

# INFORMATION

EXTERNAL RELATIONS

JAPAN AND THE EUROPEAN COMMUNITY

111/75 final

The Commission Vice President, M. Carlo SCARASCIA MUGNOZZA, will be its representative at the European Day on October 31 1975 at the Okinawa International Ocean Exhibition 1975.

In this connexion it is considered desirable to send you the attached information summary on the relations between Japan and the European Community.

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## 1. CONVERGENCE OF INTERESTS

There are a number of points of similarity between the current problems of Japan and of the European Community. Both are densely populated, their capacities for invention and expansion are similar, but both depend on the outside world for raw materials and energy.

Both were affected in the same way by the oil crisis. Japan imports 85 % of her energy, including 99 % of her crude oil, while the Community buys 65 % of the energy it uses, including 97 % of its crude oil.

Both Japan and the Community took part in the international conference proposed by the President of the French Republic and held in Paris April 7 - 15 1975.

Their attitudes were identical, assigning priority to energy questions, but leaving the door open to the consideration of other problems, more especially in relation to the Third World.

Both for Japan and for the Community, primary importance attaches to the expansion of their external trade.

In both cases their economic life is conditioned by the export trade. In the Community exports account for 11 % of the GNP and for Japan the corresponding proportion is 9.1 %. In 1974 the total external trade of the "Nine" was \$ US 283,000 million, while the external trade of Japan was \$ US 117,000 million.

In the forthcoming multilateral negotiations in GATT, both Tokyo and Brussels attach major importance to the future reduction of tariff and non-tariff barriers and the expansion of trade through liberalisation between the nations.

Both Japan and the Community are faced, as a result of their growth, with the problems of pollution and urban concentration. They are reconsidering various welfare concepts with a view to an improved "quality of life".

## 2. JAPAN'S ECONOMY AND THE RECESSION

Japan is now the world's third industrial power. In 1973 the GNP per head was \$ US 3,900, which compares with \$ US 4,200 for the European Community.

The country had the benefit of some 20 years of unexampled economic progress, and after having almost emerged triumphantly from the two years of currency crisis in 1972-73, her economy was overtaken by a phase of recession in the early months of 1974.

Industrial production suffered a severe setback, falling during the year by 2.3 %, while the GNP at constant prices was lower by 1.8 % than in 1973.

Accompanying the recession was a high rate of inflation which raised the consumer price index in 1974 by 24.4 %, the highest annual growth since 1949. Wages were also soaring and showed a 32 % increase in 1974. Since the beginning of 1975, however, conditions have begun to improve. The rise in the consumers' price index in April 1975 was less than 15 %, and the 1975 wage increases show an average gain of only 13 %.

Japanese government estimates are that the GNP, which showed its first fall in the history of Japan during 1974, will show a net gain in 1975 of about 4.3 %.

The Japanese economy is now coming into a transition phase. The social and economic plan for 1973-77 is angled more than usual on finding solutions for the social problems with which Japan is now faced. These are, the environment, social security and housing.

## 3. ECONOMIC RELATIONS BETWEEN JAPAN AND THE COMMUNITY

Negotiations were begun in 1970 for a trade agreement between the Community and Japan. These were not successful owing to lack of agreement about the Community safeguard clause.

Under the long-term agreement on cotton textiles a three-year agreement between the EEC and Japan was concluded in 1972, providing for the

limitation of Japanese exports of cotton goods to the Community. This agreement has been prolonged, pending the conclusion of a new agreement, covering a wider range of textile products, in view of the International Multifibres Arrangement. Preparatory discussions for this were started at the end of April 1975.

#### 4. TRADE BETWEEN JAPAN AND THE COMMUNITY

##### A rising trend

Japan consigns 12 % of her exports to the European Community.

Though Japan's exports are growing rapidly, she still supplies only 4 % of Community imports.

There is thus a considerable potential for expanding the trade in both directions, provided there is a reasonable general balance and that disruption in individual markets is avoided.

Community trade with Japan has shown a deficit since 1964, and since 1970 the gap has widened considerably.

##### TRADE BETWEEN EEC (nine countries) AND JAPAN (1)

	\$ US (million)			Increase (percent) on 1968		Increase (percent) on previous year	
	EEC imports	EEC exports	Balance	Imports	Exports	Imports	Exports
1968	987	888	- 99				
1971	2,130	1,348	- 782	116	52		
1972	2,950	1,658	- 1,292	199	87	38	23
1973	4,180	2,835	- 1,345	324	219	42	71
1974	5,219	3,306	- 1,913	429	272	25	17

(1) External trade of Nine-nation Community (advance figures) -  
Directorate General of External Relations.

Though Japan's surplus in her trade with the rest of the world has lately shown a material decrease, her credit balance against the Community has risen to a level which gives rise to some concern. The best path towards a better

balance -- as both M. François Xavier ORTOLI and Sir Christopher SOAMES, President and Vice-President of the EEC Commission, have emphasised -- would be to increase Europe's exports to Japan.

It is noted, too, that the Japanese exports are concentrated under a comparatively small number of headings. It would be better for Japanese exporters to operate on a broader front with a greater variety of products.

#### 5. FEATURES OF JAPANESE AND COMMUNITY COMMERCIAL POLICY

One of the pillars of Japan's external trade policy is "orderly marketing" (1)

The Japanese government has told firms and associations of the importance it attaches to keeping the export trade in good order. It keeps the special tendencies in export sales under continued supervision, so that it can quickly identify any cause of possible friction and advise the trades concerned to keep their exports of specific products within specified volumes.

The Community takes the view that the most suitable approach to import problems is through the conventional and self-adjusting instruments of commercial policy. In present conditions nevertheless "orderly marketing" might be a flexible alternative to Community safeguard clauses. There should, however, be consultation between Japan and the Community on any proposed measures of self-restriction. The Community as such is using in its dealings with Japan the following instruments of joint commercial policy which it has at its disposal :

- joint liberalisation list comprising all the products for which trade has been liberalised in the member countries (i.e. products for which there is no quantitative restriction on imports into the Community) ;
- independent measures by member States under the Council decision of December 19 1972 concerning products not yet liberalised at the Community level;
- textile goods covered by the Multifibres Agreement

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(1) Measures for disciplined export organisation

Community safeguard measures had been adopted in April 1973, requiring authorisation for the import into Italy of magnetophones from non-member countries, and Community supervision had been introduced. With the increase in Italian production and the decline in imports from Japan, the quota system applied in 1974 was not renewed in 1975. The only measure still in operation is the Community supervision regarding imports of magnetophones from all sources.

Community supervision was also introduced in August 1972 over imports of certain types of electronic calculating machines of Japanese origin. This measure, which was renewed in 1973, attracted attention to the variety of import sources by comparison with the Japanese origin which is still the chief supplier.

This supervision was renewed again in 1974, and a further renewal until December 31 1975 extended it to imports from all GATT countries.

Imports of zip-fasteners from outside countries, especially Japan, were put under Community supervision from May 1975 until June 30 1976.

6. PRESENT RELATIONS BETWEEN JAPAN AND THE COMMUNITY NOW COVERED BY STANDING MACHINERY FOR CONSULTATION.

During the past three years the Commission has endeavoured to promote constructive discussion between the Community and Japan on the lines envisaged by the Nine-nation Conference of Heads of State or government held in Paris in October 1972.

The principle of this was officially accepted when M. Masayoshi OHIRA, Nippon Minister for Foreign Affairs, visited Brussels on May 4 1973. The President of the Commission (M. Ortoli) and the Vice-President in charge of External Affairs, (Sir Christopher Soames) thereupon decided to set up permanent machinery for constructive discussion on the chief problems of common interest

The first regular consultations between the Japanese government and the Commission took place in Brussels June 12-13 1973. The Japanese delegation was led by M. K. TSURUMI, Deputy-Minister for Foreign Affairs, and the Commission delegation by M. E. WELLENSTEIN, Director-General of External Relations.

On November 27-28 1974 M. TSURUMI again had talks in Brussels with senior Commission officials. In the interim there have been six further sets of consultative discussions between the Community and Japan.

In a communication to the Council on June 25 1973, on the strengthening of its representation in foreign countries, the Commission proposed to set up in Tokyo a permanent delegation to cover commercial policy questions and which would include a press and information office. When President Ortoli went to Japan, he and the Japanese authorities initialled an agreement under date of February 22 1974, covering the establishment, privileges and immunities of this delegation, and this was ultimately signed in Brussels on March 11 1974. The delegation was opened in November 1974.

The Community now has permanent liaison machinery with Japan, through which it can promote closer links and secure continuous and more thorough discussion.

The Commission President, F-X. Ortoli, made an official visit to Japan -- February 18-23 1974.

Meetings are held every six months of the contact group between the ECSC (1) and Japan. This group was set up in 1965 and the central points in its discussions are the supply and demand trends for steel and the growth or decline in exports. The 20th meeting was held in Tokyo on June 18-19 1975

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(1) ECSC = European Coal and Steel Community

PROSPECT AND CONCLUSIONS

Between the Europeans and the Japanese there is a community of interest and objective which provides a strong incentive to cooperation. In multi-lateral matters it is to be remembered that following President Ortoli's visit to Japan in February 1974, the joint communiqué emphasised the urgent need for cooperation in GATT to secure more liberal trading among the nations of the world.

It also stressed the need for both Japan and the Community to take part in any constructive multilateral talks with the oil-producing countries and the countries at the developing stage.

In bilateral relations the search for substitute forms of energy and their development, especially nuclear energy, is one of the fields in which Japan and the Community might well develop a cooperation which has already been set on foot between Japan and individual members of the Community.

In the words of the joint Japan-EEC declaration : "Closer cooperation, based on mutual understanding between Tokyo and the Nine is not only important both for Japan and for Europe, but is also a factor in the balanced development of the world economy as a whole".