore more systematic fashion than hitherto.

Annex 6 gives further information

VIII. COOPERATION ON TELECOMMUNICATIONS AND INFORMATION TECHNOLOGY

27. The Community has decided for domestic purposes to base its standardisation policy as far as possible on international standards. Consequently, both from the point of view of intercommunication and of export opportunities, it is in the Community's interest if Japan (and other countries) apply international standards for telecommunications and information technology. This would help to make the Japanese market more accessible to foreign suppliers of both equipment and services, and put the weight of major Japanese corporations behind international competition based on open standards. The Commission is consequently engaged in discussions with the Japanese authorities on standards for digital telecommunications and the interconnection of data processing systems. Discussions are also planned between the interested parties on reconciling European and Japanese proposals for high definition television standards, while maintaining compatibility with existing systems.

Annex 7 gives further information.

IX. COOPERATION ON SCIENCE AND TECHNOLOGY

28. Japan continues to follow three main goals, an increase in creative basic research, a greater contribution to international research and the pursuit of technology in harmony with society and nature. The Commission uses every opportunity to insist that these policy aspirations be put into practice and that the result be a greater balance of benefits for all partners in scientific cooperation and communication. To promote this, the Commission's approach is essentially to explore the fields where Japanese research is likely to be of interest and to increase the capacity of European scientists to draw real benefits from access to and interaction with Japanese work (for example through the Young Scientist Exchange Programme).
29. A field where the potential for mutually beneficial research exists is that of thermonuclear fusion. Negotiations at official level have progressed substantially on an agreement between the Community and Japan. After completing a feasibility study, the Japanese authorities are expected to propose to the Summit a programme of international cooperation on basic research into advanced biological functions : the Human Frontiers Science Programme. The Community should examine the proposal carefully and its response should depend on the possibilities for mutually beneficial cooperation.

Annex 8 gives further information

X. INDUSTRIAL COOPERATION

30. The Centre for Industrial Cooperation started operations last summer, with courses for European engineers and managers in Tokyo. The Centre also provides information services for European companies wishing to establish themselves in Japan or to identify potential Japanese partners. Although it is too early to reach firm conclusions, the Commission's initial impression is positive. A decision will have to be made in due course on the continuation of the Community's financial support for the centre after the end of this year.

XI. COOPERATION ON ENERGY

31. Relations with Japan in the field of energy continued to broaden in 1987. In May the Commission led a special industrial mission to Japan which explored areas for practical cooperation on fuel cells. Another issue which continued to figure large in relations with Japan was that of refining and trade in oil products. The Commission has been actively following the proposed changes in policy towards the petroleum industry in Japan announced in the autumn of 1987. The implications of the proposed rationalisation for the Community have been examined and will be raised

with the Japanese authorities in the spring of 1988. Detailed consideration was also given to the consequences for the Community of the proposed agreement on nuclear cooperation between the United States and Japan covering transfer of fuels and fuel cycle services.

Annex 10 gives further information.

XII. INFORMATION POLICY

32. The Commission is developing an intensive information programme in the regions of Japan, where a network of European Community associations is being built up among prefectural governments, chambers of commerce, women's and consumer organisations and the media. These associations are beginning to prove themselves useful vehicles for export promotion in areas where the market is largely untapped. They also enable the Commission, with the assistance of Member States, the European Business Council in Japan and the Centre for Industrial Cooperation, to create a more comprehensive and attractive view of the Community among Japanese consumers.

Annex II gives further information.

Annexes:

1. Motor vehicles, cosmetics and medical devices
2. Kansai International Airport
3. Financial services
4. Dairy products
5. Liquor tax law
6. EXPROM
7. Telecommunications and information technology
8. Science and technology
9. Industrial cooperation
10. Energy
11. Information Policy
12. Statistics.

Sectoral discussions with Japan on motor vehicles,
medical devices and cosmetics

I Objectives

1. In July 1987 the Commission reported to the Council the results of the sectoral discussions it had been conducting with Japan on motor vehicles, medical devices and cosmetics (COM(87)344 final of 9 July 1987). These discussions had taken place during the first half of 1987, with missions in February and June 1987. A joint summary of conclusions was agreed with Japan. The main conclusion of the Commission's report was that progress had been reasonable, but as yet insufficient.

2. The Council took note of this report and agreed the following (7943/87) :
 - i) The Commission should put to the Japanese a list of objectives, inviting Japan to set specific dates for the implementation of measures already agreed upon and inviting them to state by the end of 1987 whether or not they are in a position to act on other requests put to them on behalf of the EC;

 - ii) The Commission should make a progress report on motor vehicles, cosmetic products and medical equipment before the end of 1987, which should allow time in the intervening period for Japan to take the necessary decisions at the political level to satisfy the Community's complimentary requests and to implement at the technical level concessions already made;

 - iii) The Commission should prepare for sectoral discussions in other sectors, after ensuring that the Community industries are prepared to participate actively in the preparation and pursuit of such negotiations.

3. The present report describes the action taken by the Commission on the above conclusions of the Council. It contains an analysis of progress made on motor vehicles, medical devices and cosmetic products. A schematic overview is annexed.
The text of this annex has been agreed with the Japanese authorities.

II Results

4. In August 1987 the Commission sent an aide-mémoire to the Japanese authorities asking for dates for implementation of measures already agreed upon, and for Japan to revise its position on EC requests that had not yet been accepted. Japan was invited to reply before the end of 1987.

In the meantime, the Commission held meetings with representatives of the European industrial sectors concerned to evaluate the outcome of the discussions with the Japanese authorities. Those meetings showed that the cosmetics industry was generally satisfied and preferred a low-key approach for the time being, but that the non-satisfied EC requests on motor vehicles and, to a lesser extent, medical devices were of considerable importance to industry. Relatively few new requests were formulated.

A clarification of several requests in the aide-mémoire on cosmetics and medical devices was sent to the Ministry of Health and Welfare in November 1987. Outstanding issues were again mentioned to the Japanese authorities in December 1987.

The Japanese reply to the aide-mémoire was received late December 1987. The answers on medical devices and cosmetics were discussed with a delegation of the Ministry of Health and Welfare in Brussels in January 1988. Contacts on motor vehicles took place via the EC Delegation in Tokyo and the Japanese Mission in Brussels.

The Commission evaluates the Japanese reply to its aide-mémoire as follows :

5. Motor vehicles

The Commission asked for publication of a number of agreed changes regarding standards. Most of these have now been published. Still to come into existence are guidelines for the exceptional handling method for the front wheel alignment of cars (July 1988 is the target date) and a procedure for providing motor vehicle registration data to European manufacturers (under study by the European Business Council in Tokyo).

Since last June, the Ministry of Transport decided to accept the installation of rear fog lamps, as well as European test procedures for the acceleration running noise level (with slight modifications) and, in principle, brakes (subject to implementation). It also eliminated some required data on the specification table. It further brought the measuring method of the stationary noise level test into line with ISO standards, while exceeding the requirements of the relevant EEC/ECE guidelines by requiring adherence to prescribed noise level maxima. Finally, the Ministry of Transport reduced the intensity requirement of number plate lamps (subject to implementation). Research is still under way for revisions regarding head lamps, number plate attachment and speedometers.

A plan now exists for the elimination of insurance discrimination of foreign cars. This plan is scheduled for adoption this summer. A single rate for the commodity tax could possibly be part of the general tax reform to be decided upon later this year. This reform is planned to enter into force in 1989. As for the road vehicle tax, the Japanese Government has no intention to eliminate discrimination of larger cars, in which category most European imports fall. The dimension criteria for tax classification have not been abolished either. The Commission recently sent a memorandum on these issues to the Japanese Government.

In economic terms, the motor vehicle sector is the most essential of the current sectoral discussions. Progress on harmonisation of standards has on the whole been good. It remains important that European standards for head lamps, number plate attachment and speedometers be accepted. Also, the Commission feels that for the stationary noise level test the maximum values should be abolished and EEC/ECE test results accepted, while the steady running noise level test is unnecessary as such. Equally unnecessary is the heat warning device for catalysers. Finally, the elimination of discrimination of foreign cars in the commodity and automobile taxes, as well as in the insurance tariffs, is most important.

In view of the above, new discussions on motor vehicles should be envisaged. Applications are now being made for type approval of new European models on the Japanese market. These will serve to test Japan's implementation of recent changes, in particular regarding the acceptance last June of manufacturers' completion inspection under the type designation system. This evaluation, together with outstanding requests, should be taken up in the sectoral discussions foreseen by the Commission.

6. Medical devices

The Commission sought to increase the transparency of Japanese procedures by asking for the publication of an illustrative list of products sensitive for the adaptability of the body (which have to be clinically tested in Japan) and of guidelines for acceptance of foreign data. In response, the Ministry of Health and Welfare gave a definition of products sensitive for the adaptability of the body and declared itself ready for consultation in cases of doubt. A new edition was published of the Guide to Medical Device Registration in Japan, which includes a section on the acceptance of foreign data.

The Commission also asked a shortening of the approval period for new medical devices from twelve to six months. To this request only best efforts on a case-by-case basis were promised. Nor has Japan committed itself to a more rapid adaptation of reimbursement levels to technological change. It has, however, introduced certain consultation procedures, which may in practice bring about this result.

The Commission considers the Japanese reply to its aide-mémoire partly satisfactory. Shortening the approval period for new medical devices remains an important demand. Whether problems will persist regarding products sensitive for the adaptability of the body and rapid adaptation of reimbursement levels will have to be awaited. In general, the Commission would like the Ministry of Health and Welfare to transform its Guide to Medical Device Registration into a full-fledged handbook. Such a handbook would contain all the information that might be useful for an exporter in Europe. The current Guide still often refers to government publications not included in the Guide and available only in Japanese.

In discussions in Tokyo in December 1987 the Commission asked for the immediate implementation of international standards without any deviation into Japanese standards, for allowing all electrical safety tests to be performed by the manufacturer rather than by a designated laboratory, and for a general, rapid and simple procedure for allowing temporary imports for exhibition or demonstration purposes. More concrete information on this latter request was supplied by the Commission in January 1988. In reply, Japan committed itself to continue enhancing conformity of Japanese standards with international standards. It rejected the EC's request of having all electrical safety tests performed by the manufacturer. It is still considering the EC's request concerning the procedure for temporary imports for exhibitions or demonstrations.

In the view of the Commission, several problems remain in this sector of considerable economic importance. The Commission intends to follow up these problems in on-going discussions with the Japanese authorities.

7. Cosmetics

In this sector where relatively few problems were left after the discussions of last June, the Ministry of Health and Welfare produced an explanatory paper on the definition of cosmetics, quasi-drugs and drugs. It initiated a new procedure for informal approval of cosmetics ingredients, provided some information on how this procedure will work, but did not send a memorandum to the Commission outlining the details of this procedure, as asked for by the Commission. The comprehensive licensing system for cosmetics was improved by including some product categories of particular interest to European industry, by generally broadening product categories, and by announcing several new parts. More rapid progress should be possible in this area if Japan devoted more resources to this task. Similarly, the EC request to update ingredient lists within six months of approval rather than on a yearly basis continues to be rejected for lack of staff. Japan does envisage to introduce a system to approve quasi-drugs by category, but here again rapid progress depends on sufficient resources.

The Commission is generally satisfied with the Japanese reply on cosmetics. Outstanding requests are not of primary importance. Therefore, the Commission suggests to follow closely Japan's implementation of the new procedure for cosmetics ingredients, the development of an approval system by category for quasi-drugs, the broadening of product categories under the comprehensive licensing system for cosmetics, and the extension of this licensing system to new products. Further discussions with the Ministry of Health and Welfare could take place on an ad hoc basis.

III Conclusion

8. On cosmetics, the Commission is satisfied with progress achieved. The Commission proposes a low-key, monitoring approach. If necessary, discussions with Japan can take place on an ad hoc basis or at the time of other sectoral discussions with the Ministry of Health and Welfare.

Progress has also been made on medical devices. However, several problems remain. Further discussions would therefore be appropriate.

For motor vehicles, many changes in standards and procedures have already been achieved. The mode of implementation of some of these changes is still under discussion or study. At the same time, a number of serious barriers still exist. In view of the economic importance of this sector, the Commission proposes to continue giving full attention to it by means of sectoral discussions.

ANNEX (The text of this annex has been agreed with the Japanese authorities)

I. IMPLEMENTATION OF MEASURES ANNOUNCED BY JAPANESE AUTHORITIES IN JUNE 1987

<u>ITEM</u>	<u>ACTION REQUIRED</u>	<u>ACTION TAKEN</u>	<u>EC REQUEST SATISFIED?</u>
<u>1. Motor Vehicles</u>			
Clearance lamp standard.	Publication of abolition of 5 watt requirement.	Published 7/9/87.	Yes.
Horn sound test.	Publication of acceptance of ECE/EEC certificate.	Acceptable under existing regulations, as values to be entered in the specification table; no special publication.	Yes.
Vehicle exhaust emission durability test.	Publication of acceptance of changes in transmission systems and EPA report or manufacturer's test data.	Acceptable under existing regulations; no special publication.	Yes.
Heat shields.	Removal of reference to requirement for heat shield in standards or vehicle documentation.	Heat shields not obligatory; no special publication.	Yes.
Light alloy disc wheels.	Publication of acceptance of manufacturer's tests and stamps.	Already published on 23/1/87.	Yes.
Front wheel alignment.	Publication of acceptance of alternative methods.	Study on mode of acceptance to be concluded July 1988.	Yes, subject to implementation.
Seat reference point.	Publication of acceptance of ECE/EEC standards.	Already published on 30/7/83.	Yes.
Transmission of registration data to European manufacturers.	Implementation of agreement in principle.	Proposal on implementation under study by European Business Council in Tokyo.	Yes, subject to implementation.

ITEM	ACTION REQUIRED	ACTION TAKEN	EC REQUEST SATISFIED ?
2. <u>Medical devices</u>			
Illustrative list of products "sensitive for the adaptability of the body".	Publication of list.	Definition given 22/12/87; case-by-case consultation offered; letter to be sent to European Business Council in Tokyo.	Yes, subject to implementation.
Acceptance of foreign safety tests.	Publication of up-dated guidelines concerning acceptance of foreign data for medical devices.	Section added on acceptance of foreign data in new edition of the Guide to Medical Device Registration in Japan, published August 1987.	Yes, as a temporary solution. The rather summary Guide should now be developed into a full-fledged Handbook containing all useful information for European exporters.

ITEM	ACTION REQUIRED	ACTION TAKEN	EC REQUEST SATISFIED ?
3. <u>Cosmetic products</u>			
Definition of cosmetics, quasi-drugs and drugs.	Explanatory paper of Ministry of Health and Welfare.	Paper supplied 22/12/87.	Yes.
Advice on ingredients for cosmetics.	Publication of procedure for "optional consultation" of Ministry of Health and Welfare concerning ingredients alone.	Information on contact point supplied on 22.12.87. Document which in view of Japanese government provides full information transmitted on 01.03.88.	Yes, subject to implementation.

II. DECISIONS CONCERNING EC REQUESTS NOT YET ACCEPTED IN JUNE 1987

ITEM	ACTION REQUIRED	ACTION TAKEN	EC REQUEST SATISFIED
<u>1. Motor vehicles</u>			
Headlamps and auxiliary headlamps.	Acceptance of different standards from Japanese.	Study on acceptability to be concluded July 1988.	Under study.
Rear fog warning lamps.	Acceptance of such lamps.	Accepted in February 1988.	Yes
Number plate lamps and attachment.	Changes in Japanese requirements.	Light intensity requirement of number plate lamps to be reduced. Attachment under study with Japan Automobile Importers Association.	Yes, subject to implementation as to lamps. Under study as to attachment.
Heat warning device for catalysers.	Abolition	Exchange of technical information is furthered through EBC.	No
Acceleration running noise level test	Acceptance of ECE/EEC test data.	Acceptance published on 25/9/87, with minor modifications.	Yes, to a large extent.
Steady running noise level test.	Abolition.	Explanation was made concerning necessity of steady running noise level test.	No.
Stationary noise level test.	Abolition of maximum values and acceptance of EEC/ECE test data.	Replacement of stationary noise level test by proximity stationary noise level standard promulgated on 29/1/84	Partly

ITEM	ACTION REQUIRED	ACTION TAKEN	EC REQUEST SATISFIED
Braking.	Acceptance of ECE standard.	Study on mode of acceptance being conducted.	Yes, subject to implementation.
Specification table.	Removal of unnecessary data requirements.	Some items removed from specification table 1/12/87.	Yes.
Speedometer adjustment.	Acceptance of equipment complying with EC tolerance.	Study on acceptability to be concluded July 1988.	Under study.
Insurance tariffs.	Abolition of separate insurance tariff for foreign motor vehicles.	Introduction of new rating structure targeted for July 1988.	Yes, subject to implementation.
Commodity tax.	Fixing of a single tax rate, including removal of dimension criteria for tax classification.	The measures to correct the distortion of the present consumption tax system are now under discussion within the scheme of the comprehensive tax reform in the Taxation Council.	No.
Road vehicle tax (automobile tax).	More gradual increase in tax rates and removal of dimension criteria for tax classification	Reasons for rejection supplied.	No

2. Medical devices.

Duration of approval procedure.	Shortening of maximum time periods for approval.	Best efforts promised on a case-by-case basis.	No.
Health insurance reimbursement.	Changes in rules to allow more rapid adaptation to technological change.	Under discussion with the European Business Council in Tokyo.	Under study.
JIS standards	Implementation of newly adopted international standards into JIS standards should be immediate and without deviation.	Efforts to this effect are being made.	To be monitored.
Leakage current, insulation and dielectric strength tests.	Performance of these tests by the manufacturer rather than a designated testing body should be allowed.	Reasons for rejection supplied 22.12.87.	No.
Temporary importation for demonstration	A general, rapid and simple procedure should be developed to allow such temporary imports.	Commission was asked to supply more details.	Under study.

ITEM	ACTION REQUIRED	ACTION TAKEN	EC REQUEST SATISFIED?
3. <u>Cosmetic products.</u>			
Improvement of Comprehensive Licensing System.	<ul style="list-style-type: none"> - Broadening of product categories. - Updating ingredient list within 6 months of approval. - Change of priorities for products to be included in CLS. - Extension of CLS to quasi-drugs. 	<ul style="list-style-type: none"> - Some broadening has occurred. - Yearly updating promised. - Attention is being given to priorities of European producers. - Approval standards for quasi-drugs to be established by category. 	<ul style="list-style-type: none"> Partly. Partly. Yes. Yes, subject to implementation.

KANSAI INTERNATIONAL AIRPORT AND OTHER MAJOR INFRASTRUCTURE PROJECTS

The launching of big infrastructure projects in cooperation with private industry (Minkatsu) has become for the Japanese Government one important instrument for restructuring the economy away from export dependence to economic growth based on domestic demand.

The first and most publicised project was Kansai International Airport but others are firmly on the map: Tokyo Bay Bridge, the airport on the Isei peninsular etc.. The amounts are enormous (according to newspapers 140 billion USD) and have attracted the commercial interests of the US and Europe.

In January 1986 the Kansai International Airport Corporation (KIAC) invited interested firms to register for the bidding for the Kansai Airport project. The short notice given (until the end of February '86) gave a first indication of the slanted procedures used and provoked a first reaction from the Commission. The points stressed already at the time were, among others, that the bidding procedures must be open and non-discriminatory and that the technical definitions of the project should not be such that only Japanese firms would be prepared to satisfy them. It was pointed out to the Japanese authorities that the Community considered Kansai a test of the validity of the market opening measures the Government had announced.

A special effort was made to get industry to take an active interest. The Commission organised a very successful briefing of Community firms by the KIAC in May 1987 in which more than 70 companies participated, a number which surprised the sceptical Japanese.

A follow up questionnaire has in the meantime been sent out to the participants in order to find out what efforts they had made to enter the Kansai project and whether they had had any success. So far, about 25 firms have replied several of which had managed to become "registered suppliers" with KIAC. No orders had been received, but none were really expected for the present phase 1 (construction of the artificial island and access bridge). The chances should be better during phase 2 and 3 - building of the airport and supply of equipment.

At the political level Mr. DE CLERCQ and Mr. NARJES repeatedly pointed out to the Japanese, last in December, that the Community demanded non-discriminatory treatment of its firms with regard both to Japanese and foreign competitors.

The Commission is presently examining whether the GATT procurement code should apply to the purchases of goods for the Kansai project and whether a sufficiently solid case for such an application could be built to put pressure on the Japanese or if that does not help, to bring the case before the GATT.

It is now planned to use Commission's export promotion programme (EXPRO) to reinforce these efforts. As first step a consultant has been engaged to prepare an inventory of big construction projects throughout Japan so that the Commission will be able to intervene at an early stage. As a next step those firms which previously have shown a serious interest in the Kansai project will be contacted again in order to find out which difficulties they have encountered and what concrete support the Commission can give them.

FINANCIAL SERVICES

The Japanese authorities have continued the liberalization programme which they announced following the Yen/dollar Ad Hoc Committee Report (May 1984). However, the liberalization process has been too slow and some problems still remain, mainly in the commercial banking sector. The profitability of European commercial banks operating in Tokyo remains unsatisfactorily low because of high funding costs. This in turn is a direct consequence of interest rate regulation and the lack of a true inter-bank market in Japan.

The Japanese authorities decided to liberalize interest rates on deposits of Y100 million and over from the spring of 1987. The Commission considers this figure too high, and have consistently argued that it needs to be further lowered, to at least Y10 million, to produce practical effects. The Commission has also pressed for the creation of a liberalized and competitive inter-bank market.

These issues have been raised with the Japanese authorities (the Bank of Japan and Ministry of Finance) on several occasions, particularly through President Delors' memorandum to Governor Sumita in May 1986. They were also raised in the informal financial consultations between the Commission and the Japanese authorities which took place last July, during the subsequent visits of Mr. De Clercq to Tokyo and in Lord Cockfield's letter to Governor Sumita on the inter-bank market.

It was clear from these consultations that the Japanese authorities have a genuine interest in pursuing the liberalization of their financial markets and the internationalization of the yen. Substantial progress has already been made in the securities sector. However, as regards the deregulation of interest rates and the inter-bank market, neither the Ministry of Finance nor the Bank of Japan were prepared to give a firm commitment nor a precise timetable for further liberalization.

The Commission intends to continue its discussions with the Japanese authorities during 1988 with a view to securing an acceleration of the liberalization of the financial markets.

The Commission has also proposed to the Japanese authorities an arrangement for improving import financing by Community banks operating in Tokyo; this would enable them to play a much more effective role in helping European exporters interested in selling to Japan. The Japanese authorities replied last December to the Commission's formal requests. These replies were not very forthcoming on points of principle but indicated a greater willingness on the part of the Bank of Japan to be flexible on a case-by-case basis. The Commission is considering the follow-up required on other aspects.

DAIRY PRODUCTS

AIDE MEMOIRE

=====

The Commission of the European Community, in discussions with the Japanese authorities, in July 1987, raised the problem of exports of dairy products to Japan.

On that occasion the Commission drew the attention of the Japanese authorities to the fact that EC exports of dairy products to Japan are following a very negative path: in quantity terms, since 1979 to 1986, total EC exports of dairy products to Japan have decreased by 62 % (in 1979 : 103.850 t; in 1986 : 39.580 t), principally owing to the fall of preserved and concentrated or sweetened milk and cream from 88.320 t in 1979 to 12.310 t in 1986.

In the same period EC cheese and curd exports to Japan increased, but in the last 3 years cheese exports went down by 9.7% in quantity terms (28.700 t in 1985; 25.920 t in 1986).

In fact, the new support system introduced in Japan for natural cheese production foresees subsidies to milk producers for 5 years at the level of 20% higher each year, than the 1986 level of 200.000 tonnes of milk for cheese making.

The EC is very concerned about these measures because, during recent years, the domestic cheese production has been growing at a much higher rate than domestic consumption as a result of the existing protection of Japanese cheese production. Thus, over the last 3 years, the growth of rate of domestic production was 18% compared to an increase of consumption of 4% p.a..

Japanese statistics of all cheeses confirm this trend :

All cheeses' statistics of Japan (in tonnes)

Year	Domestic consumption	Domestic production	Imports from	
			World	EC
1984	95.000	16.000	79.171	27.468
1985	101.000	19.000	81.639	27.935
1986	103.000	22.000	81.207	26.174

The European Community attaches great importance to the development of its exports of dairy products to Japan, but the EC notes that the Japanese Government is following a policy that is bound to adversely affect these exports.

In particular the following measures affect EC dairy products' exports to Japan :

- quantitative import restrictions, which practically prohibit imports of processed cheese and limit imports of preserved, concentrated or sweetened milk and cream;
- administrative import system for cheeses for processing, which limit imports to the quantities decided by the Government;
- high rates of duty for processed cheese and natural cheese;
- "prior confirmation" system for buttermix, which limit imports, being practically used as a de-facto import quota.

Furthermore, import restrictions for preserved, concentrated or sweetened milk and cream, and processed cheese are incompatible with the GATT rules.

The Commission of the European Community expresses serious concern about the above mentioned problems and asks the Japanese authorities to give full response, at the forthcoming Ministerial Conference, to this EC request to take the following measures :

- abolition of quantitative restrictions for processed cheese and preserved, concentrated or sweetened milk and cream;
- abolition of the existing administrative measures for cheeses for processing;
- reduction from 35% to 15% of duty rate for processed cheese and natural cheese
- abolition of the "prior confirmation" system for buttermix.

THE BASIC DIRECTION OF THE REVISION OF THE LIQUOR TAX LAW

At its meeting on 10 November 1987, the GATT Council adopted the recommendation which calls on the Government of Japan to revise the (Japanese) Liquor Tax Law.

As the recommendation calls for a fundamental revision of the liquor tax which is the core of the Japanese indirect tax system, it will be dealt with in the context of the overall tax reform. And the basic direction of such a revision is established as follows. Details of the revision will be worked out without delay so that a prompt conclusion can be drawn.

Meanwhile, appropriate measures including the budgetary ones will be considered for the medium and small-scale makers of alcoholic beverages who will be severely affected by the Liquor Tax revision.

- (1) Abolition of ad valorem tax.
- (2) Abolition of grading system for whiskeys and thereby unifying the current tax rates applied to the special class, the 1st class and the 2nd class whiskeys.
- (3) Reviewing of tax rates which vary depending upon, i.e. the amount of extract, contained in wines, liqueurs, etc.
- (4) Narrowing the differences in tax rates applied to distilled liquors by the means including raising the tax rate applied to Shochu.
- (5) In revising the indirect tax system as part of the overall tax system reform, the liquor tax will be examined with due consideration given to narrowing the differences in tax burdens among various alcoholic beverages, including the review of the grading system for Japanese Sake.

EXPORT PROMOTION PROGRAMME (EXPROM)

Since 1979 the Commission of the European Communities has been actively helping European firms to enter the Japanese market by providing management training, market studies, logistic and financial help for trade missions and other trade promotion services.

At the centre of this programme is the Executive Training Programme (ETP), under which the Commission has sent more than 200 young executives from export oriented firms to Japan for eighteen months of intensive language and business training. Approximately 80% of the participants are now working for European firms in Japan or are otherwise active in the Japan oriented export trade of their firms. Some of the companies claim that the training of their candidate was decisive for their success in Japan. This seems to be confirmed by the fact that a number of ETP graduates have in the meantime reached leading positions in the management of their company's Japanese subsidiary.

EXPROM can reinforce political action aimed at opening the Japanese market, as in the case of alcoholic beverages. A very comprehensive market study provided evidence of discriminatory fiscal treatment of imports. On the basis of this, the Commission was able to persuade the Japanese authorities to modify certain dispositions and to pursue the matter in the GATT on those points that were not resolved bilaterally.

In other instances EXPROM makes it possible for industry rapidly to seize new opportunities opened up by political action. For example, when the Commission obtained a partial opening of the heavily protected market for leather shoes, industry was quick to react. Its European Federation immediately organised a trade mission which received financial and organisational support from the Commission. On this occasion, and at the insistence of the Commission, the Tokyo Shoe Fair was opened for the first time to foreign participants.

It should, however, be underlined that the projects to which the Commission gives its support have to benefit a representative group of European firms located in more than two or three Member States.

EXPROM also undertakes market studies and a census of European investment in Japan. It provides a directory of European firms in Japan which are ready to help newcomers, and is also now preparing an inventory of major construction projects in Japan with a view to facilitating European firms' participation.

COOPERATION ON TELECOMMUNICATIONS AND INFORMATION TECHNOLOGY

The aim of Community policy is to encourage Japan both to adopt international standards and to apply them in such a way that Community and Japanese systems are compatible. This would help to limit the scope for non-tariff barriers in the Japanese market and to make it more accessible to foreign suppliers of both equipment and services. It would also put the weight of major Japanese corporations behind international competition and prevent the imposition of de facto national or manufacturers' standards. It would also assist the integration of European and Japanese communications and information systems. These objectives reflect, of course, the Community's decision to use international standards for its own telecommunications and computing activities.

This approach has led to concrete activities in several fields of which the most important are described below.

Open Systems Interconnection (OSI)

International standards are being developed and applied that allow the interconnection of data processing equipment of different types and makes. The Commission and the Japanese authorities have annual high-level consultations and a joint technical working party on the development and implementation of OSI standards. They have recently agreed to develop cooperation on conformance testing and investigate the possibility of joint demonstrations.

Telecommunications

The Japanese authorities have recently let it be known that they are ready to proceed with the implementation of international standards for digital telecommunications. At the end of 1987 they agreed to the Commission's proposal to hold annual high-level consultations and to create a technical working group. This group would initially concentrate on standards for Integrated Services Digital Network (ISDN), a polyvalent system of digital networks and terminals that can carry a wide range of services, and on the architecture of future international communications networks.

In the future there will also be the question of cooperation on broad-band communications which can handle more sophisticated services, and more generally the research and development aspects of telecommunications.

The Commission will also continue to press the Japanese authorities and their telecommunications operating companies, notably NTT, to open their procurement markets to international competition.

High Definition Television

The Japanese broadcasting authority (NHK) and certain electronics companies have developed a new television system and begun demonstrations; they plan to begin regular satellite broadcasting in 1990. This system (known as "Hi-Vision") has a major draw-back, incompatibility with existing broadcasting and receiving systems, so that completely new equipment would be needed. In 1986, the responsible international organisation, the International Radio Consultative Committee (CCIR), did not agree to the proposed world standard based on the Japanese system and will not now take a decision until 1990.

In the Commission's view, it is essential for the acceptability of high definition television that it be compatible with existing equipment, and that there should be one production standard throughout the world so as to facilitate the exchange of programmes and the development of the European broadcasting industry in general, particularly as regards export opportunities. This is all the more important as the future standard will apply not only to television but also to cinema, video, colour printing and advertising.

Several Community enterprises are currently engaged in a substantial research and development effort, financed under the auspices of Eureka, to prepare an alternative and more advanced system, the crucial advantage of which would be compatibility with existing and planned broadcasting and receivers, including the European D2 MAC satellite broadcasting standard. The manufacturers and broadcasters involved in this project plan to demonstrate a complete chain of equipment in operation later this year.

From the Commission's point of view, it is important both to spread information and strengthen understanding of the European proposal and to seek agreement with interested parties in Japan, the United States and other countries with a view to a single world production standard.

Discussions with the Japanese authorities on the reconciliation of the two approaches are expected to begin later this year.

COOPERATION ON SCIENCE AND TECHNOLOGY

Japan is continuing its efforts to achieve three broad goals, an increased level of creative basic research, a greater contribution to international science and technology and the pursuit of science and technology in harmony with society and nature.

After completion of a feasibility study (in which scientists from Summit countries and the Community have been involved in their personal capacities), it is expected that Japan will propose to the Toronto summit an international programme of cooperation on basic research focussed on advanced biological functions. This initiative, the 'Human Frontiers Science Programme', would support all three goals of Japanese science and technology policy. The response from all Summit participants will undoubtedly be cautious, with concern that the benefits of cooperation should be mutual.

Recognising such reservations, Japan is unilaterally taking some initiatives to facilitate foreign access to its research system. A recent initiative has been a programme under which one hundred foreign scientists will pass a year in a Japanese national laboratory, the cost being met entirely by the Japanese side.

The Community's approach has essentially been the exploration both of the research fields in which Japanese work is likely to be interesting and of the conditions under which cooperation is likely to be to our benefit as well as to that of Japan. The first element is exemplified by the current study on Japanese strengths and weaknesses in the research fields covered by the Human Frontiers Science Programme, and the second by the Community's pilot scientific training programme in Japan. The aim of this is to explore the possibility of increasing the Community's pool of scientists capable of interacting fruitfully with the Japanese research effort.

A field where the potential for mutually beneficial research exists is that of thermonuclear fusion. Negotiations at official level have advanced substantially on an agreement between the Community and Japan, which awaits the approval of the Council and the Japanese government.

INDUSTRIAL COOPERATION

The EC-Japan Centre for Industrial Cooperation was opened in June 1987 and started its first training course with five senior European engineers in August of the same year. A further six engineers and managers have been sent to Tokyo at the beginning of January 1988, and it is planned to have two more courses, for 20 people each, starting in April and July of this year.

Although it is still early to make any definitive judgment about the results of the first course which has only just ended, the Commission's impression is that the experience has been a positive one, and there is evidence of growing interest among European companies in the courses organised by the Centre.

This is because the Centre's activities clearly fill a gap in the facilities offered to European companies wishing to set up in Japan or to improve their knowledge of Japanese production and management methods, by providing courses that can be tailored to individual needs, that are flexible both as regards content and duration (4 to 6 months), and that are specifically aimed at senior and middle-ranking executives.

The Centre also provide information services for European companies wishing to establish themselves in Japan or to identify potential industrial partners. It has already handled more than a hundred enquiries of the most diverse nature, and is establishing a register of all existing services for foreign companies in Japan, thus making it possible to direct all enquiries to the best point.

The pilot phase of the Centre lasts until the end of this year, and the Council will therefore be called upon to decide about its future in the course of 1988. In view of this, the Commission will present the Council with a detailed report on the functioning of the Centre.

COOPERATION ON ENERGY

There was during 1987 ongoing contacts between EC and Japan on general energy issues. Being dependent on imports for a large proportion of energy requirements the EC and Japan both share a common interest in world energy developments. Exchanges of views on these issues are a common element in EC/Japan relations. Relations between EC and Japan in the energy area have been deepening in recent years. An example of this was the special industrial mission to Japan in May 1987 led by the Commission which examined the possibility of cooperation between the EC and Japan on Fuel Cell technology.

The Japanese New Energy Development Organisation (NEDO) gives financial support to a number of fuel cell demonstration projects of up to 1000 KW in size. Similar efforts are being made in the US and in the EC. Italy is constructing a 1000 KW plant and others are under consideration in some Member States. Practical areas of cooperation were identified by some of the representatives of eleven European industrialists who took part in the mission.

Following the agreement reached at the IEA Ministerial meeting in 1985 the Japanese Government has continued with the liberalisation of its market for petroleum products. This issue has featured prominently in bilateral and multilateral contacts which the Commission has had with the Japanese for a few years now. Changes in Japanese policy towards the domestic petroleum industry were proposed in a report presented to MITI by the Japanese Petroleum Council. The effects of these measures will be one of the items to be considered during a special energy mission to Japan which the EC hopes to undertake in the first half of 1988.

The implications for the EC of the new proposed US /Japan nuclear cooperation agreement was actively examined by the Atomic Questions Group.

INFORMATION POLICY

The aim of this policy is ultimately to improve the economic balance more in favour of the Community by establishing a more comprehensive, sympathetic image of the Community at grass-roots level in the regions. There are 47 prefectures in Japan, many of which have been attracted by the wave of "internationalisation" which is a recent phenomenon in Japan. The Commission began systematically creating a permanent regional information infrastructure in Japan just before this wave began to take shape, and reactions at regional level to the Commission's approach have been encouraging.

The Commission is currently trying to persuade European businessmen, both those already in Japan and those who have not yet realised that the Japanese market has become markedly more open in the past two years, that they should explore the regions of Japan for export possibilities. There are especially good opportunities for links among small and medium-sized businessmen. Whereas the Community's export performance in 1987 was laudable, if a genuine breakthrough is to come in correcting the economic imbalance it could come in the regions.

Member States embassies and Chambers of Commerce, the European Business Council (E.B.C.), sectoral trade associations and individual business enterprises and the EC-Japan Centre for Industrial Cooperation are able to use these associations as a vehicle, for their activities in the region.

The Commission's Delegation in Japan has backed up this programme with a new series of publications in Japanese explaining Community policies. The attendant publicity in local, regional and even national media, as these associations pursue EC-related activities, has enhanced understanding of the Community in Japan.

STATISTICS ON TRADE AND INVESTMENT

JAPAN'S TRADE WITH EC (12)
1985-1987

- in bio Yen -

	1985	Change %	1986	Change %	1987*	Change %
J. Exports to EC (FOB)	4.952,5	+ 4,1	5.173,7	+ 4,5	5.490,0	+ 6,1
J. Imports fr. EC (CIF)	2.223,7	- 4,4	2.348,3	+ 5,6	2.552,2	+ 8,7
(Imports without Gold)	(2.117,6)	(- 1,1)	(2.095,1)	(- 1,1)	(2.512,3)	(+ 19,9)
Balance	+ 2.728,8	+ 12,2	+ 2.825,4	+ 3,5	+ 2.937,8	+ 4,0
(Balance without Gold)	(+ 2.834,9)	(+ 8,3)	(+ 3.078,6)	(+ 8,6)	(+ 2.977,7)	(- 3,3)

* Provisional

Source : Japan Ministry of Finance.

Japan's trade with World, EC(12), U.S.A.

- in bio yen -

	1984	Share %	1985	Share %	Change %	1986	Share %	Change %	1987 *	Share %	Change %
<u>Exports (FOB) to :</u>											
World	40.325,3	100	41.955,7	100	+ 4,0	35.289,7	100	- 15,9	33.317,0	100	- 5,6
EC (12)	4.758,4	11,8	4.952,5	11,8	+ 4,1	5.173,7	14,7	+ 4,5	5.490,0	16,5	+ 6,1
U.S.A.	14.221,2	35,3	15.582,7	37,1	+ 9,6	13.563,7	38,4	- 13,0	12.148,0	36,5	- 10,4
<u>Imports (CIF) from :</u>											
World	32.321,1	100	31.084,9	100	- 3,8	21.550,7	100	- 30,7	21.720,0	100	+ 0,8
EC (12)	2.326,3	7,2	2.223,7	7,2	- 4,4	2.348,3	10,9	+ 5,6	2.552,0	11,7	+ 8,7
U.S.A.)	6.363,6	19,7	6.213,4	20,0	- 2,4	4.917,8	22,8	- 20,9	4.575,0	21,1	- 7,0
<u>Trade Balance with :</u>											
World	+8.004,2		+ 10.870,8		+ 35,8	+ 13.739,0		+ 26,4	+ 11.597,0		- 15,6
EC (12)	+2.432,1		+ 2.728,8		+ 12,2	+ 2.825,4		+ 3,5	+ 2.938,0		+ 4,0
U.S.A.	+7.857,6		+ 9.369,3		+ 19,2	+ 8.645,9		- 7,7	+ 7.573,0		- 12,4

* Provisional

Source : Japan Ministry of Finance

- bio. Yen -

	Exports Value	Change		Com- position %
		Value	Rate %	
TOTAL J. EXPORTS, of which	5.490,0	+ 315,9	+ 6,1	100
products with trade increase: =====				
<u>Transportation equipment</u>	1.405,5	+ 184,2	+ 15,1	25,6
- Motor vehicles	1.012,6	+ 120,0	+ 13,4	18,4
- Automotive parts	175,6	+ 35,7	+ 25,5	3,2
- Motor cycles	103,8	+ 14,0	+ 15,5	1,9
<u>Non-electric machinery</u>	1.168,4	+ 103,7	+ 9,7	21,3
- Office machinery	588,4	+ 64,5	+ 12,3	10,7
- Power generating machinery	100,3	+ 20,3	+ 25,4	1,8
- Construction/mining machinery	44,8	+ 6,1	+ 15,8	0,8
<u>Electr. machinery/equipment</u>	1.052,9	+ 73,4	+ 7,5	19,2
- Telecommunications	242,8	+ 73,7	+ 43,6	4,4
- Electric power machinery	46,1	+ 4,4	+ 10,5	0,8
products with trade decrease: =====				
Scientific/optical equipment	430,8	- 5,3	- 1,2	7,8
Semiconductors/electronics	171,8	- 8,3	- 4,6	3,1
VTRs	139,6	- 32,3	- 18,8	2,5
Metal products	104,9	- 19,9	- 15,9	1,9
Records/tapes	96,2	- 8,2	- 7,9	1,7
Radio receivers	82,6	- 16,1	- 16,3	1,5
Synthetic fabrics	44,2	- 14,8	- 25,0	0,8
Clocks & watches	38,1	- 12,9	- 25,4	0,7
TV receivers	27,8	- 6,4	- 22,7	0,4

Source: Ministry of Finance, Japan

- bio. Yen -

	Imports	Change		Com-
	Value	Value	Rate %	position %
TOTAL J. IMPORTS, of which	2.552,2	+ 203,5	+ 8,7	100
products with trade increase: =====				
<u>Machinery & equipment</u>	790,4	+ 169,8	+ 27,4	31,0
- Motor vehicles	274,0	+ 106,5	+ 63,6	10,7
- Scientific/optical equipmt.	48,9	+ 3,9	+ 8,7	1,9
<u>Chemicals</u>	561,8	+ 69,9	+ 14,2	22,0
- Pharmaceuticals	138,5	+ 22,5	+ 19,4	5,4
- Organic chemicals	169,0	+ 18,3	+ 12,6	6,6
<u>Foodstuffs</u>	259,5	+ 23,9	+ 10,1	10,2
- Alcoholic beverages	64,2	+ 13,5	+ 26,7	2,5
Textile products	190,6	+ 32,7	+ 20,7	7,5
Non-metal mineral products	108,0	+ 17,5	+ 19,3	4,2
products with trade decrease: =====				
Raw materials (such as soya beans, wood, pulp etc.)	51,2	- 2,3	- 4,4	2,0
Mineral fuels	15,5	- 18,5	- 54,4	0,6
Aircraft	14,2	- 6,6	- 31,9	0,5
Gold for non-monetary use	39,9	- 213,6	- 84,3	1,6

Source: Ministry of Finance, Japan

JAPAN'S TRADE WITH EC (12) AND USA

- Bio Yen -

I. Japanese exports to :			
	U.S.A.	E C (12)	EC/USA (%)
1984	14.221,2	4.758,4	33,5
1985	15.582,7	4.952,5	31,8
1986	13.563,7	5.173,7	38,1
1987*	12.148,0	5.490,0	45,2
II. Japanese imports from :			
	U.S.A.	E C (12)	EC/USA (%)
1984	6.363,6	2.326,3	36,6
1985	6.213,4	2.223,7	35,8
1986	4.917,8	2.348,3	47,7
1987*	4.575,0	2.552,0	55,8
III. Trade balance with :			
	U.S.A.	E C (12)	EC/USA (%)
1984	+ 7.857,6	+ 2.432,1	30,9
1985	+ 9.369,3	+ 2.728,8	29,1
1986	+ 8.645,9	+ 2.825,4	32,7
1987*	+ 7.573,0	+ 2.938,0	38,8

* Provisional

Source : Ministry of Finance, Japan.

Japan's Direct Investment in the EC by Industry and Country (cumulative to 31 March 1987, on a notification basis) (unit: US \$ million)

	UK	FRG	FRANCE	NETHERLAND	BELGIUM	LUXEMBOURG	IRELAND	ITALY	GREECE	DENMARK	SPAIN	PORTUGAL	EC-12
Food	13	5	47	8	-	-	-	8	-	-	3	-	84
Textiles	9	-	47	2	0	-	104	9	-	-	19	8	190
Lumber & pulp	-	-	0	-	-	-	-	-	-	-	0	-	0
Chemicals	6	21	18	68	36	-	0	12	16	-	44	1	222
Ferrous & non-ferrous	29	0	56	30	25	-	6	3	76	-	24	-	257
Machinery	91	69	40	21	15	-	1	7	-	2	6	1	261
Electrical machinery	177	128	52	30	10	4	28	6	-	-	57	1	493
Transport machinery	97	8	6	1	32	-	-	42	0	-	302	6	494
Others	61	45	44	29	121	-	21	13	2	0	6	5	347
Sub-total	483	277	318	198	238	4	160	100	94	2	461	22	2357
Agriculture & forestry	0	-	-	-	-	-	0	-	-	-	0	-	0
Fisheries & marine	0	-	-	-	-	-	1	0	-	-	1	-	2
Mining	818 *	-	55	-	-	-	17	-	-	-	-	-	890
Construction	21	18	-	17	0	-	-	-	-	-	0	-	56
Commerce	506	861	343	614	221	2	5	61	1	14	59	2	2689
Banking & insurance	1380	74	26	1417	204	2100	-	0	-	-	2	3	5294
Services	51	11	85	19	20	1	146	4	-	1	-	-	330
Transportation	2	2	0	6	9	-	-	-	-	-	-	-	19
Real estate	91	1	10	11	2	20	-	-	-	-	0	-	135
Others	708	50	16	49	11	102	1	5	-	-	-	0	950
Sub-total	3586	1025	536	2133	467	2305	170	70	1	15	62	5	10375
Branch establishment & expansion	42	245	103	4	84	-	2	32	-	0	75	0	507
Real estate	13	5	15	0	0	-	0	1	-	0	1	0	35
TOTAL	4125	1552	972	2335	789	2309	332	203	95	17	599	26	13355

Source: Ministry of Finance, Japan

Note: * including the Japanese acquisition of equity worth \$780 million of the ABU DHABI Marine Areas from British Petroleum in FY 1972

Cumulative Total of Japanese Direct Investment
at Fiscal Yearend. FY (Fiscal Year) 1980-86

(Unit: Millions of U.S. Dollars / (%))

Area \ FY	FY1980	FY1981	FY1982	FY1983	FY1984	FY1985	FY 1986
Europe	4.471 (12.3)	5.270 (11.6)	6.146 (11.6)	7.136 (11.6)	9.072 (12.7)	11.002 (13.2)	14,471 (13.7)
EC	3.851 (10.6)	4.532 (10.0)	5.300 (10.0)	6.189 (10.1)	7.740 (10.8)	10.038* (12.0)	13,355 (12.6)
North America	9.798 (26.8)	12.295 (27.1)	15.225 (28.7)	17.926 (29.3)	21.469 (30.1)	26.965 (32.2)	37,406 (35.3)
U.S.A.	8.678 (24.3)	11.207 (24.7)	13.970 (26.3)	16.535 (27.0)	19.894 (27.9)	25.290 (30.2)	35,455 (33.5)
Asia	9.830 (26.9)	13.168 (29.0)	14.552 (27.4)	16.399 (26.8)	18.027 (25.2)	19.463 (23.3)	21,790 (20.6)
Latin America	6.168 (16.9)	7.349 (16.2)	8.852 (16.7)	10.730 (17.5)	13.020 (18.2)	15.636 (18.7)	20,373 (19.2)
Oceania	2.525 (6.9)	2.949 (6.5)	3.370 (6.3)	3.560 (5.8)	3.718 (5.2)	4.242 (5.1)	5,234 (4.9)
Africa	1.445 (4.0)	2.018 (4.4)	2.507 (4.7)	2.871 (4.7)	3.198 (4.5)	3.369 (4.0)	3,678 (3.5)
Middle East	2.259 (6.2)	2.355 (5.2)	2.479 (4.7)	2.654 (4.3)	2.927 (4.1)	2.972 (3.6)	3,016 (2.8)
Total	36.497 (100)	45.403 (100)	53.131 (100)	61.276 (100)	71.431 (100)	83.649 (100)	105,970 (100.0)

* Cumulative total for fiscal year 1985 includes cumulative total of Japanese direct investment in both Spain and Portugal

(Source) Ministry of Finance

(Notes) (a) Japanese fiscal year starts from April 2 and ends on March 31 e.g. fiscal year 1985: From April 1, 1984 to March 31, 1985.

(b) Totals may not equal sum of components due to independent rounding.

EXCHANGE RATES IN YEN (AVERAGE)

		1 USD =	1 ECU =
<u>Annual</u>	1980	226.38	315.04
	1981	220.28	245.38
	1982	248.78	243.55
	1983	237.47	211.35
	1984	237.48	187.09
	1985	238.41	180.56
	1986	167.65	165.00
	1987	144.31	166.60

<u>Monthly</u>			
	01-85	253.98	178.29
	02-85	260.36	175.90
	03-85	258.18	174.17
	04-85	251.40	182.25
	05-85	251.64	181.23
	06-85	248.89	182.42
	07-85	241.38	186.29
	08-85	237.20	185.29
	09-85	236.33	185.53
	10-85	214.65	179.59
	11-85	204.03	173.77
	12-85	202.81	177.02
	01-86	200.13	178.33
	02-86	184.45	171.09
	03-86	181.92	170.41
	04-86	174.73	166.14
	05-86	166.89	160.96
	06-86	167.69	161.26
	07-86	158.61	157.06
	08-86	154.09	157.38
	09-86	154.66	159.00
	10-86	156.18	162.46
	11-86	162.92	167.70
	12-86	162.30	169.53
	01-87	154.56	171.86
	02-87	153.48	173.42
	03-87	151.39	171.33
	04-87	142.87	163.88
	05-87	140.35	163.14
	06-87	144.51	164.87
	07-87	150.29	168.90
	08-87	147.53	164.71
	09-87	143.16	163.89
	10-87	143.24	164.99
	11-87	135.23	165.98
	12-87	128.22	162.03
	01-88	127.53	159.43