

INFORMATION

EXTERNAL RELATIONS

JAPAN AND THE EUROPEAN COMMUNITY

146/77

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1. Introductory

The European Community and Japan are two of the three principal industrial powers practising a market economy -- the United States is the third. They thus play a key role in major international negotiations on economic matters, such as the multilateral trade talks in GATT and the North-South dialogue.

2. Japan-EEC relations proceed by a standing machinery for discussion

For some years the Community has been doing its best to intensify its relations with Japan. Negotiations for a trade agreement in 1972 broke down on the problem of the safeguard clause; and after this check the Nine decided (1972) at the Paris Summit to work for more active discussions between the enlarged Community and other industrial countries. Following this decision the Commission instituted, in June 1973, regular top-level discussions with the Japanese Government to be held twice a year on lines similar to those held with the American administration. These consultations are concerned not only with problems of bilateral interest, but also with the big economic problems of multilateral concern.

With the permanent delegation set up in Tokyo in November 1974, the EEC now has an established liaison instrument, enabling discussions to be intensified and the links with Japan to be drawn closer.

Exchanges of views became more frequent in 1975 and again in the following year.

Mr. Finn Olav Gundelach, Member of the Commission, made an official visit to the Japanese Government 12-15 July 1976.

Mr. Doko, President of Keidanren, (the Federation of Japanese Industries) headed an important delegation of Japanese industrialists for talks with the Commission on 26 October 1976.

The ninth meeting under the regular top-level consultation arrangements between the EEC and Japan was held in Brussels 15 and 16 November 1976. The Japanese delegation was led by Mr. Bunroku Yoshino, Deputy-Minister for Foreign Affairs.

The Commission indicated that it was still very concerned about a number of specific trade problems. The serious position in the ship-building industry was specially emphasised.

The participants in the meeting studied the industries in which an increase in Japanese imports is still hindered by administrative obstacles to trade. The industries in question were automobiles, pharmaceuticals, footwear, tobacco and agricultural produce from the Community.

After this examination, Mr. Yoshino sent a letter to Mr. Gundelach on 25 November 1976. It mentions various concessions the Japanese Government is prepared to make in relation to access for various specific European products to the Japanese market.

At the beginning of February 1977, the Japanese Government will send a delegation to Brussels to discuss the obstacles to Community exports of processed agricultural produce.

3. The EEC trade deficit

The growing Community trade deficit with Japan has for some time been a major political problem. In 1970 the trade was still almost in balance; but from \$US 300 million in that year the Community deficit rose to about \$4,000 million in 1976; and the cover-ratio (the proportion of the cost of imports covered by exports) has fallen to less than 50%. The relevant figures are as follows :

	<u>Deficit</u>	<u>Cover ratio</u>
1973	\$ 1 200 million	67%
1974	2 000 million	63%
1975	3 200 million	46%
1976 (Jan-June)	1 844 million	43%
1976	(est) 4 000 million	n.s.

Source : Eurostat

Community imports from Japan (\$US million)

	1970	1972	1973	1974	1975	% of increase 1975/74
Fed. Germany	561	989	1350	1349	1760	(+ 30)
United Kingdom	317	782	1083	1412	1564	(+ 10)
France	191	364	542	946	995	(+ 5)
Italy	222	250	370	438	454	(+ 3)
Belgium/Luxbg.	116	191	268	340	418	(+ 23)
Netherlands	142	249	318	420	505	(+ 20)
Denmark	79	104	203	258	216	(- 17)
Ireland	15	26	38	50	66	(+ 32)
EEC Total	1643	2955	4172	5213	5978	(+ 15)

Community exports to Japan (\$US million)

	1970	1972	1973	1974	1975	% of increase 1975/74
Fed. Germany	535	612	1028	1258	963	(- 23)
United Kingdom	346	430	668	746	681	(- 9)
France	154	226	420	463	375	(- 19)
Italy	128	152	277	322	297	(- 8)
Belgium/Luxbg.	85	106	198	218	152	(- 30)
Netherlands	85	78	142	178	150	(- 16)
Denmark	25	42	78	92	122	(+ 32)
Ireland	9	11	16	21	20	(- 5)
EEC Total	1367	1657	2827	3298	2760	(- 16)

Source : Eurostat

Community trade balance with Japan (\$US million)

	1970	1972	1973	1974	1975	% of increase 1975/74
Fed. Germany	-26	-377	-332	-91	-797	(+ 775)
United Kingdom	-29	-302	-415	-666	-883	(+ 33)
France	-37	-138	-122	-483	-620	(+ 28)
Italy	-94	- 98	- 93	-116	-157	(+ 35)
Belgium/Luxbg.	-31	- 85	- 70	-122	-266	(+ 118)
Netherlands	-57	-171	-176	-242	-355	(+ 47)
Denmark	-54	- 62	-125	-166	- 94	(- 43)
Ireland	- 6	- 15	- 22	- 29	- 46	(+ 59)
EEC Total	-276	-1298	-1345	-1915	-3218	(+ 68.1)

Source : Eurostat

Though it is true the Community deficit in the trade balance with Japan is partly offset by a surplus in the balance of invisible transactions, there is some discussion as to how big this surplus really is. From the Japanese side, the figures put forward indicate that in 1975 Japan was still facing a very big deficit in its balance in invisibles with the EEC, the amount suggested being \$2 000 million, of which \$ 1 500 million was with the United Kingdom alone. The latter figure is disputed by the British authorities, who argue that the way the Japanese have calculated their figure includes transactions carried out in the London market, but on behalf of other countries. The British calculations show a much smaller deficit, of the order of \$400 000 corresponding to revenues effectively received by the United Kingdom.

The reactions of public opinion and specifically industrial opinion in Europe, to the EEC trade deficit with Japan is all the more vocal for the fact that the Japanese exports are concentrated on export categories regarded in Europe as sensitive -- cars, steel, ship-building, electronic goods and ball-bearings. In some cases the Japanese penetration in the European market has reached considerable proportions, which may give rise to market disturbances and employment problems.

This trade takes place in one direction only without European goods being able to penetrate to the same extent into the Japanese market. The most striking example is that of automobiles. Japan covers 4.38% of the European market, whereas the Community covers only 0.8% of the Japanese market. In other industries the Japanese penetration reaches still higher figures -- ball-bearings 8.9% and electronic calculators over 60% -- without the Europeans being able to make any sales at all under these headings.

It should be mentioned that the Community still applies the national quantitative restrictions on some 79 industrial products, whereas Japan applies quantitative restriction in only 27 cases, of which, 22 are for agricultural produce and only 5 for industrial goods. These regulations, however, have not prevented Japanese products from penetrating the European market in the sectors mentioned above, except perhaps, into the Italian market where cars and ball-bearings from Japan are subject to quota. It is often

by administrative obstacles and other non-tariff barriers, however, that the penetration of european goods into Japan is prevented.

4. The Community attitude

During the past two years, the Commission has made many representations to the japanese authorities inviting their attention to this position and to the dangers involved if a better balance is not struck in the trade between the EEC and Japan.

In these discussions the Commission representatives have consistently argued that the best way of securing a more satisfactory balance would be to increase the Community exports to Japan, rather than to impose import restrictions at the Community end. The deficit, however, has been growing bigger and bigger; and the Community is not yet out of the recession, and its industrial problems are increasingly serious. In these circumstances it is becoming more and more difficult for the Community to maintain its previous attitude of avoiding restrictive measures if Japan does not take effective steps to promote european exports and limit her own exports under specific headings on a temporary basis.

Sector difficulties

For sector difficulties traceable to the imports from Japan, the Community is in a position to use the instruments of the common commercial policy if it finds this necessary.

Between 1974 and 1976, the japanese exports of ball-bearings to the Community rose 40% in the case of ball-bearings and 100% for conical bearings. The proportion of the market covered by imported bearings from Japan increased by 40% for ball-bearings and 100% for conical bearings, representing respectively rises from 1.2 to 16.8% and from 2.6 to 5.3% of the Community market.

On 13 November 1976, the Commission opened an enquiry under the anti-dumping procedure; and on 5 February 1977 it decided to introduce an anti-dumping duty of 20% on ball-bearings for a period of 3 months.

Regarding steel, the Commission had already made contact with the japanese authorities at the end of 1975, for an examination of their expectation for japanese steel exports to the Community. In 1976, the imports of steel products from Japan rose from 285 000 tonnes in the first quarter to 410 000 tonnes in the second. In October the Commission made further representations; and M. Loeff, Director-General for Industry, went to Tokyo at the end of October to prepare an analysis of the expansion in japanese exports in preparation for the meeting of the ECSC-Japan contact group in Brussels on 11 and 12 November 1976. On this occasion the japanese authorities supplied information about their expectations, which include a decline in exports to the Community to an extent which will avoid any repetition of the difficulties experienced in the european market in 1976. In September 1976, too, the japanese authorities had given certain information and assurances about the exports of special steels to the United Kingdom.

For ship-building, which is now in a state of crisis, there is a special problem. The Community is anxious to secure an international consensus on diminishing capacities under the auspices of OECD. The Japanese, however, are seeking a participation of 6.5 million tonnes in 1980 out of a world market of about 12 million tonnes, which would leave the Community with a disproportionately large share of the world output cut.

The Japanese authorities had agreed to a monthly exchange of information with the Community and the European shipyards, covering the extent and character of the orders received. Later, in a meeting on 8 February 1977 in the OECD Japan agreed to help solve the problem by imposing a discipline over the price structure. In this Japan would be undertaking to increase the export prices of all types of ship, so as to avoid an excessive concentration of production. These measures are applicable until 31 December 1977.

The situation for cars is that Japan exported 250 000 to the Community in 1974, against only 25 000 Community cars sold in Japan.

In 1975, the Japanese exports to the Nine EEC countries reached 370 000, or 50% more than in the previous year; but the Community sales in Japan amounted to only 26 000 cars, a minimal rise of only 3.2%. In the first 6 months of 1976, the imbalance was even more marked, with 234 000 Japanese cars entering the Community against only 13 000 Community cars sold to Japan.

The Japanese scored a much higher degree of penetration into the EEC countries which do not produce cars (Belgium 16.7%, Netherlands 15.5%, Denmark 14.7%) than into the countries which do (Federal Germany, 1.7%, France 1.6% and Italy, where imports are subject to quota, only 0.05%). In the United Kingdom, however, the industry is having special difficulties and Japan was able to cover 9% of the market.

In other industries the Commission has been seeking solutions by cooperation with the Japanese authorities. For textiles, an agreement for Japan to limit her own exports and providing a consultation procedure, was signed on 9 July 1976 under the multifibres Arrangement. It lasts until 31 December 1977, with retroactive effect to the beginning of 1976.

Increasing Community exports

With a view to reversing the trade trend between the EEC and Japan, the Commission has been following an active commercial policy, aimed at increasing the exports from Europe. It has made representations to the Japanese authorities, inviting them to eliminate existing administrative obstacles to the admission of European goods into Japan. The best known among these obstacles are lack of information, inadequate notice of new administrative requirements, laborious checking procedures and lack of authority to do the testing and checking in Europe. Since October 1975, the Commission has been taking special steps with the Japanese Government in the attempt to eliminate non-tariff obstacles to the automobile trade in which the imbalance is particularly striking.

These representations have borne fruit. The Japanese authorities have accepted three European requests :

- as from 1st April 1977, the reception tests on European cars will be carried out in Europe;
- in determining the conformity of European cars to Japanese legislation, the date taken into consideration will henceforth be the date of manufacture instead of the date on which the importation procedures were completed ;
- the entry into effect of the stiffer nox ⁽¹⁾ regulation, which comes into effect in Japan as from 1st April 1978, are to be suspended for European cars until 1st April 1981.

In pharmaceuticals, the Japanese Government issued a new regulation on 1st October 1976, to the effect that results of certain pre-clinical tests carried out in Europe shall now be accepted for pharmaceutical products imported into Japan.

In regard to footwear, the Commission sent a note to the Japanese authorities on 17 November 1976, asking that the quantitative restriction on these imports, imposed as a safeguard for employment, should be applied less restrictively to footwear imported from Europe, which accounted for 1.7% of the Japanese market in 1975.

For chemicals, a note asking for the elimination of non-tariff obstacles has very recently been sent (January 1977) to the Japanese Government.

In regard to tobacco, the Commission sent in a note to the Japanese authorities on 5 November 1976, inviting them to do away with the administrative obstacles which stand in the way of European cigarettes being distributed. The background is, that the distribution of tobacco products is a State monopoly, which also determines the prices (which are high in the case of imported products) the quantity, the distribution channels and the sales promotion.

For processed agricultural products, the Commission has listed a number of sectors, in which the expansion of European exports is obstructed by the Japanese regulations. These include, quantitative restriction for dairy products and preserved pigmeat; customs duties in the 35%-40% neighbourhood for biscuits, sugar confectionary and chocolate confectionary; very high internal taxes on wine, whisky and brandy, the effect of which is discriminatory.

On this subject, a first consultation between the EEC and Japan took place on 7 and 8 February 1977. The discussions will be continued during the next few months.

5. Conclusion

The importance attached by the Community to its relations with Japan has been indicated by the attention paid to them by Council.

When the European Council met at the Hague on 29 and 30 November 1976, it took note of the desire to cooperate, expressed by the Japanese Government, and emphasised the need for "paying special attention to securing the speedy development of imports into Japan from the Community". The Council

(1) -----
nox : proportion of nitro-oxygen in the fuel

"invited the responsible organs of the Community to press on with their examination of these problems as a matter of urgency, and to concentrate their efforts in their discussions with Japan on this important aspect of the common commercial policy" with a view to organising trade relations of profit to both sides.

Annexe

The japanese economy

After twenty years of unprecedented boom, which raised Japan to be the world's third industrial power, the country entered in 1974 into a phase of economic recession, which reached its lowest point in the spring of 1975.

In the first quarter of 1976, there was a vigorous recovery.

During 1976, the GNP rose 6.5%, and the rate of inflation, which had approached 30% in 1974, was reduced to 9%. The retail price index rose 6.3% over 1975; and industrial production, which had decreased 3.8% in 1975, rose by 10.4%.

In the year 1977, this recovery should continue.

The policy of the present government appears to be angled on a balanced development of internal and external demand and its budget to be moderately expansionist.
