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## Report

drawn up on behalf of the Committee on External Economic Relations

on economic and trade relations between the European Community and Japan

Rapporteur: Mr J. BAAS

PE 47.229/fin.



At its sitting of 15 March 1973 the European Parliament authorized the Committee on External Economic Relations to draw up a report on economic and trade relations between the European Community and Japan.

At its sitting of 15 December 1976, the European Parliament also referred to the Committee on External Economic Relations a motion for a resolution by Mr Klepsch (Doc. 483/76) on trade between the EEC and Japan.

The Committee on External Economic Relations appointed Mr Baas rapporteur.

At its meetings of 18 January 1977 and 26 January 1977, the Committee on External Economic Relations considered the draft report. On 15 February 1977, it unanimously adopted the motion for a resolution.

Present: Mr Kaspereit, chairman; Mr Schmidt and Mr Martinelli, vice-chairmen; Mr Baas, rapporteur; Mr Bayerl, Mr Bersani, Mr Didier, Mr Laban, Mr Molloy, Sir Brandon Rhys-Williams (deputizing for Mr Spicer) and Mr Sandri.

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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 economic and trade relations between the European Community and Japan

The European Parliament,

- recalling its resolutions of 2 February 1970<sup>1</sup> on trade relations between the Six and Japan and 15 December 1976 on Community trade with Japan<sup>2</sup>,
  - having regard to the report of the Committee on External Economic Relations (Doc. 570/76),
  - having regard to the proposal for a resolution by Mr Klepsch on behalf of the Christian-Democratic Group, on trade between the EEC and Japan (Doc. 483/76),
1. Expresses its deep concern at the constant growth of the Community's trade deficit with Japan;
  2. Draws attention to the alarming consequences to employment of Japanese competition which concentrates on limited sectors of industries such as shipbuilding and electronics and notes the increasing regional imbalances which result from these Japanese activities;
  3. Calls upon the Commission to examine and report to Parliament on the methods whereby Japanese exporters and financial houses penetrate various markets in the Community with a view to domination of those markets, thereby infringing the rules of fair competition;
  4. Feels that, in certain sectors, voluntary limitation of Japanese exports to the Community is temporarily required;
  5. Stresses, however that a substantial increase in Community exports to Japan would play a key role in ending this trade deficit, and welcomes the fact that this view was shared by the Heads of Government of the Community at the European Council meeting of 29 and 30 November 1976;

<sup>1</sup> OJ No. C 25, 28.2.1970

<sup>2</sup> OJ No. C 6, 10.1.1977, p. 69.

6. Requests the Commission to strongly urge the Japanese Government to make substantial concessions giving the industries of the European Community access to the Japanese domestic market comparable to that enjoyed by Japan to the Community market, and to ensure that the Japanese authorities put an end to the non-tariff barriers to imports from the Community;
7. Welcomes the Japanese Government's recent decision to simplify the technical control procedure for motor vehicles and pharmaceutical products from the Nine;
8. Notes that relations between certain Member States and Japan are still governed by bilateral agreements and shares the view that the provisions of these agreements may be applied only under the terms of the common trade policy and only by the Community so that the cohesion of the Community policy is maintained and the free movement of goods within the common market is not jeopardized;
9. Feels that questions of mutual interest and the differences between Japan and the Community should be resolved by common agreement on the basis of the principle of freedom of trade;
10. Stresses the importance of continuing these consultations at parliamentary level and suggests, therefore, the inauguration of regular contacts between delegations from the European Parliament and the Japanese Diet;
11. Takes the view that, notwithstanding the differences of opinion that have arisen in recent years in the trade sector, the two parties have to face similar challenges and difficulties, which implies a community of interests;
12. Hopes that, given this community of interests, widespread cooperation will be possible between the two parties, especially in multilateral matters (North-South dialogue and GATT for instance) and also in the areas of energy policy, research and pollution control;
13. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities and, for information, to the Japanese Government and Parliament.

EXPLANATORY STATEMENT

1. By devoting part of its deliberations on 29 and 30 November 1976 at The Hague to the question of relations between the Community and Japan, the European Council stressed the political nature which the growing trade imbalance between the Nine and Japan is currently assuming.

According to Community estimates, by 31 December its deficit will have reached \$4,200 million. In 1975 it was only \$3,200 million, although this already represented an increase of 68% over 1974.

Thus, once again, relations between the Community and Japan are of current importance.

2. When presenting his report on trade relations between the Six and Japan (Doc. 212/69) during the February 1970 part-session<sup>1</sup>, your rapporteur stressed the importance of this topic. Although, in the meantime, the subject has been raised in Parliament on several occasions - during Question Time and more recently during the December 1976 part-session, when the oral question with debate put by Mr Osborn on behalf of the European Conservative Group (O-74/76, Doc. 390/76) **was discussed - economic and trade relations with Japan have not been the subject of a full-scale analysis by the European Parliament.**

3. The Committee on External Economic Relations feels that, at a time when employers and trade unions in the Nine are drawing the attention of their governments and the Community authorities with growing concern to the alarming consequences, especially for employment, of Japanese competition in an increasing number of areas of economic activity, there is a need to return to the problem of relations between the two parties.

Within the necessarily limited framework of this report we shall attempt, first of all, to study the structure of trade between the Community and Japan, then the reasons for the Community's growing trade deficit vis-à-vis Japan, before going on to consider the possibilities of achieving a better trade balance between two areas so far apart geographically, which, despite economic considerations and the rivalry which can make them competitors in the search for markets, are closely linked by their adherence to the principles of parliamentary democracy and freedom of trade.

<sup>1</sup> See OJ No. 121, Proceedings of 2 February 1970

I. The structure of trade between the Community and Japan

4. Together with the United States, the European Community and Japan constitute the world's greatest economic and commercial powers.

During the 1960s the world watched with admiration and astonishment Japan's extraordinary rise to power which transformed this small archipelago, with no natural resources of its own, into the world's third economic power. For many years 'Japanese-style growth' has been synonymous with economic miracles, with record growth, with increases in production levels to unprecedented heights and extraordinary commercial vitality.

5. This system, based above all on freedom of trade and capital at world level, on unlimited supplies of cheap raw materials and on the soundness of the international monetary system, guaranteeing stable rates of exchange among the major currencies, reached its zenith at the end of the 1960s.

The Nixon 'shocks' of 1971 and the restrictions placed on Japanese exports by the United States, the 1973 energy crisis (Japan imports 99% of its oil), the increase in the price of all raw materials, the efforts to set up a new world economic order geared more closely to the interests of raw-material-producing developing countries, and the general pollution of the archipelago brought home to Japan the vulnerability of its power and the need to restructure its economy to make it less dependent on the hazards of worldwide fluctuations.

6. In this new context, the European Community, the leading world economic and trade power, assumed a special importance in the eyes of Japanese businessmen.

Although trade between the Community and Japan had been growing steadily throughout the 1960s, the leaders in Tokyo regarded it as peripheral and, in the last analysis, of secondary importance. Japan's traditional trading partners, who took more than 60% of Japan's exports, were the United States and the non-Communist countries of South-East Asia.

7. The structure of the Community and of Japan undoubtedly make their economies appear competitive rather than complementary. Europeans and Japanese both live in areas where land is scarce, which are overpopulated and which lack natural resources.

To maintain employment and living standards, they have been obliged to set up powerful industries and to carry on a high level of trade with the whole world. This competition for markets was inevitably aggravated by the repercussions of the energy crisis. The sharp rise in the cost of petroleum products and the conquest of markets in producing countries wishing to industrialize rapidly have intensified competition between Europeans and Japanese.



8. Up until the beginning of the 1970s the Community of the Six was, for Japan, a relatively unimportant trading partner. It is true that during this period, Community trade with Japan developed more rapidly than with any other country except Libya. Between 1958 and 1969 Community imports from Japan increased by more than 450% and Community exports to Japan by 350%, although the initial figures were very low.

9. Despite the considerable expansion in trade, the balance of trade between the Community and Japan remained roughly in equilibrium until the beginning of the 1970s. Although Japan registered a surplus of about \$100 million in 1965 and 1966 and \$15 million in 1968, the balance of trade during the other years was slightly in the Community's favour.

10. From 1970 onwards the situation changed considerably. Every year since then, EEC/Japan trade has resulted in a growing deficit, first for the Six and then for the Nine.

This is illustrated by the following figures:

The Community's trade deficit with Japan  
(in millions of US dollars)

|      |       |             |       |
|------|-------|-------------|-------|
| 1970 | - 276 | 1974        | -1915 |
| 1971 | - 782 | 1975        | -3218 |
| 1972 | -1298 | 1976        | -4200 |
| 1973 | -1345 | (estimates) |       |

Despite rapid growth, however, trade between the EEC and Japan still only represents a small percentage of their total imports and exports.

In 1975, the European Community accounted for 10.2% of Japan's total exports and only 5.8% of its total imports.

The following table shows the overall figures for Japan's trade in 1975:

Japan's foreign trade in 1975 by country and region

|               | Exports<br>1975 |       | Imports<br>1975 |       | Annual rate of<br>increase 1965-1975 |         |
|---------------|-----------------|-------|-----------------|-------|--------------------------------------|---------|
|               | (million US \$) | %     | (million US \$) | %     | Exports                              | Imports |
| TOTAL         | 55,753          | 100.0 | 57,863          | 100.0 | 20.8                                 | 21.6    |
| USA           | 11,149          | 20.0  | 11,608          | 20.1  | 16.2                                 | 17.2    |
| Canada        | 1,151           | 2.1   | 2,499           | 4.3   | 18.3                                 | 21.5    |
| EEC           | 5,675           | 10.2  | 3,371           | 5.8   | 27.9                                 | 24.0    |
| Australia     | 1,739           | 3.1   | 4,156           | 7.2   | 18.7                                 | 22.4    |
| S.E. Asia     | 12,543          | 22.5  | 10,586          | 18.3  | 19.0                                 | 22.4    |
| Middle East   | 6,075           | 10.9  | 16,477          | 28.5  | 32.8                                 | 30.9    |
| Latin America | 4,765           | 8.5   | 2,524           | 4.4   | 25.6                                 | 13.6    |
| Africa        | 4,087           | 7.3   | 1,111           | 1.9   | 21.1                                 | 19.2    |
| China         | 2,259           | 4.1   | 1,531           | 2.6   | 24.9                                 | 21.1    |
| USSR          | 1,626           | 2.9   | 1,170           | 2.0   | 25.5                                 | 17.2    |

In 1975 Japan accounted for only 3.8% of the Community's total imports and 1.8% of its exports. Imports of Japanese goods into the Nine increased by 15% between 1974 and 1975 and during the first half of 1976 rose by 5% over the same period in 1975.

11. The authorities in Tokyo claim that Japan's trade surplus with the Community is offset by the large deficit caused by its invisible expenditure.

According to Japanese figures, then, Japan's trade surplus with the Nine is largely offset by the deficit in Japan's invisible expenditure (\$2,000 million in 1975, of which \$1,500 million to the United Kingdom) so trade between the two parties is more evenly balanced. The level of invisible expenditure deficit is, however, unconfirmed.

12. As the following table shows, Community imports from Japan consist, for the most part, of finished and semi-finished industrial products.

Breakdown by product of Japanese exports to the  
European Community  
 (% of value)<sup>1</sup>

|                           | 1973 | 1974 | 1975 |
|---------------------------|------|------|------|
| Capital goods             | 64   | 57   | 63   |
| Motor vehicles            | 8.7  | 6.4  | 11.6 |
| Ships                     | 9.3  | 11.6 | 7.1  |
| Energy and steel products | 7.9  | 7.2  | 10.2 |
| Chemical products         | 5.8  | 8.4  | 5.5  |
| Pharmaceutical products   | 0.6  | 0.6  | 0.5  |
| Radios                    | 5.3  | 4.3  | 5.0  |
| TV sets                   | 3.1  | 2.3  | 2.0  |
| Textiles                  | 3.4  | 3.4  | 2.9  |
| Raw materials             | 1.5  | 3.3  | 2.4  |
| Food                      | 2.7  | 1.9  | 1.9  |

<sup>1</sup>The sum of the columns exceeds 100 because some figures apply to more than one sector.

The breakdown by product of exports from the Nine to Japan is as follows:

Breakdown by product of Japanese imports from the Community

|                         | 1973 | 1974 | 1975 |
|-------------------------|------|------|------|
| Capital goods           | 24   | 25   | 25.5 |
| Motor vehicles          | 2.7  | 2.7  | 3.8  |
| Iron and steel products | 0.5  | 0.97 | 0.5  |
| Chemical products       | 19.9 | 21.5 | 18.1 |
| Pharmaceutical products | 5.3  | 5.0  | 5.2  |
| Textiles                | 6.9  | 6.5  | 9.1  |
| Raw materials           | 4.2  | 4.3  | 4.1  |
| Food                    | 2.1  | 3.1  | 5.1  |
| Consumer non-durables   | 6.1  | 7.0  | 7.6  |
| Consumer durables       | 13.2 | 10   | 11.2 |

13. A rapid examination of the above figures reveals that the structure of trade between Japan and the European Community is in line with the high level

of development attained by both economies: finished and semi-finished products account for the greater part of trade, raw materials and agricultural products for only a very small percentage.

14. As the figures show, Japanese exports appear to be more concentrated around certain products than European exports: capital goods, motor vehicles, ships and iron and steel accounted, in 1975, for a major part of the value of Japanese exports, whereas Community exports are more diversified and more evenly spread. The imbalances in capital goods, motor vehicles - Japanese exports which have grown very rapidly in recent years - and iron and steel products are particularly significant. This pinpoints the principal grievances expressed by Community and national officials regarding Japanese exports: their excessive concentration on a few products, upsetting management estimates and creating serious sectoral employment problems.

An examination of a number of cases in point will help to highlight the urgency of the problem.

- Motor vehicles

15. For many years Japanese motor vehicle production was small. In 1960 a mere 165,000 were produced, whereas the figures for the Federal Republic of Germany, France, the United Kingdom and Italy were 1,810,000, 1,175,000, 1,354,000 and 596,000 respectively.

Japanese production did not pass the million mark until 1967. Eight years later, in 1975, it had reached 4,500,000. Similar, though less spectacular, increases were achieved in the case of commercial and utility vehicles.

16. A striking breakthrough of this sort inevitably had repercussions on sales of Community vehicles (even though the European market has hitherto been relatively insignificant by comparison with South-East Asia, North and Latin America and, recently, the Middle East and Africa).

For many years the impact was indirect, with Japanese production competing with Community exports to third countries. But latterly it has become direct, and Japanese cars now compete with Community cars within the territory of the Nine.



check that European cars conformed to Japanese quality standards, to ensure better translation of safety regulations, to standardize inspection procedures and to use the production date of cars rather than the date of importation into Japan as the reference date for the application of new safety checks. Technical negotiations were opened for this purpose in May 1976. Japan agreed to these demands, and as from 1 April 1977 tests to ensure that cars exported by the Community conform to Japanese technical standards will be carried out in Europe. A further meeting was held in Tokyo on 13-14 January 1977 to discuss nitrogen oxide standards to be introduced in Japan in 1978. The Community has requested postponement of these measures until 1981.

It should be mentioned that, as part of the measures proposed on 25 November 1976 by the Japanese government to the Commission to offset the trade imbalance with the Nine (a subject to which we shall return in more detail below), Japan has agreed to hold the level of motor vehicle exports to the United Kingdom at the 1976 level.

- Shipbuilding

20. The achievements of the Japanese shipbuilding industry are even more striking than those of the motor vehicle sector. The remarkable progress made by Japanese shipbuilders during the 1960s made Japan the leading shipbuilding country with - on the eve of the 1973 crisis - about 55% of all world orders. Since then orders have been decreasing steadily as a result of the overall slowing down of economic activity. A large number of the ships built immediately before the 1973 crisis have not been put into service. This situation has sharpened competition between various shipbuilding countries, and almost all recent orders have gone to Japanese shipyards. According to information from European sources, which Tokyo contests, 74% of the orders placed in the first half of 1976 by the rich countries went to Japanese yards. It is claimed that this rose to 86% in the first nine months of this year and is expected to increase further (Japan received 93% of the orders placed in September 1976).

21. This situation is clearly unacceptable to competing countries. European countries are threatening to take unilateral aid measures if Japan does not cut back production to the - in itself very high - level of the pre-crisis period.

The reasons for the success of Japanese shipyards are easy to explain: their prices are lower, in some cases by as much as 30%, than those of their foreign competitors. This difference is largely due to the efficiency, up-to-date methods and high standards of Japanese shipyards.

The negotiations which have been going on for several months within OECD should enable the various parties to reach agreement on the sharing of the orders expected to be placed between now and 1980. The Europeans feel that orders other than those placed with third countries should be shared more or less equally between Japan and Europe. On its side, the Japanese Government, realizing the dangers of a return to protectionism inherent in the current situation, should advise its shipbuilders to reduce their labour force in 1977 by 25% compared with 1974 and to achieve a 65% reduction by 1980. However, no decision has yet been taken. Although it feels that the problems outstanding should be resolved within the framework of OECD, the Japanese Government is, nonetheless, prepared to consider at the bilateral consultations the special problems facing the shipbuilding industry in the EEC. The first EEC-Japan bilateral meeting has already taken place, in Tokyo on 21-22 December 1976.

22. On 8 February 1977, during renewed negotiations in the OECD, the Japanese authorities proposed, as a conciliatory measure, to increase the export price of their ships. This measure, previously limited to vessels with a tonnage in excess of 2,500 gross tons, will in future apply to ships of all types and will remain in force until 31 December 1978.

Over the same period, the Japanese Government will ask domestic shipyards to take specific measures to reduce their exports to the European countries most affected.

Japan also undertakes to reduce the activity of its shipyards if their performance on the world market is still better than in the past.

According to Commissioner Davignon, who has particular responsibility for industrial policy, the measures proposed by the Tokyo Government could provide a good basis for further negotiations between the two parties.

- Iron and steel

23. The Japanese iron and steel industry developed very rapidly during the 1960s and at the beginning of the present decade. In 1973 Japan became the world's second producer of steel (120 million tonnes). Like its European and American rivals, the Japanese iron and steel industry was hit hard by the 1974-1975 recession. During this period government authorities introduced price controls. These measures were lifted in 1975, and two price increases have occurred during the last few months. Despite this, the price of Japanese steel is still lower than that of competing countries. During the 1975 fiscal year (March 1975-March 1976) 101 million tonnes of steel was produced, with 110 million tonnes expected in the present fiscal year. If it were working at full capacity, the industry could produce 150 million tonnes, but since it is not, it is obliged to export come what may, in order to cover its costs. Japanese steel producers estimate that exports in the 1976 fiscal year - ending

in March 1977 - will reach 34 million tonnes (compared with 31.4 million in 1975), of which 6 million tonnes will go to the United States and 4 million to the Middle East.

24. As regards the EEC, the five largest Japanese groups (Nippon Steel, Nippon Kokan, Kawasaki, Sumitomo, Kobe Steel) have agreed, since 1972, to limit sales (to 1.2 million tonnes and then to 1.4 million in 1976).

Until now the numerous medium-sized iron and steel producers in Japan have not, however, respected these agreements. The resulting competition has added to the difficulties of the Community iron and steel industry at a time when it is going through a very serious crisis (under ECSC provisions, European iron and steel producers can peg their prices to those of their Japanese counterparts). At the beginning of autumn 1976, the Commission drew the attention of the Japanese authorities to the problem caused by imports into the Community of sections and fine and special steels. This is an area in which Community producers are experiencing serious difficulties following, in particular, the American authorities' decision to introduce quotas for the import of special steels into the United States. British producers of special steels, who, in the case of certain types of steel, are working at only 35% of capacity, have been particularly hard hit by these difficulties.

Since then Community representatives have received assurances from the Japanese administration that not only large but also small and medium-sized Japanese companies will unilaterally limit exports to the Community.

- Ball bearings

25. Although the problems discussed below have had a far more limited impact than those dealt with in the preceding sections, your rapporteur feels that they nonetheless serve to highlight the difficulties which uncontrolled imports from Japan can cause for certain Community activities.

On 14 May 1976 representatives of British, German and French ball bearing manufacturers' associations forwarded to the Commission a memorandum on the threat to the European industry of low-priced imports, especially from Japan.

In June 1976, the Commission drew the attention of the Japanese Government to the difficulties being experienced by this important and particularly sensitive sector of European industry.

26. In autumn 1976 a formal complaint was made by the committee of the European association of ball bearing manufacturers of the three countries mentioned above, and the Commission decided to open an anti-dumping procedure with regard to ball bearings and conical roller bearings from Japan.



The plaintiffs claimed that, for 16 types of bearings, Japanese export prices were 25 to 50% lower than those on the Japanese market and 60% lower than European prices.

As a result, Japanese exports to the EEC had increased by 40% in the case of ball bearings and by 100% in the case of conical bearings between 1974 and 1976. Their share of the market was 17% for the former and 5.3% for the latter type of bearing. Since 1974 employment in this sector had fallen by 5,000 in the three Member States in question. In recent months imports from Japan have led to similar difficulties in the Community screw-cutting and nut and bolt sectors.

27. By Regulation No. 261/77 of 4 February 1977 (see OJ No. L 34 of 5 February 1977, pp 60 and 61), the Commission, following the complaint made by the European Association of Ball-bearing Manufacturers, introduced a provisional anti-dumping duty on ball bearings and tapered roller bearings and their parts and spares originating in Japan.

This duty will be of 20% and will supplement the normal duty of 9% laid down in the CCT. However, it will be reduced to 10% for products manufactured and exported by the Nachi Fujikoshi and Koyo Seiko companies, for which the level of recorded dumping was lower.

The preliminary survey carried out by the Commission shows that imports into the Community of the products in question originating in Japan had increased considerably, rising from 5,500 tons in 1968 to 15,600 tons in 1974 and 19,000 in 1975, and that the margin of dumping, which varied considerably from one transaction to another, sometimes exceeded 30%.

The survey will continue during the three months for which the provisional duty will be levied and the Council will then have to decide what final measures are to be taken.

The Japanese authorities have officially protested against the unilateral measures decided by the Commission, which, in their view, infringe the agreement between the two parties to settle differences on a bilateral basis and in a spirit of cooperation.

Mr Tatsuo Tanaka, Japanese Minister for International Trade and Industry, has stated that his country will appeal against the Community's decision to the International Court of Justice in The Hague.

## II. The causes of the Community's growing deficit

28. The examples given above do not give an exhaustive picture of the Community sectors experiencing difficulties because of Japanese imports, but they do illustrate the problems which European and North American businessmen face in dealings with their Japanese counterparts: Japanese penetration is concentrated on a few specific sectors, where it causes large-scale disturbances for the corresponding domestic operations. The sectors concerned generally involve intermediate technology, since the advanced industries which need extensive programmes of basic and applied research are comparatively neglected by Japan. In these branches the Japanese create for themselves a privileged position and, in certain cases, a genuine de facto monopoly, thanks to the high quality of their goods, the rationalization of their production (the strongest and best organized company is chosen from among the various competitors and its exports then enjoy facilities offered by the Ministry for International Trade and Industry (MITI)) and the dynamic approach of their export companies. The effort to rationalize production has been further intensified since the energy crisis and the recession of 1974-75.

29. From now on, Japanese management has set itself the objective of manufacturing in Japan the most sophisticated products - those for which a minimum of raw materials and a qualified workforce are required and which therefore produce very high added value. The industries in those sectors which are slowing down because they are labour-intensive are gradually being abandoned, since they are facing the increasing competition of products from developing countries where wage rates are low.

Textiles - whose share of Japanese economic activities is constantly decreasing (Japan imports far more textiles, in particular from the EEC, than it exports) - provide a typical example of this restructuring policy.

30. This does not mean, however, that Japan has lost all interest in such activities: Japanese investments, which have developed considerably over the past few years (up to 1973 they totalled \$10,000 million and by 1985 they should total \$81,000 million), are being placed to a large extent in the developing countries, where the low wage levels ensure a far larger profit margin than in Japan. In this way, Japanese capital controls an increasing share of textile production in the South-East Asian countries (South Korea, Hong Kong, Taiwan, Singapore, Macao, etc.); and Singapore will be the base for the development of ball bearing production - controlled by Japanese capital. Apart from **low labour costs**, these countries also offer the advantage of benefiting from tariff preferences granted by the industrialized nations, in particular the generalized

preferences set up autonomously by the Community and other industrialized nations. This new division of labour is therefore of obvious interest to Japanese industry.

31. Furthermore, Japanese capital is being invested in countries producing raw materials (in the Middle East and Latin America, for example), which enables it to influence the development of these raw materials, and in the industrially developed countries (Western Europe, United States) so as to ensure outlets in these countries (the breakthrough in the sale of Japanese cars in Europe may be explained by the setting up of subsidiaries of Japanese companies in the European countries), and so that it may benefit from the technological innovations in their advanced industries.

32. Of course, this strategy requires the centralization of measures under the control of the government and supreme administration which set the objectives and arrange the necessary finance.

This is facilitated by the close collaboration in Japan between political circles, the supreme administration, the banks and the major industrial companies, which are more closely linked than in Europe, and by the Japanese decision-making procedure, which provides for the important decisions to be based on a consensus of all the interested parties rather than the majority view.

33. All these methods taken together make for a very efficient instrument for the promotion of the Japanese economy, and mean that MITI and those responsible for the Plan can have every confidence that the objectives they have set will, in fact, be attained.

34. A leading role in this strategy also devolves on the Japanese business giants: the sogo shosha. The six most powerful shosha - Mitsubishi Shoji, Mitsui Bussan, Marubeni Iida, C. Itoh, Sumitomo and Nissho-Iwai - deal with half Japan's foreign trade. They have holdings in more than 500 companies. Mitsubishi Shoji's overseas staff alone is three times as large as that of the Japanese Foreign Ministry. The foreign branches of the six companies also constitute a better listening post than the information service any ministry for foreign trade has anywhere in the world<sup>1</sup>. Moreover, these large business houses are closely linked with the industrial groups built around the six leading banks, which control two thirds of the capital of Japanese companies and thus play a part similar to the zaibatsu of pre-war Japan.

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<sup>1</sup> The information on the shosha was taken from a book by Tibor Mende 'Soleils levants' (Editions du Seuil, 1975)

35. These giant companies - about ten in all - conceive and organize Japan's international economic strategy and cover all existing products. With their tight network of more than a thousand branches and subsidiaries in almost every country of the world and with the support of the large industrial groups, which provide them with products and know how, and of the State, which protects them, they represent the most formidable commercial tool in the world and participate in the three major areas of Japan's world strategy: the export of manufactured goods; the utilization of natural resources in the countries that have recently gained independence; the setting up of factories in countries with low wage rates.

36. They enable the implementation of the 'orderly marketing' strategy, the sharing of markets being helped by the coordination of the shosha, which work in union, and of the export cartels of industries that are encouraged by the government.

Because of their size, they make it possible for certain branches of industry to accept sacrifices for the overall good of the Japanese economy. Thanks to them, the system of voluntary export restrictions mentioned above can be implemented.

37. Their existence also explains why foreign exporters - especially from the Community - have so much difficulty in penetrating the Japanese market. Unless assistance is given by the shosha, it is very difficult to market a foreign product in Japan: in fact, given the links between them and the major industries and the major Japanese banks, there is no reason why they should make an effort to make it easier for foreign products which compete with the products of Japanese industry to gain access to the Japanese market.

38. The real heart of the problems between Japan and its western competitors seems to stem from the very structure of Japanese industry and distribution. None of the western countries has any instruments comparable

in efficiency with those available to Japanese businessmen in these fields. This explains why Community car manufacturers face difficulties other than tariff and non-tariff barriers when they try to penetrate the Japanese market, whereas their Japanese counterparts see their sales increasing in Europe. It also explains the lack of comprehension which frequently forms a barrier between Community and Japanese representatives.

39. When the Community complains of excessive penetration by certain Japanese exports and the barriers to imports of its products into Japan, the Japanese reply, quite justifiably, that the difference is simply the result of Japanese industry's greater efforts. In their view, Community manufacturers ought to show more initiative in their efforts to gain a foothold on the Japanese market by adapting themselves better to consumers' demands and the sales methods peculiar to Japan and by learning the language of 110 million potential customers.

40. The Tokyo authorities say that it is quite unjust to accuse their country of excessive protectionism. The Japanese customs tariff was lowered by 20% across the board in December 1972, and overall, it is not much higher than that of the Community (average level of the Community's customs tariff: 7%; of Japan: 9.8%). At present, Japan imposes import restrictions on only 27 products (22 agricultural, 5 industrial), whereas in 1975 France imposed restrictions on 69 products (32 of them industrial), Ireland 56, Italy 54, the United Kingdom 41, Benelux 31, the Federal Republic 27 and Denmark 14. Italy and Belgium apply these restrictions only to Japan. The other countries apply them to several third countries.

In addition, on 1 May 1973, Japan decided on complete liberalization as regards foreign investment, with the exception of 5 industries which remain subject to particular regulations, and 17 others which will gradually be opened up to foreign competition over three years.

### III. Ways of achieving a better balance in trade between the Community and Japan

41. Given the world situation at the end of 1976, the interests of the Community and Japan appear, when all is said and done, to be similar rather than dissimilar. As we have seen at the beginning of this report, both must face up to the same problems and the same difficulties: small territorial area, lack of raw materials, wealth created by the manufacturing and processing operations of an active and hardworking population, the need to find outlets to ensure full employment, the financing of imported raw materials, and the restructuring of existing industries.

42. Since basic interests are the same, rivalries and disparities, although serious, should not be overestimated. We believe that this should be the basis for a consideration of ways of achieving a better balance in trade between Japan and the Community. This can be done

- either by restricting unilaterally (quotas, safeguard clauses) or by contractual means (voluntary limitation procedures, gentleman's agreements) the access of Japanese products to the Community;
- or, despite the difficulties we have mentioned, by increasing Community exports to Japan.

After considering the various possibilities, we shall suggest opportunities for cooperation between the two parties in an increasing number of sectors.

#### 1. Unilateral restrictions on trade

43. Most European countries suffered a traumatic shock between the wars, when world markets were flooded by large numbers of Japanese products which were frequently mediocre in quality and cheap because of low labour costs.

Therefore, when Japan regained full sovereignty after the American occupation and attempted to re-establish trade links with the rest of the world, most countries were obviously wary of opening up their frontiers to Japanese products.

When Japan became a member of GATT in 1955, France and the Benelux countries invoked Article XXXV of the General Agreement (exclusion from preferential treatment). In 1963 these countries withdrew their objection and agreed in exchange on a safeguard clause with Japan. The United Kingdom also benefits from such a clause. The Federal Republic of Germany and Italy, which had not invoked Article XXXV in 1955, have no legal basis on which to exclude Japan from the benefits of the GATT preferential

system. However, the countries in question rarely take advantage of the safeguard clause.

44. To give their trade with Japan a contractual basis, the Member States of the EEC concluded bilateral **trade agreements with that country** during the 1960s. These agreements governed the entry of Japanese goods into the Six, and how liberal they were depended on circumstances and the Member State concerned.

On 1 January 1970, when trade policy became a Community matter, the problem immediately arose of economic and trade relations between the EEC as such and Japan.

45. A Council decision of 9 October 1961 laid down that the duration of trade agreements concluded by the Member States might not extend beyond the end of the transitional period for the application of the Treaty. In January 1969 the Council adopted a decision authorizing the tacit extension beyond the end of the transitional period of certain **trade agreements** concluded by the Member States with third countries. In July of the same year the Commission proposed a similar tacit extension of agreements entered into with Japan.

46. In October 1969, the Council agreed in principle to the opening of exploratory talks between the Community and Japan, with a view to concluding an overall trade agreement between the two parties. Following a visit to Tokyo by the Commissioner then responsible for Community External Relations, Mr Deniau, the Commission forwarded in March 1970, a report **to the Council** which stressed the interest of both parties in normalizing their trade relations and in strengthening their economic cooperation.

47. In July 1970 the Council authorized the Commission to open trade negotiations with Japan on this basis. These were begun in September 1970, the aim being to achieve gradual, reciprocal and balanced liberalization at as high a level as possible in trade between the two countries. However, the EEC stated its wish to include in the terms of the agreement a safeguard clause valid for all the Member States. It very soon became obvious that such a demand was unacceptable to the Japanese negotiators.

48. After a second round of negotiations held in Brussels at the beginning of July 1971, it was clear that no agreement would be possible between the two delegations on this point. The problem was raised again when the President of the Commission, Mr Malfatti, and then Commissioner Dahrendorf visited Tokyo in 1972.

49. A short time later, however, the new President of the Commission, addressing the European Parliament on 13 February 1973, referred to the EEC's anxiety in the face of the growing imbalance in its trade with Japan and the dangers that a situation of this kind entailed for employment or regional balance, 'which explains the importance attached by the Community to the establishment of safeguard measures'.

With the disagreement continuing, both parties felt that before the talks on the negotiation of an EEC-Japan agreement were resumed, it would be wise to await the outcome of the multilateral negotiations in GATT (the 'Tokyo Round'), during which an international solution might be found to the problem of the safeguard clause.

50. That is how things stand today. The result is that the bilateral agreements between Japan and the nine Member States of the Community (a gentleman's agreement in the case of Denmark, while the other eight countries have trade agreements) are still in force seven years after the end of the transitional period. The validity of these agreements is extended year after year by Council decision. The rules governing the entry of Japanese products therefore vary from one Member State to another, which in certain circumstances results in Article 115 of the EEC Treaty (measures designed to prevent deflection of trade between Member States) being invoked.

51. Coordinated action at Community level needs to be taken in this respect. It is encouraging that the Community is arguing the case that the safeguard clauses of certain bilateral agreements may be applied only under the terms of the common trade policy and only by the Community.

The considerable increase in the trade deficit between each of the nine Member States and Japan and the employment crisis have, however, made the Member States aware of the strength of a united front, and it is a welcome sign that recently the Community countries have really acted together in their relations with Japan.



It should be emphasized that in certain sectors - the liberalized products and textiles, for example - the Community has already adopted a common position. One agreement has just been concluded (see OJ No. L 219, 12 August 1976) between the EEC and Japan on trade in textiles and another on the voluntary limitation of Japanese steel exports.

52. Reference has been made (see point 38) to the different degrees of liberalization achieved by the Member States vis-à-vis Japan and vice versa.

These restrictions are of relatively minor importance and have mostly been inherited from the past. Their existence hampers, in particular, attempts at multilateral level to achieve a general liberalization of world trade, and to obtain 'trade pledges' from all the leading Western economic powers, as also the undertaking to have minimum recourse to protectionist measures.

53. Nevertheless, your rapporteur considers that the Community should be able to protect itself, in certain specific sectors, from the dangers implicit in excessive dependence on third countries, and should safeguard employment and regional balances where these are threatened by exorbitant volumes of imports. Indeed, the worsening of these problems in certain sectors has recently led the Commission to ask the Japanese Government to limit its exports.

## 2. Greater consultation between the two parties :

54. There is no doubt that one of the best ways of staving off such unilateral restrictions would be through talks and cooperation between the parties concerned. There is thus a clear need for regular and institutionalized contacts between the Community and Japanese authorities. Such talks could naturally be held within specialized international organizations (GATT, OECD), or during important multilateral negotiations. As was mentioned above, the current talks between the Japanese and their European competitors on the sharing of orders placed with the shipyards of the parties concerned are being held within the framework of the OECD.

55. It was with this in mind that, at the Paris Summit Conference on 19 and 20 October 1972, the Heads of State and Government declared that the Community was determined to 'contribute ... to the progressive decontrol of international trade based on reciprocity and aimed at tariff and non-tariff barriers' and to 'carry on constructive dialogue with ... Japan ... with an open mind and exploiting appropriate vehicles'.

Following this declaration of intent, the EEC and Japan agreed in 1973 that their problems should be solved through discussions, with a view to consolidating and strengthening existing friendly relations. To this end, 'constructive talks should be held regularly on the major issues of common interest at both ministerial level and the level of experts' (joint communiqué drawn up following the visit to Brussels by Mr Ohira, at that time Japanese Foreign Minister, on 4 May 1973).

56. The first of these regular high-level discussions was held in Brussels in June 1973, and they have subsequently taken place every six months (the 9th meeting was held in Brussels in mid-November 1976). Since 1965 similar information meetings have also been held between Japan and the Community authorities to discuss the areas covered by the ECSC Treaty. Concurrently with these institutionalized contacts, Community-Japan relations have been considerably developed by the frequent visits by the Commissioners responsible to Japan and by Japanese officials to Brussels. The Chairman of Keidanren (the Japanese employers' organization) also visited senior Community officials in October 1976.

57. The Community should therefore make a major effort to provide more information, and promote trade and contacts. The presence of a Commission delegation in Tokyo since 1974 may make this easier, although it would be advisable to increase its scope for action in the coming months.

58. In this connection, your rapporteur wishes to stress the advantages to be derived, in his view, from establishing regular contacts between a delegation from the European Parliament and a delegation from the Japanese Diet.

Such meetings have already been held for several years with national and multinational parliaments, and it is common knowledge that, particularly in the case of the United States and Canada, these informal exchanges of views on the major issues of the day provide a clearer insight into the respective positions of the parties concerned and the reasons for their actions, and have proved, in the final analysis, of undoubted value.

In the early 1970s, a delegation from the European Parliament went to Tokyo at the invitation of the Diet. It would be most useful if, in the coming months, at a time when EEC-Japan relations are assuming new dimensions and face serious problems, a delegation from the Japanese Diet could pay a return visit to Luxembourg or Strasbourg, and if regular meetings between the two Parliaments, at a frequency to be decided, could thenceforth be arranged.

59. Such contacts have so far prevented the divergences between the Community and Japan from becoming too acute. They provided the framework for the 'negotiations' on the voluntary reductions by Japan of some exports to the Community. As we know, the European Council recently requested the relevant Community authorities to pursue these discussions with the Japanese authorities with a view to smoothing out existing difficulties between the two parties.

60. The Japanese Government, for its part, is aware of the problems which might result from an excessive influx of Japanese goods into certain countries and of the danger of economic reprisals and has for several years consequently taken a number of measures - under its 'orderly marketing' policy - to check Japanese exports.

The object of this policy is to make Japanese undertakings and groups of undertakings aware of the importance of maintaining an orderly approach to exports. To this end, the government carefully studies export trends in each product and each market, with a view to detecting as rapidly as possible any source of potential friction abroad and advising the business circles concerned accordingly.

61. If such friction arises, MITI can issue directives ordering exporters to break up an export cartel, and compel any exporter of the product concerned to place his exports under governmental control. This is an extremely effective instrument, given the very close relations between business and government circles to which we have referred above.

62. Over the last few years there have been numerous instances of measures being prepared by Japanese industry, either independently or after consulting the corresponding European industries, with the aim of limiting imports of Japanese products into the Community or controlling them by some other means, particularly with regard to prices and quality.

These practices have been criticized by the Commission (see Opinion on imports of Japanese products into the Community falling under the Treaty of Rome, OJ No. 111, 21 October 1972) on the grounds that, under Article 85 (1) of the EEC Treaty, 'all agreements between undertakings ... and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market' are prohibited as incompatible with the common market. The fact that several or all of the undertakings concerned may have their registered offices outside the Community does not preclude the application of this decision, insofar as the agreements, decisions or concerted practices affect the territory of the common market.

The Commission's cautious attitude towards agreements between undertakings is thus understandable, as they may represent a serious obstacle to free competition, the free movement of goods and uniform prices throughout the common market countries.

63. No such risk is involved, however, in reciprocal voluntary limitation agreements negotiated between the Commission and the Japanese authorities which represent the most effective instrument for settling possible disputes between them.

At a COREPER meeting on 17 June 1976, Mr Hijzen, Director-General for External Relations at the Commission of the European Communities, stated that voluntary limitation measures were by nature an integral part of the common trade policy and should not call into question its uniformity throughout the Community. Member States should therefore refrain from taking up contacts with third countries but should, in appropriate cases, inform the Community authorities of potential difficulties so that they could act in close contact with the national authorities and defend the interests of the Community effectively and rapidly.

### 3. Development of Community exports to Japan

64. A balance could be achieved in Community-Japan trade by restricting Japanese exports, and should be achieved by promoting Community exports to Japan. The European Council has recently stressed the importance it attaches to an increase in exports.

We have mentioned above the numerous problems which hamper this development: the particular structure of distribution in Japan, non-tariff barriers, the ignorance of Western businessmen of the Japanese mentality, etc.

65. Success cannot, however, be guaranteed without the cooperation and goodwill of the Japanese Government. In 1972-1973 it recognized the need to increase its foreign purchases and at one stage there was some progress in this field. Since the recession of 1974-75, the trend has again been reversed. Tokyo believes that the recovery at the beginning of 1976 has yet to be consolidated. During the last two years, the Japanese standard of living has dropped, together with internal demand for consumer and capital goods. For several months the Western partners have been requesting the Japanese Government to launch an expansion policy which would benefit Community exports. These representations have not yet produced any concrete results.

66. However, the increase in the Community's trade deficit and the threats of a reversion to various protectionist measures have recently led the Japanese authorities to make a number of specific proposals with a view to increasing Japan's purchases in the Community countries.

In reply to the Commission's requests at the high-level consultations in November 1976 that the growth of the Japanese trade surplus should be brought to a halt, Mr Yoshino, Deputy Minister for Foreign Affairs, recently stated in a letter to Commissioner Gundelach that his country was prepared to increase its import quotas in a number of sectors. He mentioned an increase in the quota for skimmed milk powder for cattle in the second half of the 1976 fiscal year (up to 56,000 tonnes or more if necessary), and in contracts for imports of standard butter. Furthermore, Japan is considering ending the ban on imports of French processed meat and, in this connection, a veterinary inspector will shortly be sent to France. Import procedures for manufactured tobacco products will at last be simplified and the number of brands of manufactured tobacco products increased.

As stated above, Japan has also taken a number of measures to facilitate technical inspections of motor vehicles and pharmaceutical products imported from the Community,

These measures, although of limited scope, represent a step in the right direction, and we may reasonably hope for further progress in this sector in the coming months.

#### 4. Closer cooperation between the Community and Japan

67. Past developments have above all reflected the divergences between the two parties. It would be quite wrong, however, to consider only this negative aspect of the situation.

68. The two parties' positions in the important multilateral negotiations (Tokyo Round, UNCTAD, IMF, North-South Dialogue) are similar, for they share common interests.

Japan and the European Community are in a comparable situation with regard to their relations with the United States: military dependence and de facto economic solidarity, even if this does not preclude occasional conflicts of interest and rivalries in various sectors. Tokyo and the European Community have also adopted broadly similar positions with regard to the Soviet Union and the People's Republic of China.

Japan is now considered as one of the three pillars of the Western world (Europe, United States, Japan). This position, which derives from its considerable economic power, bestows upon it the right to take part in meetings of the leading Western Heads of State (meetings in Rambouillet and Puerto Rico).

69. This de facto solidarity should make it easier for Europe and Japan to cooperate on a wide scale. Thus, during Mr Ortoli's official visit to Japan in February 1974, emphasis was placed on the need to strengthen cooperation between the two parties in the fields of energy and research and development, particularly with regard to alternative sources of energy and atomic power.

70. A rough framework for cooperation in these sectors already exists at bilateral level: Franco-Japanese mining of uranium deposits in Niger; projected participation by Tokyo in the uranium enrichment plant constructed by the Eurodif Group; agreement concluded with France on the reprocessing of irradiated nuclear fuels.

Such projects should be encouraged, given the obvious advantages which they afford both parties.

71. This cooperation between European and Japanese technology and capital could also encompass the development of new sources of energy, off-shore oil prospecting, the exploitation of new sources of raw materials in third countries and the fight against pollution. It could take the form of joint ventures in sectors where the profitability of investment is not certain.

72. The examples given above serve merely to show the considerable opportunities which exist in this field. As we have shown throughout this report, public opinion and the Community authorities should not let themselves be deceived by the present unresolved disputes between the Community and Japan. Differences of opinion naturally exist in important sectors, and in the present period of economic crisis in all countries, they appear more serious than before.

Your rapporteur has emphasized throughout this report his belief that these differences should be solved by regular consultation, and not by unilateral and authoritarian measures, which, as one reprisal sets off another, would lead the Western world down the slippery slope of protectionism. A solution should be found through consultation to the problem of

the excessive concentration by the Japanese on certain exports to the Community. Similarly, the procedure for facilitating the access of Community undertakings to the Japanese market and, as a result, increasing our exports to Japan, should be implemented by mutual agreement.

The meeting of the European Council in The Hague expressed the hope that considerable progress would be made before the next meeting (scheduled for 25 March 1977) and that in that time the Japanese authorities and the relevant Community authorities might be able to solve the problems which have arisen over the last few years between the two parties.

Your rapporteur earnestly hopes that reason and common sense will duly prevail and that, despite their current divergences, Japan and the Community will recognize the factors which closely unite them: a common attachment to representative democracy and the basic principles of free world trade (trade pledges, rejection of protectionism), all of which have been subscribed to within GATT and reaffirmed repeatedly since then, both in the OECD and at the periodical 'Summits' of the Heads of State and Government of the principal economic powers of the Western world.

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Statement adopted at the meeting of the European Council on 29 and  
30 November 1976 on relations with Japan

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The European Council stresses the importance it attaches to the maintenance of good relations between the Community and Japan and its profound hope that these relations will develop both to the benefit of the Community and Japan.

The European Council notes with concern the effects of the import and export practices pursued hitherto by Japan, the swift deterioration in the trade balance between the Community and Japan and the problems which have emerged in certain important industrial sectors. Decisive efforts are needed to remedy this situation with special attention for the increase of the Community's exports to Japan in order to establish mutually advantageous trade relations.

The Council therefore calls upon the relevant Community authorities to pursue most urgently this important aspect of the common trade policy in discussion with Japan. It is counting on notable progress being made before its next meeting on the solutions which are urgently needed in order to reach the Community's aims.

The European Council notes with satisfaction that the Japanese Government is prepared to cooperate with the European Community on a basis of mutual understanding in solving the problems which have arisen.