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## A CONSISTENT AND GLOBAL APPROACH

A review of the Community's relations with Japan

(Communication of the Commission to the Council)

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### A. INTRODUCTION

1. The Council last debated relations between the Community and Japan in April 1988. It adopted on that occasion guidelines for the Community's policy towards Japan which called for the further opening of markets and the development of cooperation and strengthening of dialogue. This balanced approach was an important new turning in policy; in the four years which followed, significant progress has been made on both the economic and the cooperative fronts, although the relationship between the two has still to reach equilibrium.

2. It is now time to review the situation in particular in the light of five new elements:

- the EC-Japan Joint Declaration issued in the Hague in July 1991. This introduced a political dimension into the relationship, defined objectives for cooperation on political and security issues and on global challenges. It confirmed cooperation on international economic and trade questions and on access to each other's markets, on the principle of equitable access based on comparable opportunities. The intensification of dialogue in this new framework has already allowed the identification of promising new fields of cooperation between the Community and Japan. It has also shown a possible convergence of positions on global problems of common interest, such as those of development and the environment. This convergence is helped by the perception of both sides that problems of society are a central element in a general view of economic progress.
- in bilateral trade, the reversal of recent trends and the future outlook justifies concern about the possibility of reducing the serious imbalances between the Community and Japan. After a modest improvement in the late 1980s, the Community's exports to Japan fell in 1991 and the deficit in manufactured goods worsened sharply, showing that the base of our exports remains narrow and vulnerable to cyclical fluctuations. The essential diversification of exports is hindered by remaining difficulties of access to Japanese markets, of different types. Moreover, the opening of the markets of the Community and of the European Economic Area, and their accessibility to Japanese direct investment, will probably lead to an increased Japanese presence in Europe. It could well

happen that, over the next ten years, the European market will become as important to Japanese industry as the American. In contrast, there remain considerable barriers to the Japanese market, including structural obstacles.

- the growing tendency of the United States and Japan to seek immediate solutions to bilateral trade problems through arrangements which tend to be discriminatory;
- the strategic importance for the development and competitiveness of European industry not only of Japanese but also of South East Asian markets, which will grow exceptionally rapidly in the coming years;
- finally, the opportunities that the Common Foreign and Security Policy offers for closer concertation of national foreign and security policies as regards Japan, and for improving their coherence with the external dimension of Community policies.

#### B. A CONSISTENT AND GLOBAL APPROACH

3. The emergence of Japan over the last two decades as a great economic and financial power is a challenge to the international community. Even if growth rates turn out lower, Japan is likely to maintain a certain economic momentum relative to Europe and the United States in the 1990s. There will probably not be radical changes in values, even though more emphasis may be put on the quality of life and the environment. The full impact of the radical ageing of the population will not be felt until the next century, though its effects are already being felt in the labour market (labour shortages, increased employment of women), in the pattern of savings and investment and in the cautious stance of budgetary policy.

4. The challenge facing the Community will be to maintain and develop its technical and industrial strength, while participating fully in an open multilateral economic system. The response must come from both industry and government. The capacity of industry, especially manufacturing, to innovate and restructure will primarily determine the Community's place in the industrialised world. Public authorities at Community and national levels must create the conditions for greater competitiveness and encourage the efforts of industry, both through the Single Market and through accompanying policies.

5. With regard to Japan, the aim should be the full integration of Japan into the international system by making it as open to foreign trade and investment as other advanced economies. Greater penetration of the Japanese market is vital, not only for the direct economic benefits, but also to give Community industry the opportunity of competing under equal conditions in the most advanced market of the world's fastest growing region (Asia Pacific), of gaining direct experience of advanced technology and management practices, and of building lasting relationships with Japanese companies.

Inversely, the efforts that European companies are making to face up to the opening of their markets should be taken into account by their Japanese counterparts, which should modify their own structures to reduce the obstacles to Japanese markets.

6. The Community has achieved considerable success in eliminating formal barriers in specific sectors in Japan. Some of these remain, but the most important obstacles now are structural in nature. There are no miracle solutions in tackling these; eroding them will take time. Indeed opening the Japanese market needs a steady haul, in which Member States and the Community together follow a consistent and global approach. This approach, which will be described in more detail in the following sections, should be based on appropriate macroeconomic and exchange rate policies and strong implementation of anti-trust laws in Japan; industrial cooperation; and trade promotion. Machinery should be set up to compare the EC's performance on the Japanese market with that on other markets. This should lead to a results-oriented dialogue with Japan.

7a Eschewing threats, the Community and Japan must continue to build up a more mature relationship. Both are in many ways at a similar stage of taking up their responsibilities on the world stage, Japan because it is searching for ways of translating its economic power into political influence, the Community because it is adopting through the European Union institutions and mechanisms to enable it to play a stronger foreign policy role. The time is ripe for a strengthened political dialogue, which must show a qualitative difference from the arrangements currently in force.

7b The Community's relations with Japan represent a vital challenge. They justify a specific effort to coordinate national policies. As soon as the Maastricht treaties are ratified, the Commission will launch appropriate initiatives in the framework of the Common Foreign and Security Policy.

8. Nor must dialogue be confined to foreign policy questions. The encouraging recent developments in cooperation on science and technology, social affairs, the environment, and development assistance should be built on and reinforced. Moreover, the development of the Community's own financial and monetary personality in the course of this decade will require a closer working relationship in these areas.

### C. RECENT ECONOMIC DEVELOPMENTS

#### Japan's economic policy

9. In late 1986 and 1987, the Japanese authorities introduced stimulatory measures in response to calls from trading partners that Japan reduce dependence on exports and evolve towards an economy led by domestic demand. The period 1989-90 was one of particularly rapid growth, led by domestic rather than external demand as in earlier periods. This caused a substantial rise in imports, to which the "bubble economy" (the massive rise in the price of assets - in particular land, property and financial securities - experienced with a dramatic acceleration towards the end of the 1980's) also contributed: between 1986 and 1990 Japan's current account surplus fell by 60% to \$35.8 billion, and its visible trade surplus by 34% to \$63.5 billion.

10. From late 1989 onwards, the Japanese authorities tightened monetary policy to control inflation, in particular of asset prices. The consequence was a fall in the growth rate, the bursting of the "bubble" and a doubling

of the current account surplus in 1991 to \$72.6 billion. Growth is expected to remain relatively slow, and Japan's current account and trade surpluses to rise. A further deterioration is therefore to be feared in the Community's trade position with Japan.

11. Along with variations in domestic demand and the adaptability of production, price competitiveness (the exchange rate relative to production costs) determines Japan's trade performance compared to other industrialised countries. Japan's price competitiveness declined from 1986 to 1988 with the rise in the yen, contributing to the fall in its surplus. It then improved in 1989 and 1990 pushing up exports. Despite some deterioration in 1991, it is still better than in 1986, suggesting that the yen is now on the weak side. In the long run the yen should appreciate relative to the European currencies.

12. In the Commission's view, Japan has more room for manoeuvre for sustaining demand in the short term than most industrialised countries because of low inflation and a general government surplus. The Japanese authorities should follow policies that allow a return to growth led by domestic demand and thus a reduction in external imbalances. The Community and the Member States should urge this approach on the Japanese in the relevant fora. Further structural reform would also foster growth, as increased competition inside and from abroad would reduce inflationary pressures, while deregulation would induce the development of new products.

#### Trade and investment

13. The Community's visible trade position with Japan changed for the worse in 1991 after having improved modestly for several years. Between 1987 and 1990, its exports grew by around 25% a year and imports by around 10%, although from a higher base, with the result that the level of the deficit did not change greatly over the period. The situation deteriorated abruptly in 1991. Exports fell by 4%, while imports from Japan grew substantially partly because of the demand boom in Germany; the deficit consequently jumped by 25% to around 29.5 billion ECU. The underlying problem is that a large part of the Community's exports are especially vulnerable to economic downturns. Our exports have not been able to diversify sufficiently, although Community companies have proved their competitiveness on markets other than Japan.

14. These trends reflect the bias of the Community's visible exports to luxury goods (motor vehicles, textiles and alcoholic beverages). The bias increased between 1987 and 1990, as these products accounted for nearly half the growth of exports. In 1991 the growth of the Japanese economy slowed and the "bubble economy" collapsed, causing spectacular falls in the Community's exports of luxury goods, and hence a drop in its total exports.

15. Trade in services partially changes the picture. In 1989 Japan's deficit on service trade with the Community roughly doubled, mainly because of increased returns from European financial investments in Japan. This meant that by FY 1990 Japan's current account surplus with the Community had fallen to one third of its level in 1986-87 and was around half the trade surplus (\$6.2 compared with \$16.3 billion).

16. The counterpart to Japan's surplus on current account with the rest of the world has been investment abroad on a large scale, the greater part in financial assets. As for direct investment (productive assets), this trebled between 1986 and 1990 to reach \$57 billion in the latter year, but is not on the same scale in the Community (\$13 billion) as in the United States (\$26 billion). Direct investment by Community companies in Japan remains at a low level (\$1.1 billion).

#### D. THE COMPONENTS OF AN APPROACH

##### Sectoral Issues

17. The Council's conclusions of April 1988 provided for action by the Community to remove barriers to trade in a number of sectoral markets. The Commission therefore conducted negotiations in sectors such as motor vehicles, pharmaceuticals, cosmetics, medical equipment, alcoholic beverages, leather and leather footwear, and the control of counterfeits. These negotiations have been largely, although not wholly, successful. Exports in many of the sectors rose sharply.

18. However, the Community still has requests on the table on which little progress has been made, of which agricultural products are among the most significant (annex 1). Most of the issues are under negotiation in the Uruguay Round. If the results of the Round prove inadequate, or a conclusion unreasonably delayed, the Community should resume direct negotiations, in the spirit of the Joint Declaration. The list of requests should be kept under permanent review between the Commission, industry, and the Member States.

19. The Japanese market for services is particularly important; but European companies only enjoy a modest share of it. If the conditions for business were more favourable, it could offer European firms significant opportunities, which in turn would allow fuller support for other Community companies operating in Japan. A priority is the liberalisation of financial services. Japan grants national treatment to Community banks as regards establishment and operation but there are a number of market features which, added to the rigidities in the laws and regulations, make it difficult for Community banks to compete. Competition in the insurance field and entry to the investment trust market remain difficult. Japan is in the process of overhauling its financial regulations. The Community should maintain its efforts to secure a further opening of the market for services.

##### Structural obstacles

20. Important though sectoral issues are to certain sectors and regions of the Community, they are not determining in the overall economic relationship. The concessions requested should continue to be sought, but obtaining them will not have an major impact on trade, nor tackle the heart of the problem. This lies in the structural obstacles which are currently the main barriers to doing business in Japan, whether by exporting or by investing there. Although some progress has been made through increases in

infrastructure expenditure, more vigorous enforcement of anti-trust legislation, and some liberalisation of distribution, the pace of structural reform remains frustratingly slow, despite declarations of intention by successive governments.

21. The fundamental problem is the failure of competition and market mechanisms in many spheres: ineffective competition policy, exclusive business practices, close and often obscure relations between the public authorities and the private sector, the inflation of land prices by tax and land-use law, and the over-regulation of certain sectors. (These issues have been exhaustively analysed in the Structural Impediments Initiative of the United States and Japan. The Community shares much of that analysis despite its concern about the instruments chosen by the United States to pursue its objectives).

22. The EC-Japan Joint Declaration recognises the need to tackle structural among other barriers to markets and provides a framework for consultation and cooperation. The Community must build an effective dialogue with Japan, concentrating on structural problems of specific interest to it. Foremost among these are the remaining weaknesses in competition policy. The enforcement of anti-trust law is inadequate and should be carefully followed to ensure that it has a sufficiently deterrent effect; the exemption of certain sectors from the anti-monopoly act should be eliminated; and the Fair Trade Commission should investigate problems of concern to Japan's trading partners (the Commission intends to propose certain areas for study in the near future).

23. The distribution systems also remain a cause for concern, particularly as the Community is a major exporter of consumer goods. Although some liberalisation of large-scale retailing is under way, problems remain of tied distribution and anti-competitive practices. With the help of industry, the Community should identify specific obstacles to the freer distribution of EC goods and invite the Japanese authorities to pay special attention to these.

#### Industrial cooperation

24. The second main thrust of the Community's approach to Japan, after the competition component, should be industrial cooperation. It is unrealistic to assume that the result of structural reform in Japan will be to create a society identical with that of the United States or the European Community. The structural obstacles mentioned above are different from the basic social values and the organization of society which have contributed to Japan's economic success. Successful penetration of the Japanese market will in the long run depend on not working against the grain of Japanese society. Long term relations between companies are central to business life in Japan. This is particularly the case for those products, other than luxury consumer goods, in which the Community industry is competitive but has not yet made a breakthrough on the Japanese market (as witnessed by the trade figures).

25. This is a lesson which has already been learnt by the United States. The arrangement on semi-conductors and that on autos and auto-parts, the discriminatory aspects of which will be discussed later, will operate

successfully to the extent that they reflect genuine industrial cooperation between the private sectors. The United States and the Japanese governments are setting up structures to encourage this development. The Community cannot afford to lag behind.

26. Community industry is in a relatively favourable position to make a success of the approach outlined above. Increasing Japanese manufacturing investment in the Community gives EC suppliers an opportunity to form business relationships based on meeting Japanese requirements on quality, reliability of delivery, and price, while Japanese companies should play their part by being open to new suppliers, assisting them to meet requirements, and involving them at the design stage. With companies from both sides, the Commission and the Japanese authorities are considering launching a pilot programme to improve the supply of components used in the production of consumer electronics by Japanese firms notably in the Community. If successful, it might serve as a model for other sectors.

27. It is also open to EC and Japanese firms to conclude strategic alliances on the development of and production of new products. Both may need partners to share the cost and risk of new investments and to engage research, faced with strong competition on their domestic markets. There is also the interest of access to new technologies and markets. Recently examples of such alliances have increased.

28. Both these approaches presuppose a greater knowledge and understanding of Japan and the Japanese economy on the part of Community industry. It is not unreasonable to expect that any businessman dealing with Japan on a regular basis should have a comprehensive knowledge of these matters. This requirement applies not only to the big firms, but also to small and medium sized enterprises. There is, moreover, a wider problem of very little learning of Japanese before entry into professional life.

29. It is no part of the duties of government to take decisions on behalf of industry. Instead, both Member States and the Community should work to create a favourable climate in which industrial cooperation can thrive. In particular, the Community should:

- in cooperation with the Japanese government, seek ways of facilitating industry's participation in mutually beneficial cooperation;
- further examine possibilities of facilitating the adaption by European parts suppliers to the requirements both of the Japanese market and of Japanese companies in Europe;
- maintain and extend its Executive Training Programme (ETP) to broaden and deepen industry's understanding of Japanese and the Japanese industrial economy;
- together with the Japanese government, strengthen the EC-Japan Centre for Industrial Cooperation;
- advocate the establishment by the Japanese government of new, coordinated business facilities for Community industrial newcomers to the Japanese market, especially small and medium sized enterprises.



### Investment

30. Direct investment in Japan is often essential to penetrate markets, but that by Community companies remains low, hindered both by real and perceived structural obstacles. Industrial cooperation on the lines suggested above should ease the situation over time. In the meanwhile, the Japanese authorities could more effectively improve the climate for foreign investment, particularly by encouraging interest in careers in foreign companies operating on the Japanese market among Japanese managers and students, in order to obviate current difficulties in local recruitment; by clarifying and advising on tax liabilities and other regulatory requirements; and by liberalising the market for support services support, such as financial and legal services. The Centre for Industrial Cooperation provides a useful forum for activities of this type. As for financial incentives for investment, the Commission welcomes the measures recently taken by the Japanese authorities, but counts on them making sufficient funds available and on raising the value of the incentives if that proves necessary. There remains a major obstacle to investment, however, the difficulty of carrying out merger and acquisitions in Japan. Cross shareholdings and general business culture largely block investment by this channel. This should be looked into more closely.

31. For its part, the Community welcomes Japanese direct investment, which can make a contribution to industrial development and renewal throughout the Community, provided it is sufficiently integrated into the economic fabric. It should be the object of all concerned to ensure that Japanese investment remains as welcome in the Community as US investment has proved to be in the past, after initial doubts of a similar nature. To this end, the Community and its Member States should follow a common line towards the issue, namely that Japanese investment should result in the creation of new jobs, be fully integrated into the Community's economic fabric through the use of European suppliers, and lead to the transfer of research and development and ultimately of management functions to Europe.

### Export Promotion

32. The third main thrust of the Community's approach to Japan, after competition and industrial cooperation, is export promotion. A growing number of Member States is embarking on important initiatives to encourage the promotion of their exports to Japan. This is an example which should be followed by all. For its part, the Commission intends to build on the experience of its activities for the promotion of exports to Japan (EXPROM) over the last ten years. The ETP programme has already been discussed. For the rest, the Commission intends to continue to follow a coherent policy, complementary to that of the Member States. Within these parameters, it will develop its policy in two new directions.

32a. First, it will attempt to build synergies between the export promotion programmes of the Community and those of the Member States. This could eventually allow the identification of projects to be jointly undertaken by the Community and the Member States and the provision of seed-money by the Community for new ones. A promising area, where the

Commission is faced with rising demand, is joint European participation in trade fairs which are important to business in Asia. The Commission intends to respond favourably to the co-financing requests of European industry.

33. Secondly, the export promotion programmes of the Community and of the Member States and Japanese import promotion schemes could be made more complementary. This should be discussed in a more structured dialogue with the MITI. Similarly, the Community needs to ensure that industry exploits to the full the commitments to increase imports and local procurement from foreign companies contained in the Business Global Partnership Initiative. A higher degree of coordination at Community level would considerably improve the chances of European companies benefiting from Japanese promotional measures, like their United States competitors.

#### Public procurement

34. The opening of the Community market, through the introduction of the Single Market, and the abolition of remaining national restrictions, entitles the Community to expect that public procurement in Japan and procurement by private companies under governmental guidance will be equally open to foreign competition. The Community has proved competitive in world markets, public works, railways, aeronautics, satellites, and telecommunications but has not made a commensurate breakthrough on Japanese markets. In all these areas, the Community will continue to seek non-discriminatory opening of the Japanese market, together with the application of GATT rules to comprehensive lists of procuring entities and of public works and other services, greater transparency in tendering and in the criteria for selection.

#### Discriminatory solutions to bilateral trade problems

35. This transparency and equality of treatment is particularly important in the light of the recent trend to negotiate deals between the United States and Japan which are discriminatory in intention or effect. The provisions on autos and auto-parts contained in the Global Partnership Plan of Action are the latest of these. This trend is unacceptable in the context of the new relationship symbolised by the Hague Declaration, as it leads in practice to discrimination between trading partners and the distortion of trade.

36. The Community should insist with Japan that contracts should only be awarded for commercial reasons; that bilateral arrangements should be made transparent by the provision of full information on their working and results, in terms of sales and contracts; and that third countries, including the Community, should take part in the joint review committees set up with the United States (for example on semiconductors and the public procurement of computers). The Community will closely review the evolution of trade between the Community and Japan and between the United States and Japan in the products covered by bilateral arrangements to identify possible discriminatory effects. Moreover, in this and other fields, the Community should continue to assert its rights under GATT, with recourse to the new commercial instrument when appropriate.

E. INFORMATION TECHNOLOGY, TELECOMMUNICATIONS, AND HDTV

37. In the process of market unification, standardisation in telecommunications and information technology is essential to improving the competitiveness of Community producers. A major element in the Community's approach to standardisation is compatibility with international norms. In Japan a significant reorganisation of standardisation activities has been gradually implemented, with an emphasis on full participation in international exercises in which Japan intends to play a leading role in the future. The reorganisation also implies that proprietary Japanese standards be progressively aligned with international ones. The Commission will continue to insist that Japan strictly applies international standards and that Japanese standards are transparent, a condition for making markets more accessible to European suppliers of equipment and services.

38. In information technology, a significant achievement has been Japan's commitment to the introduction of open systems; a sign of this is the specification of open systems standards in public procurement. While a group on standardisation was established by the Commission and the Japanese authorities to exchange information on respective policies, this has been superseded by the active participation of both sides in international bodies.

39. In telecommunications, less progress has been made and the Commission constantly presses the Japanese authorities to make the standardisation process more transparent. The Commission has regular discussions with the Japanese authorities, and encourages European representatives, preferably from industry, actively to participate in fora initiated by the Japanese authorities. Moreover, an interconnection experiment is currently being prepared to test the compatibility of equipment and to identify divergences in standards (and proprietary ones).

40. No significant progress has been made in defining a harmonised transmission standard for High Definition Television. The Community supports a standard that would respect the gradual introduction of new technology, while Japan maintains its original proposal which implied the early de facto adoption of its norm. Both sides are now promoting their standards both on their domestic and on international markets. As for a production standard, no progress has been made since the meeting of the CCIR, in 1990.

41. In the field of information technology and telecommunications, cooperation is gaining in importance because of the significance of the global market, including Japan. In telecommunications, where the Community is competitive and has leading-edge technology to offer, a growing number of European firms are becoming attractive industrial partners for major Japanese companies. Cooperation in semiconductors is weak compared with the efforts made by United States industry. The Commission has initiated a dialogue with the Community's semiconductor industry to encourage a greater European presence in Japan. In the software sector, the relative strength of European industry offers opportunities which have not been fully exploited to date.

## F. COOPERATION

### Achievements since 1988

42. The Community has succeeded in giving considerable substance to the Council's expressed desire in its conclusions of 1988 to strengthen the cooperative relationship with Japan. This is particularly the case with science and technology. More recently, encouraging progress has been made on development aid, the environment, and social questions. Developments in these sectors will be set out below.

### Political dialogue

43. Progress on political dialogue has so far fallen short of expectations. There has been difficulty for reasons of timing in keeping to the schedule of meetings, and when they have taken place they have shown that the dialogue between the Community and Japan falls behind that between the Community and the United States in intensity, whereas the two should be more nearly on the same level. The Community, the United States and Japan, although sometimes in competition, are nevertheless facing largely the same challenges in to-day's economically and politically interdependent world; it would make sense to reflect on structures to improve the chances of facing them together. The attitude which the industrialised world takes to Russia and the other Republics of the former Soviet Union will be an early test of this. The Commission and the Member States, in the framework of a global approach, intend to pay special attention to this aspect of the relationship.

44. The G24 experience has shown that this sort of cooperation is feasible. The Commission welcomes Japan's increasing involvement in the programme of economic assistance to the countries of Central and Eastern Europe, although an increase in grants would be desirable. An effort to improve the rate of private investment would also be helpful.

### Science and technology

45. Science and technology in Japan have traditionally been dominated by research directed towards industrial applications. In contrast, basic research has tended to be on a minor scale. This approach, together with the particular concept of what is precompetitive that follows, is being carefully considered in the debate on the redirection of research policy in Europe, where basic research still plays a major role. This is an important field of dialogue and cooperation between the Community and Japan, in particular as the latter has shown a growing interest in basic research. The challenge for the Community is to identify the areas where collaboration is in its interest and to ensure that benefits flow in both directions to an adequate extent.

46. One area where strong potential for mutually beneficial research has clearly been established is nuclear energy. The Community and Japan have already signed agreements on thermo-nuclear fusion, nuclear materials safeguard and protection against radiation.

47. The new openness of Japanese research laboratories is welcome. Better opportunities are thus offered for many European scientists and engineers to carry out long-term research activities in leading Japanese institutions. In the long run, this will increase the number of Japan experts and will strengthen the human network between the European and Japanese scientific worlds. The Commission runs its own fellowship programme and nominates candidates for a similar Japanese programme. The efforts made by the Community, and its Member States, to develop such links with Japan need to be matched by private sector initiatives.

48. In recent years, Japan has proposed several international projects whose results would come in the long term. Typically they would involve joint research projects, technological as well as scientific, carried out by private sector, governmental and academic laboratories in Europe, Japan and North America. The pilot phase of the Human Frontier Science Programme, which involves basic research to elucidate the complex mechanisms of living organisms, was completed in March 1992; the programme is now entering its next phase. The Intelligent Manufacturing System programme, covering advanced manufacturing technology, was originally launched by Japan but has become a truly trans-regional exercise. On the basis of a two-year feasibility study, the Community will decide on its participation in the full ten-year programme. The importance of IMS lies in the attempt to establish a model for trans-regional cooperation in an applications-orientated domain. There are other initiatives launched and led by Japan, such as the Real World Computing programme<sup>(1)</sup>, with which Japan seeks to associate foreign researchers and laboratories. While generally favourable to these initiatives, the Community is defining with care the nature and organisation of its participation to ensure balanced advantages.

49. Finally, the Community does not have a formal channel to handle science and technology cooperation with Japan and has to proceed on a case-by-case basis, an approach whose limitations are clear. The Community is currently studying, with support from the European Parliament, a Japanese proposal for a forum in which to consider major issues of cooperation in science and technology.

50. The localisation of R and D activities is becoming relevant to the general investment questions mentioned earlier. An increasing number of Japanese R and D centres are being set up in the Community; these should be well integrated so as to contribute effectively to the development of the Community's R and D fabric. On the other hand, there are only a few examples of Community firms establishing R and D activities in Japan. They should demonstrate their commitment to a long term presence in Japan by increasing their R and D activities there.

#### Environment

51. The Joint Declaration explicitly identifies the environment as an area where cooperation should be developed. This has been given a clear impetus by the first high level consultations on the environment held recently between the Commission and the Japanese authorities, which helped

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(1) covering advanced computing, formerly called the New Information Processing Technology programme.

identify specific areas of cooperation. On global issues such as the environment and development, climate change and biodiversity, the positions of the Community and Japan in international fora are often close; it would be advantageous further to coordinate them, with a view to building up the leading role they could jointly play in this area.

52. Concrete actions were also identified: joint activities on problems such as acid rain and emissions of CO<sub>2</sub> and other greenhouse gases, and in programmes on the ground like those concerning tropical forests in Brazil and Sarawak. The two sides also agreed to exchange information on environmental developments and policy in the Community and Japan, including the use of economic and fiscal instruments, waste management, the classification of dangerous chemicals, the regulation of biotechnology and the situation in Central and Eastern Europe. Views have been exchanged on preparations for the Rio Conference.

#### Development Assistance

53. A coordinated approach by all donors is required to make effective the policy reforms adopted by many developing countries. Until 1991, relations with Japan in the development field hardly existed, despite attempts to begin a dialogue. These were relaunched however, during President Delors' visit to Japan in 1991 and by the Joint Declaration. Such cooperation is of importance because of the major part the Community and Japan play in development assistance; the role of the EC will be further reinforced by Political Union. As for Japan, it should make a greater contribution to the international aid effort, so that a fair sharing of the financial burden is achieved. It would also be desirable for Japan to devote a greater part of its aid to the least developed countries.

54. Moreover, there is a certain complementarity between the policies of Japan and the Community. The Community has a strong and well-established presence in Africa, Middle-East and Central and South America whereas Japan has tended to concentrate on Asia. Therefore, they could benefit from each other's expertise, including possibly on Southern Africa. A series of meetings between the Commission and the Japanese authorities have begun, to define in the first place the common ground between each side's policy. A considerable level of agreement has emerged and the basis laid for a fruitful dialogue and for strengthening collaboration in the future, which could lead rapidly to more operational cooperation, possibly including co-financing.

#### Social Affairs

55. Greater understanding of the organisation and conditions of work, of industrial relations and of social legislation would benefit the business community and trade unions in both the Community and Japan. The Commission and the Japanese authorities intend to contribute to this, by facilitating exchanges of information and the development of a broad dialogue between all parties concerned. A joint programme has been started to promote the exchange of experts, from government and from both sides of industry, and joint studies on employment, training industrial relations and labour affairs.

## Energy

56. The Community and Japan, as important consumers and importers of energy, share interests in the energy field, among which is the rational use of energy and the development of renewable resources. The development and utilisation of new, innovative technologies in these fields could be a fruitful area for cooperation between the Community and Japan. Where the Community has a technological lead, for instance in wind energy and photovoltaics, biogas and energy efficiency in buildings, it could provide benefits for the Community's industry. Recently, energy issues having a major impact on the environment, such as the relation between emissions from energy use and global warming, have been discussed.

## Culture and mutual understanding

57. In view of Japan's place in the world, a greater understanding of its society, values, tradition and culture is urgently needed in the Community, where real knowledge of Japan is rare. While Japanese comprehension of Europe is probably greater and more widely spread, it can be based on antiquated stereotypes and ignore the Community dimension or adopt a sceptical attitude towards it. For these reasons, the Commission is seeking with the Japanese authorities ways of promoting mutual understanding, and proposes the encouragement of exchanges of different kinds. It is also considering the possibility of coordinating European cultural activities in Japan, to maximise their impact and create awareness of European culture in general.

## G. TOWARDS A MORE EFFECTIVE DIALOGUE

58. The EC-Japan Joint Declaration sets out the framework for dialogue with Japan, reinforcing the mechanisms for consultation and cooperation. These should be used to follow the implementation of the declaration and to give an impetus to cooperation and the solution of problems. This communication has attempted to identify the main thrust of what should be the Community's approach. Throughout the communication, the principle conclusions under each heading have been emphasized. It is proposed that the Council should adopt these conclusions as the operational basis of the Community's policy towards Japan. A draft text is appended (Annex 2).

59. Progress in the implementation of this policy will need to be reviewed at regular intervals, to ensure that concrete results are achieved. As regards the cooperative dialogue, the occasions foreseen in the EC-Japan Joint Declaration should be used to review progress and to identify new fields. As far as the economic relationship is concerned, the Commission proposes the following new method in line with the EC-Japan Declaration.

60. The Commission will regularly carry out a statistical analysis of developments in the trade of goods and services, of the necessary degree of sophistication. To set this in context, a comparison will be made with the Community's performance on the markets of its other comparable trading partners, and the performance of Japan's partners on the Japanese market. This process will help the timely identification of obstacles to the normal development of sales by Community firms on the Japanese market. The results of this analysis will be submitted to the Member States for their comments.

The Commission will then proceed to a regular and systematic evaluation with the Japanese authorities of the results of the analysis. This analysis should lead to recommendations on the measures required to advance the penetration of Japanese markets by Community firms. The process would be conducted in the framework of the Joint Declaration, which provides for consultation on market barriers, including structural obstacles. The recommendations would be presented for discussion to the annual High Level Consultations. A general review of the situation would be undertaken by the annual ministerial meetings. The Member States would be associated with this process through appropriate procedures.

It should be emphasized that the purpose of this process will not be to set quantified objectives for trade, but to identify problems, to establish their causes, and to propose action for their timely resolution.

61. The Commission believes that the approach it suggests combines an improvement of its own activities, (respecting the principle of subsidiarity, particularly regarding initiation to Japanese language and culture) with the necessary cooperation with Member States. The orientations it lays before the Council, together with the procedures foreseen for regular review with the Japanese side, will enable the Community to continue to build up its relationship with Japan on a mutually satisfactory basis, and thus enable them together to play the role each is called upon to assume in the world.



SECTORAL OBSTACLES TO JAPANESE MARKET

As far as the access to the Japanese market is concerned, the main following obstacles can be identified regarding foodstuff products, industrial products, services or rules of general application.

I) Industrial productsA) Tariffs

inter alia, level of tariffs on leather and leather shoes (primary and secondary tariffs), synthetic menthol, ferro-nickel and refined and unrefined copper.

B) Standards and certification

- \* motor vehicles: issues open in the domains of safety and pollution.
- \* pharmaceuticals and medical equipment: unnecessary delays in registration and not great enough acceptance of international standards and test procedures.

C) Taxation

level of consumption tax on cars.

D) Trade measures

quotas on leather and leather footwear.

E) Labelling

confusing linen labels.

II) ServicesA) Restrictions for the access to the profession of lawyers

- \* counting of experience for qualifying as a foreign lawyer.
- \* use of home firm name.
- \* arbitration.

B) Financial services

inter alia

- \* openness and transparency of the financial markets.
- \* conditions of the insurance market.
- \* regulation affecting the management of pension funds by investment managers.
- \* procedure for the award of investment trust management licences.

III) Foodstuff productsA) Tariffs

- \* level: high tariffs specially on cheese, processed pork, beef, sugar confectionary, bottled wine, brandy and whisky, corn starch and potato starch.
- \* calculation of duties: discriminatory calculation of custom value for coffee filters.

B) Phytosanitary measures

- \* import ban on EC fruits (citrus, apples and pears) and vegetables (Med fly).
- \* zero tolerance of insects on cut flowers and live plants.
- \* non-acceptance of on-board cold treatment procedures for fruit.
- \* pre-inspection of cut flowers shipments.
- \* gassing treatment requirement for tomatoes, apples and pears.

C) Veterinary measures

prohibition of imports of chilled or frozen pork from EC except IRL, Northern Ireland, DK.

- D) Sanitary measures
  - \* radioactivity checks on imported EC foodstuffs.
  - \* ban on dairy products additives (nisin).
  - \* zero tolerance on residues in livestock products.
  - \* processed meat: approval of processors and veterinary certification system.
  - \* additive rules for pastry.
  - \* prior registration: tomato juice and sauces, fruit juices.
- E) Prohibitive standards for processed meats
  - \* import ban on Parma ham.
  - \* coliforms.
  - \* zero tolerance on bacterial activity for dried ham and sausages.
  - \* out-dated heat treatment rules for meat.
- F) Trade-related measures
  - \* QR's on certain fish products and allocation of the quotas.
  - \* QR's on milk and cream and on starch and inulin.
  - \* import tenders for skim milk powder and butter
  - \* fraudulent imports of pork from Taiwan.
  - \* low quotas for cheese.
  - \* processed meat, fruit juices: monopoly of distribution; import licences subject to local lobby.
- G) Administrative guidance
  - restrictive prenotation administrative guidance for butter mix.
- H) Taxation
  - \* liquor tax differentials.
  - \* unfair taxation of imitation whiskies.
  - \* commodity tax on fruit juices.
- I) Labelling
  - "date of manufacturing" or "date of importation" markings.
- J) Definition/classification
  - \* restrictive definition of fondue cheese.
  - \* tariff classification of ice cream powder.
  - \* minimum protein content of skimmed milk powder.

#### IV) Rules of general application

- A) Distribution
  - \* restrictive provisions of the Large Scale Retail Stores law.
  - \* absence of liquor licences for most supermarkets.
  - \* captive retail outlets.
  - \* restriction of opening of dealership/repair shops for automobiles.
- B) Competition
  - \* effective enforcement of competition law to create sufficient deterrent effect.
  - \* elimination of areas exempt from scope of Anti-Monopoly Act.
  - \* conditions for foreign sole import agent contracts.
- C) Intellectual property
  - too mild custom procedures and penalties against counterfeiting (f.i. in the field of liquor).
- D) Government procurement
  - \* closed specification process.
  - \* lodging of complaints.
  - \* pre-bid qualification process and registration procedures.
  - \* duration of the bidding period.
  - \* non-transparent criteria to evaluating bids.
- E) Administrative obstacles
  - conditions for custom clearance.

DRAFT COUNCIL CONCLUSIONS

1. The Council confirms the need for a balanced approach in relations with Japan based, on the one hand, on policies to further the penetration of Japanese markets by Community firms and, on the other, on the strengthening of dialogue and the development of cooperation in areas of mutual interest. It believes that the EC- Japan Declaration issued in July 1991 provides an appropriate framework for consultation and cooperation and that both sides must make every effort to give substance to the goals it sets.
2. The Council welcomes the steps that the Japanese government has taken in recent years to improve access to certain sectoral markets. It is concerned, however, by the recent deterioration in the Community's trade position with Japan, by the return to growth led by export rather than domestic demand, by the lack of progress in opening specific sectoral markets, by the slow pace of structural reform, and by the growing tendency of the United States and Japan to seek solutions to bilateral trade problems through arrangements that appear discriminatory. It believes that the Member States and the Community together must follow a consistent and global approach towards economic and commercial issues, attaching particular importance to the removal of structural obstacles.

ECONOMIC POLICY

3. The Council calls on the Japanese authorities to resolve the above issues, and in particular:

Macro-economic questions

- to follow policies that allow a return to growth led by domestic demand, and furthered by structural reform, and a reduction in external imbalances; the Community and the Member States should pursue this approach also in the relevant international fora;
- to follow a policy which in the long run will permit the yen to appreciate relative to the European currencies;

Sectoral issues

- to remove barriers to trade in sectoral markets important to the Community, accepting the resumption of direct negotiations if the results of the Uruguay Round prove inadequate or a conclusion is unreasonably delayed;

### Structural obstacles

- further to strengthen competition policy and, in particular, to enforce competition law so that it has sufficient deterrent effect, to eliminate the exemption of certain sectors from the anti-monopoly act and to study competition issues of concern to the Community;
- to remove specific obstacles to the free distribution of Community goods and services.

### Industrial cooperation

4. The Council underlines the importance of industrial cooperation in the EC-Japan relationship. The Community should:
  - cooperate with the Japanese government in seeking ways of facilitating industry's participation in mutually beneficial cooperation;
  - further examine possibilities of facilitating the adaptation by European parts suppliers to the requirements both of the Japanese market and of Japanese companies in Europe;
  - maintain and extend its Executive Training Programme (ETP) in order to broaden and deepen industry's understanding of Japanese and of Japan's industrial economy;
  - together with the Japanese government, strengthen the EC-Japan Centre for Industrial Cooperation;
  - advocate the establishment by the Japanese government of new, coordinated business facilities for Community industrial newcomers to the Japanese market, especially small and medium sized enterprises.

### Investment

5. The Council welcomes Japanese direct investment in the Community, provided it is sufficiently integrated into the Community's economic fabric so as to make a full contribution to industrial development and renewal throughout the Community. To this end, the Community and the Member States should follow a common line towards the issue, namely that Japanese investment should result in the creation of new jobs, be fully integrated into the Community's economic fabric through the use of European suppliers and lead to the transfer of research and development and ultimately of management functions to Europe.
6. The Council calls on the Japanese authorities to improve the climate for foreign investment in Japan, particularly by encouraging interest in careers in foreign companies among Japanese managers and students; by clarifying and advising on tax liabilities and other regulatory requirements; and by liberalising the market for support services, such as financial and legal services.

### Export promotion

7. The Council supports the Commission's intention to build synergies between the Community's Export Promotion Programme and those of the member states and to develop complementarity between Community export promotion programmes and Japanese import promotion schemes.

### Public procurement and bilateral arrangements

8. The Council calls on the Japanese authorities:
- to open public procurement further and to avoid discrimination in the awarding of contracts, with greater transparency in tendering and in the criteria for selection;
  - to ensure that, in the context of bilateral arrangements and otherwise, contracts are awarded for purely commercial reasons and there is full transparency on the working of these arrangements;
  - in information technology and telecommunications, to strengthen cooperation in strategic sectors and to ensure that Japan strictly applies international standards and that Japanese standards are transparent, a condition for making markets more accessible to Community suppliers of equipment and services.

### POLITICAL DIALOGUE

9. In the framework of a comprehensive political dialogue between the Community and Japan, based on the Joint Declaration of July 1991 and on a regular political assessment, the Council should make a continuous effort to strengthen relations between the Community and Japan in all fields and to define possible common actions, taking full advantage of the common interests which link the Community and Japan in many areas. At the same time, the Community and its Member States should make every effort to coordinate their positions and to improve cooperation in order to develop a common stance.

### COOPERATION

10. The Council fully supports the intention of the Commission to develop cooperation in the following fields and with the following aims in view:
- in science and technology, to strengthen cooperation in strategic sectors, to define areas where collaboration is in the Community's interest, to ensure that benefits flow in both directions to an adequate extent and to explore a Japanese proposal for a forum in which to consider further cooperation in this field;
  - as regards the environment, further to coordinate positions on global issues and to participate jointly in specific programmes and in projects on the ground;

- in development assistance, to better share the financial burden, to strengthen coordination so as to make effective the policy reforms adopted by many developing countries, and to develop further collaboration leading rapidly to more operational cooperation, possibly including co-financing;
- in social affairs, to facilitate exchanges of information and the development of a broad dialogue;
- in energy, to discuss cooperation, particularly in areas such as clean technology which have potential industrial benefit for the Community;
- to discuss ways of promoting cultural exchange and mutual understanding.

#### METHODS

11. To ensure that the Community's policy towards Japan gives concrete results, the Council approves the methods proposed by the Commission, namely:
  - as regards the cooperative dialogue, to use the occasions foreseen in the EC-Japan Joint Declaration to review progress and identify new fields;
  - as far as the economic relationship is concerned, the Commission will regularly carry out a statistical analysis of developments in the trade of goods and services, in comparison with the Community's performance on the markets of its other comparable trading partners, and the performance of Japan's partners on the Japanese market. After the results of this analysis have been submitted to member States for their comments, the Commission will proceed regularly to a systematic evaluation with the Japanese authorities, using the Community's performance with other advanced trading partners as a reference. Resulting recommendations will be presented to the Annual High Level Consultations. A general review will be undertaken by the Annual Ministerial Meetings. The Member States will be associated with this process through appropriate procedures. The purpose of the process will not be to set quantified objectives for trade, but to identify problems, to establish their causes, and to propose action for their timely resolution.

#### A CONSISTENT AND GLOBAL APPROACH

12. The Council recognises that the success of these policies will depend on the adoption of a consistent and global approach. It calls on the Member States and the Commission to achieve this together, on the basis of what precedes.

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