

A Letter From EUROPE

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from its Delegation in Washington

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JAPAN: ARE WE GETTING NEAR THE FLASHPOINT?

Japan is now much in the news. Intensive negotiations have been in progress for some time between the U.S. Administration and the Government of Japan over trade. But the results have so far not been enough to satisfy Congress. Resentment has swelled to pass two Congressional resolutions urging United States action on imports from Japan if they do not open up their markets. Various other proposals call for action not only on Japanese but on other imports as well. What is the European reaction?

We have a common problem with Japan. But we also fear that action on Japan might spread to other markets.

Our problem with Japan really stems from a combination of three factors, none of which in itself is explosive or decisive. They are like the elements in a chemical equation: together they can make a dangerous mixture.

One is a large and increasing trade deficit. Our trade deficit with Japan in 1970 was half a million dollars, and last year it was 11 billion. Now, a trade deficit in itself is not necessarily bad, but in this case it is combined with two further factors.

One is a very rapid penetration by Japanese exports in certain sectors in Europe, which raise very sensitive employment problems.

The third factor is the difficulty of simply getting into the Japanese market. And there we have a longstanding argument with our Japanese friends as to how open the Japanese market is.

The Japanese claim that their market is the most open in the world. But if you take the imports of manufactured goods as a percentage of GNP, since the 1960s the figure for Japan has been constant, around 2.5 percent. In our case - the Community - it has gone up from 2.3 to 5.7 percent, and for the United States from 2 to 5 percent. In fact, imports into Japan are mostly imports of raw materials or goods that they cannot get from inside Japan.

What is the Community then doing? We have pursued three approaches. One is to ask for Japanese restraint - of a temporary kind - in certain areas which are sensitive. Second, we seek to widen the interpenetration of the Japanese and European economies by fostering co-operation in industry, technology and in the field of development aid. Thirdly, we have made a number of attempts to open up the Japanese market. There have been a whole series of liberalisation packages announced over the last couple of years. The latest was the recent appeal by Prime Minister Nakasone to the Japanese people to be receptive to foreign products. We have looked with interest at details of the measures and proposals announced on April 9 by the Japanese. We have no doubt that the Prime Minister has a genuine desire to pursue this process. But the measures announced were modest in their scope and of an uncertain effect. We are still waiting for concrete and far-reaching action on the part of the Japanese government. And there is also the need to open up Japanese financial markets.

I got in trouble once in Japan some years back in saying that the proof of the pudding was in the eating. Something went wrong with the translation and many asked me how many puddings Westerners wanted the Japanese to eat, and had I any special Common Market puddings to sell. But the truth is there. We need to see how all this will work out. For the plain fact is that if European and American businessmen do not have a genuine feeling that Japan is opening up its market as a corollary of the considerable and deserved success Japanese exports have had elsewhere, then there will be a rising tide on both sides of the Atlantic for action to be taken. This would strike at the roots of the one-world trading system and would gravely damage the new round of trade negotiations which we all want. So our hope - like that of America - is that the Japanese Administration will carry through Prime Minister Nakasone's initiatives effectively to open up the Japanese home market to foreign manufactured goods.

Ray Jenner

WINDOW ON THE EUROPEAN COMMUNITY

DELORS ADDRESS IN WASHINGTON

Jacques Delors made his first official visit to Washington as President of the EC Commission on April 23 and 24, meeting with President Reagan, Secretary of State Shultz, and other Cabinet and Congressional figures for talks on trade, the world's economic future, and US-EC relations.

Asserting that "Europe is not to be written off," President Delors addressed American concerns about Europe's economic and political vitality in a speech before the National Press Club in Washington. Underscoring Europe's central role in liberalizing world trade, promoting democratic values, and serving as an important trading partner with the US, Delors affirmed Europe's continuing vital significance to America. "Over one

million American jobs on the farm and factory depend on sales to Europe...the Community has been your best customer," he noted. Fears of Europe's economic decline have been overrated, Delors added, and economic strategy in the EC has resulted in "remarkable" growth in labor productivity and the return on capital. Taking a "new and tougher" approach to its problems, Europe is now attempting to reduce its structural rigidities and rationalize some of its economic policies, especially in agriculture. Important technological achievements in space, transport and telecommunications belie exaggerated claims of a gap in technology between the US and Europe. But as Europe grows, Delors told the American audience, "the mix of social compassion and economic free-for-all" in its policy choices will be different from that in the US - and this should not be cause for criticism.

Looking to the future, President Delors predicted that by the end of the century...the EC would have a common currency and a huge, unified internal market - and that the unemployment of the 1980s would be "a matter of history." For while Europe "is

still wrestling with the problems of confederation," Delors said, "European union is on its way as it should be."

Delors also welcomed the visit of President Reagan to the European Parliament on May 8, and noted that the US-EC relationship remains on firm ground despite occasional quarrels. "The irony of our relationship is that it is an unequal relationship which can only survive if it is equal," he said. "Sometimes we shall perceive our interests differently. But our friendship will not fail. We fight united for the liberty and prosperity of the free world."

AGRICULTURE: PRICING DEADLOCK

Success at setting farm product prices for the 1985/86 marketing year continued to elude EC farm ministers at their most recent Council meeting on April 23 and 24. New agriculture prices were supposed to have been set by April 1, but a deadlock has developed over the Commission's proposals for a virtual freeze on farm prices with cuts for some cereals, fruits and vegetables. Isolated German opposition to the proposed 3.6% cut in cereals prices is the main stumbling block in the negotiations, and the Italian and Greek farm ministers have raised objections to cuts in other areas. A compromise proposal raised at the April meeting was unable to break the impasse.

The European Parliament, meanwhile, has also opposed the Commission's recommendations, and has proposed instead an average price increase of 3.5%. Many farmers and farm groups, in turn, are calling for even higher increases. But the new draft budget agreed to on April 24 by EC finance ministers allocates only enough funding for an austere package including the 3.6% cut in cereals prices, and pressure on the farm ministers to come to an agreement along the lines of the Commission's proposals has increased.

FINANCE MINISTERS AGREE ON DRAFT 1985 BUDGET

EC finance ministers took an important step toward resolving this year's unsettled budgetary situation by agreeing on April 24 on a draft budget that will fully cover 1985 expenditures. The original draft budget was rejected by the European Parliament in December as insufficient to meet the full year's spending requirements, and since January the Community has been operating under a month-by-month spending procedure.

The new draft budget has been increased by just under 2 billion ECU (\$1.44 billion) and calls for spending of about 28 billion ECU (\$20 billion), most of which will go to agricultural programs. The supplementary funds, as agreed by the Council of Ministers in March, will be provided as a one-time, non-reimbursable advance from the member states. The budget has now gone to the European Parliament, and attempts are being made to speed up the complex adoption process in order to get the new budget in place as soon as possible.

APRIL BUSINESS BRIEFS

The EC responded to trade liberalization measures announced by Japan early this month, calling them "modest in their scope and of an uncertain effect," and said the Commission is "still waiting for concrete and far-reaching action"...US-EC discussions are continuing on the application of the "short-supply" provisions of the US-EC pipe and tube steel arrangement, and in particular on the use of European tubes in the All-America pipeline...Canada and the EC have agreed on compensation to the EC for the prolongation of Canadian quotas on imports of European shoes...The Japanese company Brother is challenging the Commission before the European Court of Justice, protesting recently extended anti-dumping duties of over 40% on electronic typewriters originating in Japan...The Commission has closed anti-subsidy investigations into imports of soya from Brazil and Argentina after finding that the subsidies had been discontinued...Following intervention by

the Commission under EEC competition rules, the German copyright protection society GEMA has abandoned its attempts to impose restrictions on the freedom to manufacture records...And the FRG has abandoned plans to extend the monopoly of the federal post and telecommunications organization Bundespost to cordless telephones, following objections by the Commission under Article 37 of the EEC Treaty.

14TH COMPETITION REPORT

The EC Commission has just released its 14th Annual Report on Competition Policy in the Community. Noting that it has made competition policy "more consistent, more universal, and more in touch with economic realities" since 1981, the Commission stresses in the report the need to integrate competition policy with other Community policies, and to mobilize them toward structural adjustment. 1984 marked progress toward these ends in a number of areas:

- four block exemption regulations relating to agreements on joint research and development, patent licensing, distribution and servicing of motor vehicles, and specialization;
 - simplification and speeding up of decision-making procedures;
 - reforms making competition policy more transparent;
 - decisions involving classical antitrust infringements relating to price fixing and market sharing;
 - moves into new areas, including banking and insurance;
 - suspension of the IBM antitrust case following that company's agreement to change some of its business practices.
- In the field of state aids, the existing control machinery was extended to shareholdings in firms by governments, and for the first time the Commission ordered the recovery of illegally paid aid; the processing of minor cases was also speeded up.

Copies of the report will be available shortly from the EC Information Service, 2100 M Street NW, Washington DC 20037, for \$9.00.