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THE TRADE POLICY OF THE COMMUNITY AND JAPAN : A RE-EXAMINATION

(Communication from the Commission to the Council)

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Introduction

1. This paper examines the trade policy of the Community towards Japan. It does so for three sets of reasons.

(a) Our trade relations with Japan are unsatisfactory.

As we enter the 1980s, the Community is dealing with Japan on the basis of guidelines set in the early 1960s. But Japan, as the third economic power of the free world, feels entitled to a rôle of equality with the Community and the United States. Given its previous performance and economic potential, it is in the Community's interest to develop with Japan a partnership which belongs to the 1980s and stretches from political questions to the practice of technological cooperation. The aim of extending cooperation with Japan so as to cover the full range of areas of mutual concern is hindered, however, by the maintenance of national protectionist measures.

The arrangements we have are discriminatory (a source of growing resentment in Japan quite out of proportion to the economic importance to us of these restrictions), are embodied in a patchwork of separate national trade restrictions (more a relic of the 1950s than a Community policy of the 1980s), and are in fact generally frozen in a pattern twenty years or more out of date.

(b) Our present patchwork of largely national restrictions against Japan will damage the international competitiveness of large sectors of the Community's industries in the 1990s.

Differences in national treatment are bound to lead to a distortion of conditions of competition within the Community and a consequent undermining of the Customs Union. And this partitioning of national markets within the Community has a more

fundamental and harmful effect than disadvantaging consumers and offending against a general doctrine.

It weakens the international competitiveness of Community industry:

- Member State X engages in a special protective arrangement against Japan; it seeks further protection by Article 115, but it is not sufficient to be competitive only in its own market, to prosper it must be competitive internationally;
- thus separate national treatment undermines its own prosperity and will increase its unemployment.

(c) Japan is one of the major gaps in the Common Commercial Policy.

Thus there is a strong argument from the point of view of industrial policy for a unified policy in relation to quantitative import restrictions against Japan. And here there is a major gap. There is no complete and unified Community policy in relation to quantitative import restrictions. Individual Member States maintain a variety of discriminatory import restrictions; so-called voluntary restraint arrangements of equal or greater importance are negotiated with scant regard for Community rules by national Government and industries in Member States separately with third countries. This is particularly the case with Japan.

This represents a gap in the common commercial policy. This gap is not mentioned critically because it conflicts with some idealistic model of progression towards European unity. It is mentioned because of the very practical reason that the whole strength of the Community in its dealings with third countries lies in its acting together. Only by this means for example was it possible in the Tokyo Round to get from the United States such concessions - unobtainable in previous GATT negotiations - as the introduction of a material injury test and the abolition of American Selling Price for chemicals.

On the other hand, equally clearly for Member States to engage in negotiations on their own with third countries means that these can play Member States off against each other; thus the combined strength of the Community is split and squandered in our dealings with the external world. This can only mean a less effective defence of our interests, and more jobs lost or less opportunities realised, than would have been the case if the combined strength of the Community had been applied. All this is increasingly relevant in considering the growing pressure of Japanese exports and the likely worsening of our already considerable bilateral trade deficit.

And one fundamental point needs constantly to be remembered. Any major derogation from a common (i.e. Community wide) policy on imports stands in the way of achieving a single market which is the Community's first raison d'être.

2. Hesitations

These considerations might encounter certain hesitations.

- a. How will any adjustment of the present national restrictions work out? Will it result in the abrupt ending of the existing mechanisms, leaving the industry concerned without any protection, or, as some may fear, lead to a system which is more restrictive than the present one?
- b. What do we get in return for abolishing quantitative restrictions?

3. To this it can only be said that:

- a. The balance of protection in any new arrangement needs to be looked at case by case. Generally the case for liberalisation - the the long-term interest of the competitiveness of our own industry - is strong; there could be exceptions; the general case in relations to these is considered later.
- b. Problems do not get any easier by being postponed and the blunting of the competitive edge of sectors of Community industry (through quantitative restrictions) will continue apace. In this context the Commission has certain independent responsibilities. It has in particular
- to decide whether to grant requests for the application of Article 115;
 - to decide whether or not it can and should make the necessary proposals from time to time for renewal of existing Member State commercial agreements with Japan;
 - to decide whether to refer arrangements made by the Member States to the Court of Justice as being incompatible with the common commercial policy;
 - to ensure the application of the principles of Community competition policy.
- c. In return for the phasing out of our quantitative restrictions, we could get not only the removal of a festering sore in EC/Japan relations, but also increased access in terms of tariff and quota concessions and increased EC exports (examples are the severe quotas on our exports of leather footwear and high tariffs on certain foodstuffs).

4. The present state of EC/Japan trade relations

The present situation has the following main features:

- a. Three regions of the Community (UK, France, Benelux) have bilateral safeguard clauses in commercial treaties with Japan that can be terminated by the Commission ceasing

to propose their periodic renewal. One region (Italy) has a power of derogation for a considerable number of items on the common liberalisation list in respect of Japan (the "experimental list").

- b. Residual quantitative restrictions, most of them derived from bilateral treaties with Japan, are maintained by different Member States. Some are on goods which are important in trade but many are anachronistic or of little obvious value. Some are selective against Japan in the sense that the quantitative restriction is maintained against a number of countries, including Japan, but not against other major industrialised trading partners. A few are discriminatory against Japan in the sense that the restriction is maintained only against Japan.
- c. There are a number of informal arrangements restricting imports by Japan, to certain regions of the Community. Some of these are in effect periodically renegotiated (generally annually). Sometimes there is an impression that Member States grant increased access for Japanese items which are subject to quantitative restrictions in return for Japanese export restraint on other items or for other advantages.
- d. Requests are made for Article 115 protection as a virtually inevitable reflection of the separate national trade policies described above.

A table attached sets out details of the discriminatory quantitative restrictions maintained by individual Member States against Japan.

5. The process of extending the common liberalisation list ran out of steam in the early seventies. Since then other attempts have been made by the Commission to make progress toward a common policy vis-à-vis Japan. Progress was made in relation to the elimination of national quantitative restrictions in the textiles sector following bilateral negotiations under the Multifibres Arrangement. But in general we are still a long way from a common commercial policy towards Japan.

- a. the negotiation of a bilateral trade agreement (covering both residual quantitative restrictions and communitarisation of the existing national bilateral safeguard clauses) has been suspended for nearly a decade;
- b. the differences in national treatment are bound to lead to a distortion of competition within the Community: Article 115 stands in the background partitioning the Common Market.
- c. a Commission note of 1976 drew the attention of Member States to the fact that the negotiation of bilateral quantitative arrangements was not compatible with Article 113 and that only the Community could exercise rights under national bilateral safeguard clauses. Member States were invited to bring their sectoral problems to the Commission.
- d. MTN safeguards negotiations covering a selective application of Article XIX of the GATT in which the problem of residual quantitative restrictions could have been "subsumed" (as envisaged by the Soames-Ohira exchanges) have not got anywhere.
- e. neither have Japanese requests in the MTN for a start by the Community in removing discriminatory quantitative restrictions.

6. Unsatisfactory consequences of the present situation

The result of all this is a confused mixture of varying types of national protective arrangements against Japan. For the reasons set out earlier this:

- a. stands in the way of having a common market in significant sectors of European industry and will increasingly damage the international competitiveness of these sectors;
- b. is not the best deal that a united Community could achieve with Japan;
- c. will be a source of growing friction with Japan, affecting the general development of relations with Japan.

- d. Will make it impracticable to envisage a fully satisfactory trade relationship with Japan - with its highly individual and close Government-industry and inter-industry links - without industrial cooperation as a major component. Indeed some of these major problems between us are only superficially reflected in trade flows; they are in essence industrial. But discussions on specific industrial problems cannot effectively take place unless in the context of an overall Community strategy towards Japan.

7. A Community Strategy

- a. In its relations with Japan, the Community's aim is to achieve a greater degree of cooperation over the whole range of matters of mutual concern. The two sides have major interests in common, including interests relating to the functioning of the world economic and trading system, in which they both have a principal stake. Increasingly, however, those interests cannot be safeguarded unless a closer identity of views is established, including a greater readiness to take account of each other's position. Matters like investment and North-South relations are amongst those which would be considered.
- b. Efforts have to be made on both sides therefore, within the framework of a broad strategy, in the direction of removing the existing level of restrictions on trade. In particular Japan needs to make concessions, e.g. as regards the intensive quantitative restrictions on leather goods and the high tariffs on processed agricultural products and various other goods.
- c. On the part of the Community, apart from the indispensable efforts of restructuring, there should be a political readiness to phase out the discriminatory quantitative restrictions, eliminating these progressively in the light of the results obtained by the Community strategy; this would also of course imply consideration of the future of the individual safeguard clauses applicable to Japan. The sectors involved vary considerably in sensitivity, and whereas a considerable number of the quantitative restrictions could be ended quite shortly, in other cases the industries concerned would need time in which to adapt themselves to changes in their competitive situation. At least three categories of the quantitative restrictions involved can in fact be broadly distinguished:

- (i) those that can be removed fairly easily;
- (ii) those where progressive liberalisation may be feasible on a basis of reciprocity;
- (iii) those where wide and important interests are at stake, and where large adjustments (including greater specialisation or restructuring on the EC side) would be required.

d. In the case of major difficulties, it may be necessary to seek between the Community and Japan agreement for the temporary restraint of Japanese exports while European industry restructures. These exceptional taxes would only occur in the following circumstances:

- when they concerned a product where serious industrial and social difficulties would otherwise occur as a result of Japanese competition;
- the restraint was for a limited period (normally 2 to 4 years);
- the protection was accompanied by restructuring measures of the Community's industry as determined in appropriate procedures;
- the Community undertakes to proceed to liberalisation, on a EC-wide basis, within a specified period.

8. An element of industrial cooperation would form part of the matters to be discussed with Japan, including such aspects as contacts between European and Japanese industry, questions of investment (both Japanese in Europe and European in Japan), and possibilities of collaboration

in third country projects. A further opening up of the Japanese market to Community exports would also contribute to the strengthening of commercial and industrial ties.

10. Conclusions

A strategy on these lines seems the only one which would prevent a growing exacerbation of our trade relations with Japan over the discriminatory quantitative restrictions, offer a chance of increasing access to the Japanese market, adequately engages to this end the joint bargaining power of the Community, and ensures a competitive future for our key industries on world markets in the 1990s.

RESIDUAL QUANTITATIVE RESTRICTIONS MAINTAINED BY MEMBER STATES
ON IMPORTS FROM JAPAN

CCT	Product	EC imports from Japan (1979, '8)	I	F	DNL	D	DK	IRL	UK
<u>I Miscellaneous</u>									
02.01	Meat	0		1					
04.06	Honey	0		1					
22.09	Spirits	293,000		1					
40.12	Pharmaceutical articles	1m.	1						
50.09	Woven silk	2.3m.	1						
57.10	Jute fabrics	428,000		1					
58.02	Carpets	470,000		1					
62.03	Sacks	510,000		1				1	
64.01	Footwear	471,000			1				
64.02	Footwear	3.5m.	1		1				
66.01	Umbrellas	918,000	1	1					
66.03	Umbrella parts	1.8m.	1						
73.01	Pig iron	0		1					
85.23	Electric cable	9.2m.	1						
85.25	Insulators	2.0m.		1		1			
	(Total : 15)	(8 23.4m.)	(6)	(9)	(2)	(1)		(1)	
<u>II Sectoral items</u>									
16.04	Canned fish	33.5m.	1	1					
32.05	Dyestuffs	22.4m.		1					
37.02	Films	40 m.	1						
40.11	Tyres	65 m.	1					1	
69.07/08	Tiles	19.4m.	2	2	2				
69.11/12	Tableware	40.7m.	2	2	2	2			
73.02/15	Steel	142.9m.	1	1					
73.32	Bolts	18.3m.			1				
82.09/14	Cutlery	48.8m.	2	1	2		2		
84.41	Sewing machines	82.5m.	1						
84.62	Ball bearings	104.8m.	1						
85.01	Generators	61 m.	1						
85.03/24	Batteries	31.5m.	2						
90.12	Optical microscopes	15.4m.		1					
90.28	Elec. meas. instr.	65 m.		1					
91.01/02/ 03/07/ 09/11	Watches, clocks	186 m.		6					
97.03	Toys	56.7m.	1	1					
	(Total : 27)	(31,034 m.)	(16)	(17)	(7)	(2)	(2)	(1)	

CCT	Product	EC imports from Japan (1979, \$)	I	F	BNL	D	DK	IRL	UK
<u>III Consumer electronics</u>									
85.15 85.21	T.V., radio T.V. tubes	951.4m. 302.9m.	1 1	1					
	(Total : 2)	(81,254 m.)	(2)	(1)					
<u>IV Motor vehicles and related items</u>									
84.06 87.02/04/ 05/06 87.09/12	Motor vehicles and parts Motor cycles and parts	2,816.7m. 617.3m.	5 2						
	(Total : 7)	(83,434 m.)	(7)						
TOTAL	51		31	27	9	3	2	2	

Explanatory Note

1. The table shows the residual quantitative restrictions maintained by individual Member States on imports from Japan which are discriminatory in nature, i.e. which are not applicable to third states generally or to all GATT parties. The list is based on the information available to the Commission; in some cases this information is imprecise and there may have been changes which have not been notified to the Commission.

2. The items have been grouped in four categories : I Miscellaneous (items whose import value is below \$ 10 million, and in many cases below \$ 1 million); II Items of sectoral importance (import value above \$ 10 million); III Consumer electronics; and IV Motor vehicles and related items.

3. The third column which shows the value of Community imports from Japan of the goods concerned provides an indication of the relative importance of the trade and sector involved. The figures quoted, which are based on Eurostat statistics for 1979, are for full tariff positions (four digits) either : (a) in cases where the quantitative restriction applies to the full position; or (b) where it is not possible to determine the exact equivalence between Eurostat tariff sub-positions and the sub-positions where the Member State or States apply restrictions. Where it has been possible to align the Eurostat sub-positions more closely with the restricted sub-positions this has been done.

4. In addition to the quantitative restrictions listed, there are certain voluntary restraint arrangements which are given support by Governments, notably in the electronics and motor vehicle sectors.