

No. 26/1980

August 5, 1980

COMMUNITY TRADE POLICY TOWARDS JAPAN

The European Community is ready to open a new strategy in its trade relations with Japan. This new approach will particularly emphasize free-trade and industrial co-operation.

The European Commission has just sent the EC Council of Ministers a communication setting out a broad strategy for the Community's trade relations with Japan.

The approach suggested is designed to prevent any exacerbation of relations with that country over discriminatory quantitative restrictions still maintained by Member States, while offering the best chance of securing increased access to the Japanese market.

It should enable the Community to harness its joint bargaining power and at the same time ensure a competitive future for key industries on world markets in the 1990's, the Commission paper says.

The Present Situation

The Commission's analysis starts with the observation that the EC's trade relations with Japan are unsatisfactory. The Community's present trade arrangements with Japan are embodied in a patchwork of separate national trade restrictions - more a relic of the 1950's than a Community policy for the 1980's.

Certain Member States (United Kingdom, France, Benelux) have bilateral safeguard clauses derived from past trade agreements with Japan, while Italy has a right of derogation for a number of items which have been liberalized with regard to Japan.

Most Member States also maintain residual quantitative restrictions on Japanese goods, also derived from past bilateral agreements with Japan. Some of these restrictions are applied selectively to a number of countries, including Japan but not against other major industrialized trading partners, while a few discriminate against Japan alone. Finally, there are a number of informal arrangements restricting imports from Japan, renegotiated annually by national governments or industry.

The European Commission believes this situation is unsatisfactory for a number of reasons. First, the present arrangements are discriminatory and are a source of growing resentment in Japan quite out of proportion to the economic importance of the trade restrictions. Second, they represent a gap in the common commercial policy, in the sense that there is no unified Community policy in relation to quantitative import restrictions, while at the same time voluntary restraint arrangements of equal or greater importance are negotiated on a separate national basis.

Separate national negotiations mean that third countries can play Member States off against each other, squandering the combined strength of the Community and leading to a less effective defense of its interests. Divergent national trade policies also lead to requests for protection against indirect imports under Article 115 of the EEC Treaty, thus compromising the achievement of a single market which is the Community's first *raison d'être*.

Finally, differences in national treatment of imports from Japan are bound to lead to distortion of competitive conditions within the EC and to a partitioning of national markets. Instead these need to be competitive internationally, not just in a single national market. The present situation threatens to undermine the prosperity of European industry and increase unemployment.

A Community Strategy

As the EC enters the 1980's it is having to deal with Japan on the basis of guidelines set in the early 1960's. Given the past performance and future potential of Japan as the third economic power of the "free world", it is in the Community's interest to develop a greater degree of co-operation with that country. This aim is hindered, however, by the maintenance of national protectionist measures.

Efforts have been made on both sides to remove existing restrictions on trade. For its part the Community states that quantitative restrictions should be phased out. This implies reviewing the individual safeguard clauses applicable to Japan. But the Commission thinks that on her side Japan also needs to make concessions - especially the extremely severe quantitative restrictions on leather goods and the high tariffs on processed agricultural products.

The sectors of Community industry involved in the liberalization of imports from Japan vary considerably in sensitivity. Some quantitative restrictions could be removed fairly easily, while others could be eliminated progressively on a basis of reciprocity. In a limited number of cases where serious industrial and social difficulties would otherwise occur as a result of Japanese competition, and where large adjustments are required, it may be necessary for the EC to seek agreement for the temporary restraint of Japanese exports. This will allow time for a restructuring of European industry. Restraint would only be sought in exceptional cases, be for a limited period (2-4 years), be subject to a Community undertaking to proceed to liberalization on an EC-wide basis within a specified period, and be accompanied by restructuring measures agreed with the industry and Member States concerned.

The Commission stresses that an element of industrial cooperation would be discussed with Japan, including closer contacts between branches of European and Japanese industry, questions of investment (both Japanese in Europe and European in Japan), and possibilities of collaboration in third country projects. Obviously, a further opening up of the Japanese market to Community exports would also contribute to the strengthening of commercial and industrial ties.

Indeed, the EC Commission goes so far as to say that it is impractical to envisage a fully satisfactory trade relationship with Japan - with its highly individual and close Government-industry links - without industrial cooperation between the two sides.

Some of the major problems between the EC and Japan are only superficially reflected in trade flows; they are in essence industrial. But discussions on industrial problems cannot take place unless there is an overall Community strategy towards Japan.
