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COMMERCIAL RELATIONS BETWEEN THE COMMUNITY, THE UNITED STATES AND JAPAN

(Commission communication to the European Council,
Luxembourg, 29 and 30 June 1981)

Together the European Community, the United States and Japan account for nearly half of world trade. They therefore bear a major responsibility for the orderly functioning of the open world trading system. And inevitably relations between them are of substantial importance to the triangle.

2. With the United States the Community has certain problems: in the macro-economic field in relation to interest rates, in the trade field in relation to export credits, steel, textiles, and petroleum chemicals. But despite certain initial misunderstandings with the new Administration the trade problems at any rate at present do not seem likely to erupt into a major clash.
3. The major problems in the trade field which the Community faces relate to Japan. The essential components of the problem - a combination of a large and consistently growing bilateral EEC trade deficit with Japan, deep Japanese inroads in sensitive sectors in Europe and the impermeability of the Japanese market - will be familiar to the Council. Over the last eighteen months these problems have increased. The Community's bilateral deficit with Japan rose to some \$ 11 billion in 1980 and the figures for the first four months of this year show a 46% increase compared with the same period of last year; neither have there been any signs of effective Japanese moderation in exports to the Community of certain key manufactures such as automobiles, television sets and tubes, and the more advanced machine tools.
4. Furthermore, the Japanese authorities in response to American pressure agreed on 1 May to a three-year arrangement restricting exports of passenger cars to the United States. In reviewing this arrangement which clearly has substantial implications for the Community, the Council noted with

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approval on 19 May the Commission's intention to discuss with the Japanese authorities a unilateral Japanese undertaking which would inter alia secure no diversion of Japanese passenger cars to the Community and a commitment that exports of Japanese passenger cars to the Community should be subject to measures analogous to those decided by Japan vis-à-vis the United States. In the meantime the Japanese have also taken measures to limit exports to Canada.

5. On 10 June the Commission sent the Council a comprehensive report on Japan, covering surveillance for the first three months of this year on imports from Japan of passenger cars, colour television sets and tubes, and certain machine tools, the results (in the event meagre) of the High Level Consultations held on May 27 - June 1, certain proposals for opening up on a Community basis the Japanese market, and preparations for the Ottawa Summit.
6. These issues, including in particular the passenger car issue, were discussed when Prime Minister Suzuki and MITI Minister Tanaka visited the Commission on June 15-17. It was clear that any attempt to secure from the Japanese a unilateral undertaking of restraint to the Community as a whole, in the terms approved by the Council on 19 May, had been complicated by the separate arrangements come to by Member States. Repeatedly the Japanese made the point that they were willing to deal with the Community if the Community acted as one. Nevertheless the Commission were able to agree informally with the Japanese side on the following points:
 - (a) The Japanese side recognised the major nature of the programme of modernization and adaptation in which the European car industry is now engaged;
 - (b) Japanese passenger car exports to the Community in 1981 will be moderate in consequence of the moderation of exports to the Benelux countries and to the Federal Republic of Germany, the existing import restrictions in some Member States, and the recent movements in exchange rates between the yen and European currencies;
 - (c) it followed that there would be no diversion of Japanese cars to the

Community as a result of the measures taken by Japan vis-à-vis the United States and Canada;

(d) an exchange of views between the Japanese side and the Commission will be held in the autumn of this year concerning the outlook for 1982.

7. The Japanese attitude in the discussions in Brussels on June 15-17 offered in general the possibility of further progress. Mr Tanaka undertook that a Japanese Government declaration would shortly be made emphasizing the importance of increasing imports of manufactured goods and asking the private sector to increase its efforts to this effect. The Japanese agreed that collaboration and concertation between Japan and the Community needed to be improved.

8. Against this background the Community faces a crucial choice in relation to imports in particular of passenger cars from Japan from 1982. Japanese insistence that they are prepared to deal with the Community if it acts as one means that either :

(a) Member States continue to proclaim the need for Community solidarity and severally deal separately with Japan. Thus the Japanese are able to divide and rule. Our joint bargaining power disappears; or

(b) we resolve on a common Community policy. This must mean the gradual phasing out of national restrictions and their being subsumed in general Japanese undertaking of restraint to the Community as a whole which of course would need to bear in mind particular regional difficulties and circumstances in the Community.

Ottawa

- 9. The Commission's report also dealt with preparations for the Ottawa Summit. On 17 February 1981 the Council decided that "since the question of trade with Japan has implications for all major industrialised trading countries, the Council took the view that it should be raised with them on every possible occasion and in particular at the Western Economic Summit in Ottawa next July in the context of the customary exchange of views on world trading problems".
- 10. This was accompanied by an entry in the Council Minutes which read "it is understood that the Community position on this subject will be prepared in due time in the usual way".
- 11. Community representatives have since made clear in the preparations for the Ottawa Summit that in our view there should be a substantial exchange of views on world trading problems in Ottawa and that these should include the question of trade with Japan. Our intention however would not be to focus either on the particular sectoral problems or on bilateral trade problems between Japan and the Community, but on the political macro-economic complex of questions - including the reaction of industrialized countries to the oil shock in terms of their export policies and the degree of openness of their domestic markets to manufactured goods from other trading partners - essential to the smooth functioning of the world trading system.
- 12. The section of the Ottawa Communiqué which will deal with these questions will necessarily be couched in fairly general terms. Accordingly it seems important that some means to follow-up the discussion of these questions are found. What might be considered in this context, since what is under discussion covers essentially trade policy questions within the ambit of Article 113 of the Treaty, is a procedure analogous to the informal meetings between the US Special Trade Representative, Mr Strauss, Minister Ushiba in Japan, and Vice-President Haferkamp, which played a significant part in the successful conclusion of the Tokyo Round trade negotiations.

Conclusions

13. (a) Trade problems between the Community and the United States while in some cases (e.g. steel) potentially serious are not at present at the point of dangerous conflict.
- (b) Discussions between the Commission and Japanese Ministers on June 15-17 offer the possibility of further progress.
- (c) But the Community faces a crucial choice in relation to imports in particular of passenger cars from Japan in 1982. Japanese insistence that they are prepared to deal with the Community if it acts as one means that either the Community resolves on a common policy within a Community-wide arrangement with Japan, or a continuation of separate deals by Member States which would enable the Japanese to divide and rule.
- (d) Of major importance at Ottawa will be not only the discussion of the broad problems of trade between industrialised countries - including the openness of the Japanese market - but some follow-up procedure designed to keep the situation under review.
- (e) Of equal importance will be the need for Governments represented at Ottawa to bear in mind the need for coordination of macro-economic policies such that the strains on the open trading system are kept at a tolerable level.
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