

INFORMATION

EXTERNAL RELATIONS

JAPAN AND THE EUROPEAN COMMUNITY

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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.

2. Japan-EEC relations progress with the help of standing machinery for discussion

For some years the Community has been doing its best to intensify its relations with Japan. The Nine decided at the Paris Summit (1972) 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 approximately the same lines as those held with the United States 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.

From 1975 onwards, exchanges of views have become more and more frequent.

Mr. Finn Olav Gundelach, Member of the Commission, paid an official visit to the Japanese Government from 12 to 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 tenth meeting under the regular top-level consultation arrangements between the EEC and Japan was held in Tokyo on 19 and 20 May 1977. On this occasion Mr. Haferkamp, Vice-President of the Commission, visited Tokyo for talks with the Prime Minister, Mr. Fukuda, and other members of the Japanese Government. This was also the first time since 1973 that consultations between the European Community and Japan had taken place at ministerial level.

The two parties agreed that they must cooperate closely in order to deal with the Community's worsening trade deficit with Japan. The Community delegation emphasized the necessity for further rapid progress in eliminating in Japan the barriers to Community exports to that country. It was agreed that the sector-by-sector study of this problem would be speeded up with the aim of making it easier to take advantage of the opportunities for Community exports in such areas as processed agricultural produce, chemicals, pharmaceuticals and diesel engines.

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; in 1977 it will amount to \$ 5 000 million. At the same time the cover-ratio (the proportion of the cost of imports covered by exports) has fallen to less than 40 %, as the following table shows:

<u>Year</u>	<u>Deficit</u>	<u>Cover ratio</u>
1973	\$ 1 200 million	67 %
1974	\$ 1 900 million	63 %
1975	\$ 3 200 million	46 %
1976	\$ 4 100 million	43 %
1977 (Jan/June)	\$ 2 500 million	39,5 %

Source: Eurostat

Community imports from Japan (US \$ million)

	1972	1973	1974	1975	% change 1975/74	1976	% change 1976/75
Germany	989	1350	1349	1760	(+ 30)	2159	(+ 23)
United Kingdom	782	1083	1412	1564	(+ 10)	1531	(- 2)
France	364	542	946	995	(+ 5)	1231	(+ 24)
Italy	250	370	438	454	(+ 3)	589	(+ 30)
Belgium/Luxbg.	191	268	340	418	(+ 23)	557	(+ 33)
Netherlands	249	318	420	505	(+ 20)	631	(+ 25)
Denmark	104	203	258	216	(- 17)	357	(+ 65)
Ireland	26	38	50	66	(+ 32)	93	(+ 41)
EEC Total	2955	4172	5213	5978	(+ 15)	7149	(+ 20)

Community exports to Japan (US \$ million)

	1972	1973	1974	1975	% change 1975/74	1976	% change 1976/75
Germany	612	1028	1258	963	(- 23)	1110	(+ 15)
United Kingdom	430	668	746	681	(- 9)	646	(- 5)
France	226	420	463	375	(- 19)	423	(+ 13)
Italy	152	277	322	297	(- 8)	320	(+ 8)
Belgium/Luxbg.	106	198	218	152	(- 30)	178	(+ 17)
Netherlands	78	142	178	150	(- 16)	191	(+ 27)
Denmark	42	78	92	122	(+ 32)	129	(+ 6)
Ireland	11	16	21	20	(- 5)	42	(+110)
EEC Total	1657	2827	3298	2760	(- 16)	3040	(+ 10)

Community trade balance with Japan (US \$ million)

	1972	1973	1974	1975	% change 1975/74	1976	% change 1976/75
Germany	-377	-332	-91	-797	(+ 775)	-1049	(+ 32)
United Kingdom	-302	-415	-666	-883	(+ 33)	- 885	(+ 0)
France	-138	-122	-483	-620	(+ 28)	- 808	(+ 30)
Italy	- 98	- 93	-116	-157	(+ 35)	- 269	(+ 71)
Belgium/Luxbg.	- 85	- 70	-122	-266	(+ 118)	- 379	(+ 42)
Netherlands	-171	-176	-242	-355	(+ 47)	- 440	(+ 24)
Denmark	- 62	-125	-166	- 94	(- 43)	- 228	(+143)
Ireland	- 15	- 22	- 29	- 46	(+ 59)	- 51	(+ 11)
EEC Total	-1298	-1345	-1915	-3218	(+ 68.1)	-4109	(+ 28)

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 actually received by the United Kingdom.

The reaction of public opinion and specifically industrial opinion in Europe to the EEC trade deficit with Japan is all the more vocal since the Japanese exports are concentrated in a few sensitive sectors: cars, steel, ship-building, electronic goods and ball-bearings. In some cases, Japanese penetration of 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 the Japanese market to the same extent. The most striking example is that of automobiles. Japan has a 4.38 % share of the European market, whereas the Community has only a 0,8 % share of the Japanese market. In other industries the Japanese penetration reaches still higher levels -- ball-bearings 8.9 % and electronic calculators over 60 % -- without the Europeans being able to make any sales at all in Japan under these headings.

It should be mentioned that the Member States of the Community still apply national quantitative restrictions on some 79 industrial products, whereas Japan applies quantitative restriction in only 27 cases, of which 22 are for agricultural products and only 5 for industrial goods. These restrictions, however, have not prevented Japanese products from penetrating the European market in the sectors mentioned above, except perhaps in the case of Italy, 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 drawing their attention to this situation and to the dangers involved if a better balance is not struck in trade between the EEC and Japan.

In its discussions the Commission has consistently argued that the best way of securing a more satisfactory balance would be to increase Community exports to Japan, rather than to impose import restrictions at the Community end. However, a further point to be made is that in face of the continued worsening of the deficit and increasingly serious sectoral problems, at a time when the Community has not yet emerged from the recession, it would be more and more difficult for the Community to maintain its previous attitude of avoiding restrictive measures if Japan did not take effective steps to promote European exports and limit its own exports temporarily in specific cases.

Consequently, at the two meetings of the European Council in November 1976 and March 1977, the Heads of Government discussed relations with Japan. They expressed their concern over the problems caused by imports from Japan. They also asked the Community authorities to continue their efforts to achieve a better balance, emphasizing in particular the need to increase the Community's exports to Japan. The European Parliament made the same point in its resolution of 10 March 1977 on relations with Japan.

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.

Between 1974 and 1976 Japanese exports of ball-bearings to the Community rose by 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 a temporary anti-dumping duty of 20 % on ball-bearings. This anti-dumping duty was renewed for a further three months with effect from 5 May. On 26 July the Council of the European Communities adopted the Regulation introducing a 15 % duty on imports of bearings (ball- and conical bearings) originating in Japan. At the same time it suspended application of this duty in the light of assurances given by the Japanese manufacturers, in particular as regards prices of Japanese exports.

Regarding steel, the Commission has been in contact with the Japanese authorities since 1975 with a view to examining forecasts of Japanese exports to the Community. At the meeting of the ECSC-Japan contact group in Brussels on 11 and 12 November 1976, the Japanese authorities gave details of their forecasts for 1977, pointing out that exports to the

Community in 1977 would be reduced sufficiently to avoid any repetition of the difficulties previously experienced on the European market. In September 1976 the Japanese authorities has also given certain information and assurances about 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 under the auspices of the OECD on the reduction of production capacity. Japan has recognized that capacity must be reduced if the imbalance between supply and demand in this industry is to be eliminated. Japan also confirmed that it was not seeking to enlarge its share of the world market. Various ways of settling the problems outstanding will be discussed at regular consultations between the Community and Japan.

Japan has adopted the following measures:

- 5 % increase in prices for ships of all types;
- elimination of a further 30 000 jobs in shipbuilding by the end of 1978;
- turning away of orders from Member States which are particularly hard hit by the crisis. Directives to this effect have already been issued as regards orders from Germany and Holland.

Consultations between Japan and the Community on shipbuilding will take place every three months.

With regard to cars, Japanese exports to the nine EEC countries reaches 370 000 in 1975 or 50 % more than in the previous year; but Community sales in Japan amounted to only 26 000 cars, a minimal rise of only 3.2 %. In 1976 the imbalance was even more marked, with 491000 Japanese cars entering the Community against only 25 000 Community cars sold to Japan.

The Japanese scored a much higher degree of penetration in the EEC countries which do not produce cars (Belgium 16.7 %, Netherlands 15.5 %, Denmark 14.7 %) than in the countries which do (Federal Republic of Germany 1.7 %, France 1.6 % and Italy, where imports are subject to quota, only 0.05 %). In the United Kingdom, however, where the industry is having special difficulties, Japanese imports accounted for 9.5 % of the market.

In other industries the Commission has been seeking solutions through cooperation with the Japanese authorities. For textiles, an agreement involving voluntary restraint by Japan of its own exports and providing for a consultation procedure was signed on 9 July 1976 under the Multi-fibre Arrangement. It is valid until 31 December 1977, with retroactive effect from the 1 January 1976.

Increasing Community exports

With a view to correcting the imbalance in trade between the EEC and Japan, the Commission has been pursuing an active commercial policy, aimed at increasing exports from Europe. It has made representations to the Japanese authorities, requesting 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 testing and checking in Europe. Since October 1975, the Commission has been making approaches to the Japanese Government in an attempt to have non-tariff barriers eliminated in the automobile sector.

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

- as from 1 April 1977, acceptance 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) emission standards, which come into effect in Japan as from 1 April 1978, is to be suspended for European cars until 1 April 1981.

In pharmaceuticals, the Japanese Government issued a new regulation on 1 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.

Consultations will take place shortly between the Community and Japan concerning chemicals, pharmaceuticals and marine diesel engines, with a view to the elimination of administrative barriers maintained by Japan.

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

On this subject consultations between the EEC and Japan took place in Brussels on 7 and 8 February 1977 and in Tokyo on 18, 20 and 21 July. Japan made minor concessions on unsweetened condensed milk and certain manufactured tobacco. It was agreed that problems still to be resolved should be dealt with in the context of the multilateral negotiations in Geneva.

However, the two parties decided to set up a joint study group to investigate the possibility of promoting Japanese imports of European preserved foods.

(1) NOx: proportion of oxides of nitrogen in the emissions