

European Community



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A REVIEW OF EC-JAPAN TRADE RELATIONS

COMMUNITY'S GROWING TRADE DEFICIT BECOMING MAJOR POLITICAL PROBLEM

An increase in EC exports to Japan is the best long-term way of achieving a better EC-Japan trade balance, according to the EC Commission. The following note deals with the growing trade gap, the EC's position, and sectoral problems.

See also Press Release #14 of June 1977 "Commission Vice-President Haferkamp Holds Trade Talks in Tokyo - Bid to Boost EC Exports to Japan."

As the European Community and Japan are among the main market-economy industrialized powers, they play a key part in major international economic negotiations, such as the multilateral trade talks in Geneva and the North/South Dialogue.

For some years now the Community has been working to develop and improve its relations with Japan. Following the decision by the Nine at the 1972 Paris Summit to intensify the dialogue between the Community and the other industrialized countries, the Commission in June 1973 instituted regular high-level consultations with the Japanese Government on the same lines as those with the Canadian Government and the American Administration, dealing not only with bilateral matters but with the major multilateral economic issues. In November 1974 the Commission set up a delegation in Tokyo.

Trade relations between the Community and Japan are governed by the General Agreement on Tariffs and Trade (GATT). Negotiations for a trade agreement to replace the bilateral agreements between Japan and the different member states took place from September 1970 to July 1971, but foundered on the question of the safeguard clause. The two sides have agreed to try and settle the matter in the course of the multilateral trade negotiations in Geneva.

The trade gap

The Community's growing trade deficit with Japan has for some time been a major political problem. As will be seen from the following table, since 1970 when trade was almost in balance, the gap has widened to over U.S. \$4 billion in 1976 and coverage of imports by exports has fallen to less than 50%. Preliminary figures indicate a further deterioration in 1977.

<u>Year</u>	<u>Deficit</u>	<u>Import/export coverage</u>
1973	U.S. \$1.2 billion	67%
1974	\$2.0 "	63%
1975	\$3.2 "	46%
1976	\$4.1 "	42%

Source: Eurostat

The Community also has a large deficit in its trade with the United States, amounting to \$6.1 billion in 1975 and \$7.3 billion in 1976, but on a much higher volume of trade (\$40 billion in 1976). Three quarters of the EC's trade deficit with the United States is due to trade in agricultural produce, whereas the EC/Japan trade deficit is exclusively due to imports of Japanese industrial goods in direct competition with the products of European industry.

It is pointed out that the deficit in the Community's balance of trade with Japan is partly offset by a surplus in the balance of invisibles, but the size of that surplus is disputed. Japanese figures indicate that in 1975 Japan was still running a huge deficit on invisibles vis-à-

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vis the EC, amounting to \$2,000 million, of which \$1,500 million was accounted for by Britain alone. This amount is disputed by the British authorities, who argue that the Japanese method of calculation includes transactions on the London market in favour of third countries.

The reactions of public opinion and specifically industrial opinion in Europe to the EC's growing deficit with Japan is all the more vocal for the fact that Japanese exports are concentrated on a few particularly sensitive sectors such as cars, steel, shipbuilding, electronic goods and ball-bearings. In some cases Japanese penetration of the European market has reached considerable proportions, giving rise to market disturbances and employment problems. What is worse, the trade is usually one-way, with European products making practically no impact on the Japanese market.

EC member states of the Community still impose national quantitative restrictions on some 79 industrial goods, whereas Japan imposes only 27 (22 on agricultural products and a mere 5 on manufactures). This has not prevented Japanese products from capturing large shares of the market in the above sectors. Penetration of Japanese market by European products, on the other hand, is often impeded by various administrative and other barriers to trade, and by a structural resistance to imports of manufactured goods that compete directly with the products of Japanese industry.

Position of the Community

In the last two years the Commission has made many approaches to the Japanese authorities drawing their attention to the situation and the dangers that would arise unless better-balanced EC/Japanese trade were achieved. The growing trade gap between the two was brought up at the high-level consultations in Brussels in December 1973 and in Tokyo in June 1976, and by Commissioner Finn-Olav Gundelach in the course of his visit to Japan in July 1976.

While frankly indicating that something must be done in the short-term to tackle the problems caused by the penetration of Japanese imports in certain sensitive sectors, the Commission has always argued that the best way to achieve a better balance would be to increase Community exports to Japan, not to impose imports restrictions. However, given the steady worsening of the deficit, coupled with more and more serious sectoral troubles at a time when the Community has not yet emerged from the recession, the Commission has been obliged to add that it will find it harder and harder to resist protectionist pressures if this policy of cooperation does not seem to be producing results. This was the point the Commission made at the high-level consultations in Brussels last November.

In November 1976 the European Council, composed of the Heads of State and of Government of the Nine, called for determined efforts to remedy the situation, paying particular attention to the need for rapid expansion of Japanese imports from the Community, with a view to the

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development of mutually advantageous trade relations. It noted with satisfaction, however, that the Japanese Government was willing to cooperate with the European Community, on the basis of mutual understanding, in solving the problems which arise. The European Council reviewed the situation in March 1977 and instructed the Community institutions to continue the dialogue with the Japanese authorities.

Sectoral problems arising out of imports from Japan

Japanese exports of cars to the Community rose from 250,000 in 1974 to 370,000 in 1975 and 491,000 in 1976. Corresponding European sales to Japan amounted to 25,000 cars in 1974, 26,000 in 1975 and 25,000 in 1976. In 1975 Japanese cars had a 4.38% share of the Community market, with penetration greater in the non-producer member countries such as Belgium (16.7%), the Netherlands (15.5%) and Denmark (14.7%) than in the producer ones such as Germany (1.7%), France (1.6%) and Italy where imports are subject to quotas. In Britain, Japanese cars have taken 9% of the market and it is understood they will be stabilized at this level.

In the steel sector, the Commission contacted the Japanese authorities as long ago as the end of 1975 on the subject of Japanese exports to the Community. The Commission made renewed representations in October 1976. At the meeting of the European Coal and Steel Community/Japan Contact Group in Brussels on 11-12 November 1976, the Japanese authorities supplied forecasts indicating reduced exports to the Community in 1977 which should prevent a repetition of the troubles experienced on the European market in 1976. In September 1976 the Japanese authorities also provided assurances concerning exports of special steels to the British market.

The currently crisis-hit shipbuilding sector presents a special problem. The Community is hoping for international agreement to cut production capacity in all the industrialized countries in the framework of the OECD, but no satisfactory agreement has yet been reached. In the Community's view, the Japanese forecast that in 1980 their shipyards would account for 6.5 million tonnes out of a world market of something like 12 million tonnes would impose an unfair share of the decline in world demand on European shipbuilders. So far Japan has agreed to raise prices by 5%, to prune the labour force by 30,000 workers by the end of 1978 and not to accept orders from Member States particularly hard hit by the crisis. Certain Member States have taken unilateral measures to support their industry. Meanwhile discussions continue in OECD and bilaterally.

In the case of ball bearings, the Commission has taken direct action on the basis of the Community's anti-dumping legislation and in full conformity with the rules of GATT. According to a complaint lodged on behalf of the German, French and British industries in May 1976, Japan has been exporting to the EC at well below the prices on the Japanese home market. Employment in the industries of the three

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Member States concerned has fallen by 5,000 since 1974, and short-time working has become the rule. Continuation of imports at dumping prices would have particularly serious effects on employment inasmuch as the industry is for the most part located in the declining areas.

In November 1976 the Commission opened an official anti-dumping investigation and invited the Japanese exporters to make their views known. As a result of this investigation the Commission decided on February 7, 1977 to introduce a provisional anti-dumping duty of 20% (10% only for two suppliers) for a period of three months, which was recently extended for a further three months. The Community will then have to decide whether to confirm the anti-dumping duties, unless a friendly settlement has previously been reached with the Japanese exporters. While the Commission will not hesitate to use its rights under GATT to take action against dumping, the Commission does not see anti-dumping measures as a general instrument of commercial policy for restraining imports.

Increasing Community exports

To reverse the trend in EC-Japanese trade, the Commission has pursued an active commercial policy aimed at stepping up European exports, in particular by urging the Japanese authorities to eliminate the administrative obstacles to the importation of European products into Japan. These stem mostly from industrial standards, and in particular from lack of information and insufficient time for adjustment in introducing new ones, laborious checking and testing procedures, refusal to allow testing to be effected in Europe, etc. In October 1975 the Commission made a first démarche with regard to the motor vehicle sector, where the trade imbalance is particularly striking (see above). At the high-level consultations in Tokyo in June 1976 it was agreed that there would be a systematic review of the various sectors in which Community producers appear well placed to increase their sales on the Japanese market: over and above cars, these include pharmaceuticals and chemicals, processed agricultural products, tobacco, and footwear.

In the car sector this policy has already produced some results. Following the Commission's representations in October 1975, discussions were held in Tokyo in May 1976, and the Japanese agreed in particular to three European requests:

- from April 1, 1977, acceptance testing of European cars is to be effected in Europe by the European authorities in the case of "quantifiable" tests, by Japanese inspectors in the case of "non-quantifiable" ones;
- the date of manufacture is henceforth to be taken into consideration, instead of the date of completion of import procedures, in determining the compatibility of European cars with Japanese law;
- the application of the stricter emission standards (nox), which come into force in Japan on April 1, 1978, is to be delayed for three years for European cars to allow sufficient time for adaptation.

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As to the Community's other requests, such as advance information on planned changes in standards and a minimum adaptation period of two years, the Japanese authorities have been unable to give any formal commitments but have promised to make an effort to meet European concerns.

There are a number of other sectors in which the Community has asked the cooperation of the Japanese authorities in eliminating barriers to the development of European exports, for example:

Pharmaceuticals: The Japanese authorities have decided that with effect from October 1, 1976 certain "pre-clinical tests" carried out in Europe are to be accepted as valid for the purposes of Japanese import formalities. The Commission has also made representations to the Japanese authorities asking for the abolition of a number of other non-tariff barriers to European exports, which account for only 3% of the market. These include the procedures for testing and obtaining manufacturing and commercial visas, as well as frequent modifications in regulations.

Footwear: In November 1976 the Commission asked that the quantitative restrictions practised in this sector on social grounds should be applied less restrictively vis-à-vis footwear imported from Europe, which accounted for 1.7% of the Japanese market in 1975.

Processed agricultural products: At the high-level consultations in November 1976 the Commission listed a series of products for which Japanese regulations served to impede the growth of European exports, including dairy products and canned pigmeat (quantitative restrictions), biscuits, confectionery and chocolates (35-40% duties), and wine, whisky and brandy (very high discriminatory excise duties). A particular problem is Danish exports of canned pigmeat to Okinawa, which before its reincorporation into Japan had more favourable import arrangements than the rest of the country. The Commission has asked that steps be taken to ensure that Danish exports are maintained at their present level. A first round of consultations to examine the possibility of Japanese concessions in this sector was held in February 1977.

Tobacco: In November 1976 the Commission asked the Japanese authorities to do away with administrative obstacles to the distribution of European cigarettes. Distribution of tobacco products is a State monopoly involving control of prices (which are fixed at a much higher level for imported products), quantities, distribution networks, sales promotion, etc. It was remarked that, in contrast to the position in other sectors, the Japanese authorities here had power to act directly to increase European sales.

Chemicals: In January 1977 the Commission asked the Japanese authorities to review the authorization and testing procedures, and import formalities, for organic and inorganic chemicals, and agricultural chemicals.