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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 Wieczorek-Zeul, Vice-Chairman; Mr van Aerssen, Vice-Chairman; Mr Seal, Vice-Chairman; Sir John Stewart-Clark, Rapporteur; Mrs Fourcade; Mr Galluzzi; Mr Hänsch; Lord Harmer-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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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 STATEMENTI. 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:

Japana) 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 Communitya) 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.e.u.a					
	Total			Food, beverages and tobacco			Chemicals			Machinery and transport equip.			Other manufactur- ed 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	636	-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	-2 509	-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.

TABLE III

Japan's trade with main Community countries
in 1979 in percentage:

<u>Country</u>	<u>% of Trade</u>	<u>% of Deficit</u>
Germany	32.8	27.5
France	15.1	16.0
UK	23.4	29.1
Italy	8.4	1.5
Others	20.3	25.9
Total:	<u>100.0</u>	<u>100.0</u>

What has to be done

14. There is clearly a growing awareness in the Institutions of the Community, in national governments of the Community and not least in Japan itself, that the growing deficit with the EEC must be tackled.

On the positive side we can point out that Japan's customs tariff reductions under GATT have been the highest of all participant countries, i.e., 50% as against 30% in the case of the United States and 25% for the Community. The Japanese average tariff rate is 3% and 5.5% for products originating in the EEC.

Nonetheless, positive steps must be taken by the Community and businessmen to rectify the current unsatisfactory trading situation. This report endeavours to make some positive recommendations as to how business relations can be better established by Community firms with Japan and as to how the Japanese themselves can make the way easier. The situation both with regard to trade with and investment by Japanese companies in the European Community is then examined.

IV. DOING BUSINESS IN JAPAN

15. The Japanese citizen is inherently nationalistic and, with some exceptions, will almost always prefer to buy a Japanese rather than a foreign product. By doing so he sees himself as supporting his country. In addition, he tends to be conscious of detail and appreciative of quality.

A manufactured product will sell much more easily if it has one or a number of the following characteristics:

¹ De jure, de facto reductions are estimated by UNICE as being 25%

- a. It is not yet in production in Japan;
- b. It possesses features or advanced technological specifications not incorporated in Japanese equivalent products;
- c. It can be regarded as a status symbol.

Manufacturers wishing to sell in Japan must be able to ensure consistent quality, good delivery and a first class back-up service. Exporters have to be prepared to send their executives on repeated visits to Japan with the expectation of prolonged stays and some eventual residence in Japan. Often visits of the Chief Executive himself are necessary to establish business.

16. Foreign businessmen must make assiduous efforts to understand not only their customers and their markets, but also the government machinery appertaining to their business. There are thirteen principal Ministries and nine State Agencies in Japan. These tend to be independent and will often hold different views about industry, trade and finance in regard to both domestic and foreign interests. It is important therefore that businessmen find out which Government Departments are important to their obtaining access to the Japanese markets. They should then make direct contact and try to deal with the sections and individuals within these departments who are most directly concerned. Acquaintance with the right Government officials on a personal basis is important if the effort necessary to solve problems is to bear fruit. Information and help are much more likely to come from officials in the right Ministry who have been 'cultivated' than direct requests without a building of prior relationships. In addition to patience and persistence, already mentioned, the building of personal relationships, however formal these may be, is vital to success.

17. One must also remember that the Japanese normally field high quality negotiating teams who are competent and extensively briefed. They require answers to numerous questions and ask these again and again on each subsequent visit. Everything is recorded; no meetings are held on a one-to-one basis. Japanese decision making is reached by consensus, consequently many people may be involved in the negotiating process. This gives the Japanese the advantage of having more time to evaluate the foreigner and double check his facts and figures. It results in far more drawn out negotiations than are used in the West, but fits in well with the necessity for group decision taking and frequently for backstage consultations between Japanese business and administration officials.

It is, however, a fundamental fact that a business will succeed in Japan only if it plays the game according to Japanese rules and with an understanding of the system.

The Distribution System

18. One of the most difficult aspects of the Japanese market is its distribution system. By Western standards it is most inefficient. The Japanese consumer has to pay a very high price for being supplied via a series of layers of wholesalers which service thousands of small shopkeepers throughout the country (there are some department stores in Japan but almost no supermarkets and retail chains as we know them). Further, the bigger wholesalers and department stores are usually controlled by Japanese manufacturers or banks who effectively hinder the sale of foreign goods. It is, therefore, necessary to find a way round the problem wherever possible, given the extreme difficulty of getting to grips with the Japanese distribution system. As an example, a European electrical appliance manufacturer succeeded in selling coffee makers through coffee shops and electric shavers through barber shops, whilst almost totally failing in the normal distribution chain.

A further point is that whilst it is most important to carry out a constant and detailed market research, in practice it is difficult to do so because of the distribution system.

19. However, whether we like it or not, this distribution system exists and exporters to Japan must live with it. The main hope is that there are signs that the system is beginning to change under pressure from Japanese consumers themselves.

There is therefore much which businessmen from the Community can themselves do in establishing their businesses in Japan. Having said this, however, it is up to the Japanese to ensure that they provide further assistance to foreigners and, in particular, go further than they have until now in dismantling the considerable barriers to trade which exist. The next section of this report examines what these barriers are.

Barriers to trade

20. From the mid 1950s to the early 1970s, Japan adopted a vigorously protectionist attitude to trade. Imports, particularly of manufactured goods, were either discouraged by discriminatory tax barriers or by effective non-tariff barriers. Companies were required to buy from local suppliers and public procurement policies, particularly in sensitive sectors such as telecommunications and railway equipment, only admitted local suppliers.

Today many of the technical barriers have been removed and tariffs have been lowered significantly under GATT. Some efforts have been made to

simplify inspection formalities, e.g., in the automobile sector, and in relation to pharmaceutical products and electrical and gas appliances.

21. Despite this there can be little doubt that non-tariff barriers do remain which effectively increase the difficulty in entering the market.

The main non-tariff barriers can be found in the following areas:

- a) Customs
- b) Product Testing
- c) Health and Safety Standards
- d) Labelling
- e) Administrative Guidance
- f) Government Procurement Policies

a) Customs

Difficulties with Customs procedures are perhaps the most widely experienced and most resented of non-tariff barriers. Frequent complaints are made that Customs officials tend to be rigid and arbitrary in applying regulations. Customs procedures are complex and time consuming. Explanations for Customs decisions are often not made and no effective appeal system exists.

22. It is important that Community businessmen should be encouraged to chronicle difficulties met at Customs points and to submit these to the Community offices in Tokyo for investigation. The Japanese should cooperate fully in investigating complaints made. A clear guide should also be published to help importers understand what Customs clearance requirements are. It should be drawn up with the direct involvement and consensus of the Customs authorities themselves. The Japanese Government should be asked to institute some form of training for Customs officials to help them to adopt a less traditional time consuming and restrictive approach in their dealings with importers and the application of Customs rules.

b) Product Testing

23. Standards of quality and safety can reasonably expect to be set by any nation anxious to make certain that goods coming on to its markets do not cause harm. As far as possible, however, international standards need to be adopted to facilitate world trade. The Japanese seem to pursue a policy in the testing and certification of products which is designed to delay, confuse and discourage importers. Testing procedures tend to be complex and implemented in such a way as to place the importing manufacturer at a distinct disadvantage compared to local Japanese producers.

Whilst fully recognising that the Japanese have a right to insist on consistent and good quality products, it is entirely wrong to block entry by deliberately complicated testing procedures and discrimination in favour of local products.

Once again, as with Customs, product certification, standards and procedures of testing need to be simplified so as to assist, not hinder, those foreign manufacturers who are able to meet the quality standards required. Japanese and foreign companies must be afforded similar treatment in the type, method and location of testing. One further point is that product testing should not require manufacturers to disclose information on methods of manufacture and composition of products without complete justification.

c) Health and Safety Standards

24. Once again, the Japanese are fully entitled to ensure that standards comply with the reasonable expectations of society. If Japanese cars are made to emission standards which reduce pollution, then foreign importers need also to comply. However, it is altogether another matter for health and safety standards and procedures to be designed to militate against foreign producers without there being any discernible danger to the health or safety of Japanese consumers. Further, the Japanese authorities must recognise that their system of advisory committees in each Ministry which are required to vet standards, frequently and unnecessarily cause delays. There is a need for a clear and concise bulletin to be issued to explain the content of and reasons for standards which are set. Guidelines should be given to importers and authorities alike on the procedures to be followed for submitting and testing of products.

The Japanese having stated their willingness to move towards the acceptance of international standards must be seen to be acting according to their promises. The Commission's involvement is essential to make certain that this is taking place. Indeed, the Commission should make greater use of its own regulatory power to prescribe similar enforceable standards for such products as motor vehicles and components which are sold on EC markets.

d) Labelling

25. Although an apparently unimportant subject, the matter of labelling products for the Japanese is a major irritant to importers. For instance, in the case of foods, small items often have to be unpacked individually

at the Japanese port of entry where labels have to be affixed on each item with the name of the importer and the date. Again there appear to be needless regulations such as requiring weights and measures to be shown only in metric, but not in both metric and UK imperial units.

Irritants to exporters to Japan such as these could, in everyone's best interests, be done away with.

e) Administrative Guidance

26. As explained in the section on industrial policy, the relationship between Ministries and industry is very close. The Japanese Government deny pressure is exerted on industry to limit foreign imports. It certainly seems, however, that the Ministry of International Trade and Industry (MITI) and other Ministries have in the past kept a close regulatory eye on business sectors requiring either protection or development and this has meant excluding importers' products in the same sphere. Currently in the field of high speed integrated circuits there is considerable involvement of Government with industry to fund and produce the latest products of this technology. Since this is a sensitive area, imports are extremely difficult to achieve. However, direct Government pressure to stop imports is very much less than it used to be. This is primarily because it is considered that Japanese industry is sufficiently modernised and competitive to be able to stand on its own feet against worldwide competition.

f) Government procurement

27. Access to public corporations in Japan is still severely limited to foreign firms. The Japanese have done little to improve the situation over the years. Whilst one can understand the Japanese point of view, in the case of their public procurement, then reciprocity must be observed in the Community who should not allow access to Japanese firms in Community public corporations.

Indeed the Commission should make greater use of its own regulatory power to prescribe similar enforceable standards for such products as motor vehicles and components which are sold on EC markets.

28. In summary the Japanese Government should recognise non-tariff barriers as a key policy issue and make it widely known within Japan that the issue of non-tariff barriers, and the openness of its market to exporters, are serious and immediate problems which need solving by the Japanese themselves so as to establish better relations and a truer reciprocity with the Community. This may need education at public and bureaucratic level. In particular your rapporteur would like to see:

1. The establishment of information offices in Ministries and abroad.
2. An improvement in the number and level of Government publications on how to import into Japan.
3. The introduction of measures to accelerate time limits for Customs appraisal decisions.
4. The taking of concrete steps to help foreigners penetrate the distribution system.
5. The admission of an increasing degree of foreign testing data in acceptance tests.
6. The setting up of seminars by EEC and Japanese authorities together in order to help European businessmen better understand Japanese culture and their business approach.

V. THE ROLE OF GOVERNMENT IN RELATION TO BUSINESS

29. One of the principal reasons for Japan's ability to expand its overseas trade, has been the consistent support given to industry by Government, its affiliated organisations and Banks. The widely held notion that "Japan Inc." is one homogeneous entity is greatly exaggerated, yet undoubtedly there exists a much greater linkage and understanding between State and Industry than in the West.

30. It is essential to understand that the Japanese Civil Service is small, but its top echelons are staffed by the cream of Japan's top Universities. These elite bureaucrats normally join the Civil Service when they leave University and remain there until they are about 50 years old, sometimes younger. They will then enter politics, quasi-Government corporations or private industry. Five of the last seven Prime Ministers, about half the Cabinet and numerous senior executives in Japanese industry have come from Government departments.

Salary scales in the Civil Service are much lower than equivalent positions of seniority in business. Nonetheless, the Civil Service still attracts the best brains in the country and they are rewarded in terms of responsibility and authority.

31. The Civil Service is, however, modest in size despite its influence. Indeed Government spending amounts to 25% of GNP compared to 44% in the United Kingdom. There are 4½ Government employees among every 100 employees compared to 10½ in Britain.

Of the Government departments supervising industrial policy, the Ministry of International Trade and Industry (MITI) is the most important. The Ministry of Finance (MOF) is, however, the most powerful of all Government departments, holding, as it does, the purse strings. It may control or strongly influence the country's Banks and Financial Institutions. This is done through the Bank of Japan, the Central Bank, which in turn lends money to the 12 largest Commercial Banks. Industry in turn is able to operate with very high debt/equity ratios because in effect the Government is standing behind the loans they obtain.

32. Corporate power in Japan is concentrated in big business. The 700 top companies belong to an organisation called the "Keidanren". Here top management of the country's largest enterprises meet regularly to talk about leading issues which confront the business community. "Keidanren" is organised into various trade associations and working committees.

Relations between the staff of the "Keidanren" and Government departments are very close. Problems are discussed in joint consultative committees on which sit senior executives of business and senior Government Civil Servants.

33. During the past twenty years, enormous efforts have been made by Government, Banks and Industry, working in close cooperation with each other, to keep inflation strictly under control without inhibiting growth and to achieve significant improvements in productivity. Indeed Japan has had considerable success in keeping the cost of living down.

TABLE IV

Inflation

Consumer Price Index

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
EEC	100	111	122	132	145
USA	100	106	113	121	135
Japan	100	109	118	123	127

Source: Eurostat - Basic Statistics of the Community 1980:
Table 111

Although severely hit by the energy crisis in 1973/74, Japan has amply succeeded in bringing the situation under control. At the same time productivity improvement has been achieved by planned modernisation of plant and machinery and increased volume production.

INDUSTRY: Strategy

34. Over the past thirty years the Japanese have recognised the necessity of moving their main export industries steadily from those utilising unskilled labour and intensive manpower to those with predominantly skilled labour and again towards more automated and knowledge-intensive industries. In the 1950's industries such as textiles thrived, to be replaced in the 1960's by concentration on motorcycles, radios, ships and steel. Then, during the 1970's, motor cars, colour television, high fidelity equipment etc., were in the ascendancy. Now a further shift is taking place to computers, data processing equipment, micro-circuits and high technology machinery. Government and industry have realised that to remain competitive in foreign markets, they have had to plan for ongoing change in the knowledge that unless they did, then other countries, particularly neighbouring countries of the developing world, with lower wage rates, would acquire the labour skills and technical know-how to outstrip the Japanese.

35. This has in fact come about as predicted and is vividly illustrated by the following table:

Table V

Relative Wage Rates : Benelux and Germany 100

	<u>1972</u>	<u>1978</u>	<u>1979</u>
Benelux & Germany	100	100	100
USA	160	95	85
Japan	68	85	74
Far East	16	13	12.5

The increasing wage rates in Japan have led to many quite sophisticated consumer products such as high fidelity equipment being made by or for Japanese companies off-shore in those lower wage rate countries of the Far East.

36. A Government inspired strategy has, therefore, been developed to facilitate industrial change. As an example, measures took place throughout the 1970's giving Japanese industry the incentive to move to higher value added knowledge industry. Joint Government and industrial development projects in computers, micro-circuits and machine tools were commenced. Tax incentives were provided for research and development in specified knowledge intensive areas. At the same time, assistance ceased being given to successful capital intensive industries like steel and motorcars, which were considered to be strong enough to compete on their own. Monies, however, were made available to certain declining industries, not, as in the West to prop them up, but to help them to decline. Examples are in textiles, synthetic fibres and shipbuilding, where Japanese industry has become relatively uncompetitive due to high wage rates and the rise in the value of the Yen. Compare this to widescale European efforts to prop up and protect industries that for the developed world are clearly in decline.

37. There is one further and important reason why Japan is turning increasingly to knowledge-based industries. This is the combination of the sharp drop in the birthrate together with an ever increasing supply of University-educated young people. Although Japan's unemployment figures are currently better than most of the developed countries in the world, she is witnessing a new type of unemployed, the University graduate. At the same time the social structure is changing in as much as factory workers are increasingly seeking higher wages.

VI. INDUSTRIAL POLICY AND MARKETING STRATEGY

Technology

38. Japan has built up its expertise in technological products largely on the basis of imported know-how contracted through licence agreements. In the past she has spent relatively less on research and development compared to the West, e.g. in 1977 1.7% of Gross National Product against 2.2% in the USA, 2.3% in Germany, 2.0% in the UK and 1.8% in France. Foreign technology is, however, becoming readily available to the Japanese and this is partly the reason why Japan herself is now making large strides in own technological development. Another just as important reason is the emergence of new industries using high technology. Examples are office machinery, communication equipment, industrial robots, numerically controlled machine tools, vehicle electronics and computers. All these products require the use of advanced micro-electronic technology. The Government has set major restructuring goals for industry in the fields of energy conservation, higher added value production and research and development in high technology areas. •

Marketing Strategy

39. If Japan has shown a co-ordinated and effective approach to her industrial strategy this has been complemented by a clearly thought out and determined marketing strategy. One sees in Japanese trading a constant inter-linking between domestic and international markets. Japan has shown great determination in ensuring rapid growth on her own economy as well as external trade. Indeed rapid internal growth has enabled lower costs to be attained. Using her home sales as a base for profitability, Japan has succeeded in penetrating markets abroad by the method of marginal costing which in turn has brought about higher volume still, increased productivity and consequent savings in cost.

40. The Japanese have realised the important relationship between cost and volume, whereby costs fall significantly with each increase in production. For instance, television set manufacture costs will fall by approximately 15% and automobile costs by approximately 12% every time production in these products doubles.

In consequence of this each Japanese company tends to produce a small number of models, albeit with many features, to ensure high volume production. This is particularly evident during the earlier stages of market development.

41. The awareness of a cost/volume relationship has made the Japanese acutely aware of the necessity to establish and quickly increase their market shares in each country where they decide to sell. One therefore finds frequently that artificially low prices are being quoted. Short term profits are deliberately sacrificed for quick growth in order to undermine their competitors' position. This strategy in developed countries is remarkably effective since more often than not the market is dominated by local manufacturers who have comparatively large market shares and who do not stand to gain the same cost/volume advantages by giving full measure in cutting their prices to the levels of the Japanese.

This aggressive strategy is facilitated for Japanese companies by the fact that the ownership of most of the larger companies is in comparatively few hands and it is not expected that companies will return quick profits from new operations and new markets.

42. A further aspect of Japanese marketing strategy is that new products are usually put on to the home market before being launched abroad. This ensures that the "bugs" are got rid of and that by the time the product reaches the export market, although often adapted for overseas customers, it is properly tested and proven in use.

The Japanese, in their overseas marketing strategy, have tended to attach first those markets where competition is least fierce. Consequently, their products have often appeared first in the more advanced developing countries, particularly in Asia.

43. They have also, over the years, entered at the relatively low end of the market, whether it be economy cars or motorcycles, calculators or radios and televisions, this has been the initial attack. Many Western countries were fooled into believing that Japanese companies would be satisfied with establishing positions for themselves at the cheap end of the market. They did not sufficiently study what was taking place in the development laboratories of these companies, or indeed what were the newest products being launched on to the Japanese home market. The result has been that in almost all sectors where the Japanese have established positions at the lower end of the market, they have finished by establishing equally dangerous leads at the top.

To be able to do this effectively and still to set the pace once the product is exported, means a constant and highly efficient feedback of customer needs and competitor developments from those markets to be penetrated. It also requires the closest liaison between research, product development, manufacture and the market to ensure understanding of one another's needs.

44. By forgoing high levels of profitability in the early stages of development, Japan has increased her market share in high technology products. Her success in following an unusually efficient specialisation strategy has enabled her to maintain economic growth rates that have been considerably higher than the average amongst industrialised countries in recent years.

As a member of OECD, Japan's share of total exports of manufactures from all OECD countries has risen dramatically since 1963, as the accompanying table shows. The share of exports of the most technologically advanced products, those considered fundamental for the control of the international division of labour, rose to the point where Japan already held in 1977 about a quarter of the markets supplied by OECD countries despite its relatively small share of total world trade.

Table VI
EXPORT MARKET SHARES IN OECD TRADE (%)

	<u>A. Manufactured Products</u>		<u>B. Products Basic to Technological Progress</u> ⁽¹⁾	
	<u>1963</u>	<u>1977</u>	<u>1963</u>	<u>1977</u>
USA	21.2	14.9	27.3	16.1
Japan	7.3	14.5	8.2	23.7
EC	58.1	55.4	35.3	30.5
-FRG	19.4	19.4	21.6	20.2
-France	8.5	9.1	6.0	7.5
-Italy	5.8	7.1	4.2	4.8
-United Kingdom	13.7	8.6	12.3	7.3
-Netherlands	4.1	4.4	6.7	5.1
-BLEU	5.4	5.4	3.0	3.4
-Denmark	1.1	1.0	0.9	0.8

(1) e.g. Computers, telecommunications, machine tools -

Source: Tables III-7 and III-14 of "Changes in Industrial Structure in the European Economies since the Oil Crisis" - 1979 Special Issue of "European Economy", published by the Commission of the European Communities.

45. The EEC and the United States combined total 500m people compared to 110m people in Japan. Both Western markets are far more inherently attractive to the emerging high technology products of Japan than are the Far Eastern markets outside of Japan itself. Consequently, far from seeing any diminution of Japanese exports to the Western world, the reverse is likely to be the case. One must be careful in giving close attention to the sectors of automobiles, established electronic components steel etc., that the new wave of Japanese products which is

still to come is not forgotten. To make sure that we are not caught unawares again we should look at past experience.

46. Japan almost always has introduced its new products onto its own home markets and then frequently in other countries of the Far East before launching them into the EEC or the USA.

Europe and the US with some exceptions were inadequately prepared to resist the Japanese invasion of consumer electronics, cameras and watches. We have not had, and do not have, any systematic strategy. In high technology sectors such as computers, micro-electronics, space satellites, little co-ordination has existed until now despite the efforts of the Commission to bring it about particularly in regard to standardisation, inter-face, public procurement and research and development.

In consequence of this, unlike the Japanese, the Community does not have established priorities.

47. Since 1960 average productivity in Germany, France and the UK combined has been only 50% of that of Japan. Consequently to compete against Japan will be that much harder than it was 20 years ago.

VII. JAPANESE TRADE WITH THIRD COUNTRIES

48. Whatever measures are taken to regulate bilateral trade between the Community and Japan, that country's competitive position on third world markets will remain a powerful factor over which the Community has little control.

49. Machinery represents between a quarter and a third of exports to developing countries; sales of machinery are greater than those of electrical equipment and transport goods taken together.

In the evolution of exports of machinery to the third world between 1971 and 1978, the US dominated followed by the FRG and Japan. The UK, France and Italy performed similarly but their exports have fallen behind since 1975.

50. Between 1973 and 1978 Japanese exports of machinery to newly industrialised countries showed considerable increase. This was especially so in the Middle East where her exports tripled between 1975 and 1978.

51. Japanese exports to Asia of machinery and electrical goods exceeded 8 billion dollars in 1978. They exceeded those of the US and four major European countries combined. Japanese dominance is evident on all Asian markets except that of the Indian sub-continent.

52. As the 1980 OECD Report on Japan points out the pattern of Japanese exports changed considerably in the second half of the 1970's with the share of heavy industries such as iron and steel petrochemicals, and shipyards falling, while that of machinery expanded rapidly. In 1978-1979 the latter amounted to more than 30 per cent of total sales abroad, with automobiles accounting for about 16 per cent and electric machinery and equipment around 14 per cent. These developments reflected the rapid adjustment of Japanese industry to changes in the structure of world demand and towards more technology-intensive products.

The regional structure of exports has also undergone significant changes with deliveries to OPEC countries, middle-income developing countries and the Sino-Soviet area (notably China), accounting now for a distinctly higher share of total exports than before.

53. Many developing countries are seeking to improve their own productive capacity and this will influence their demand for goods from abroad. The newly industrialised countries in particular, are no longer passive markets to be exploited by the industrialised countries. In seeking to cater for their requirements of sophisticated goods, the Japanese with their competitive edge will continue to be a factor to be reckoned with.

54. Action by the Community to limit Japanese exports by formally introducing tariffs or quantitative restraints for the EEC as a whole could only exacerbate competitive pressures in third markets. Only an enormous effort to improve efficiency within European industry, perhaps by the widespread use of automation will enable the Community to retain vital overseas markets where European industries must compete with their Japanese counterparts directly. It is for this reason, if no other, that great emphasis should be given to the reference in the Council communiqué to the need for "further progress in getting European industries to develop positive strategies to deal with Japanese competition, including not only restructuring in Europe but also by greater involvement in the Japanese market."

VIII. JAPANESE AND COMMUNITY INVESTMENT

55. A key method for expanding channels of economic co-operation between Japan and the Community will be investment in each others' countries. This must, however, be reciprocal. It is clear at present that Japan is rapidly increasing its investment in the Community, both in fully owned industrial and marketing subsidiaries, and in joint ventures with European countries. There is, however, no similar trend in investment in Japan from European companies. Japanese investment in the Community is more than 10 times that of the Community in Japan. This must be considered seriously and solutions found to the problem.

By and large there is encouragement for Japanese companies to invest in the Community and development grants are equally available to them as to local manufacturers in setting up or expanding plants. The degree of encouragement differs from one country to another. For example, the Republic of Ireland are bending over backwards to encourage Japanese investors. They even have an office in Tokyo for this purpose.

By comparison Community companies find themselves faced in Japan with complicated banking, take-over and investment rules which create significant barriers. There has to be on Japan's part a much greater effort actively to encourage foreign investors and this must include a significant simplification of procedures.

56. It is also necessary for the Community to agree more cohesively than at present on ground rules for Japanese investment in Europe. Investment should certainly continue to be encouraged, but only on certain conditions.

IX. THE COMMISSION'S RE-EXAMINATION OF COMMUNITY TRADE POLICY WITH JAPAN

57. Although we acknowledge the real difficulties to be faced in improving the trading situation with Japan, we are disappointed that the Commission's Communication to the Council of 15 July 1980, "The Trade Policy of the Community and Japan : a re-examination" (COM(80) 444 final) does not put forward sufficient constructive and practical recommendations for dealing with the problem.

58. The basic approach of the Communication is that certain countries of the EEC, rather than the Community itself, have a 'patchwork' of discriminatory national protectionist measures. These measures, which cause growing resentment in Japan, are described by the Commission as "more a relic of the 1950s than a Community policy of the 1980s".

The Commission goes on to analyse the damage that this does by weakening the international competitiveness of Community industry. The Communication also points out that as far as Japan is concerned there is therefore a gap in the common commercial policy; by not acting together, the Member States are weakened in their dealings with Japan, and this section of the Communication concludes "one fundamental point needs constantly to be remembered. Any major derogation from a common (i.e. Community-wide) policy on imports stands in the way of achieving a single market which is the Community's first raison d'être".

59. The Commission recalls its responsibilities under Article 115 of the Treaty as well as its responsibilities and duties in respect of the renewal of existing commercial agreements by Member States with Japan, the possible reference of bilateral arrangements to the Court of Justice and the application of the principles of Community competition policy.

60. The Commission proposes that the negotiation of a bilateral agreement, covering both residual quantitative restrictions and "communitarization" of the existing national bilateral safeguard clauses, which has been suspended for nearly a decade, should be resumed. Three categories of quantitative restrictions would have to be considered:

- a) those that can be removed fairly easily;
- b) those where progressive liberalization may be feasible on a basis of reciprocity;
- c) those where wide and important interests are at stake, and where large adjustments (including greater specialization or restructuring in the EEC) would be required.

61. In order to achieve this liberalization, it may in some cases be necessary to seek temporary restraint of Japanese exports while European industry restructures, but the restraint would only be exercised for a limited period, and this would be accompanied by restructuring measures of the industry concerned.

Accompanying this liberalization any new bilateral EEC-Japan agreement would contain an element of industrial cooperation which could cover such matters as contacts between European and Japanese industry, investment by Europe in Japan and vice-versa, and possible collaboration in third country projects. Finally, "A further opening up of the Japanese market to Community exports would also contribute to the strengthening of commercial and industrial ties".

62. Any reservations about the Communication do not stem from any criticism of what is proposed but from the rather negative, defensive and undynamic tone adopted. Of course, to a certain extent this is a reflection of the difficulties of our competitive position vis-à-vis Japan, which have already been discussed (see paragraph 13 above). It should, however, have been possible to have put forward a more constructive and aggressive paper. Even if we are firmly opposed to "protectionism" as such, the fact remains that we have to achieve greater access of Community industry and particular sectors of it not only to Japanese markets, but also within the context of world trade to ensure that the Community becomes increasingly competitive in that area which is as important as redressing the balance of trade between the EEC and Japan. The subsequent section of the report will put forward some suggestions concerning a more positive and aggressive approach.

X. POSSIBLE RESPONSES BY THE EEC

63. On 25 November 1980 the Council considered the Commission's communication and agreed "on the need for a wide-ranging dialogue between the Community and Japan based on common strategy". The views of the Council are contained in Council Press Release 11580/80 (Presse 174), 25 November 1980.

64. The opinions expressed in this report and the conclusions given below do not differ substantially from the spirit of the Council's declaration of 25 November 1980, but in some respects they go further. The Council expressed its concern at the trade imbalance and the concentration of Japanese exports in particular sectors; it called in particular for moderation of exports to the Community, for the yen to reflect the strength of the Japanese economy, for an increase in Japanese imports from the Community and for industrial cooperation. The Commission will report back to the Council in the light of the Council's statement before the end of February 1981.

65. Since the declaration of 25 November 1980, the Council, by decision of 17 February 1981, has authorised the Commission to introduce a surveillance system covering Japanese exports of certain sensitive products. We welcome this as a positive step to creating a Community strategy towards Japan.

66. Having expressed reservations about the efficacy of the Commission's re-examination of EEC trade policy with Japan, we conclude by putting forward our own suggestions, but these apply to the field of the European Community's relations with Japan in the longer term. They refer particularly to how the countries of the EEC might improve their competitiveness in relation to Japan not only in order to reduce the growing trade imbalance but also to ensure their place in the world market.

67. The role of national governments and industries

Whatever role the Commission can play in bringing about genuine and effective Community strategy, the primary solutions will have to be found at the level of national industries and national governments. In the course of industrial restructuring, decisions will have to be taken at a political level as to which industries or sectors are to be regarded as strategic and vital and are therefore to be preserved, if necessary with government assistance; so will the unpalatable decision (which the Japanese have been prepared to take) as to which industries or sectors should be allowed to run down and be replaced by new industry or technology.

The determination of individual industries to increase their Research and Development into new products and production methods; to rationalise their production and to improve their marketing effort is vital. Cooperation within industry and between government and industry both on a national and a Community level is becoming increasingly important as large scale production is shown to reduce costs substantially. Equally, however the use of smaller, peripheral industries supplying main units of industry will need to be developed.

68: Import quotas and Japanese cooperation

We do not favour the imposition of import quotas against Japanese products provided the Japanese are willing

- a) to accept specific quantifiable restraints on their exports of sensitive products to the Community. This relates particularly to automobiles and electronic components but affects other sectors as well. In the shorter term these restraints will need to be considerable so as to allow European industry the breathing space to rationalise and automate where necessary. The restraints should be of a continuing nature;
- b) to open up their own markets to a greater extent than previously. In particular the recommendations on page 40 of this report must be implemented. Restrictions on articles such as confectionery, tobacco and leather must be freed.

If the Japanese are not prepared to agree to voluntary restrictions in individual sectors and on a specific basis, or if it is shown that they have not abided by such agreements, then the Community must be prepared to implement temporary import restrictions upon the offending industries. This is why it is so important that any agreements made between the Community and Japan must be quantifiable and must be taken to industry and product level. To be clear, this means that products, quantity and duration must be stated and agreed upon. Agreement should as far as possible be common to all EEC countries, and should be negotiated at industry level within the framework of an overall Community/Japan policy agreement.

69. Investment in the Community

Japanese companies should be welcomed to the Community to set up plants either on a wholly owned or joint shareholding basis. However, it must be incumbent upon the Japanese investor to abide by certain requirements. We suggest these should be:

- i. There must be reciprocity of treatment on the part of the Japanese.
- ii. Those Japanese companies making end products in the Community must be willing to undertake to source a substantial percentage of components from local companies.
- iii. Japanese companies setting up operations in the field of high technology must be willing to bring into the Community research and development facilities.

The message to the Japanese investor is clear. "We wish to welcome you as an integral part of our industrial economy, but not in the capacity of an off-shore assembly plant".

70. Investment in Japan

The Japanese must be prepared to give proper evidence that investment in Japan is not being hindered in any industry sector. If it is, the reasons and duration must be clearly stated. Just as in trading, however, reciprocity in investment must be a starting point for negotiations with the Japanese.

To ensure that investment does take place in Japan, we recommend the setting up of a joint EEC/Japan Investment Bureau whose job will be to facilitate investment applications from either side and to agree the overall parameters of investment policy within which both governments and industry will be obliged to work.

71. Joint Investment Overseas

Joint undertakings between Community and Japanese companies should be encouraged. However, once again, reciprocity is necessary. If the Community is helping Japanese companies to establish themselves where the Community has influence, then equally the Japanese should include Community companies in spheres where they - the Japanese - have the greater influence.

72. Action by the Commission

We again endorse the Community's new strategy as outlined in the Commission's Communication to the Council. Even if this does not go far enough, it is indisputable that the countries of the Ten will be able to deal far more effectively with Japan if they speak with one voice through the Commission than if they continue to deal with Japan through individual quantitative restrictions, gentlemen's agreements and voluntary restraints. Not to do so is to allow Japan to "pick off" national industries one by one. On the other hand, the Commission must evolve a common policy in cooperation with specific industry sector levels, since the implementation of agreements needs to be specific and by products. The negotiation of a new Commercial and Economic Agreement between the EEC and Japan must be the priority undertaking.

73. The Community can, however, do more than this. In the first place it must ensure that, however well-intentioned, certain fields of Community activity, as regulated by the provisions of the EEC Treaty, do not in fact operate against the Community's own economic interests. We refer here particularly to Competition Policy¹. It may well be that the Commission should re-examine the way in which this policy has evolved and been applied in order to ensure (a) that the restrictive clauses (Articles 85 to 90) have not been too harshly applied with the result that industry within the EEC is being penalised at the expense of industry from third countries (including Japan) and (b) that the sections relating to aids granted by States (Articles 92 to 94) are interpreted as liberally as possible.
74. The Commission should, as soon as possible, take steps to ensure that the existing regulations and directives relating to type approval and minimum standards² should be made compulsory rather than 'optional'. Under the present system, there is nothing to prevent individual Member States either manufacturing or importing various items even if they fall below the Community norm; all that is usually implied is that no Member State can refuse to import, from other Member States, items which comply with Community minimum standards. We believe that these minimum standards should become compulsory and that no Member State should be able to import, from any source, articles which do not comply with type approval requirements.
75. If and when it can be established that particular countries are using unfair practices to protect their own industries, the Commission should be able to introduce, at Community level, reciprocal measures against that country's exports. This suggestion is easier to make than to put into practice, and it would involve the Commission being provided with an adequate budget to maintain a service which could investigate allegations of 'concealed protectionism' (c.f. the Commission's team for dealing with dumping allegations). Any such measures and their justification would naturally have to fall within the framework of the GATT.
76. The Commission should be provided with adequate funds to follow up and intensify the programme it has already initiated in instructing businessmen and industrialists on means of penetrating the Japanese market. Japan's frequent statements encouraging importers ask for a
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- ¹ See Articles 85 to 94 of the Treaty
- ² Particularly in respect of motor vehicles

greater measure of practical cooperation from them in this field and consideration could be given to this in any new Commercial and Economic Cooperation Agreement.

77. Consideration may have to be given to a Community mechanism of temporary tariffs to offset the effects of violent currency fluctuations of the yen. We are not, however, very hopeful of the effectiveness of this approach since currency aberrations tend to be shortlived phenomena which can fluctuate very widely (e.g. the rise of the yen in July 1980 following Japan's movement into an overall balance of payments surplus for the first time since September 1978). Certainly, the Japanese energetically resist any suggestion that the value of the yen is being manipulated for trade reasons. The Japanese Government should be encouraged, however, to pursue a policy of 'internationalization of the yen', not to hinder its upward movement, and not to reduce its deficit too quickly (international burden-sharing). The ultimate goal should be the linking or alignment of the yen with the European Monetary System.

XI. SUMMARY OF CONCLUSIONS

78. We stress again that the existence of the present trade imbalance constitutes a serious impediment to developing a fruitful and positive partnership between the Community and Japan which will involve cooperation in matters as diverse as assistance to developing countries, world security, monetary stability and energy conservation.

The adoption of the recommendations contained in the report will, it is hoped, go a long way to reducing the trade imbalance to an acceptable level and by doing so lead to the development of a partnership which will be beneficial not only for the partners but also at a much wider level.

79. The Committee on External Economic Relations' main recommendations are as follows:-

- a) Action by the Governments of Member States and European industry
 - 1) National governments should coordinate their trade and commercial policies towards Japan as closely as possible so that they can speak to Japan with one voice.

- 2) Individual European industries should make every effort to rationalise production and to increase Research and Development into new products. Not only should there be increased cooperation between government and industry at both national and Community level, but also use of smaller industries supplying main units of industry will have to be developed.
- 3) Both government and industry must accept the need for forward planning and achieve a greater degree of adaptability (see paragraph 67).

b) Action by the Council and Commission of the European Communities

1. Any discussions with Japan must enable the Member States to speak with one voice and must lead to genuine reciprocity in respect of any concessions which the Community may grant to Japan. Such discussions must lead to the acceptance by Japan of specific quantifiable restraints in respect of sensitive sectors and the complete reciprocity of banking and investment facilities (see paragraph 70).
2. The Commission must continue and intensify its existing programme for instructing European businessmen and industrialists on the best means of penetrating the Japanese market in cooperation with the Japanese (see paragraph 76).
3. The Council must be prepared to grant the Commission adequate funds and staff for such matters as the investigation of concealed protectionism and barriers to trade and the institution of a Joint EEC/Japan Investment Bureau (see paragraph 70).

c) Action by the Japanese

1. The Japanese Government must take all necessary measures to remove existing non-tariff barriers while at the same time demonstrating a greater willingness to open its markets to imports.
2. The Japanese should be prepared to accept specific quantifiable restraints of their exports in respect of sensitive sectors (see paragraph 68).
3. Japan should facilitate access to banking and investment in order to achieve reciprocity with the facilities it enjoys in the Community (see paragraph 70)

4. Japan should accept the necessity for working towards monetary stabilization by the eventual alignment, or linking, of the yen with the European Monetary System (see paragraph 77).

ANNEX

MOTION FOR A RESOLUTION (DOCUMENT 1-966/80)

tabled by Sir Frederick WARNER, Mr SEITLINGER, Mr ANTONIOZZI, Mr BALFOUR, Mr CARDIA, Mr COUSTE, Mr Robert JACKSON, Mr KLINKENBOURG, Mr LEGA, Mrs MARTIN, Mr MULLER-HERMANN, Mr SALZER, Mr SEAL, Mrs VIEHOFF, Mr WAGNER, Mr MARTINET, Mrs WIECZOREK-ZEUL, Mr van AERSSEN, Mr Ingo FRIEDRICH, Mr von WOGAU, Sir James SCOTT-HOPKINS and Sir John STEWART-CLARK

with request for urgent debate pursuant to Rule 14 of the Rules of Procedure

on current EEC-Japan economic and trade relations

The European Parliament,

- having regard to the 4th meeting of delegations from the European Parliament and the Japanese Diet which took place in Tokyo from 16 - 18 February 1981 and to the evident desire of the Japanese Diet to deepen and make fuller use of these interparliamentary relations,
 - gravely concerned at the growing size of the trade deficit between the Community and Japan which is now running at an annual rate of about 11 billion dollars,
1. Resolves;
 - to inform the Council and the Commission of its support for the measures announced and the views expressed in the Council's statement of 17 February 1981 on EEO-Japan relations,
 - to strengthen its ties with the Japanese Parliament and to intensify its present exchanges in the light of the good understanding and results so far reached,
 - to debate, at the earliest opportunity, the question of current political, economic and trade relations between the European Community and Japan, and the measures necessary to improve them,
 2. Instructs its President to forward this resolution to the Council and the Commission.

JUSTIFICATION FOR URGENT PROCEDURE

Urgent procedure is justified inasmuch as on 17 February 1981 the Council adopted a statement on the growth of Japanese exports to the EEC, the delegation from the European Parliament for relations with the Japanese Diet completed its work on 18 February 1981 and since it is essential for Parliament as a whole to adopt a stance on this issue at an early date.

