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ANALYSIS OF THE RELATIONS BETWEEN THE COMMUNITY AND JAPAN

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INTRODUCTION

1. In a statement on EEC-Japan relations adopted on 19 June the Council "invited the Commission to prepare a comprehensive review of Community/ Japan relations with appropriate recommendations for action, as a basis for discussion and decision in the autumn of 1985".

2. The Community's economic and trade relations with Japan have been a subject of mounting concern ever since a real imbalance became evident during the 1970s. An indication of the trend is provided by the import/export cover ratio, which has declined from 72.6% in 1970 through 44% in 1975 to its present level of around 35%.

The Council has been expressing its concern at this apparently inexorable trend since 1978.

The Commission, for its part, initiated a process of regular consultations with the Japanese authorities as early as 1973, hoping thereby to deal with trade problems in general and in particular to improve conditions for Community exporters to Japan.

In March 1978¹ Japan "foresaw" a substantial rise in its manufactured imports. Some increase did occur in fact slightly in 1978 and 1979 (to 22.5 %), fell to 19% in 1980 and rose again to 23.8% in 1984), though the increase fell short of what had been hoped.²

¹The Ushiba Declaration of 24 March 1978.

²In 1984 manufactures accounted for 44% of Community imports, yet the Community too has to import a substantial proportion of its fuel and raw material requirements.

The other side of the equation - the concentration of Japanese exports on a number of sensitive sectors of Community industry at a time of industrial upheaval - has been causing the Council anxiety since 1980.¹ In a statement in November that year the Council stressed its "serious concern" at the trade situation, deploring the "inadequate penetration" of Community goods into the Japanese market and the "concentration" of Japanese exports "on a small number of particularly sensitive sectors".

By this stage the Council was calling for a comprehensive joint strategy on Japan.² This meant a coordinated approach to the three major topics in our relations with that country : genuine opening up of the Japanese market to Community products, "moderation" of Japanese exports of a growing number of sensitive products (starting with cars in 1980 and extending by 1982 to various electronic goods), and the evolution of balanced industrial, scientific and technical cooperation between the Community and Japan. These themes were developed not only in bilateral consultations but also in GATT and the Western economic summits also addressed the problem.

Since then hardly a year has gone by without expressions of concern on the part of the Council and the announcement by Japan of new market liberalization measures. Seven liberalization "packages" have been unveiled since January 1982, plus the "three-year action programme" announced on 30 July this year.

¹Statement of 25 November 1980.

²Statement of 7 February 1978.

Although the action programme sets out some new principals in relation to standards and certification of products, such as the principle that "freedom should be the rule and intervention by the authorities the exception", its translation into concrete realities at the level of regulations and procedures will be phased over three years and for certain areas continues to be characterised by uncertainty and obscurity. In any case, no amount of tinkering with the bureaucratic formalities can produce import growth in short order, and it remains to be seen whether legal or administrative rule changes will be accompanied by the necessary changes of attitude and behaviour on the part of the officials who have to implement them, or of the Japanese business community in general. Finally a certain number of requests put forward by the Commission have not been taken into account.

So far there has been no real turnaround in the trade figures. A certain moderation of Japanese exports of sensitive products has been observed but new products have come on to the market. The volume of Community manufactured exports to Japan is still small, though its exports of semi-manufactures (non-ferrous metals and chemicals) are on the increase. There has been some moderation of Japan's exports of sensitive products. The rate of growth of the Community's trade deficit has slowed but it reached \$ 12 billion in 1984. In these circumstances, even assuming 10 % annual growth in EEC exports and no change in Japan's, it would take 13 years to restore the balance.

3. As we hope to make clear, the "Japanese problem" has a number of characteristic features :

.../...

- the crux of the problem for foreign exporters of manufactured goods to Japan is not so much visible import barriers such as tariffs or quantitative restrictions, which with a number of exceptions are generally modest, but the protracted and unpredictable technical certification and registration procedures and above all the habits and attitudes bred of Japan's vertically and horizontally integrated industrial, commercial and financial groups;
- these features of the Japanese system are undoubtedly changing, but progress is slow, and in addition the government's macro-economic policy acts as a constraint on the growth of domestic demand; this is an area where it is difficult, if not counterproductive, for foreign governments to intervene - it is up to the Japanese Government and the country's businessmen to accelerate the pace of change;
- while Japan's various trading partners, whether developed or developing, may be more or less competitive among themselves, they all by and large face similar difficulties in penetrating the Japanese market. To put it another way, the accumulated current account and trade imbalances, with no prospect of relief in sight, are dangerous because they threaten the whole operation of the multilateral trade and payments system. Simply to set the \$150 billion estimated US trade deficit for 1985 against the estimated \$40 million Japanese surplus is to measure the almost intolerable strains such imbalances impose on the multilateral system.

4. While this Communication is intended to convey a full picture of the whole spectrum of EEC-Japanese relations, we feel it appropriate to concentrate on the key question of economic and trade relations.

5. As a follow-up to Prime Minister Nakasone's visit to the Commission on 19 July, there are plans for a meeting of a group of Members of the Commission and their opposite numbers in the Japanese Government to be held on 18 November .

The President of the Commission is also intending to pay an official visit to Japan in January of next year.

The next Western summit, due to take place in Tokyo next May, will in any case provide an opportunity to exert fresh top-level pressure on the Japanese Government.

6. Accordingly, the Commission intends to follow up the present essentially analytic Communication with a second Communication containing recommendations for action based on the outcome of discussions in the Council and the findings reported by Members of the Commission on their return from Tokyo.

I. JAPAN'S ECONOMY, ECONOMIC POLICIES AND PLACE IN THE WORLD ECONOMY

7. In recent years Japan has built up sizeable current account surpluses which have been accompanied by large capital outflows. The persistence of this trend poses a threat to international monetary and trade balances.

Japan's economic performance

8. Japan has one of the strongest economic growth records of all OECD countries. Real GNP growth ran at 3.4% in 1983 and 5.8% in 1984, compared with 0.9% and 2.2% in the Community. The latest forecasts for 1985 point to an annual growth figure of the order of 4.7%.

Domestic demand in Japan has been growing since 1983 at an average of around 4% in real terms, as against 5% in 1983 and 8.7% in 1984 in the United States and about 2% in the Community. The external contribution to growth remains high (1.6% in 1983, 2% in 1984 and a likely 1% in 1985 and 1986).

9. As a result of certain social characteristics in Japan and the bias of the fiscal system in favour of savings and against credit expenditure, the level of savings is very high compared to that in other major industrial countries. However, despite the relatively high growth rate in Japan domestic demand has been insufficient to absorb these savings. The result has been a large trade surplus and growing capital outflows. These imbalances indicate that there is scope for a higher level of domestic demand which would have the effect of reducing both the trade surplus and the outflow of capital and contribute to a more balanced international trading system.

10. Japan's particularly narrow tax base¹ meant that budget deficits grew rapidly during the 1970s, with a corresponding increase in official debt, now standing at 67.5% of GNP.

The Japanese Government has set a target date of 1990 for cancelling the issue of bonds to cover the current budget deficit, so the policy of restrictive budgets is going to continue for several years.

Nevertheless to achieve a better balance between saving and investment, either the financial surplus of households must be reduced by an increase in consumption or households' savings must be absorbed in greater quantity by capital formation in the sectors where there are deficiencies e.g. residential buildings and public investment.

11. An advisory committee on external economic issues (the Okita Committee) reported on 9 April this year. It stressed the need to stimulate domestic demand, and suggested:

- cutting of red tape and regulations;
- extension of the five-day week and reduction of hours worked;
- improvement of infrastructure by infusing public works with private-sector dynamism;
- tax reforms.

So far, the government has not taken any decisions on these recommendations.

In any event it is questionable whether such steps would of themselves be sufficient to bring about an appreciable reduction in the disequilibrium between savings and investment and to stimulate a durable growth in domestic demand.

Balance of payments

12. Japan's current accounts surplus was equal to 1.8% of GNP in 1983 and 2.6% of GNP in 1984. Reflecting the growing trade imbalance, it threatens the stability of the international monetary system. In 1984 the trade balance was \$44 billion in the black thanks to the strong export

¹Direct and indirect taxes amount to only 20% of GNP in Japan compared with over 25% in the United States and the Community.

performance (from 1979 to 1984 exports grew by an average 8.1% in real terms) and modest level of imports (which grew by an average of just 2.4% a year in the same period), particularly of manufactured goods.

Japan's emergence as a major creditor nation makes for further rigidity. By the end of this year its capital investment will total some \$ 100 billion. The capital outflow reached \$ 49 billion in 1984 and \$ 38 billion in the first 7 months of 1985. Earnings from capital are now increasingly flowing in to swell the current account balance, and these are relatively unaffected by cyclical or exchange rate fluctuations. Accordingly, much larger changes in the trade balance will be needed to bring about a reduction of the current payments surplus, in diametrical opposition to the situation facing the debt-burdened developing countries.

13. While the current payments surplus has been growing, the yen has consistently been weak, particularly against the dollar. It has appreciated considerably against Community currencies, but it is questionable whether real exchange rates are a valid measure of the general competitive strength of the Japanese economy, especially considering the steady piling up of Japan's current payments surplus with the Community, whether measured in yen or ECU.

14. Net capital outflows are essentially the result of Japan's excess of savings and the interest rate differential between yen and dollar investments. Though Japanese interest rates are down from their peaks of 1981, the monetary authorities have held the Bank of Japan's minimum lending rate at 5% since October 1983 in order to prevent any further fall in the yen.

15. The value of the yen has also been influenced by the reluctance of the Japanese authorities to let their currency play its full part in the international monetary system.

Most commercial and virtually all capital market transactions have traditionally been denominated in dollars.

More recently, the authorities have embarked on a policy of liberalization, and the yen is gradually beginning to be used for external transactions.

16. However, the progress of liberalization has been uneven and somewhat lopsided. The dismantling of exchange controls in December 1980 enabled residents to undertake transactions abroad, leading to major long-term capital outflows, mainly of funds for dollar investments, which weakened the yen. The liberalization of inward investment flows, however, has been slower and less extensive. Yen investments by non-residents are linked to the development of yen financial markets in Japan. While some have been liberalized, interest rates on bank deposits are still controlled and the markets for short-term instruments are non-existent or rudimentary. Foreign investors thus enjoy only limited access. Another consequence of this state of affairs is that Japanese banks have easier access to European markets, particularly the ECU market, while foreign banks face considerable problems in trying to establish or expand their activities in Japan.

17. So why is Japan, with its enormous productive capacity, modest inflation, and slow-growing private consumption, pursuing macro-economic policies which stimulate, or at least are not calculated to curb, the rise of the current payments surplus?

Structure of the Japanese economy

18. These macro-economic policies are largely explained by the structure of the Japanese economy, in which the most dynamic rapid-growth sectors

are found side by side with uncompetitive activities which it is felt necessary to preserve on political and social grounds. This situation is not unknown elsewhere, but Japan, while carrying out such adjustments as are thought inevitable, uses means to prop up this structure which are not found in other countries at a comparable level of development.

19. The Japanese economy is heavily dependent on imported energy and raw materials (one reason put forward by Japan for its low level of manufactured imports).

It should be noted, however, that the policies followed by Japan in order to secure its own sources of supply sometimes create problems for its partners, including the Community.

In the oil sector, where the authorities exercise strict control over imports of refined products (to the point at which importation of certain products is for practical purposes prohibited) there may well be a tendency towards a more liberal approach in the near future. In the course of the Ministerial meeting of the International Energy Agency on July 9, 1985, Japan subscribed to a commitment "to seek to set in hand without delay joint action to maintain or create the conditions necessary to encourage importation of refined products on the basis of undistorted market determined supply and demand". The report of the subcommittee of Japan's National Oil Council, which has just been submitted to the MITI, looks towards a series of measures in that general sense. It would be desirable to ensure that these conclusions are given real content in Japan.

Public funds to back mining investments, coupled with supply guarantees, active stock management and the import/export pricing policy are designed to promote security of raw material supplies while encouraging the export of processed products.

20. Despite the scarcity of agricultural land and the small size of farms¹ Japan pursues a policy of self-sufficiency in this sector, achieving an overall self-supply rate of 71% in 1983 (86% for milk products, 81% for meat and just 32% for cereals). The rate of agricultural

¹ While Japan's population is 43% that of the Ten, it has only 1/13th as much farmland as the Community's. Average farm size is 1.2 hectares, compared with 16 hectares in the Community and 160 hectares in the USA.

support is very high, on average twice that of the Community,¹ with, in particular, a high level of import protection which holds down consumption. The government is aiming to increase self-sufficiency in milk products and meat, which will mean a continuation of the policy of importing raw materials unavailable locally to be processed by farmers themselves or the agri-food industry.

21. Japanese industry is horizontally integrated to a very high degree, within large-scale diversified manufacturing groups. Smaller businesses often act as sub-contractors to one of the companies within the group.

Declining sectors (e.g. leather goods or footwear) are protected by tariff or non-tariff barriers, or are being restructured under the auspices of MITI; legislation adopted in 1983 covers 23 sectors. Import penetration in these sectors (with the exception of ferro-silicon and aluminium) is low.

Japan's industrial policy aims at the application of new technology, particularly information technology, in production processes and the telecommunications and consumer goods industries, and the replacement of traditional raw materials by new materials, with the help inter alia of biotechnology. Although these developments are theoretically left largely to private-sector initiative, government support ranges from backing for joint research (e.g. on fifth-generation computers) to contracts and procurement (e.g. Nippon Telegraph and Telephone), tax incentives, subsidies and loans repayable only if and when production becomes profitable (semi-conductors and software).

In the growth sectors, Japanese enterprises enjoy considerable cost advantages, mainly as a result of their ability to maintain long production runs of standardised products. Their commercial strategy frequently anticipates price reductions attributable to the creation of large scale production capacity.

22. Productivity in the service sector is generally lower in Japan than in its main partners.

¹Source : Forum for policy innovation, Tokyo

The banking sector, as noted above, has traditionally been regulated in a way which has made it very difficult for foreign banks to gain access. Major Japanese banks, often members of one of the industrial groups, have undergone remarkable expansion both at home and overseas.¹ They co-exist with less competitive local banks. The insurance business (with the exception of re-insurance) is likewise dominated by a handful of big domestic companies.

The distributive sector in Japan is a major employer, providing jobs for 23% of the working population thanks to the large numbers of small shopkeepers and multiplicity of wholesale businesses.² Various administrative directives curb the spread of more modern forms of distribution such as department stores, chain stores and supermarkets.

Japan's role in the world economy

23. As well as the macro-economic, monetary and sectoral points noted above we should remember that interpenetration of the Japanese economy and the economies of its overseas partners is a recent phenomenon and again a lopsided one, both quantitatively and qualitatively.

24. Direct investment was liberalized (except in a few sectors - agriculture, mining, energy, leather goods) as late as 1980. Japanese investment overseas has soared, reaching \$71.4 billion at 31 March this year, while foreign investments in Japan, though on the increase since 1980, totalled only \$5 billion in March 1984.

The total Japanese investments in the ten-member Community stood at \$7.7 (March 1985) billion, but were largely concentrated on the banking and commercial sectors. Investment in manufacturing, though on the increase, accounted for only 20% of the total. A JETRO study dating from 1983 notes that most production units set up in Europe still get a large proportion of their equipment and components from Japan.

¹In 1980 only one Japanese bank was among the top ten world banks, and 13 in the top fifty; by 1984 the figures were 5 and 17 respectively.

²Over 60% of retailers employ just one or two people; 75% of wholesalers have fewer than 10 employees.

Investment by Community firms in Japan remains on a modest scale: \$650 million at March 1984. It is concentrated essentially on a handful of manufacturing sectors (chemicals and pharmaceuticals) and its growth has not kept pace with that of US investment.

25. Japan has traditionally been a net importer of technology and still gets much of this from the Community. Only recently has the country become a significant exporter of technology in fields such as electronics and transport equipment. Although there are no formal curbs on the export of technology, a number of foreign companies have met with reluctance on the part of their Japanese opposite numbers to share know-how or participate in joint ventures on third markets.

26. In 1984 Japanese aid represented only 0.35% of Japan's GNP compared with 0.53% for the Community. However, Japan more than doubled the volume of its development aid between 1977 and 1980, and while it will probably fail to achieve the target of a further doubling between 1981 and 1985, there is no doubt that its growth in real terms is important. The plan for the period 1986-1992 envisages a further doubling of aid levels by 1992 in comparison with that achieved in 1985, representing an amount of aid of more than \$40 billion over this period.

Only about a third of Japan's bilateral aid is in grant form (compare that with the figure of over three-quarters for the Member States), and most of it goes to Asian countries.

II. THE COMMUNITY'S ECONOMIC AND TRADE RELATIONS WITH JAPAN

27. The persistence and largely structural nature of the Community's trade deficit with Japan are a continuing source of concern.

The Community's own statistics indicate that the gap has widened still further in the last two years, from 11.6 billion ECU in 1982 to 13.3 billion ECU in 1983 and 15.5 billion ECU in 1984, though exports to Japan (up from 6.3 billion ECU in 1982 and 7.3 billion ECU in 1983 to 9 billion ECU in 1984) actually grew slightly faster than imports (up from 18 billion ECU

in 1982 to 20.6 billion ECU in 1983 and 24.5 billion in 1984). Japanese statistics, on the other hand, paint a different picture, with the surplus on trade with the Community down from \$10.4 billion in 1983 to \$10.1 billion in 1984. However, if imports of non-monetary gold (worth \$790 billion in 1984) are excluded, the surplus was stable at around \$10.9 billion in both years.

The Japanese figures for the first six months of this year indicate a drop in the surplus on trade with the EEC of the order of 4.8%, but this reflects a 9.4% fall in imports as well as a 7% drop in exports.

A further cause for anxiety is the qualitative deterioration in trade, with Japan's exports to the Community consisting largely of high added-value products, while the only Community exports making inroads on the Japanese market are raw materials and semi-manufactures.

28. The 10.4% of Japan's total exports which go to the EEC consist almost entirely of manufactured goods, chiefly machinery (electrical, electronic and other machinery and appliances, and transport equipment), which accounts for around 80% of the total by value.

The Japanese authorities gave the Community assurances that exports of about ten products would be "moderated" in 1983, 1984 and 1985, and a fall in the volume of exports, has indeed been noted for video recorders, colour television tubes and television sets. By contrast in 1984 exports of cars and since 1985 exports of numerically-controlled machine tools and machinery centres, have increased alarmingly.

Japanese exports of other products have equally achieved impressive growth in value terms.¹ New products in particular can very quickly succeed in

¹In 1984, exports of office equipment were up 40% by value, construction equipment up 32% and electric generators up 26%.

capturing sizeable market shares. There have been some cases of predatory pricing, to which European industry has responded by filing anti-dumping complaints.

29. Although up from their 1982-1984 levels, Japan's imports from the Community remain on a fairly minor scale, accounting for only 7% of the total.

Most of Japan's imports consist of raw materials and agricultural commodities, of which the Community is not a major exporter to this country. Japanese imports of manufactures are increasing slightly, but are still well below those of its main trading partners however they are measured.¹

The recent trend of Community exports to Japan is worrying; in 1984 the only categories which have progress are meat (with the resumption of Community pork exports), non-ferrous metals and plastics.

But Japan's imports from the Community of many processed agricultural products (particularly alcohol), office equipment and clothing were down.

This trend continued into the first half of 1985 which saw a 9.4% drop in Japanese imports from the Community; only textile raw materials and mineral fuels were unaffected.

Problems encountered with access to Japanese market

Tariffs, quotas and taxes

30. With a (significant) number of exceptions, tariffs do not constitute a real barrier to penetration of the Japanese market.

¹ Imports of manufactures (1984)

	<u>Japan</u>	<u>EEC</u>	<u>USA</u>
billions of dollars	32.8	138.0	231.9
% of total imports	23.8	44.0	65.7
% of GNP	2.7	6.3	7.8
per capita (dollars)	273	507	982

The highest remaining barriers tend to apply to certain agricultural products (duties of 25 to 40%, sometimes combined with quantitative restrictions), curbing Community exports primarily in the following sectors:

- alcoholic drinks (wine, whisky, brandy, etc.): tariffs are considerably higher for bottled imports; in addition excise duties penalize high-quality products;
- biscuits, chocolate, confectionery (total imports were equivalent to only 2.5% of Japanese production in 1983 compared to 4% in 1979);
- natural cheese (duty of 30%) and dairy products. (High duties and quotas).

In the industrial sector, high rates of duty still apply to menthol, citric acid, certain articles of clothing, leather and footwear (including ski boots). Leather goods and leather footwear are also subject to very severe quantitative restrictions.

Quantitative restrictions - which also apply to certain meats, canned fruit and vegetables, products derived from cereals and fishery products - are often administered in a manner lacking in transparency and incompatible with the GATT Code on import licencing procedures.

Public procurement

31. The Japanese authorities have only made limited efforts to buy foreign products. Most purchases coming under the GATT Code on government procurement have involved direct contracts, and import penetration has been low.

Other difficulties derive from tight deadlines for tenders and deliveries, complex qualification procedures which vary according to the body concerned, deposit requirements, etc. As a result foreign suppliers' access to Japanese public contracts has been hampered or discouraged. The Community has raised these questions with the Japanese authorities on numerous occasions and has made proposals for adoption of a procedure more in line with the spirit of the GATT Code.

Standards, testing and certification procedures

32. Despite Japan being a signatory to the GATT Code on technical barriers to trade, foreign exporters have run into a large number of difficulties, in particular:

- the development of technical specifications peculiar to the Japanese market and the low level of Japanese participation in international standardization bodies;
- the lack of transparency and, in some cases, the ambiguity of regulations, leaving the public authorities a wide margin of discretion;
- over-meticulous examination and certification procedures;
- delegation of the inspection of certain products to Japanese non-governmental bodies;
- non-acceptance of tests carried out in exporting countries, so that long and costly examinations have to be repeated in Japan (particularly for pharmaceutical products);
- a total ban on certain imports on health or plant health grounds.

The Community has submitted to and discussed with the Japanese authorities numerous specific requests relating to the following products:

food products (additives), chemicals, agro-chemicals, pharmaceuticals, cosmetics, electrical appliances, telecommunications equipment, medical equipment, motor vehicles, flowers and bulbs, fruits.

Whilst some progress has been achieved in certain of these areas, most problems remain.

Import procedures

33. Japan's adoption of the GATT Code on customs valuation and the simplification of customs procedures proper have indubitably improved the situation, although disputes regarding classification arise from time to time.

However, the application of regulations other than customs regulations proper (technical standards, health and veterinary controls, etc.) can involve lengthy delays before goods are cleared through customs, since the various controls have to be carried out by different administrative services.

Services

34. In the banking sector, the 76 foreign banks represented in Japan in 1985 (25 from the Community) only accounted for 0.78% of total deposits and 3.57% of loans (3.50% in 1980) and their profits were down 10% in 1983-84 on the preceding year.

Despite undeniable progress made recently, foreign banks' operations in Japan are still hampered by the strict control of interest rates, rudimentary secondary markets, the need to provide collateral to operate on these markets and a series of criteria or qualifications restricting admission to certain activities. These official restrictions are compounded by the tendency of the big Japanese groups to deal mainly with financial institutions belonging to the same group.

35. The insurance sector is also strictly regulated. Admission of new companies and permission for established companies to offer new products are subject to official authorizations which are difficult to obtain.

36. It is practically impossible for foreign lawyers to set themselves up in Japan as consultants, this activity being strictly regulated by the Japanese Federation of Bar Associations (Nichihenren).

37. Given that, generally speaking, firms established or wishing to establish themselves on a foreign market prefer to rely on the service companies with which they deal habitually in their country of origin, the difficulties encountered by foreign service companies on the Japanese market affect the performance of European industrial and trading firms in that country.

Distribution

38. Japan's involved and complex distribution system - often directly or indirectly controlled by Japanese producers constitutes an obstacle to the marketing of imported products, particularly of consumer goods.

Studies carried out in Japan by governmental agencies have always concluded that there is no particular problem as regards fair competition, though vigilance should be maintained. However these studies did not investigate the degree of integration of producers and distributors, exclusive purchasing obligations, on-discounts and credit terms, etc.

The country's big department stores and supermarkets would seem particularly suitable candidates for marketing imported products, but their expansion is rigorously limited by the 1974 law on large retail shops and informal administrative directives, which were renewed in 1984. Moreover the vast majority of supermarkets cannot sell alcohol or tobacco.

Intellectual property

39. Import penetration of the Japanese market is also hampered or delayed by problems with intellectual property rights.

The registering of patents and trade marks is extremely slow (six years and three to four years respectively) and those wishing to oppose the registration of their patents or trade marks by Japanese residents have no right of appeal with the Patent Office.

The counterfeiting of European products, particularly luxury goods, continues to be a widespread phenomenon owing to a failure to take proceedings or apply effectively the sanctions laid down by law.

In addition numerous Japanese products are presented in such a way as to suggest European origin (use of names, symbols, flags, etc.) This phenomenon is particularly prevalent in the wine and alcohol sector (labelling of bottles).

III. MEASURES TAKEN BY THE JAPANESE GOVERNMENT AND THEIR EFFECTS

40. Following numerous requests from its main trading partners (EEC, USA, Canada, Australia, Korea and the ASEAN countries) Japan has acted since 1981 to mitigate the damage caused to their economies by its current account surplus by announcing seven successive series of measures aimed at opening up its market and promoting imports. In addition the country's system of standards and certification procedures has undergone revision in the wake of the report of an interministerial committee (headed by Mr Gotoda) in March 1983. Liberalization of Japanese financial markets has been undertaken following the 1984 joint "yen/dollar" report by the Japanese Ministry of Finance and the American Treasury Department. And lastly the Japanese Government announced a three-year Programme of Action on 30 July last.

The Programme is the product of interdepartmental collaboration. Many points regarding its substance, implementation and timing remain ambiguous or obscure. The Commission is currently seeking clarification from the ministries and bodies concerned. However, its joint study of the Programme with the Member States gives some idea of the results likely to be attained.

Tariffs and quotas

41. The seven series of measures announced since 1981 include numerous decisions relating to customs duties. Besides repeatedly accelerating implementation of its Tokyo Round concessions (but with a time-lag for agricultural products), Japan has reduced or totally suspended a large number of customs duties. These reductions have affected a number of products of which the EEC is an exporter, among which are whisky, cognac, wine, cigarettes, confectionery, biscuits, chocolate, menthol, machine tools, cut diamonds, electrical and electronic equipment, medical equipment, tractors, parts of motor vehicles, clothing and skis...

The Action Programme announced the abolition of certain low duties and the reduction or total suspension of duties in 1986 for more than 1800 products including wine⁽¹⁾, whisky, brandy, preparation for baking, menthol, ties, certain car parts, skis and accessories.

These reductions are certainly welcome but as most relate to rates of duty which are already comparatively low, the benefits to be expected in terms of increased sales will probably not be very considerable. Furthermore, those high tariff and excise charges affecting certain products exported by the Community have not been subject to significant reductions.

42. Successive packages of measures have made little change in the quotas and other quantitative restrictions affecting products exported by the Community except in the case of pigmeat and a few processed agricultural products (fruit juices, food preparations).

The Action Programme contains nothing of consequence in this area. As regards leather and leather shoes, Japan intends replacing quotas with higher rates of duty (these are already very high - between 20 and 27%). The United States has indicated that it will invoke Section 301 of the Trade Act if its demands are not met by 1 December 1985.

Public contracts and monopolies

43. The Action Programme contains a series of measures aimed at reforming procurement procedures to make things easier for foreign suppliers. The most important point is the intention to make uniform qualification procedures in each Japanese Ministry or agency. The Japanese authorities have also promised to review direct-agreement procedures and to extend tendering and delivery deadlines as of 1 October 1985. According to information made public by the government of Japan on September 30, the greater part of these measures have been put into effect; modification of procurement procedures of certain Ministries will take effect on January 1, 1986.

(1) For wines the reductions will not take place until 1987.

44. Despite its privatization on 1 April 1985, Nippon Telegraph and Telephone will remain subject to the GATT Code for its purchases of consumables and to the provisions of a bilateral agreement with the United States (open to all suppliers) on purchases of more sophisticated products. It should however be noted that the purchases made by NTT abroad to date (mainly in the United States) have been quite insignificant.

The manufactured tobacco monopoly has also been denationalized but the marketing of products of foreign origin remains subject to certain conditions (registration of prices, limitations on distribution and advertising).¹

Standards, testing, certification and import procedures

45. In response to pressure from the country's partners and following an investigation by an interministerial committee (headed by Mr Gotoda), the Japanese authorities in March 1983 announced the amendment of eighteen laws so as to provide foreign producers with non-discriminatory access to the Japanese certification systems (which it was required to provide anyway under its GATT obligations) and their intention to improve transparency, internationalize their standards, promote acceptance of the results of tests carried out abroad and simplify their certification procedures.

Implementation of these intentions has, however, been slow and has not, generally speaking, corresponded to Community expectations. While some progress has been made (in particular simplification of the procedure for approval of prototypes of motor vehicles), in other areas acceptance of international standards (electrical equipment) or of tests carried out abroad (pharmaceuticals and agro-chemicals) has been hedged round with exceptions or prior conditions which allow serious obstacles to remain.

The new Action Programme features a number of very positive principles: the limitation of government intervention (with freedom as the rule and restrictions becoming the exception), the reaffirmation of the guidelines that emerged from the Gotoda Committee's study (indicating acknowledgement of the inadequacy of progress made to date).

¹The United States recently brought an action under Section 301 against Japanese practices in the tobacco sector.

An examination of the modifications, sector by sector, indicate a degree of progress which could benefit Community exporters, such as a partial liberalisation of approval procedures for cosmetics further harmonisation of standards for electrical appliances to those of international standards, improvement in some of the procedures for importing motor vehicles. However, even in those sectors mentioned above, the modifications envisaged have not been spelled out in all their details and will only be introduced progressively in the course of the three year period of the programme. In their sectors, such as the acceptance of tests done in Europe for pharmaceutical products, our exporters continue to feel uncertainties.

It is also envisaged by the Japanese authorities to set up an administrative machinery to monitor implementation of the programme.

Services

46. As regards financial services, the recommendations of the 1983 "yen/dollar" report have been followed up with measures which can be classified in the following three categories:

- promotion of the internationalization of the yen through improved access to issues of bonds in Euro-yen, and the introduction of new medium- and long-term instruments in Euro-yen. The latter being reserved mainly for non-residents, however, the Euro-yen market remains relatively insignificant;
- relaxation of money-market, capital and exchange conditions: liberalization of the conditions of issue of deposit certificates, introduction of new instruments, creation of a yen bankers acceptance market, forthcoming creation of a futures market for bonds, etc.;
- access for certain foreign financial institutions to market segments under certain conditions of qualifications: licences to operate on the medium- and long-term public bond market, the issue to nine banks (one from the EEC) of trust banking licences, an increase from 83 to 93 in the number of seats on the Tokyo stock exchange.

The Action Programme lists a number of follow-up measures to this progressive liberalization process.

Such liberalization takes considerable account of the interests of the big Japanese finance groups; it is being conducted at a cautious pace and the practice of administrative directives will no doubt be continued. Foreign banks are still impeded by the operation of interest rate ceilings for deposits (1) and by insufficient short-term monetary instruments.

47. In the insurance sector, the Action Programme provides for a relaxation of the conditions of issue of licences for new instruments or services.

The use of small-capacity airplanes and helicopters for short trips will be facilitated (but the problem often resides in weak infrastructure).

Lastly, the Government hopes to find a solution to the problem of foreign legal consultants but its allusions to the autonomy of the traditionally restrictive Japanese Federation of Bar Associations does not augur well for substantial progress in this field (the Community wants to see this profession put under the control of the Ministry of Justice instead of the Japanese Bar).

Other measures

48. The Japanese Government recognizes that the distribution system has an important role to play in increasing imports but, apart from relaxation of the conditions governing certain promotional sales, it has only announced some further fact-finding studies into business practices in this sector and into the distribution of imported products.

An "anti-counterfeit squad" is to be set up within the police force. However no measures have been announced on misleading labelling or the registration and protection of patents and trade marks.

(1) In applying the Action Programme, the interest rates for deposits in excess of one billion yen have been freed since October 1, 1985 and the liberalisation of rates of interest on deposits of more than 100 million yen is planned for Spring 1987.

Promotion of imports

49. The Japanese authorities have announced various measures to promote imports on different occasions.

In 1983 the Import-Export Bank extended the possibility of loans with interest-rate subsidies, up to then only available for imports of raw materials, to manufactures. Similarly the Japanese Development Bank now offers loans at reduced rates of interest to promote direct investment in Japan. The Japan External Trade Organization (JETRO) has been entrusted with the promotion of imports and investments.

The Prime Minister has personally launched a campaign aimed at promoting the buying of foreign products. The Minister of International Trade and Industry has requested 134 big Japanese companies (industrial undertakings, trading companies, chain stores) to draw up programmes for purchases of foreign products and equipment. Various fairs concentrating on imported products have been organized with the help of MIPRO (Manufactured Imports Promotion Organisation)¹; purchasing research and purchasing missions have been sent abroad.

It is difficult to measure the impact of the above initiatives which, while certainly evidence of good will, sometimes only serve to reinforce the "exotic" image of imported products and are rarely followed up by any medium- or long-term measures.

These promotional initiatives have not been accompanied by any foreign procurement policy on the part of the services or organizations controlled by the Government.² On the contrary: in certain cases (satellites), the policy of developing a national industry has been reaffirmed.

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¹ However there exists certain difficulties for the participation of European industries in certain fairs and specialized exhibitions.

² Except for some purchases made by Nippon Telegraph and Telephone (mainly in the USA) and a few token orders.

For its part the Commission has pursued its business programme, aimed at familiarizing Community executives with the realities of the Japanese market; it includes specific operations intended to benefit particular sectors as a whole. Given the very encouraging results obtained to date, the Commission believes that it is necessary to develop actions in this field.