

EUROPEAN PARLIAMENT

Working Documents

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DOCUMENT 1-240/81

Report

drawn up on behalf of the Committee on External Economic Relations

on ~~/~~Trade Relations between the EEC and Japan

Rapporteur: Sir John STEWART-CLARK

12.2

By letter of 7 March 1980 the Committee on External Economic Relations requested authorization to draw up a report on trade relations between the EEC and Japan.

By letter of 23 April 1980, the President of the European Parliament authorised the Committee to draw up a report on this matter.

On 24 April 1980 the Committee on External Economic Relations appointed Sir John Stewart-Clark Rapporteur.

On 11 March 1981 a Motion for a Resolution (Doc. 1-966/80) tabled by Sir Fred Warner and others in accordance with Rule 14 of the Rules of Procedure, on current EEC-Japan economic and trading relations, was referred to the Committee.

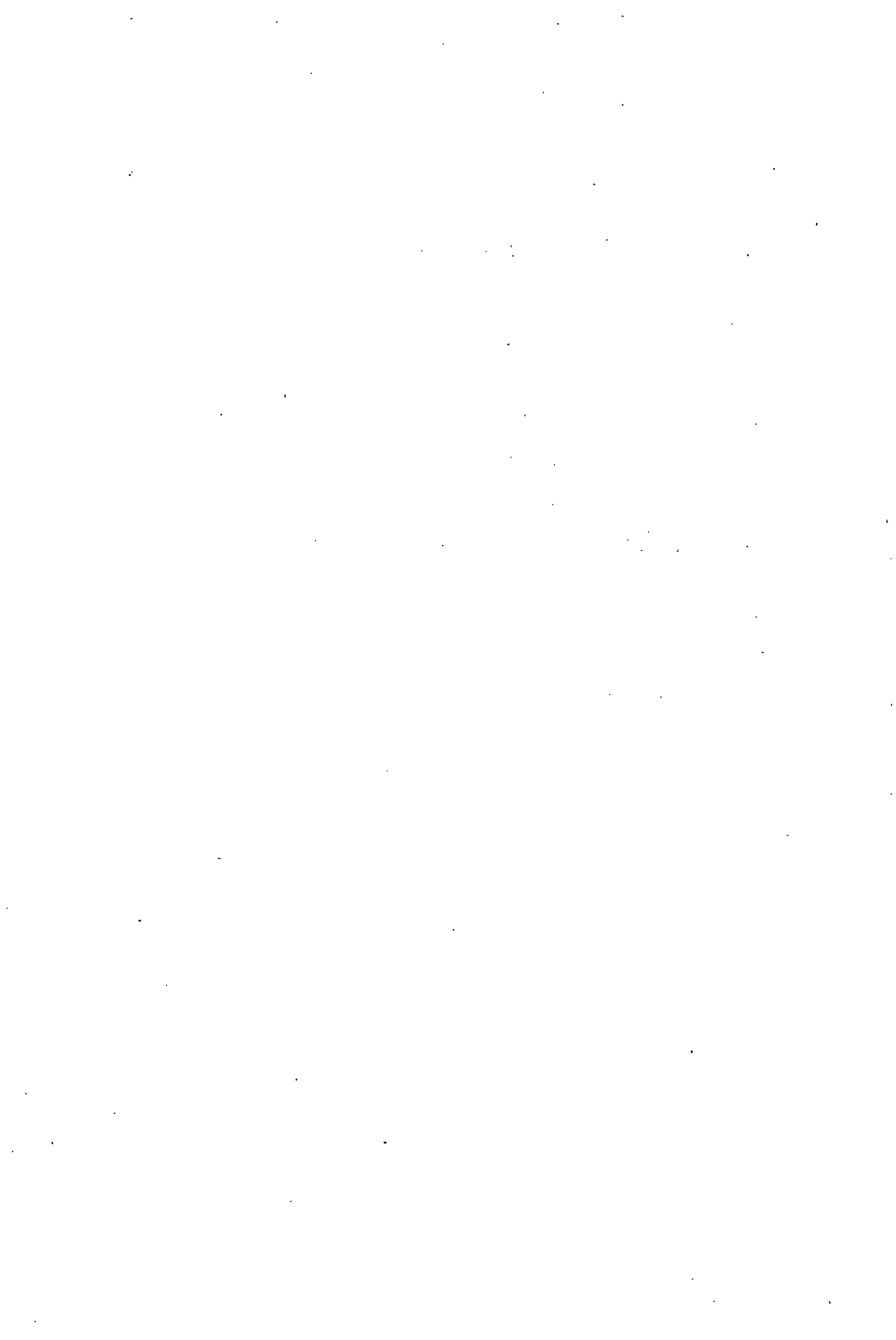
The Committee considered the draft report at its meetings of 19 January 1981, 25 February 1981, 14 April 1981 and 13 May 1981, when it unanimously adopted the Motion for a Resolution and explanatory statement.

Present: Sir Fred Catherwood, Chairman; Mrs Wiczorek-Zeul, Vice-Chairman; Mr van Aerssen, Vice-Chairman; Mr Seal, Vice-Chairman; Sir John Stewart-Clark, Rapporteur; Mrs Fourcade; Mr Galluzzi; Mr Hänsch; Lord Harmar-Nicholls (deputizing for Sir Fred Warner); Mr Jonker; Mr Nicolaou; Lord O'Hagan; Mr Pelikan; Mr Radoux; Mr Rieger; Prinz zu Sayn-Wittgenstein; Mr Seeler and Mr Welsh.

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ANNEX : Motion for a Resolution (Doc. 1-966/80)



A.

The Committee on External Economic Relations hereby submits to the European Parliament the following Motion for a Resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on trade relations between the EEC and Japan

The European Parliament,

- concerned by the persistent and increasing deficit in the Community's balance of trade with Japan,
 - aware that this deficit, although comparatively small in the context of the Community's overall trade figures implies a severe threat to the Community in certain specific sectors, particularly in manufacturing industry,
 - convinced that a reduction of the present trade imbalance would contribute towards a better overall understanding between the Community and Japan which would go further than purely commercial considerations and in turn lead to closer cooperation in fields such as development aid, security, monetary stability, energy conservation, and the supply of raw materials,
 - recognising that it is in Japan's interest to work towards greater understanding with the Community in view of her vulnerability both in terms of national security and energy supplies,
 - recognising that the problem is one which can primarily be satisfactorily resolved by increasing the competitiveness of European products vis-à-vis the Japanese in all markets and stressing therefore the need for greater effort by European industry in this respect,
-
- acknowledging the risk that protectionist measures may be taken by individual Member States, with resultant serious consequences not only for EEC/Japan commercial relations but also for inter-Community and world trade, and convinced that this can be averted by a greater degree of understanding by Japan of the problems that the present trade deficit poses both economically and politically for the Community,

- welcomes the fact that the Council of Ministers at their meeting of 17 February 1981 have taken positive steps to create a Community strategy towards Japan,
 - recognising that the effective resolution of the problems created by the deficit in the balance of trade between the Community and Japan can best be achieved by the formulation by the Commission of a vigorous common Community trade policy towards Japan, including -
 - a) closer cooperation and ~~improved efficiencies within~~ European industry
 - b) working together to eliminate both tariff and non-tariff barriers,
 - c) encouragement of efforts by European exporters to secure a greater share of the Japanese market,
 - d) reciprocity in banking and investment facilities,
 - e) quantifiable self-restraint in exports by Japan in specific sectors, and a substantial increase in its imports from the Community,
 - realising that unless there is an effective resolution to the deficit in trade, then pressures upon Member State Governments could force the Council of Ministers to take stringent action against Japan,
 - having regard to the Motion for a Resolution tabled by Sir Fred WARNER and others (Doc. 1-966/80),
 - having regard to the report of the Committee on External Economic Relations (Doc. 1-240/81),
1. Requests the Council and the Commission of the European Communities to ensure that all negotiations with Japan will be conducted firmly and constructively and be based not only on an understanding of the needs of the Community but also of those of Japan and the USA who together form the world's three most significant trading groups and on whose effective cooperation any lasting global trade arrangements must depend;
 2. Calls on the Council and Commission to ensure that any agreement concluded will provide for reciprocal measures on the part of Japan in respect of any concessions which may be granted by the Community to Japan;
 3. Urges the Commission
 - (a) to continue its efforts to ensure the harmonization of trade policy measures taken by individual Member States and also to ensure that the Community will speak "with one voice" through the Commission in its dealings with Japan;
 - (b) to ensure, with respect to the Community's competition policy, that the relevant clauses of the Treaties (Articles 85 to 94) are not applied with the result that industry within the Community is penalised to the advantage of industry from third countries, including Japan;

- c) to negotiate, with Japan, specific quantifiable restraints in respect of the export of sensitive, or potentially sensitive, products to the Community. This will have to be a continuous process which will require close cooperation, at Community level, not only between Commission and Member States but also between the Commission and representatives of European industry;
- d) to make clear to Japan that any failure to abide by these restraints must lead to counter-measures on behalf of the Community;
- e) to be prepared, where it can be established that non-tariff barriers to trade exist, to introduce, at Community level, reciprocal measures within the framework of the GATT;

recommends in this context that the Commission should be endowed with adequate funds to institute a service to investigate allegations of concealed protectionism, recognising that industry itself may find difficulty in dealing with such protectionism;

- f) to be prepared to accept the need, if necessary, to make existing regulations and directives regarding 'type approval' of manufactured articles, particularly motor vehicle parts, mandatory rather than permissive;
- g) to intensify its existing programme for informing European businessmen and industrialists, including those from medium and small sized businesses and European trade union representatives, on the best means of penetrating the Japanese market, with the full cooperation of the Council to make the appropriate financial means available to this end, and to enlist the full cooperation of the Japanese in this endeavour;
- h) to take steps to ensure that any agreement with Japan will include provisions ensuring full reciprocity of banking and investment facilities between the two partners; any such investments, whether on a wholly-owned or joint shareholding basis, must have written agreements to ensure that a substantial percentage of components or materials used in production are sourced locally and that research and development resources are introduced as a result in order to promote employment possibilities and financial expansion in the area or region concerned;
- i) to set up a joint EEC/Japan Investment Bureau to facilitate and to encourage appropriate investment from either side. The rôle of such an Investment Bureau should include that of coordinating and extending joint undertakings between Japanese and Community countries in third countries;

4. Urges the representatives of European industry, wherever appropriate in consultation with the Commission, to cooperate closely in such fields as marketing and Research and Development and rationalization in order to find not only the best means of penetrating the Japanese market but also of achieving viable competitiveness with respect to both Community and third country markets;
5. Asks the Japanese for their part -
 - a) to take concrete steps to eliminate non-tariff barriers to trade, whether intentional or otherwise;
 - b) to facilitate investment and banking facilities for Community countries;
 - c) to accept the necessity for full cooperation with the Community in working towards monetary stabilization by working towards monetary cooperation between those industrialised countries with convertible currencies, including the European Monetary System as a bloc, and the yen;
 - d) to cooperate with the Member States of the Community in working towards the reinvestment of the profits of the oil producing countries;
 - e) to cooperate fully with the Community in accepting specific quantifiable restraints in respect of certain particularly sensitive sectors while at the same time demonstrating its willingness to accept a reasonable level of imports of manufactured goods from the Community;
 - f) to cooperate with the Community in order to coordinate attitudes towards the other EEC trading partners;
6. Considers that the links between the Parliament and the Japanese Diet should be strengthened and the present exchanges intensified not only in the light of the good understanding and results so far achieved but also in order to bring about a greater political awareness of the problems which the present trade deficit pose;

7. Instructs its President to forward this resolution to the Commission and the Council and, for information, to the Government of Japan.

EXPLANATORY STATEMENT

I. PREFACE

1. Before analysing the EEC and Japanese industrial and trading situations, an attempt should be made to define the problems of our two Communities. We see them as follows:

Japan

a) Resources

Japan has almost no natural resources of her own. She is dependent for 95% of her energy requirements on imports. The oil price rises have affected her to a greater extent than either Western Europe or the USA. Japan's economic growth and development are therefore totally dependent on imports. She is the largest importer in the world of non-manufactured goods and has to pay for these imports by exports. Manufacturing is the only means of obtaining these exports since there is little else to sell.

b) Poverty

Although Japanese industry may flourish, some sections of her community are still poor. Housing standards still tend to be low and most roads are inadequate. Standards of living have therefore room for improvement.

c) Vulnerability

Japan feels vulnerable both in terms of national security and of foreign influence over which she has no control. On the defence side, as the only country which has been subjected to a nuclear attack in war, Japan has vowed she will never produce nor own nuclear arms. She is consequently militarily dependent on the United States. In terms of oil she has no way of escaping from the grip of the OPEC countries and sees the Communist threat to the Gulf States as affecting her very survival.

Nevertheless, Japan has managed to maintain economic growth without a corresponding increase in oil consumption. Perhaps there is a lesson here for the west.

The Community

a) Trade

2. The Community has been conscious of a growing trade imbalance with Japan for many years now, but has proved incapable of reducing it. Voluntary

agreements, summit meetings, MTN negotiations, have all failed to make any impact on the figures. The deficit has in fact increased from 1086m EUA in 1973 to 5147m EUA in 1979 when the import/export cover ratio was only 47.3%.

b) Industry

The Japanese have concentrated their exports in specific sectors, notably in manufacturing industry. Today 64% of her total exports to the Community is estimated to be in machinery and transport equipment, and 27% in other manufactured goods. Motor vehicles, consumer electronics and cameras are three sectors in which Japanese exports are particularly concentrated. In consequence, many Community industries in these fields are witnessing a threat to their very existence.

c) The Japanese Market

Despite liberalization of trade restrictions by Japan, a lower tariff rate into Japan than into the Community under GATT and a professed willingness to welcome foreign investment, Japan remains for most Community industrialists and traders an impenetrable market. Further Japanese measures to protect the consumer and the environment are seen as replacing trade liberalization by the imposition of new non-tariff barriers.

Consequently, there exists today a situation which, depending upon whether you are Japanese or European, you survey the scene in two distinct lights. The basic cause is, however, the same, that is the need for survival in a world menaced by recession and with an increasing threat to peace.

II. THE SITUATION IN JAPAN

Political

3. Japan is slowly moving towards a more independent foreign policy. Pressures exist in Japan which are forcing Government to take a more active rôle in international affairs. Many far-thinking Japanese see the absolute necessity of a close partnership between the United States, the European Community and Japan and recognise that all three societies have an interest in maintaining close political cooperation and liberalised international trade. It is recognised that we have similar basic aims in wanting to preserve our democratic system to avoid war and contribute to a more equitable balance between the industrial and the developing world.

Political and social understanding cannot, however, be brought about satisfactorily between Japan and the Community if trading and economic relations are unsatisfactory. Largely because of this, there is between the European Community and the United States, on the one hand, and Japan on the other, a lack of proper comprehension and communication of each other's interests, objectives and aspirations. There is a lack of mutual understanding of what each country expects from the other over the long run and what is important to individuals in each country. To find a solution, improved trading relations must come about and we Europeans must make a greater effort to understand the culture, habits and thinking patterns of the Japanese.

Satisfactory trading arrangements should be the first step towards improved relations between the Community and Japan in such areas as energy and raw materials policy, development policy and defence issues.

Culture and Communication

4. The habit amongst Japanese of extreme deference of behaviour and formality amongst those who are not their close friends and associates makes it very difficult for both Japanese and foreigners to understand one another. In dealing with the Japanese it is important to realise both the nature and limitations of the courtesy expressed. To gain the respect of the Japanese a foreigner is expected to return politeness. To be quiet and patient, but at the same time to be strong in attitude and character. The Japanese in their reaction to one another between groups acknowledge submission to the stronger and adjustment to the weaker. It is of the utmost importance to recognise the rôle of courtesy, patience, persistence, assimilation and strength.

i. Courtesy

Europeans with high standards of courtesy should be able to understand the traditions of culture and politeness which are so much a part of successfully dealing with the Japanese.

ii. Patience

Equally, a propensity in Europe for taking more time in decision making as compared to our American friends, can be used to advantage. The Japanese are not accustomed to quick decision making and agreement and business deals can rarely be forced through quickly.

iii. Persistence

If patience is a virtue, persistence is even more so in relations with the Japanese. Whether it be persistence in coming to specific trade agreements or persistence for entry into a market - this is a vital element for success. The Japanese themselves have shown this quality in gaining entry to the American, European and now the Chinese markets.

iv. Assimilation

The Japanese go to great lengths to understand and assimilate the languages, trading methods, economic factors, strengths and weaknesses of competitors, in product specifications, marketing methods etc. Whether in doing business in Japan or in negotiating with them concerning penetration of their products into the Community, a close sectoral knowledge is necessary both of our own industry and that of the Japanese.

v. Strength

As a Community we have to recognise that in negotiating with the Japanese, we shall only gain what we require whether in coming to agreements on voluntary restrictions of entry of goods into the Community or easing entry of our own products into Japan, if we can negotiate from a position of strength. Strength needs to be derived from unity of approach whether in the case of the Community or in industry and from a knowledge of where the Japanese themselves are vulnerable. One has to recognise that to a major extent, statements made in general terms concerning export restraint, import liberalization etc, are useless unless they are accompanied by specific undertakings on the part of the Japanese which can be measured both in quantity and in time and which if not complied with will be repaid by salutary measures. We shall return to this, but it is important at the outset that the necessity for negotiation from strength is recognised as being of paramount importance.

III. TRADE BETWEEN THE EEC AND JAPAN

5. The Japanese share in total world trade, excluding intra-EEC trade, is now around 9%. This compares with 16% for the US and 23% for the EEC.

In 1979 Community imports from Japan were only 4.5% of total extra-Community imports, yet exports to Japan were a meagre 2.4% of the Community's total exports to third countries.

Japan's gross domestic product in 1979 was 737.9 bn EUA with an annual growth rate of over 6%. This is about the size of the combined GDP of the UK and Germany. Japan's exports are an estimated 10% of her GDP. This is well below the proportions exported by France, Germany and the United Kingdom, which are 17%, 22% and 23% respectively, but well above the USA whose vast domestic market keeps exports down to 8% of GDP. The fact that 90% of Japan's GDP remains at home is significant, when considering the Community's efforts to increase its exports into that country.

6. Between 1973 and 1979 the trade balance between the Community and Japan deteriorated considerably. During this period the Community's deficit increased by 370% from 1,086m EUA to 5,147m EUA. In 1973 the cover rate was 68%, in 1979 it had reduced to only 47%. In 1980 the position continued to worsen and by the end of August the Community deficit with Japan had exceeded that for the whole of 1979.

This is well illustrated by the following statistics:-

TABLE I

COMMUNITY TRADE WITH JAPAN ANALYSED BY MAIN COMMODITY CLASSES

Community, total	in m. EUA														
	Total			Food, beverages and tobacco			Chemicals			Machinery and transport equip.			Other manufactured goods		
	Imp. cif	Exp. fob	Bal. (1)	Imp.	Exp.	Bal.	Imp.	Exp.	Bal.	Imp.	Exp.	Bal.	Imp.	Exp.	Bal.
1973	3392	2306	-1086	126	225	99	214	457	243	1576	656	-920	1363	851	-512
1974	4376	2772	-1604	109	244	135	342	563	221	2077	876	-1201	1665	909	-756
1975	4821	2228	-2593	116	271	155	284	436	152	2285	681	-1604	1933	717	-1216
1976	6394	2719	-3675	131	299	168	309	618	309	3452	765	-2687	2345	851	-1494
1977	7652	3088	-4564	89	372	283	340	653	313	4315	949	-3366	2729	956	-1773
1978	8698	3725	-4973	89	432	343	377	778	401	5610	1104	-4506	2419	1213	-1206
1979	9779	4632	-5147	75	558	483	454	939	485	6327	1278	-5049	2684	1570	-1114
Jan-June 1979	4723	2300	-2423	35	283	248	217	441	224	3112	639	-2473	1241	779	-462
Jan-June 1980	5757	2265	-3492	52	258	206	280	510	230	3665	620	-3045	1650	761	-889

Source: Supplement to the Monthly External Trade Bulletin, EUROSTAT

(1) "-" denotes an EC deficit

7. Indications are that the trade imbalance between the FEC and Japan for 1980 as a whole will have substantially exceeded 6,000m EUA. The main reasons for this adverse situation can be found in the Japanese economy itself. In 1978 there was a healthy expansion of domestic demand in Japan. This was encouraged by increased public spending, encouragement of private spending, an expansionist monetary policy and by improved terms of imports resulting from a sharp rise in the yen. Exports increased in 1978 by 20%, whilst imports increased by 14.5%. GNP increased by 5.6% over the previous year against an inflation rate of only 3.8%.

TABLE II

Balance of Payments of Japan
US \$ million

	1972	1973	1974	1975	1976	1977	1978	1979
<i>Seasonally adjusted</i>								
Exports	28 032	36 264	54 480	54 734	66 026	79 333	95 634	101 232
Imports	19 061	32 576	53 044	49 706	56 139	62 022	71 038	99 387
Trade balance	8 971	3 688	1 436	5 028	9 887	17 311	24 596	1 845
Service and transfers (net)	-2 020	-3 614	-5 926	-5 448	-5 993	-6 393	-8 062	-10 599
Transportation ¹	-963	-1 696	-2 539	-1 981	-2 305	-2 401	-2 309	-4 331
Travel ¹	-	-	-	-	-	-1 727	-3 247	-4 256
Investment income ¹	367	490	-451	-273	-204	115	900	2 011
Official transfers (net) ¹	-327	-210	-203	-262	-214	-194	-230	-755
Current balance	6 624	-136	-4 693	-682	3 680	10 918	16 534	-8 754

Source: OECD Surveys 1977 and 1980

In 1979 the situation changed radically. Although growth in GNP continued satisfactorily at 6% and inflation was under control, there was a substantial fall in the balance of payments. Rapidly expanding industrial production and home demand boosted imports and reduced incentives to export. A sharp rise in the price of imported energy, particularly oil, also played a significant part.

8. The above table which refers to calendar years does not show that in the financial year ended 31 March 1980 Japanese trade showed a record deficit of \$13.4 billion. In this period imports of crude oil alone accounted for almost \$40 billion, an increase of 66.4% on the previous year. Resulting from this situation there was a sharp decline in the yen against the US dollar. The fall of the yen and the attendant risks of inflation caused the Japanese to revise their monetary policies in 1979. Between April of that year and March 1980, the Bank Rate was raised four times to 9%.

9. As a result of the second petroleum crisis, the Japanese Government laid down, in December 1979, new economic guidelines which included an export drive and a slower increase in imports. This resulted in exports increasing by 23.2% in volume comparing February 1980 to February 1979. This has, of course, been facilitated by the considerable depreciation of the yen which restored to Japanese exporters the price competitiveness they lost at the end of 1978. Largely in consequence of this increase in exports, Japan's manufacturing output rose throughout 1980.

Particularly notable was the increase in production and export of cars, lorries and motorcycles.

On the home front, despite large wholesale price increases, retail sales rose vigorously in early 1980, but the Japanese Government reacted to the wholesale price explosion by imposing credit restrictions and raising the bank rate again. Economic growth in Japan became as a result even more export dependent.

10. It is very clear that the measures which the Japanese have taken to protect their economy from the effects of commodity increases have been successful. There is every sign that 1980 will show a return to a healthy surplus with the industrialised countries with whom Japan is trading. This will be due to substantially increased exports with a decrease or status quo in imports. However, this situation comes about only one year after Japan agreed, under pressure from the United States and the EEC, to limit the amount of its exports.

11. It is, therefore, evident that the European Community must adopt a strong, clear and coordinated policy in regard to Japan so as to ensure that Japan does not in the future assert its ascendancy over much of our industry. To allow this situation to continue as it now exists is to allow the Japanese to use Community markets to protect her own economy and her own industry. Continuing ineffective counter-measures can only lead to increased unemployment in the Community and the decimation of many of its important industries.

12. Eurostat statistics, which considerations of space make it impossible to reproduce here, demonstrate that for Germany the transport and machinery sector represented by far the highest percentage of its total exports to Japan, much higher than the proportion of other Member States' exports, but still its exports in this sector only amounted to 37.5% of its imports. Italy, on the other hand, takes 45% of its total imports from Japan in this

sector compared to 60% for Germany, 63% for France and 70% for Britain. Italy also has a much lower deficit in its trade with Japan. Considering the high preponderance of vehicle imports into the Community, except into Italy which imposes restrictions on imports of cars from outside the Community, it would seem that she receives considerable advantages from these restrictions. The position of the United Kingdom is particularly serious. She has a larger share of the Community's deficit with Japan than any other country. In particular her exports in the transport and machinery sector are only 13.7% of her imports. This may be due to some extent to the openness of the UK market compared to that of some other Member States.

STRUCTURE OF TRADE

13. The bulk of the Community's imports from Japan has always consisted of manufactured products, and since 1973 has accounted for over 90% of the total. During this period there has been a marked increase in the category of machinery and transport equipment up from 46.4% of total Community imports in 1973 to 64.7% in 1979. This is largely due to increased exports of cars and motorcycles which now constitute a major problem in EEC/Japan relations (see section of this report relating to motor vehicles, paragraph 58 et seq.).

During the past six years there has also been a further shift towards high value, highly automated manufactured products at the expense of products of more labour intensive industries. Japan is at present systematically increasing its specialization in manufactured goods with priority being given to electronics, data processing and automation (robots). These are sectors in which Japan has already established a considerable lead on the EEC.

In contrast to Japanese exports, those from the Community have not greatly changed in content since 1973 (Table I). In 1979 machinery and transport equipment accounted for 27.6% of Community exports as against 28.4% in 1973. Also most relevant is the fact that in 1979 Community exports of machinery and transport equipment to Japan were equivalent to only 20% of Japanese exports of the same goods to the Community. This substantial gap in the sector of high value added products is symptomatic of the difference in competitiveness between the EEC and Japan in high technology products.