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EUROPE AND JAPAN : THE NEXT STEPS

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# Communication of the Commission to the Council

## Europe and Japan : The Next Steps

### 1. INTRODUCTION

Japan is changing. A new generation is coming to the fore, questioning the country's role in the world following the end of the Cold War. Cultural changes are at work as technology and travel increase the impact of external factors in Japan. The party political system is being transformed, there is a perceptible shift towards consumer influence and a desire to change the bureaucratic system so that it becomes more responsive to the democratic will. There is a new interest in deregulation in response to the need to enhance competitiveness so that Japanese business can live with the high value of the yen.

The Union too is changing. The entry into force of the Maastricht Treaty provides for the development of a common foreign and security policy. The Union has completed the Internal Market and has just been enlarged by the accession of three new Member States. It is preparing for EMU and for future enlargement to the countries of central and eastern Europe.

We have much in common. The EU and Japan are industrialised democracies facing the challenges of world economic interdependence. We share a key interest in a stable, multilateral economic system and in the maintenance of global security. Both are developing new approaches to foreign and security policy in which the links with the US will remain strong but not omni-present. Each is striving for constructive relationships with Russia and China and with different parts of Asia. Both are faced by the challenge of remaining competitive in international markets with many new competitors. Finally, in different ways, each partner is struggling to develop a political role commensurate with its economic weight.

Internal and international changes combine to provide an opportunity for the EU to further develop its relations with Japan. These are based on the 1991 Declaration and on conclusions adopted by the Council in June 1992. Policy towards Japan is also formulated in the context of the Union's Asia strategy as set out in 1994. It combines strengthening of dialogue and cooperation with sustained pressure for market opening, which is already producing results. Besides reviewing the economic and trading relationship and making proposals for increasing the effectiveness of EU policy, including in the fields of cooperation, this Communication suggests ways for the Union to develop its political relations with Japan. In doing so, the Union can actively support and participate in Japan's greater political involvement in global foreign and security policy.

## 2. THE CHANGING CONTEXT

The political upheavals over the last two years in Japan are a reflection of increased voter dissatisfaction with the existing system, of the changing perspectives of consumers, and of a general questioning about the country's place and role in the world after the ending of the Cold War. As a result, the party system is being transformed, in the general expectation that new forms of government will be more susceptible to normal electoral pressure. There is a greater readiness to take on international commitments, a stronger feeling of independence, and a determination to see value for money. These changes are taking place against a background of rapid change in Asia which has wide-ranging implications for Japan.

Japan is seeking a greater role on the world stage, commensurate with its standing as a major economic power. There is in Japan a new interest in the possibility of playing a larger role in Asia. Japan participates actively in regional confidence building measures such as the ASEAN Regional Forum, of which the Union is also a member. Japan has now clearly and publicly announced its desire to become a permanent member of the UN Security Council. This, together with resentment of the tactics employed by the United States in pursuit of its bilateral economic objectives is leading to a certain reappraisal of relations with the United States.

On the economic side, the bursting of the economic bubble and the recession, which has only recently come to an end, have led to a new outlook on the part of both consumer and industry. Value for money, rather than the conspicuous consumption of luxury goods, has become the watchword. Price comparisons, particularly with price levels in other countries, are increasingly made and publicised. There is increasing consumer interest in the availability of cheaper products from abroad.

Although Japanese industry, particularly in its most competitive sectors, is undertaking strenuous efforts, through technological innovations and job-shedding, to maintain competitiveness at a Yen rate to the Dollar of 100 or even below, there is no doubt that the impact of the high Yen has been to force industry to review areas in which the totality of production takes place in Japan. One response is to invest in offshore production facilities. Japanese industry increasingly accepts the globalisation of the world economy, and is now investing heavily in the high-growth, lower cost Asian region. In addition, Japanese industry is now becoming more open to the possibility of diversifying its supplies of components to include more imports. This changed attitude has been one of the factors favouring the expansion of industrial cooperation activities between the EU and Japan over the last twelve months.

The above trends have led to a widespread conviction among both consumers and industry that the dense network of regulation which exists in Japan maintains both consumer prices and industrial costs far higher than is necessary. This has led industry and the industry-friendly parts of the Administration to give strong support to the Government's deregulation exercise, and the public is being made aware that successful deregulation is a means to provide lower consumer prices. This broad support is the best indication that the 5-year deregulation programme to be published by the Government by the end of March 1995, can be successfully implemented, despite the entrenched opposition of parts of the Administration and of certain vested interests. This will, however, require a continued firm commitment on the part of the Japanese government.

### 3. ASSESSMENT OF CURRENT RELATIONS

To date the focus of EU-Japan relations has been largely economic. In particular relations have been dominated by the EU view that unnecessary and unacceptable obstacles hamper access to the Japanese market. At the same time the Japanese current account surplus is perceived as excessively high. This has led to strains in the relationship.

There is an undeniable imbalance in the current economic relationship. Since the completion of the Internal Market, Japanese exports face almost no structural barriers in the world's largest unfragmented market, which is subject to powerful rules enforcing competition, Japanese inward investment is welcomed and sometimes even subsidised and Japanese companies established in the EU benefit fully from national treatment. In contrast, as has been well documented, EU and other non Japanese companies face a range of administrative and structural barriers when exporting to Japan and also meet obstacles if they attempt to invest directly in Japan.

In recent years the EU has overhauled its approach to these problems, taking into account Member State and other experience. It has also made a close study of the US approach and its results in order to see whether elements of it could be incorporated into the EU approach. Major changes have been made to the way in which the EU identifies and tackles obstacles to competing with, and in Japan. This relatively new and more focused approach, which is described in the economic relations section of this Communication, is now producing tangible results.

### 4. COMPARING THE EFFECTIVENESS OF US AND EU POLICIES TOWARDS JAPAN

The US has had since the end of World War II, a developed political and security relationship with Japan. It has provided Japan's security guarantees and it can be argued that Japan has done much to accommodate US economic demands in order not to damage their overall relationship, including the security alliance. In recent years the US administration has conducted a publicly aggressive policy of seeking specific import targets which it views as commitments and which it threatens to enforce under its unilateral 301/super 301 provisions unless they are met.

The view is sometimes expressed that the EU would get further in its efforts to increase its exports to Japan if it was more vigorous and modelled its approach on that of the US. The validity of this view needs to be challenged, quite apart from the fact that the EU does not have the same all-embracing relationship with Japan and that it is opposed to unilateral trade sanctions which it regards as a destabilising factor in world trade.

There is growing recognition internationally (including in the US) that, while the aggressive target setting approach may have produced results in the case of certain individual products in the past, it is unlikely to do so in the future. This is largely because of the changes which are taking place in Japan. Japan is becoming more resistant to entering into agreements with the US which are now seen to be discriminatory, contrary to the functioning of the market economy and to promote the type of government interference in the market which the forces for change in Japan are aiming to reduce. Such US demands are increasingly being seen as perpetuating an unequal, one way relationship. Finally such unilateral action is increasingly being rejected in favour of more impartial market opening processes such as GATT/WTO. Therefore despite some success in the past this approach is unlikely to be productive in the future and there are signs that the US Administration is now reviewing it with a view to change.

The Commission has monitored all US-Japan agreements closely. It has pressed for, and obtained, a system of parallel monitoring to ensure that all market opening measures under the US/Japan Framework agreement are taken on an MFN basis and are open to EU as well as US companies. There is a unity of purpose between the EU and US in seeking further market opening in Japan and there is scope for co-operation in some areas. However disagreement over how to achieve results has in the past led to each of the parties pursuing its own approach.

The EU strategy of persistent, consistent and global pressure for change is one factor which has produced results in certain areas. Through identification of obstacles and constant reiteration of complaints regarding contentious issues and the setting up of parallel, constructive dialogue, results have been obtained in several important areas such as the general rules on public procurement, the acceptance of European certification e.g. for textiles inflammability, standards for electrical appliances (see Annex II for details). Negotiations have been launched on mutual recognition agreements (MRAs) and agreement has been reached on improvements with respect to distribution and food labelling. Moreover the Japanese have accepted the aim of reducing the current account surplus substantially as a proportion of GDP. This Communication argues in favour of reinforcing the economic approach on economic relations which has already shown it can produce results.

However the effectiveness of the Union's action would be greatly enhanced if Member State contacts, whether at working or Ministerial level, could be effectively coordinated with those of the Commission. It does not assist the credibility of EU action in Tokyo when the Community and its Member States make parallel demarches on subjects linked to market penetration, such as the Japanese deregulation programme. A better approach is to harness both Commission and Member State resources with the aim of pursuing a clearly-defined set of goals through coordinated action. The fact that Member State companies are in competition with each other for contracts and orders in Japan should not detract from the value of a co-ordinated upstream approach. A fragmented, national approach allows Japan to play one Member State off against another and seriously weakens the image of the Union, thus reducing its ability to deliver the results sought by all. Member States should continue their national efforts but these should be developed in coherence with the wider EU framework and all Ministerial and administrative approaches should have an EU as well as a national component. The Member State embassies in Tokyo have accumulated considerable expertise in trade matters. Together with the Member States the Commission will seek ways of exploiting this knowledge pool for the collective benefit.

## 5. POLITICAL RELATIONS

The 1991 Declaration sets out the principle of integrated dialogue with Japan. It commits the parties to "firmly endeavour to inform and consult each other on major economic issues, which are of common interest to both parties, be they political, economic, scientific, cultural or other". However, the political dimension of the relationship has to date been under-developed. This reduces the ability of both partners to achieve their aims. In practice it is not an option to concentrate on one area and neglect others. The EU will not improve its own image in Japan until it is seen to have political weight to match its position as an economic and technological power.

It is clear from their common interest in a stable and multilateral world order that a strengthened Japanese world role could be in the interest of the EU since on many occasions they could support each other in international fora. Even where policy conclusions differ, dialogue will help to increase understanding and perhaps narrow differences.

Although meetings at the level of Foreign Ministers and Political Directors have taken place on a regular basis, bilateral summits have been held under inappropriate conditions or not at all, and there have been long delays in organising Ministerial meetings with the Commission. On substance, the dialogue has hardly proceeded beyond the level of exchanges of views and information and there have been few examples of concrete cooperation.

Japan is now showing greater willingness to assume international political responsibilities commensurate with its economic power. For example, Japan has responded to UN requests by sending military and civilian personnel to Cambodia and Mozambique. It has sent a contingent to Rwanda and has been active on regional issues of global concern such as North Korea's nuclear status. Japan has observer status in the OSCE and participates in the G24. Japan has become the largest international donor of humanitarian aid after the EU and its Member States.

In an expanded political relationship the Union can encourage Japan to continue and expand its increasing role in international affairs. There are many areas where the Union and Japan could co-operate more fully: disarmament and non-proliferation, conflict prevention and resolution, development and humanitarian assistance, aid to the countries of central and eastern Europe as well as the NIS. So far the Union and Japan have taken one political initiative together in the UN to establish a register of Conventional Arms, with the aim of improving transparency of arms transfers.

### 5.1 Proposals

The considerable potential of the structures provided under the 1991 Declaration should now be fully exploited. This will require political will on both sides as well as reinforcement of current procedural arrangements.

- 1) The European Union should commit itself to conducting with Japan a political dialogue taking full advantage of Japan's greater readiness to take on international commitments. To this end it should engage in discussions with Japan to
  - (a) identify concrete areas for cooperation in the political field.
  - (b) exchange regular and privileged information regarding the Union's and Japan's political discussions.
  - (c) institute regular working-level contacts between officials to prepare meetings at Political Director and Ministerial level;
  - (d) clarify the principle of annual EU-Japan summits being held alternately in Japan and in Europe (thus removing an ambiguity which has recently made it difficult to agree summit dates and venues), and agree that the dates for each summit will be agreed at the previous summit.
- 2) In the context of an agreement on the future restructuring of the UN system including an enlargement of the Security Council, the Commission considers that the Japanese bid for a permanent seat on the Security Council should be supported by the EU.

## 6. THE ECONOMIC RELATIONSHIP

### 6.1. Trade and Investment Flows

Japan is the world's third largest economy after those of the EU and the US and is thus potentially the Union's second largest market.

However, by preventing imports reaching an appropriate level, market access obstacles in Japan artificially increase the discrepancy between national saving and investment. This leads to the persistence over time of a high Japanese current account surplus. In the years 1984-1994 the surplus reached peaks of 4.2% of GDP in 1986, then 3.2% in 1992; it is estimated to have since fallen to 2.7% in 1994 (see statistics in Annex I) and is likely to come down to around 2.5% in 1995.

This in turn has contributed to the considerable appreciation of the Yen in the first half of the nineties which has reduced Japanese export competitiveness. The result is less trade, to the detriment of Japan and its trading partners. European Union policies should aim to deal with the problem of the surplus through increased trade generated by the removal of market access obstacles.

The EU current account deficit with Japan reflects Japan's overall position vis-à-vis the rest of the world, and remains unacceptably high. Nevertheless certain positive elements exist, or have developed recently, which suggest that a more positive trend may be emerging:

- the EU surplus on trade in services (including investment income) is steadily rising. The latest available figures, published by EUROSTAT, for 1992, show a surplus of 10.5 billion ECU;



- the EU deficit on trade in goods decreased by 15.6% in 1993, and is estimated to have decreased by a further 18% in 1994 to a value of 18.5 billion Ecu. While this decline was due in 1993 largely to a fall in Japanese exports as a result of recession in Europe, the improvement in 1994 has been driven by a 15% increase in EU exports. It is of particular interest that this increase has been achieved across a broad range of export products and not concentrated on traditional luxury items. The figures confirm the growing interest of Japanese business in buying intermediate and capital goods from Europe (and, incidentally, confirm the correctness of emphasising these sectors in the Gateway to Japan export promotion programme).

Finally, latest figures show no change in the very large imbalance between EU investment in Japan and Japanese investment in Europe (see Annex I), even if Japanese investment in Europe has recently levelled off.

## 6.2. Sectoral Market Access Questions

Steady if unspectacular progress has been made in eliminating specific obstacles to market access in Japan (see Annex II). This progress has resulted from the combined pressure of the EU, the US and other third country partners, and forces in favour of change, particularly deregulation, in Japan.

Depending on the nature of the problem, different forms of action are available to the Community:

- WTO dispute settlement. Up till now very few issues have been deemed likely to give rise to a successful panel, a notable exception being liquor tax discrimination. Nonetheless the Commission will continue to pursue violations of WTO rules wherever they arise, e.g. consideration is currently being given to the possible discriminatory impact of the US/Japan agreement on mobile telephones (Motorola);
- multilateral negotiation within the WTO. This route has proved only moderately successful, but the implementation of Uruguay Round results can be expected to clarify certain rules (e.g. on quota licences) and remove obstacles particularly in the areas of government procurement, standards (e.g. sanitary and phytosanitary), and in some areas of services;
- the regulatory dialogue (see below);
- bilateral pressure. The EU supports the disciplines of the multilateral trade regime and does not therefore attempt to apply pressure on Japan through threatening illegal trade sanctions. It seeks to explain convincingly why market access measures are also in Japan's own direct economic interests. Increased imports can benefit the consumer and lower the costs of intermediate manufactured products and services to industrial buyers. It also emphasises that allowing bilateral problems to fester will inevitably have an effect on other elements of the relationship.

The Commission has now developed, with the full cooperation of the Member States and their representatives in Tokyo, as well as the European Business Community and industry federations, a comprehensive working document designed to serve as a mechanism to identify and keep track of all obstacles impeding EU exports. This provides, in each case, a description of the problem and identifies the action to be requested of the Japanese government.

### 6.3 Structural Market Access Questions

Access to the Japanese market is hampered not just by sectoral obstacles which are relatively straightforward to identify, but also by more deep-seated structural obstacles, e.g. the Keiretsu phenomenon.

These are related to specific characteristics of the Japanese economy and society. In some cases the appropriate European response can only be to understand these differences and attempt to take account of them in doing business with Japan. In other cases, where the practices concerned are inimical to the operation of an open, international economy, the EU must insist that these practices be changed.

One example is the field of competition policy. This is an area in which Japanese attitudes are changing and where dialogue between policy experts from the Commission, which has many years of experience of an active policy for promoting competition, and their Japanese counterparts in the Japan Fair Trade Commission (JFTC) can help to catalyse change in the right direction. One particular area of emphasis is anti-competitive practices in the distribution sector which make market penetration by imports difficult. In conformity with the Council's 1992 conclusions, the Commission has now established a genuine dialogue with the JFTC (see Annex III) whose position within the Japanese system has also been strengthened. This can provide a good base for pushing for more open competition on the Japanese market.

European companies have traditionally identified the activities of the keiretsu, closely-knit horizontal and vertical groupings of Japanese companies, as an obstacle to open competition in Japan, but the EU has never defined a clear objective in addressing this issue. It is certainly true that Japanese business is dominated to a very considerable extent by groupings of companies bound together by long-term business relationships, often but by no means always underpinned by cross-shareholding. These groupings are effective in allowing new business to be developed in innovative fashion among their members. They are, however, anti-competitive to the extent that they dominate particular markets and exclude newcomers, whether Japanese or foreign. The changing economic circumstances in Japan are also bringing about a change in the keiretsu, especially in the vertical supplier relationship. European industry should be on the look-out for new business opportunities, especially through industrial cooperation. The Commission will continue to aim at the increase of competition and the elimination of collusive practices in Japan. If these efforts do not achieve rapid enough progress, the Commission will explore ways of facilitating the integration of European companies into existing networks including the Keiretsu.

#### 6.4. The Trade Assessment Mechanism (TAM)

The TAM has now been set up as a regular forum for analysis with Japan of trade issues, in conformity with the Council conclusions of June 1992. It has proved useful in analysing trade issues in terms of their relative economic importance to the Union, putting the discussion of these issues on an objective basis and preparing the ground for political decisions taken in other fora e.g. the extension of the EU/Japan industrial cooperation programme in 1994, the launching of MRA negotiations in November 1994, the coordination of EXPROM/IMPROM programmes, and the abolition of certain specific market access obstacles (see Annex II).

#### 6.5. The regulatory dialogue

The Japanese government now appears to be serious in wanting to make substantial progress on deregulation, in spite of the opposition it will certainly meet from interested parties. Industry is pressing for significant movement, and a campaign has been launched to make consumers aware that successful deregulation means lower prices for them.

The Community succeeded in 1994 in inaugurating a continuing dialogue with Japan on deregulation questions. This should allow EU expertise on regulation, acquired particularly through the Single Market exercise, to feed into the Japanese programme. The Commission has already transmitted to the Japanese government a request list to assist in the preparation of the 5-year programme to be announced at the end of March 1995. It will monitor closely the 5 year programme and the annual reviews of it over the period 1995-2000. It will insist that these contain clear and unequivocal commitments, timetables for implementation and early and rapid implementation of important measures (front loading).

It will be important for the Community to make full use of this new opportunity for dialogue throughout the duration of the deregulation programme, which it is the intention of the Japanese government to subject to a process of continuing adaptation.

It will also be appropriate to build on the climate of mutual confidence which has been established to develop a programme of regulatory cooperation under the existing dialogue structures (Ministerial, High Level Consultations) to ensure that future proposals for regulation by the two sides avoid the creation of new obstacles to trade.

#### 6.6. Investment

The fact that there is far more Japanese investment in the EU than vice versa is in part explained by the existence of obstacles to foreign investment in Japan. The resistance of the Japanese system to inward investment, especially through mergers and acquisitions, prevents EU companies from having access to the Japanese market. It may also mean that EU companies do not enjoy the advantage of positioning on the Asia-Pacific markets conferred by a solid presence in Japan.

This issue can be tackled both bilaterally and multilaterally. The Union will continue to be open towards and to encourage inward investment which it will seek to integrate fully into the local economy. It will look to Japan to work together to secure similar openness and integration for EU investment in Japan. As part of its submission on deregulation the Commission has requested progress in the areas of competition law (e.g. relaxation, increased transparency and streamlining of the regulations and laws concerning mergers and acquisitions), accountancy (adaptation of Japanese accounting standards to international standards, improvements in the regulations concerning the status of shareholders with companies). These areas will be monitored as part of the wider deregulation follow-up exercise.

Foreign direct investment is an integral part of the world wide trend towards the creation of a truly global system of markets and production. The Commission believes that a world wide legal framework for such investment now needs to be established. The introduction of transparent, coherent and liberal multilateral rules will also enable progress to be made with regard to obstacles to inward investment in Japan.

### 6.7. Trade in Services

Statistics on the EU's balance of payments with Japan show that its deficit on trade in manufactured goods has traditionally been partly compensated by a surplus on services (including investment income) (see Annex I).

The area of services is one in which the EU is not only the leader worldwide but also remains highly competitive vis-à-vis Japan. Nevertheless, very little attention is given to services in public discussion of EU/Japan relations. This does not reflect a lack of attention to market access issues in the Community's dealings with the Japanese government, in which financial and legal services have been among the most prominent sectors in the recent past. Rather it reflects the poor state of bilateral EU/Japan statistics in the field. Not only are overall balance of payments statistics not available until well over a year after the event, but they are, for Japan, also not available broken down by individual sector, except for the two classical sectors (in terms of balance of payments accounts) of tourism and transport (although more detailed estimates are available from the EU side). In addition, Japanese figures for the same flows differ greatly from EU figures, particularly with respect to income from investments on which they suggest a Japanese surplus.

If the EU is to give this sector the attention it deserves in its relations with Japan, it will therefore have to begin by improving the availability of statistics. A specific EU/Japan exercise is likely to be long and difficult and will require close cooperation from Japan. The Commission will study how best an improvement can be brought about, with a view to proposing appropriate measures to the Council.

In the meantime, the Commission intends to consult widely within service sectors in Europe with a view to proposing a new Export Promotion Programme designed to help sectors which are competitive in other industrialised countries but do not perform so well in Japan to make the most of Japanese market opportunities. There is also agreement in principle to extend the TAM exercise to services, which will assist this approach.

## 6.8. Export Promotion

The EU is faced with three serious problems within Europe when promoting its exports to Japan.

First, insufficient European companies are aware of the importance of the Japanese market, both in terms of its size but also because of the advantages it brings to a company which successfully establishes a presence on it. Much current attention focuses on the future market opportunities to which current rates of growth in other Asian countries such as China may lead. The fact remains that Japan's GDP is currently some ten times that of China and the Japanese market represents perhaps the largest single homogeneous market for EU products (the US market being much more fractured and heterogeneous). In addition European firms which secure a foothold in Japan expose themselves to a climate of creativity and product innovation from which they can derive an increased competitive edge in other world markets. The development of relations with Japanese companies itself also provides an effective route into many Asian markets into which they are currently expanding. Too few European companies are aware of these opportunities, which need to be explained to them.

Second, the peculiarities of the Japanese market are such that a specific programme devoted to assisting exporters to become familiar with them and to learn how to operate successfully in a Japanese business environment forms an essential ingredient of commercial policy towards Japan.

Third, the level of entry costs into the Japanese market is high and thus the benefits to be gained through joint efforts by European companies are considerable. This leads to considerable economies of scale for many sectors if an EU-wide market penetration effort is undertaken.

For all these reasons, a significant EU budget has been devoted to the promotion of exports, particularly from small- and medium-sized companies, to Japan for many years. Much of it goes to the long-running and successful ETP programme. In more recent years the Commission has developed, in close cooperation with representatives of Member State export promotion authorities, cost-effective, focused procedures for introducing European companies to the Japanese market in its "Gateway to Japan" programme. The time has now come to confirm the correctness of this approach. The Commission intends to propose, in parallel with this Communication, a Council Regulation providing the programmes promoting exports to Japan with a firm, legal basis.

In 1995 the budget devoted to export promotion to the Japanese market has, for the first time since it was heavily cut in 1993, again reached the same nominal level as in 1992. Within this time period the Yen/ECU rate has gone from 162,01 in January 1992 to 125,62 in January 1995. The large share of EXPROM activity which takes place in Japan, including the working expenses of the ETP Programme, now costs correspondingly more in terms of ECU. In other words, at a time when the Union is attempting to reinforce its policy towards Japan, the real level of its export promotion activity is lower than for many years. The Commission will examine the possibility of requesting a substantial increase in ECU terms in the Japan-EXPROM budget for 1996, taking into account the overall constraints on the external chapter of the budget.

The effectiveness of the Commission's EXPROM activities, particularly its "Gateway to Japan" programme, has been further enhanced by the conclusion of an administrative arrangement with MITI, which has set up a structure to ensure that Japanese import promotion programmes effectively support and reinforce the EU's EXPROM activities.

### 6.9 Industrial Co-operation

The same aim, of improving European industry's knowledge of and ability to seize market opportunities in Japan is pursued by the Industrial Cooperation Programme, jointly run by the Commission and by MITI, which has been considerably expanded in 1995.

One of the first major examples of industrial co-operation between the EU and Japanese industries is the EU - Japan Centre for Industrial Co-operation in Tokyo, set up in 1987. Its objectives are to promote successful business relations between European and Japanese companies by making selected European senior executives fit to enter into industrial co-operation activities with Japanese corporations in and outside Japan. It also provides European businesses with detailed information on Japanese market conditions and with assistance and contacts in Japan. After the approval of an independent statute and its own financial regulation in 1994/95, the possibilities for additional activities of the Centre in the field of EU - Japan industrial co-operation are currently under study. Their successful implementation will depend on the political flexibility of both sides as well as on the availability of financial resources.

A range of industrial co-operation programmes in specific fields have been developed and supported by the Commission and MITI since 1992. These activities have covered automobile parts and components, consumer electronics and computers and business machines. The results of these programmes have been very positive and, under the general framework of the EU-Japan Industrial Policy and Co-operation Dialogue, the Commission and MITI have jointly agreed to expand these activities to other sectors.

Other activities, such as the Human Resources Training Programme and Fellowship programmes aimed at the training of European industrialists and scientists, contribute to reducing the cultural gap and help raise Europeans' knowledge of Japan towards the very high level of understanding that Japanese industrialists and scientists have of Europe.

### 6.10 Research and Development

Co-operation in R&D has proved to be a powerful catalyst for further industrial co-operation. Japan is making a determined effort to play an important role in international science and technology. Specific actions have been taken to promote this policy through funding collaboration and opening the domestic science base to foreigners. However significant barriers remain. Collaboration with the EU has been at a relatively low level.

Barriers to collaboration are often rooted in concerns about industrial competitiveness which also encompass intellectual property rights issues. Closely related are barriers arising from restrictions on R&D policies. Broader policy issues such as non-proliferation, trade friction and regulation also play a role. There can be mistrust of the other party's motives. Cultural and linguistic barriers have to be overcome.

The International Co-operation Programme ("Activity 2") of the Fourth Framework Programme supports scientific and technological fellowships given to young European researchers who study in Japan, in order to set the base for the development of science and technology co-operation. Furthermore, participation by Japanese partners in some of the specific programmes of the Fourth Framework Programme is now possible on a project by project basis.

The recent discussions in the context of the Global Information Society have demonstrated that both the EU and Japan see opportunities for advancing their relations through increased co-operation in R&D and more specifically in R&D for information and technological technologies.

#### 6.11 Involvement of Member States and European Business

It has become abundantly clear since the last Council debate on Japan, that the resources available to the EU and its Member States in dealing with Japan could be better coordinated and the implementation of the Union's policy towards Japan made more efficient and more effective.

With this in mind, the Commission needs to have close co-operation with representatives of Member States. The 113 Committee will retain as regards commercial policy questions the role conferred on it by the Treaty, and the Commission expresses the wish that adequate time may be found for regular discussion of questions related to Japan. In addition, the Commission values the opportunity for day-long, in depth discussion of Japan policy in its Japan Experts Group. In order to make this more productive, it intends to hold meetings of this group at more regular intervals (at least three times a year) and to finance on a regular basis the participation of two experts from capitals, in order to benefit from the Member States' full range of expertise and their experience of contacts with Japan, even when this is spread across more than one Ministry. Finally, the Commission attaches importance to benefiting from input from the Member States' Embassies in Tokyo, which should be kept closely in touch with the development of thinking in the Community Institutions.

The Commission also intends to remain in close contact with European business, both directly and through representative organisations. It will continue to welcome information from European business on any specific problems encountered regarding access for goods and services to the Japanese market.

#### 6.12 The Knowledge Imbalance

Many more Japanese businessmen have acquired knowledge and experience of Europe than vice versa. This knowledge imbalance favours Japanese companies selling in Europe relative to European companies selling in Japan. The Commission will therefore continue to encourage and promote, wherever possible in cooperation with the Japanese government, periods of stay by current or future European businessmen in Japan. The following programmes already exist:

the Commission's Executive Training Programme;

the Commission's Science and Technology Fellowship Programme;

the Japanese Government's Manufacturing Technology Fellowship Programme;  
JETRO's Export to Japan Study Programme;  
Japan/EU Industrial Cooperation Centre programmes.

These existing programmes could usefully be supplemented by initiatives to further promote the teaching of Japanese and an understanding of Japanese culture, law and business practices in the EU. Institutions offering such courses could be brought together in a network. The current level of exchange visits by Europeans to Japan should be brought up to the current levels of US-Japan interchange. In this way a start can be made on remedying the lack of mutual understanding between Japan and Europe, which was identified in the Asia strategy paper as a general problem in EU relations with Asia.

### 6.13 Macro-Economic Issues

The bilateral EU-Japan dialogue on macro-economic issues needs to become more intense and systematic; especially in the context of moves towards EMU. Specific issues such as the macro-economic effects on Japan and its partners of issues such as deregulation, the impact of an ageing population should be pursued and the dialogue extended to other areas.

Finally greater effort must be made in multilateral fora to co-operate with Japan to achieve common aims, such as burden sharing in macro-financial assistance, reducing the US budget deficit. This will require effective co-ordination of Member State positions in some of these fora.

### 6.14 Information Society

The realisation of the global information society is subject to significant government debates and projects both in Japan and in Europe. Through the established dialogue on communication related issues, first exchanges have taken place between Japanese and European actors (private and from the public sector) to compare positions on important related issues (such as deregulation, new regulatory aspects, market access problems, the development of global applications, standardisation and interoperability of global networks etc.). Both Japan and the EU have signalled interest in global pilot projects recommended by the G7 conference held in Brussels on 25-26 February.



## 6.15 Proposals

Although the general thrust of policy on economic relations should be maintained, its implementation needs to be reinforced. The Commission will continue to use all contacts with Japan in a systematic way to press for further market opening and removal of all obstacles to trade. EU/Japan cooperation must also be expanded and reinforced. There is a general need to render more visible to the Japanese public in general, but also to politicians and the administration, the specific nature and the intensity of the EU's relations with Japan. As indicated in the Communication on a new strategy for Asia, an information strategy for Japan is under preparation in the Commission.

The Commission also proposes to

- make full use, where appropriate, of the WTO;
- monitor closely the way in which access to procurement opportunities in Japan is guaranteed in accordance with the Japanese offer under the GATT Government Procurement Agreement;
- carry forward discussions under the TAM, with a view to increasing its contribution to the resolution of market access problems and to trade creation;
- develop the deregulatory dialogue into an effective instrument for the continued exchange of views with Japan on regulatory questions in general and the Japanese deregulation programme in particular;
- draw up an inventory of the most important measures which would improve the climate for foreign investment in Japan, working closely with the European Business Community in Tokyo, and seek to achieve these through existing dialogue mechanisms;
- use the existing dialogue on competition policy to push for more open competition on the Japanese market;
- encourage the development of relations between European industry and Japanese industry, including with the keiretsu;
- in order to develop the possibilities offered by the services sector, the Commission will examine the potential for increasing European exports of services to the Japanese market, for improving the data available on these exports, and on this basis propose a new Export Promotion Programme in this area;
- continue and consolidate existing export promotion programmes (ETP and Gateway to Japan) and within the overall constraints of the budget will examine the possibility of requesting a substantial increase in the budget available for them from 1996 onwards;
- maintain, reinforce and expand existing industrial cooperation programmes;
- use the Fourth Framework Programme to increase technological co-operation with Japanese companies and universities, for example in the area of anti-seismic research or technologies and training linked to the establishment of the global information society;

- propose to Member States and industry integrated campaigns with regard to specific items on the market access agenda, coordinated in advance so that the maximum effectiveness is obtained from Community solidarity;
- make the maximum possible use of the expertise available in the European Business Community in Tokyo;
- develop better links with business in Europe;
- coordinate Member State and Commission resources in Tokyo, in order to strengthen European cooperation with Japan and to monitor changes in Japan e.g. in the field of deregulation;
- promote the creation of a network of academic institutions in Europe which have established programmes allowing students to graduate with an economic or business qualification combined with a first-hand knowledge of Japan;
- invite Member States to establish an inventory of their activities designed to encourage intellectual and cultural exchange between Europeans and Japanese, and on this basis identify areas in which a European programme could be a useful complement to Member State activities;
- examine with the Japanese government how the current level of exchange visits by Europeans to Japan can be increased to levels nearer those of Japanese visiting Europe and Americans visiting Japan;
- examine whether a common programme could be developed to supplement and increase the effectiveness of Japanese language teaching throughout the Union;
- propose appropriate funding for the development of the above activities, within the limits of the available resources.

In addition, the Presidency and the Commission should propose to the Japanese authorities the organisation of a major conference in Tokyo on EU-Japan cooperation, bringing together the representatives of government, academics and the private sector, in which it is hoped that Member States will be strongly represented from their capitals. Such a conference would highlight existing Member State bilateral programmes and identify areas in which EU activities should be strengthened or launched.

## 7. CO-OPERATION IN OTHER FIELDS

Since the adoption of the 1991 Declaration a broad range of regular meetings has been instituted between the European Commission and the Japanese government, which provide a framework for policy dialogue and should now be built upon to develop concrete cooperation based on specific projects (see Annex III for a description of the existing framework for dialogue). Such projects should be identified, inter alia, in the following areas:

WTO activities;

development aid and humanitarian assistance projects;

environment, including environmental technology;

the adaptation of society to labour market, demographic and technological developments;

Research and Development;

business cooperation in the Asia-Pacific region;

information society;

education;

culture.

## 8. CONCLUSIONS

Developments in the EU and Japan call for a review of the relationship. This Communication argues in favour of increasing the weight of the EU-Japan political relationship both for its intrinsic merits and as a counterweight to US influence. Japan will seek an increasing role in international affairs - the EU can either welcome and support this process and thereby seek to exert some influence over it or it can be passive, watching it happen without any attempt to shape it. The Commission recommends the former option, believing that the Union has much to gain from supporting the emergence of a new Japan which will be a partner working towards its own goals of global peace and security and an open, multilateral trade environment. A stronger political relationship will also have its effect on the bilateral economic relationship. It will help to reduce current trade tensions and to identify ways in which co-operation can replace conflict.

In the light of the foregoing the Council is invited to:

- adopt the approach set out in this Communication;
- decide to deepen the political dialogue with Japan, as proposed in section 5;
- reinforce its approach on economic matters, as proposed in section 6.11, and in particular to carry forward the TAM, to develop the dialogue on deregulation, competition and industrial co-operation, to explore ways of improving the climate for EU investment in Japan and relations between EU and Japanese industry and to develop ways of reducing the knowledge imbalance;
- invite the Commission to pursue the approach outlined and where appropriate to bring forward new proposals, including those relating to the 1996 budget within the limits of the available resources.

## EU/JAPAN: MAIN ECONOMIC INDICATORS

### GROSS DOMESTIC PRODUCT

(Billion ECU)	1993	EU=100
Japan	3617.5	67.4
EU	5365.8	100.0
USA	5417.3	100.9

Source: European Commission Services

### GDP GROWTH

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994(*)	1995(**)	1996(**)
Japan	5,0	2,6	4,1	6,2	4,7	4,8	4,0	1,3	0,1	0,7	2,2	2,7
EU	2,4	2,8	2,9	4,2	3,5	3,0	1,5	1,1	-0,4	2,6	2,9	3,2
USA	5,0	2,6	3,1	3,9	2,7	0,8	-1,1	2,6	3,0	3,9	2,7	2,3

Source: European Commission Services

### EU EXPORTS IN 1993

(Billion ECU)	Value	% of total EU exports
EU exp to Japan	22,7	4,66%
EU exp to USA	85,1	17,48%

Source: Eurostat

### EU IMPORTS IN 1993

(Billion ECU)	Value	% of total EU Imports
EU imp from Japan	47,2	9,74%
EU imp from USA	83,7	17,27%

Source: Eurostat

### JAPANESE CURRENT ACCOUNT SURPLUS AS % OF JAPANESE GDP

1985	1986	1987	1988	1989	1990	1991	1992	1993	1994(*)	1995(**)	1996(**)
3.6%	4.2%	3.6%	2.7%	2.0%	1.2%	2.2%	3.2%	3.1%	2.7%	2.5%	2.5%

Source: European Commission Services

## EU/JAPAN: MAIN ECONOMIC INDICATORS

### JAPANESE TRADE WITH THE EU

(Billion ECU)	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Exports to the EU	26.23	31.17	32.66	39.66	43.47	42.04	47.75	48.12	48.22	48.31
annual % increase	3.10%	18.83%	3.21%	21.43%	9.61%	-3.29%	13.58%	0.77%	0.20%	0.18%
Imports from the EU	16.19	18.41	15.39	20.39	25.54	27.52	25.66	24.06	25.74	29.82
annual % increase	5.00%	13.71%	-16.40%	32.49%	25.26%	7.75%	-6.76%	-6.24%	6.98%	15.85%
Japan's Trade Balance	10.04	12.76	17.27	19.27	17.93	14.52	22.09	24.06	22.48	18.49
annual % increase	2.03%	27.09%	35.34%	11.58%	-22.28%	-19.02%	52.13%	8.92%	-6.57%	-17.75%

Source: Japan's Ministry of Finance : the figures shown are published in US \$ and have been converted using average annual

US\$/ECU exchange rates

### EU/JAPAN TRADE IN SERVICES (billion ECU)

Services	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
EU Exports	4.94	4.85	5.41	6.46	7.76	7.81	7.58	9.37	na	na
EU Imports	3.10	3.05	3.13	3.96	4.37	4.52	4.71	5.72	na	na
EU Balance	1.84	1.80	2.28	2.50	3.39	3.29	2.87	3.65	na	na

Investment income	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
EU Exports	9.40	9.99	11.34	16.34	24.47	25.14	29.01	22.45	na	na
EU Imports	6.08	6.97	8.23	11.10	16.26	16.80	19.72	15.57	na	na
EU Balance	3.32	3.02	3.11	5.24	8.21	8.34	9.29	6.88	na	na

Source: Eurostat

### YEN/ECU EXCHANGE RATE

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
180.56	165.00	166.60	151.46	151.94	183.68	166.49	164.21	130.15	121.32	

Source: Eurostat

Notes: (\*) EC Estimate

(\*\*) EC Forecast

## EU/JAPAN: MAIN ECONOMIC INDICATORS

### JAPANESE DIRECT INVESTMENT OVERSEAS

(million US \$)

	FY 1993	Cumulative total to 31/03/94
EU (11)	7.111	77.782
USA	14.725	177.098

Note: EU (11) includes: UK, Netherlands, Germany, Luxemburg, France  
Spain, Belgium, Italy, Ireland, Portugal, Greece

Source: Japan's Ministry of Finance

### FOREIGN DIRECT INVESTMENT IN JAPAN

(million US \$)

	FT 1993	Cumulative total to 31/03/94
EU (9)	539	5.635
USA	930	12.174

Note: EU (9) includes: UK, Netherlands, Germany, France, Ireland, Belgium,  
Denmark, Luxembourg, Italy

Source: Japan's Ministry of Finance

Market Access Problems in Japan

Progress made since January 1993

## Market Access Problems In Japan Progress made since January 1993

The consistent and global approach followed with regard to Japan (constant reiteration of contentious issues, parallel to setting up constructive and hands-on dialogue in several important areas), combined with the internal Japanese pressure for reform and better integration in the world economy have produced the following results since January 1993:

**Public procurement.** In the area of public procurement the Japanese government announced in January its Government Action Plan for procurement, which was due to be implemented from April 1st onwards. This plan guarantees clarification of procedures, provides for rules against bid-rigging and also guarantees a right of complaint before an independent review body in case a bidding company feels discriminated. However, its practical implementation, in particular at the local government level, is unclear.

The Administrative Procedure Law, which came into effect on October 1st, is designed to simplify and clarify administrative procedures and to provide for obligations such as the necessity to indicate time frames for processing applications, or to put down administrative guidance on paper. It is in line with the general line concerning the planned deregulation package, a main part of which is the streamlining and improvement of administration procedures. If the law is fully implemented it will respond to our long-standing complaint that administrative guidance by Ministries is non-transparent and obstructive. However, the law appears to have some loopholes.

A long-standing EU request has been the reinforcement of the competences and the action undertaken by the Fair Trade Commission. The personnel resources of the FTC have been raised by 8% since last year and by a total of 60% with respect to 1989 levels. Recent changes in policy of the FTC concern administrative guidance providing a stricter interpretation of the Anti-Monopoly Act, and stricter guidelines concerning Public Tendering Deadlines. The FTC has also completed two studies on anti-competitive practices at the request of the Commission.

In the area of foreign lawyers, long insistence by the EU on liberalisation of the existing legal situation has borne fruit; foreign legal consultants in Japan may now use their home firm name (be it with a Japanese addition saying "foreign legal consultant"), and the requirements for prior experience have been reduced. Other measures, such as the possibility of collaborating with Japanese lawyers in a joint enterprise, have also been included in the new law, adopted by the Diet in May.

In financial services, a whole range of reforms is proposed as part of the deregulation package adopted on July 5. This would include, among other things, the introduction of a brokerage system in the insurance field, plans to change over from a licensing system for insurance products to a file-and-use system, and a whole range of other liberalisations, procedural improvement and reforms of existing regulations. Unfortunately, the planned measures cannot be considered an adequate response to European requests, and the deregulation request list transmitted to the Japanese on the 28th of October reiterates the EU's continued concerns.



The recent problem concerning the importation of Mineral Waters was solved by the Japanese side amending its regulations as proposed at the High-Level Consultations in July this year.

The Japanese authorities have finally accepted on-board cold treatment for lemons exported from Spain in containers with four sensors (they had previously insisted on six sensors). Whilst this solves one problem in the phytosanitary field for one Member State, there is still much progress to be made in the area of market access for agricultural products and foodstuffs from the EU as a whole.

Although the elimination of the liquor tax differential remains one of the EU's key requests, it is also true that the Japanese authorities have made progress in reducing this differential in two budgets, fiscal 1989 and fiscal 1994.

Large scale retail stores law: the Japanese authorities have acceded to one of the EU requests, i.e. to abolish the moratorium on liquor sales for such stores of over 10.000 m<sup>2</sup>. This remains an important concession, although a similar liberalisation should be introduced for smaller stores.

Requirement for consultation with neighbouring shopkeepers was abolished. Since the last Ministerial, January 1993, the regulations on closing hours and compulsory closing dates have been relaxed for large scale retail stores (law adopted on May 1st, 1994). The number of regulations that limit the operation of large-scale retail stores, however, is still large, and further progress need to be made.

From April 1995 a date indicating the freshness limit ("use by" or "best before") will be introduced instead of the use of a "date of manufacture". This new system, in line with the Codex Alimentarius, is welcomed by the Commission.

However the following request remains on the table: MAFF should (i) issue an administrative instruction which would state that it is not necessary to use the date of manufacture in addition to the "use by" or "best before" date, and (ii) refrain from making any public announcement saying that the Japanese government could not prohibit the indication of the "date of manufacture".

The Commission has welcomed MITI's initiative to put forward a constructive proposal to assuage the long-standing issue of "linen" and "ramie" textiles which are both labelled with the word "asa". Although the EU request of making it compulsory that labels clearly differentiate between "asa linen" and "asa ramie" is maintained, the Commission is willing to engage with industry, MITI and JETRO, in promotional activities, based on voluntary additional labelling, at least for an appropriate test duration.

The Commission has welcomed MITI's intention to change all 500 electrical appliances (with limited exceptions) from Category A (Government certification) to Category B (self-certification) over the coming five years. However, it maintains its request that any transition period, during which electrical appliances could be based on either long-standing Japanese JIS standards or new standards based on IEC, should be no longer strictly necessary.

## The Existing Framework of Commission /Japanese Cooperation

### 1. INDUSTRIAL POLICY AND COOPERATION

The strengthening of EU-Japan industrial co-operation constitutes a major EU policy. It started with a certain number of individual initiatives, later to pave the way for a more systematic approach. A joint pilot programme in the field of consumer electronics was initiated in 1991 and launched in 1993. In view of the success of this programme, similar projects are being launched in other areas such as car parts (the first JAMA-CLEPA seminar "Selling European Car Parts to Japanese Automobile Manufacturers" was held in Paris on the 6th and 7th of March 1995), computer and office equipment (Japanese European Information Technologies Subcontract Programme), and may be extended to other sectors.

The establishment of a regular EU-Japan Industrial Policy and Industrial Co-operation Dialogue at Ministerial Level was initiated during the Ministerial meeting in January 1993. Annual High-Level Meetings take place at Director-General level towards the middle of the year, and an annual mid-term review is conducted at Director level towards the end of the year. The aim of the Dialogue is to create a forum for reviewing individual co-operation schemes, building on their experience and multiplying such initiatives. The first Dialogue took place in Brussels on 26-27 May 1993 and was mostly devoted to the discussion of ways of stimulating industry-to-industry contacts on a bilateral level.

The second Dialogue took place on 14 June 1994. It agreed to extend industrial co-operation to auto parts and office equipment, to create a new Working Group on Information Policy and to establish a regular Industrialists Round Table, in which leading industrialists from both partners will participate. The first Industrialists Round Table has taken place on 9 February 1995. The industrialists decided to exchange information especially on normalisation issues and to launch working groups on various areas such as deregulation, privatisation, environment, standardisation, protection of intellectual property rights, creation of a global information infrastructure, venture business, strategies vis à vis Third World Countries and the Employment market.

The scope of the IPWG is to exchange information in relation to the development of a world-wide information infrastructure, promote policy convergence between EU and Japan and to develop joint projects and applications in information technologies. It discusses in particular the legal and institutional framework, interoperability, R&D, human resources, applications and evaluation of market potential.

In addition to the training courses offered by the EU-Japan Industrial Co-operation Centre, the Commission selects and financially supports young European engineers to participate in the Japanese "Manufacturing Technology Fellowship Programme" which enables them to work in Japanese plants for a period of 6 to 11 months.

The mandate for the "Intelligent Manufacturing System" Co-operation Programme, involving the EU, Japan, EFTA countries, the USA, Canada and Australia is currently under discussion in the Council. This programme involves European companies from automotive, aerospace, chemical, information technologies, machine tools sectors, and has a lot of potential.

## 2. CO-OPERATION IN THE AREA OF COMPETITION POLICY

The dialogue in the area of competition policy is conducted in the form of annual high-level consultations between the Japanese Fair Trade Commission and the European Commission, at Director-General level. These consultations are regularly flanked by a meeting between the Chairman of the Fair Trade Commission and the Commissioner responsible for Competition Policy (Mr. Van Miert). In addition, since 1993, regular seminars on competition policy are held alternately in Tokyo and Brussels.

On the basis of a European Commission request, the FTC has carried out two studies on specific areas (agrochemical distribution and synthetic rubber industry) in which possible violation of competition rules is detrimental to European exporters. The two sides are now assessing the results of these reports.

Two seminars on EU-Japan competition policies, with the participation of competition authorities, industrial and consumers' associations, Members of the European Parliament and academic circles, were held in Tokyo (November 1993) and in Brussels (September 1994).

Finally, in December 1994, the FTC has launched, at the request of the Commission, a study on the possible violation of competition rules in the sector of earth moving equipment.

## 3. SCIENCE & TECHNOLOGY CO-OPERATION

At the Ministerial meeting in January 1993, it was agreed to establish a Forum on Science and Technology where policy can be discussed and co-ordinated, and where ongoing bilateral projects can be reviewed. This idea was confirmed in the summer of 1993 through an official exchange of letters between Commissioners Sir Leon Brittan, Bangemann and Ruberti on the one hand, and Japan's Minister of Foreign Affairs Muto on the other hand.

The first meeting of the S&T Forum at Ministerial level took place in June 1994. In addition, the visit to Japan by Commissioner Ruberti at the occasion of the Forum has given new impulses to the dialogue between various Japanese institutions and the Commission. These meetings have laid the foundations for a possible academic exchange programme between Japan and the EU. They have also given the opportunity to review the on-going bilateral co-operation as well as the multilateral. The focus was on human resources questions including the Commission's Science and Technology Fellowship Programme in Japan which is linked with the Japanese Science and Technology Fellowship and since December 1994 with the Japanese Society for Promotion of Science.

#### 4. CO-OPERATION IN TELECOMMUNICATIONS AND RELATED SECTORS

A close working relationship has been established with the Ministry of Posts and Telecommunications (MPT) since the beginning of a Community telecommunications policy in 1986.

Annual exchanges on communications policy between MPT and the Commission take place at Director General Level. These Plenary Meetings are complemented by annual exchanges at the level of administration experts in the so-called Network Working Group (NWWG) to discuss in detail topics of mutual interest. The NWWG currently also launches practical collaborative activities such as testing interoperability of ISDN terminal equipment, an exercise to which Japanese and European companies are associated. A separate group (tri-lateral US/J/EU) discusses annually issues related to future land-mobile telecommunications system from the standardisation and the frequency usage perspective.

In order to foster dialogue between industry representatives, the Commission has taken the initiative to organise a Forum on Communications (Paris, June 1994) which gathered about 150 industrialists from Japan and Europe to discuss regulatory aspects, market access and technology trends. MPT will organise a second meeting of the kind in September 1995 in Kyoto.

The contacts at different levels have a multiple objective: information gathering on policy trends in Japan for the telecommunications, broadcasting and multimedia sector (also as a complement in the corresponding multi-lateral exercises such as GATS/NGTB, ITU, UPU etc.) follow-up of the deregulation process in Japan which is of particular importance in the telecommunications sector given the globalisation of the multimedia and communication industry; articulation of European positions for specific aspects of market access problems (including in the telecommunications services sector); co-operation in standardisation. The emergence of a global discussion on information society has dominated many of the recent exchanges. The G7 conference on global information society (Brussels, February 1995) will recommend about 12 pilot projects in which Japanese and European players have manifested interests.

#### 5. CO-OPERATION IN SOCIAL AFFAIRS

Co-operation within the area of social affairs was launched at the visit of Commissioner Papandreou to Japan in 1990. Activities started in 1991, with a tripartite (involving government, employers' associations and trade union representatives) conference on industrial relations in Brussels. During the meeting between Commissioner Papandreou and the Japanese Minister for Labour Okabe in October 1991, it was agreed to pursue co-operation by organising the following events on an annual basis:

- a tripartite conference/seminar discussing current topics. This seminar or conference is understood to be flanked by a high-level meeting;
- an annual exchange programme for industrial relations experts;
- a joint study programme.

In 1994 the EC/Japan symposium held in Tokyo was devoted to "Changing Employment/Environment - Flexibility of employment practices". At the High Level Meeting, Commissioner Flynn and the Japanese Minister for Labour Mr Hamamoto, emphasised the importance of the existing co-operation between the EU and Japan in the field of social affairs that contributes to better mutual understanding of each other's problems, systems and policies.

## 6. CO-OPERATION IN AID FOR DEVELOPMENT

The decision to start co-operation and bilateral dialogue in matters of ODA was taken during the visit of President Delors and Commissioner Andriessen to Japan in 1991. Since then, there have been four bilateral meetings at Director-General level, in October 1991, in July 1992, in October 1993, and in July 1994. The dialogue has been concentrating so far on policy issues, rather than concrete projects, although the aim is to arrive at concrete co-operation activities.

## 7. CO-OPERATION IN PROTECTION OF THE ENVIRONMENT

Dialogue between the EU and Japan in this area has been going on for over a decade. Dialogue and co-operation in environmental matters was initiated officially in 1977 by an exchange of letters, and high-level consultations (Director-General level) have been held regularly since 1990. It is an area which continues to gain importance for both sides. Recent topics of the dialogue include a broad range of issues, notably implementation of global environmental conventions; follow-up to the 1992 United Nations Conference on Environment and Development, and waste management, and the strengthening of the legal framework for environmental protection, all topics of importance to Japan, and the EU.

The breadth of the topics being discussed demonstrates the importance attached by both Japan and the EU to a joint approach to finding solutions to global environmental problems. In addition, the Maastricht Treaty stresses the need to take environmental considerations into account in other policy areas. In this context, Trade and Environment has become one of the foremost topics in the EU-Japan environmental dialogue.

## 8. CO-OPERATION IN THE CULTURAL AREA

There is also some bilateral co-operation in the cultural sphere at European level. The joint declaration of 1991 cites culture as one of the areas in which co-operation should be strengthened and developed. Until the ratification of the Maastricht Treaty progress in terms of cooperation in this area has been limited.

It has only been possible to organize a few actions such as orchestra tours (Yomiuri Symphony Orchestra in the cultural capital of Europe 1993, Antwerp, and the tour of Japan by the European Youth Baroque Orchestra in the Autumn of 1993) and a series of annual seminars in comparative studies developed between Sophia University and the European University Institute of Firenze with the support of the Japan Foundation.

On the basis of the Maastricht Treaty (article 128) and the Council Conclusions of 10 November 1994, European Community action in support of cultural exchange should respect the principle of subsidiarity and the requirement to supplement Member States actions.

## 9. CO-OPERATION IN EDUCATION

In the 1992 communication to the Council on education, the Commission stated that co-operation in the field of higher education with the US could serve as a model for possible co-operation with Japan. On June 10, Professor Ruberti, in a meeting with the then Japanese Minister of Education, Mrs. Akamatsu, confirmed the mutual desire to exchange views at all levels on matters of interest in the field of education and academic exchanges. Issues such as the quality of universities and ways to increase the number of university exchanges have been mentioned.

It is proposed that efforts should be undertaken on each side to explore the possibilities for a balanced co-operation in the areas of higher education and vocational training, such as joint curriculum development, including associated exchanges of staff and students, mutual recognition of academic credits and industry - university co-operation. These activities should build on experience already gained in the area of transnational education and training co-operation.

## 10. DIALOGUE ON MACROECONOMIC AND FINANCIAL SERVICES ISSUES

An institutionalised dialogue was set up in 1991 at the Director-General level between the European Commission and the Ministry of Finance on Macroeconomic issues and financial services. The last meeting took place in Tokyo on 22 July 1994.

This dialogue should enable both sides to better understand the economic situation in the respective areas. In addition, it provides an opportunity for solving market access problems, particularly in the field of financial services. Finally, it offers scope for discussions related to macro-financial assistance to economies in transition and to developing countries.

High level consultations take place on a yearly basis between the Japanese Economic Planning Agency and the Directorate General for Economic and Financial Affairs. These consultations provide an opportunity for analysing the evolution of the world economic situation with particular emphasis on Japan and the EU. Recently a dialogue has begun on specific issues viz. the macroeconomic effects of the suppression of barriers to trade (internal market, deregulation) and the budgetary consequences of an ageing population.

## 11. DIALOGUE ON TRANSPORT ISSUES

In 1992 annual talks between the European Commission and the Ministry of Transport were set up at Director-General level. These have taken place in April of each year alternating between Tokyo and Brussels.

This dialogue should enable both sides to better understand the development of transport policy within and between the European Union and Japan. By opening a channel of communication permitting early discussion of new developments it should also serve to enhance understanding thereby reducing potential conflict. It also offers potential for cooperation in transport issues affecting the larger Asia-Pacific region.

## 12. NEW PROJECTS

The idea of creating a "European House" in Tokyo has been launched by the European Parliament. It concerns the establishment of a centre for EU- related activities in Tokyo, that would have the advantage of offering economies of scale for several areas in which the EU and its Member States are already active (e.g. industrial co-operation, export promotion) and providing a basis for new activities, such as the establishment of a European cultural presence in the Japanese capital.

This project would be jointly organised and financed by the EU and Japan. A feasibility study on such a European House has been launched with the Japanese authorities, and the project is currently being carried out by the European Business Community (EBC) in Tokyo.

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