

EUROPEAN BACKGROUND INFORMATION COMMUNITY

EUROPEAN COMMUNITY INFORMATION SERVICE

2100 M Street NW, Washington DC 20037 Telephone (202) 872-8350

New York Office: 245 East 47th Street, New York NY 10017 Telephone (212) 371-3890

BACKGROUND NOTE

No. 67

April 5, 1978

EC AND JAPAN ISSUE JOINT STATEMENT ON TRADE

On March 24th 1978, the European Community concluded two days of intense and difficult consultations with Japan aimed at reducing the Japanese current account surplus and easing access for European goods to the Japanese market.

The Commission of the European Communities was represented by Vice-President Wilhelm Haferkamp and the Japanese Government by the Minister of State for External Economic Affairs, Mr. Nobuhiko Ushiba.

In a joint statement following the talks, both sides stressed the importance they attached to strengthening the relationship between Japan and the Community and to developing a common approach to world economic problems, and to that end to cooperating both bilaterally and in multilateral fora.

Vice-President Haferkamp said after the talks: "A way has now been opened to further mutual understanding and cooperation in the future. The joint statement sums up views and commitments. What is needed now is action."

Mr. Ushiba stressed the close cooperation between Japan and the Community. The two sides had not been able to reach agreement on all points but great progress had been made toward mutual understanding.

Commenting on the joint statement, Sir Roy Denman, EC Director-General for External Relations, made the following points:

1. Mr. Ushiba had committed himself not only to the 'expectation' that the Japanese current account surplus would be one third less in fiscal year 1978 than in 1977 but also to the need for new measures. There had been no such quantitative commitment in the Strauss-Ushiba statement.

2. The Japanese had also committed themselves to an early turnaround in the bilateral surplus of which the first signs were expected for the Fall of 1978.

3. The agreement on regular monitoring was a valuable commitment.

4. The reference to a return to more normal levels of manufactured goods in total imports was more specific than appears, implying a return to the 1970-73 level of 29-30 per cent as against the post-1974 level of 20 per cent.

5. The Japanese have now agreed to negotiate actively with a view to reaching mutually satisfactory solutions on the selective application of the GATT safeguard clause (Article XIX).

6. It would have been helpful to have obtained further unilateral tariff cuts but this would have been politically out of the question while the first set of tariff cuts agreed with the Americans was going through the Japanese Parliament. The Japanese had agreed, however, to consider the possibility of further anticipated tariff cuts once the MTN package was agreed upon.

Questioned about the possible sales of the European airbus to Japan, Vice-President Haferkamp said he had not come to Japan to sell individual aircraft but he got the impression during his stay that they were "on a good runway and ready for a takeoff quite soon."

Attached is the full text of the EC-Japan Joint Statement.

On March 22 to 24, 1978, the Government of Japan and the Commission of the European Communities, through their representatives, the Minister of State for External Economic Affairs, Mr. Nobuhiko Ushiba, and the Vice-President of the Commission, Mr. Wilhelm Haferkamp, undertook consultations regarding problems arising in the trade and economic relations of Japan and the European Community. Both sides stressed the importance they attached to strengthening the relationship between Japan and the Community and to developing a common approach to world economic problems, and to that end to cooperating closely both bilaterally and in multilateral fora.

In particular Minister Ushiba and Vice-President Haferkamp agreed that the following steps would contribute to avoid increasing unemployment and a worldwide reversion to protectionism.

Economic expansion and payments balances

Both sides agreed that further progress in the international adjustment of balance of payments would be desirable for the harmonious development of trade and monetary relations, and that the accumulation of large current account surpluses was not appropriate, in the present international economic situation.

In this connection, both sides confirmed their common recognition that greater stability in the international monetary situation was essential. Within this framework both sides agreed to pursue policies aimed at achieving lasting non-inflationary economic growth.

Vice-President Haferkamp drew attention to the substantial progress made in Member States in reducing inflation rates and deficits on current account, with further progress on these lines foreseen in 1978. He further stated that the narrowing of disparities between Member States has enlarged the scope for pursuing non-inflationary and sustained economic growth, on the basis of coordinated policies throughout the Community, and that the EEC as a whole aimed at 4 to 4.5% real economic growth target in the course of 1978.

The Vice-President indicated that best endeavours continued to be undertaken by Member States to realize better equilibrium of their respective balance of payments positions.

The Minister stated that Japan's real growth target for ^{Jfy(1)}1978 was 7% through the expansion of domestic demand based on the assumption of a stable international monetary situation, and that it was the intention of the Japanese Government to take all reasonable and appropriate measures in order to achieve this target. It was noted that the official discount rate was reduced by the Bank of Japan to 3.5% as from 16 March.

The Minister stated that the Japanese Government estimated the overall current account surplus in ^{Jfy} 1978 to be about one third smaller than in ^{Jfy} 1977.

Although the recent fluctuations of the foreign exchange market are seriously affecting the Japanese economy, the Minister stated that, taking into account the estimate set out above, the Japanese Government would maximize its effort to reduce the overall current account surplus, as far as possible, through the expansion of domestic demand and a series of new measures for improving the access of foreign goods to the Japanese market.

1) Jfy - Japanese financial year i.e. 1st April - 31 st March

In Jfy 1979 and thereafter, under present international economic conditions, all reasonable efforts would be continued with a view to further reducing Japan's current account surplus. The Minister further stated that it was his expectation that Japan's current account surplus with the EEC would decline within the context of the expected reduction of the overall current account surplus in Jfy 1978. He thought that signs of a change in the trend towards this reduction would begin to be seen by the autumn of 1978.

Both sides agreed to examine together developments and results at regular intervals. Ad hoc reviews might also be undertaken as required. It was agreed to hold the first such assessment in June 1978.

General trade and payments objectives

Both sides stressed the importance of maintaining the open trading system and countering protectionist tendencies. To this end, both sides reaffirmed the importance they attached to the success of the Multilateral Trade Negotiations and to meeting the target of an outline of the final package in July this year.

Both sides agreed to achieve results as substantial as possible in all fields of the MTN's on the basis of overall reciprocity. On tariffs, both sides agreed to make as much effort as possible to reduce on a reciprocal basis tariffs on items of interest to each other in the course of the negotiations.

As regards the issue of safeguards, while taking note of their respective positions on the problem of selective application, both sides agreed to negotiate actively, in full coordination with other participants, for the formulation of a mutually satisfactory international agreement on safeguards within the framework of the GATT.

The Vice-President stated that the success of these negotiations depended in particular both on a genuinely reciprocal reduction of tariffs and on progress towards the formulation of an international agreement within the framework of the GATT on the possibility of the selective application, subject to due international supervision and through the invocation of Article XIX, of safeguard action.

The Minister stated that Japan continued to attach great importance to the principle of non-discrimination and to seek the removal of discriminatory measures.

The Minister stated that the Government of Japan had announced its intention of initiating a sweeping review of its existing foreign exchange control system and a study of a new system based on the principle that all transactions should be free unless specifically prohibited. Pending introduction of the new system, the Japanese Government announced on January 26, 1978, an eleven point program of measures for liberalizing, and simplifying exchange controls. Of these measures, the relaxation of the standard method of settlement for imports was implemented from March 1. The other measures are scheduled to be implemented from April.

Trade measures

The Vice-President stressed the importance of Japan increasing the share of manufactures in its imports.

The Minister stated that the Japanese Government would continue to take all appropriate steps to increase imports of manufactures and expected that the total volume of imports of manufactures would increase substantially. The Minister further expected that the share of these imports in Japan's total imports, which has been distorted since the sharp rise of oil prices would increase steadily and return within a reasonable period of years to a more normal level under current international economic circumstances.

The Vice-President welcomed the fact that Japan had, on more than one occasion, introduced autonomous tariff cuts in order to contribute to further expansion of imports into Japan, the most recent occasion being on 4 March 1978.

It was agreed that when the MTN package was settled the possibility of effecting advance tariff reductions on certain products would be considered in the light of the industrial and trading situations.

Both sides agreed that, in order to promote Community exports to Japan, it was important that Community exporters should take full advantage of the market opportunities provided.

To facilitate such efforts, both sides agreed to continue their cooperation in examining problems encountered by Community exporters to Japan.

The Vice-President said he would welcome purchasing missions to the Community from Japan. The Minister said he would welcome sales missions to Japan from the Community.

Both sides agreed to continue further efforts for improvement of import testing systems on a reciprocal basis.

In this field, measures taken by the Japanese Government reflecting requests from the Community included, inter alia:

- simplification of type approval systems for imported automobiles;
- acceptance of an important part of preclinical test data on pharmaceuticals prepared abroad;
- substantial facilitation of the import testing procedures on diesel engines for marine equipment.

Other problems in this field would be pursued in continuing consultations.

In the implementation of its Government Procurement System, the Minister stated that Japan intends to have greater resort to tender procedures and improved information so as to increase opportunities for foreign suppliers.

In relation to trademarks, the Minister stated that Community interests be furthered by continuing consultations as well as by amendments to the Japanese trademark law effective from June of this year by making improvements so far as possible in the administration of the law which will reflect representations from Community interests.

Food and agricultural products

In the field of agricultural exports from the Community it was recognised that some progress had been made and that cooperation would be continued in that field.

Aid

The Vice-President expressed his hope that the Japanese Government would increase its Official Development Assistance (ODA) substantially and rapidly, in particular multi-lateral aid, and further promote general untying of its aid.

Referring to ODA, the Minister reaffirmed Japan's intention (as declared at the CIEC Ministerial meeting last June) to more than double its aid in five years and stated that the Government of Japan would make its best possible efforts to come closer to the average performance of other DAC* countries. The Minister further noted that, as part of such efforts, the proposed ODA for Jfy 1978 had substantially increased, contributions to multilateral institutions had also considerably increased, and the quality of ODA had improved through an increase of grant aid: and he stated that Japan would pursue such efforts vigorously in future. The Minister added that

* DAC : Development Assistance Committee

the Japanese Government would pursue its basic policy of general untying of its financial assistance by substantially increasing untied ODA loans, including quick-disbursing program assistance.

The Vice-President welcomed these developments and stated that EEC member countries would - while stressing the need for a more equitable burden-sharing among donors - continue to make every possible effort to increase effectively and substantially their ODA and to maintain its high quality. The Vice-President added that in the view of EEC member countries the volume of ODA should as far as possible not be affected in the future by budgetary difficulties and balance of payment problems.