

PREM 19/748

Confidential Filing

Effect of Japanese Imports on
European Industries.

EUROPEAN POLICY

August
September 1980.

| Referred to | Date | Referred to | Date | Referred to | Date | Referred to | Date |
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PREM 19/748

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

| Reference | Date |
|-----------------------------------|----------|
| CC(81) 7th Conclusions, Minute 3 | 19.2.81 |
| CC(81) 25th Conclusions, Minute 3 | 25.6.81 |
| EQO(81) 170 | 17.11.81 |
| EQO(81) 170 (Revise) | 25.11.81 |
| CC(82) 12th Conclusions, Minute 3 | 25.3.82 |
| EQO(82) 106 | 26.7.82 |
| EQO(82) 107 | 26.7.82 |
| EQO(82) 108 | 26.7.82 |
| CC(82) 50th Conclusions, Minute 3 | 25.11.82 |
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The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed Wayland

Date 28 August 2012

PREM Records Team

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OO UKREP BRUSSELS

GRS 564

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FM FCO 151430Z DEC 82

IMMEDIATE TO UKREP BRUSSELS

TELEGRAM NUMBER 876 OF 15 DECEMBER

HITACHI MAXELL

Mr. Scola

A.F.C. 16/12

1. AS YOU KNOW, MINISTERS ARE VERY CONCERNED ABOUT THE DELAY IN SECURING COMMISSION APPROVAL OF THE PROPOSED SECTION 8 AID TO HITACHI MAXELL. IN VIEW OF THE SERIOUS RISK THAT THE COMPANY MIGHT WITHDRAW IF THERE IS FURTHER DELAY, WE HOPE THAT IT MAY BE POSSIBLE TO PERSUADE THE COMMISSION NOT TO OPEN AN ARTICLE 93(2) PROCEDURE AT THEIR MEETING NEXT WEEK.

2. GRATEFUL, THEREFORE, IF YOU COULD URGENTLY SEEK MEETINGS WITH THORN, ANDRIESSEN, DAVIGNON AND GIOLITTI, UNDERLINING THE IMPORTANCE WE ATTACH TO AN EARLY FAVOURABLE DECISION ON THE CASE. YOU MAY WISH TO DRAW ON THE FOLLOWING AS APPROPRIATE:-

(I) THE PRIME MINISTER IS TAKING A CLOSE PERSONAL INTEREST IN THE CASE AND HAS EXPRESSED DETERMINATION THAT THE PROJECT SHOULD PROCEED AS SOON AS POSSIBLE.

(II) WE RECOGNISE THAT IT IS NECESSARY FOR THE COMMISSION TO OBSERVE ESTABLISHED PROCEDURES IN THEIR EXAMINATION OF POTENTIALLY CONTROVERSIAL AID CASES. BUT, IN THIS CASE, A DECISION TO OPEN THE ARTICLE 93(2) PROCEDURE COULD WELL INDUCE THE COMPANY TO WITHDRAW IMMEDIATELY. IT WOULD BE DIFFICULT TO AVOID THE IMPRESSION THAT THE COMMISSION HAD 'KILLED OFF' THE PROJECT, WHICH WOULD HAVE DAMAGING POLITICAL CONSEQUENCES, BOTH IN TELFORD AND IN THE UK GENERALLY.

(III) WE APPRECIATE THE SENSITIVITIES SURROUNDING THE QUESTION OF JAPANESE INWARD INVESTMENT, AND IN PARTICULAR THE CURRENT CONTROVERSY OVER COMPETITION BETWEEN JAPANESE AND EUROPEAN FIRMS IN THE FIELDS OF VCRS. BUT THIS SHOULD NOT PREVENT THE COMMISSION FROM UNDERTAKING A REALISTIC

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ASSESSMENT OF WHAT IS ACTUALLY INVOLVED IN THE TELFORD CASE. IT WOULD BE WRONG TO ALLOW ANTI-JAPANESE CONCERNS TO OBSCURE THE FACTS.

(IV) THE MANUFACTURE IN THE UK OF CASSETTES, WHICH WOULD OTHERWISE BE IMPORTED FROM JAPAN, WOULD HAVE NO MEASURABLE EFFECT ON THE BALANCE OF ADVANTAGE BETWEEN JAPANESE AND EUROPEAN VIDEO RECORDER PRODUCERS. THE OUTCOME OF THE COMPETITION BETWEEN EUROPE AND JAPAN, IN THIS FIELD, WOULD DEPEND ON SUCH CRUCIAL FACTORS AS PRICE, QUALITY AND RELIABILITY OF THE PRODUCT ITSELF, NOT ON THE SOURCE OF SUPPLY OF THE CASSETTES.

(V) THE AMOUNT OF AID ENVISAGED (AMOUNTING TO 1 PERCENT OR LESS OF THE RETAIL COST OF THE CASSETTES) IS, IN ANY CASE, SO SMALL AS TO BE INCAPABLE OF GIVING THE REAL ADVANTAGE TO THE RECIPIENTS.

(VI) THE PROJECT IS IMPORTANT TO THE DEVELOPMENT OF A COMMUNITY MANUFACTURING BASE FOR VIDEO TAPES. IT CARRIES THE PROSPECT OF LONGER-TERM PRODUCTION OF HIGH TECHNOLOGY MANUFACTURING AND WILL MAKE A CONTRIBUTION TO REDRESSING THE PRESENT TRADE IMBALANCE BETWEEN THE COMMUNITY AND JAPAN.

(VII) THE PROJECT WOULD CREATE BADLY-NEEDED JOBS IN AN AREA WITH AN UNEMPLOYMENT RATE OF OVER 20 PERCENT. WE BELIEVE IT WOULD BE UNREASONABLE TO ARGUE THAT THE UNEMPLOYMENT CASE IS INVALID ON THE GROUNDS THAT TELFORD IS NOT LOCATED IN A FORMERLY-DESIGNATED ASSISTED AREA. IT IS NECESSARY FOR ANY REGIONAL POLICY TO HAVE SUFFICIENT FLEXIBILITY TO TAKE ACCOUNT OF 'BLACK SPOTS'. THIS IS CONSISTENT WITH THE COMMUNITY OBJECTIVE OF CONCENTRATING RESOURCES ON THE AREAS OF GREATEST NEED. THE FACT THAT THE UK INTENDS TO CREATE AN ENTERPRISE ZONE IN TELFORD IS FURTHER EVIDENCE OF THE GOVERNMENT'S RECOGNITION OF THE PARTICULAR PROBLEMS OF TELFORD.

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ECDC(I)
PS/MR HURD

COPIES TO:
MR. GILL DOI

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Ref. A082/0470

MR COLES



~~Miss Stepan~~

Could you pl. set aside

This Meeting
has been
cancelled

45 minutes on 4 or 5 January.

AR 17/12
h-a.

A. d. C. 10-12

I received a call this morning from the Japanese Prime Minister's Personal Representative, Mr Nobuo Matsunaga.

2. It was to the effect that the Japanese Government are worried about their trade programmes with Europe and the United States, and want to discuss further possibilities of removal of barriers and opening of the Japanese market. The Prime Minister was expected to visit the United States in February, and the new Foreign Minister, Mr Abe, was planning to come to Europe early in January. The purpose of Mr Matsunaga's call was to ask whether the Prime Minister would be willing to see Mr Abe, even if only for a few minutes.

3. Mr Abe will be leaving Japan on 2 January, arriving in Paris on 3 January, and available for meetings on 4 and 5 January.

4. I said that I would make enquiries, and hoped to be in a position to say something to Mr Matsunaga when I saw him in Paris tomorrow.

5. I had a word with the Prime Minister this morning. She met Mr Abe when she was in Japan in September, and he was Minister for International Trade and Industry. She said that she would be willing in principle to receive Mr Abe, during his visit to Europe, if diaries could be made to fit.

6. I will speak to Mr Matsunaga accordingly, and suggest that further arrangements should be made through the usual channels.

7. I am sending a copy of this minute to Mr Fall.

RIA

ROBERT ARMSTRONG

10 December 1982

~~Mr Isles~~
Agreed.
Euro. Pol.
MCS 19/10

PRIME MINISTER

European Restrictions on Trade with Japan

Mr. Robin Gray will be able to go into more detail about this subject at your meeting with the SMMT tonight. But he explains the situation as follows.

When the European Community was formed, France and Italy already had quotas applicable to imports from Japan. The United Kingdom had similar quotas but, in accordance with the free trade policy of successive Governments, agreed in the Anglo/Japanese Treaty of 1962 to phase out these quotas. This was duly done and by 1970 all quotas against Japan had been removed.

The provisions of the GATT are also relevant. When Japan joined GATT, existing members could maintain their quotas if they invoked Article 35 of the Treaty. France and Italy did so. The United States, leading the policy of free trade, did not. Similarly, we "disinvoked" Article 35 in return for a selective safeguard mechanism. It is under this mechanism that we have since applied voluntary restraint arrangements.

There remains the question of why we could not now apply a quota. Mr. Gray will be ready to speak on this tonight but a relevant question is the likely retaliation by Japan against our exports to her.

A. J. C.

18 October 1982



FCS/82/53

SECRETARY OF STATE FOR TRADE

Foreign Affairs Council, 23 March:
EC/Japan

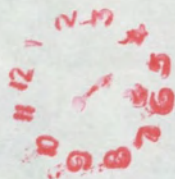
- will request of request*
1. Thank you for your letter of 18 March. I agree with the line you propose to take at the Foreign Affairs Council on 23 March. As you say, the Commission proposal for a Council decision to initiate consultations under Article XXIII of the GATT has been aired in the Press. I hope the Italians can be persuaded to drop their reserve on this. If they were to block agreement, the Community would inevitably look weak and divided, with consequent damage to our chances of prevailing on the Japanese to adjust their policies effectively. I think this is a point of real importance.
 2. Obviously, you will want to stress the importance of the Community keeping control over the timing of GATT action so as to apply pressure on the Japanese in the most effective way tactically.
 3. I would not dissent from the point made at COREPER on 18 March about the need to be flexible also over the timing of the next comprehensive report to the Council on relations with Japan. It might well be helpful to have this before July.
 4. I am copying this letter to other members of OD(E), to the Secretary of State for Industry, and to Sir R Armstrong.

22 March 1982

Foreign and Commonwealth Office

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(CARRINGTON)

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TO IMMEDIATE F C O

TELEGRAM NUMBER 531 OF 18 FEBRUARY 1981

INFO ROUTINE BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS

BONN LUXEMBOURG ATHENS LAGOS (FOR PRIVATE SECRETARY)

COUNCIL OF MINISTERS (FOREIGN AFFAIRS) 17 FEBRUARY

SUMMARY REPORT

1. THE MAIN FEATURES OF THE COUNCIL WERE RELATIVELY PAINLESS AGREEMENT ON A COUNCIL DECLARATION ON JAPAN AND AN UNSCHEDULED HOUR-LONG DEBATE ON EXTERNAL FISHERIES - A GERMAN ATTEMPT TO ISOLATE THE UK AND SEPARATE THE EC/CANADA AGREEMENT FROM THE OVERALL CPP SETTLEMENT. A POLITICAL COOPERATION MEETING WAS HELD IN THE AFTERNOON. AFTER NEGOTIATIONS WITH STAFF REPRESENTATIVES ON REVISION OF THE METHOD OF CALCULATING PAY THE STRIKE WAS CALLED OFF. THE COUNCIL FINISHED AT 00.15 AM 18 FEBRUARY.

2. THE LORD PRIVY SEAL REPRESENTED THE UK. THE MINISTER OF STATE, DEPARTMENT OF TRADE (MR PARKINSON) ATTENDED FOR THE DISCUSSIONS ON JAPAN AND THE USA. THE MAIN POINTS ARE SUMMARISED IN THE FOLLOWING PARAGRAPHS (X INDICATING AN ITEM NOT SEPARATELY REPORTED).

A POINTS

3. AGREED.

EP RESOLUTIONS

4. PRESIDENCY DREW COUNCIL'S ATTENTION TO RESOLUTIONS FROM JANUARY SESSION ON MOTOR CAR INDUSTRY, SAFETY AT SEA AND MARITIME POLLUTION.

EC JAPAN

5. COUNCIL AGREED FURTHER DECLARATION APPROVING INTENTION TO INTRODUCE RETROSPECTIVE SURVEILLANCE ON COMMUNITY IMPORTS FROM JAPAN OF CARS AND OTHER SENSITIVE PRODUCTS.

EC USA

6. COMMISSION REPORTED ON TALKS IN WASHINGTON AND WERE INVITED TO SUBMIT WRITTEN REPORT FOR DISCUSSION AT MARCH COUNCIL.

EC YUGOSLAVIA

7. NO AGREEMENT ON BABY-BEEF OR TRANSIT. BACK TO COREPER AND COUNCIL ON 16/17 MARCH.

AID TO NON-ASSOCIATES (X)

8. TEXT OR REGULATION AND OF LETTER TO EP TERMINATING THE CONCILIATION PROCEDURE AGREED. CHEYSSON ASKED FOR STATEMENT IN MINUTES RESERVING COMMISSION'S POSITION.

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STAFF PAY

9. COUNCIL ADOPTED REVISED STATEMENT, TAKING ACCOUNT OF STAFF COMMENTS ON PRESIDENCY DRAFT. STAFF AGREED TO CALL OFF THE STRIKE.

COURT OF JUSTICE

10. NO AGREEMENT ON ADDITIONAL APPOINTMENTS. THE COURT IS NOW EXPECTED TO WITHDRAW ITS SUGGESTION.

TUNISIA: TEXTILES

11. COMMISSION OBJECTED TO REVISED MANDATE ALREADY AGREED BY MEMBER STATES. ALTHOUGH SOME DELEGATIONS SUPPORTED THE COMMISSION, NO AGREEMENT WAS REACHED. BACK TO COREPER.

OTHER BUSINESS

12. FISHERIES (EXTERNAL): WITH HELPFUL PRESIDENCY SUMMING UP, THE LPS MAINTAINED UK RESERVES ON THE CANADA AND FAROES AGREEMENTS, DESPITE STRONG GERMAN PRESSURE WHICH THE COMMISSION AND OTHER DELEGATIONS SUPPORTED.

13. EEC/ACP (X): PRESIDENCY REPORTED BRIEFLY ON MEETING ON 16 FEBRUARY WITH CURRENT ACP CHAIRMAN TO PREPARE FOR 9/10 APRIL MINISTERIAL MEETING. WRITTEN REPORT TO COREPER.

FCO ADVANCE TO:-

FCO - PS, PS/LPS, PS/PUS, BULLARD, BRIDGES, HANNAY, SPRECKLEY,
PIRNIE (ECD(I)), DEW, LAMBERT (ECD(E))
CAB - FRANKLIN, ELLIOTT, GOODENOUGH, WENTWORTH
IDT - PS/MR PARKINSON

BUTLER

FRAME GENERAL
ECD

[ADVANCED AS REQUESTED]

→ (b/f 23/2)

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PRIME MINISTER

cc. Mr. Alexander

You commented on the attached letter that either we or the Community must taken action to improve our trade balance with the Japanese.

I attach at flag A a further letter from John Biffen setting out the Community's proposals. These amount to:

- (a) Community surveillance on imports of cars, TVs and advanced machine tools;
- (b) Trade relations with Japan should be on the agenda for the Ottawa Summit; and
- (c) Community Ambassadors should make joint representations with the Commission in Tokyo.

This is being taken at the Foreign Affairs Council tomorrow, and there is apparently a good prospect of the proposals being agreed.

Do you still wish me to transmit your comments to Trade? I should have thought it would be better to hold off until we have a report on the Council Meeting.

Yes
no
R

16 February 1981

Foreign Secretary's comments at Flag B

buty Clerk
16.2.81



European Policy

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

CONFIDENTIAL

16th February 1981

The Rt.Hon. Lord Carrington, KCMG, MC
Secretary of State for Foreign and
Commonwealth Affairs,
Foreign and Commonwealth Office,
King Charles Street,
London SW1.

1812

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1472

Dear Peter,

John Biffen sent me a copy of his letter to you of 11th February about EC/Japan Trading Relations.

This is just to say that when I was in the Commission I had a good deal of experience of trying to deal with the Japanese. I had been impressed by the way in which the Americans had pursued the Japanese in 1973 to turn around within twelve months what had been an American deficit in their trade of 6 billion \$ to a surplus of 1 billion \$. How? Because they were able to frighten the Japanese of the effect which any failure so to do would have upon their relations in general, and in defence in particular, with the United States.

But in my dealings with the Japanese on behalf of the Community I felt very much the lack of European "clout". It became evident to me early on that one could not shame the Japanese into restoring something nearer to a balance of trade. They clearly intended to push on regardless unless and until it reached a point where it would be counter productive to their interests. They were ready to trim here and there by agreeing to voluntary restraint but the thrust to increase their exports and dominate European markets remained the same.

I am afraid I believe this to be still true today; and this is to tell you that I support all the conclusions in John Biffen's Paper, particularly the last one about the European approach being seen by the Japanese to be a united one. I agree about his (iii). I know the difficulties about the American interest. They fear that if Europe is too successful with the Japanese the American market could come under pressure again. But I believe that the hand of cards which the Community has in relation to Japan is so weak that we need to ensure American support to convince the Japanese of the political risks they are running.

I am copying this letter to the recipients of John Biffen's letter.

Yours ever

SOAMES

Christol

118 FEB 1981





FCS/81/20

SECRETARY OF STATE FOR TRADEEC/Japan Relations

1. Thank you for your letter of 11 February. I agree that at the Foreign Affairs Council on 17 February we should take the line which you propose.
2. In addition I think it would be appropriate for any statement by the Council to remind the Japanese that the overall relationship between Europe and Japan is in danger of being seriously affected by the insensitive Japanese attitude to the trade imbalance. This would be particularly regrettable at a time when external political developments (such as Poland) may make it all the more desirable that that relationship should be in good shape.
3. As you rightly say, the Japanese will not relish having their trade performance discussed at the Ottawa Summit. Our aim must be to make that prospect so disagreeable that they decide to take remedial action in advance. This will need careful handling, and it is of course important that the Americans should be brought along.
4. Ian Gilmour will be at the Foreign Affairs Council next week and I suggest that he and Cecil Parkinson should decide on the spot how they might handle this item between them, covering as it does both political and trade aspects.
5. I am copying this minute to the Prime Minister, to other members of OD(E), to Keith Joseph and to Sir Robert Armstrong.

— Trade?

Prime Minister

Ph...

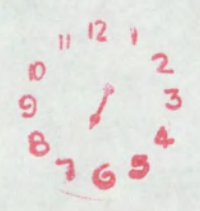
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(CARRINGTON)

16 FEB 1981



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ATHENS

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| RECEIVED IN REGISTRY 13. 12 25 FEB 1981 |
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COREPER (AMBASSADORS): 12 FEBRUARY

EC/JAPAN.

YOUR TELNO 103. ^{NT}

SUMMARY.

1. GERMANY CAME UNDER PRESSURE FROM UK, FRANCE, ITALY, BELGIUM AND THE PRESIDENCY TO RALLY TO A COMMON POSITION. THE ARTICLE 113 COMMITTEE ON 16 FEBRUARY WILL PREPARE A TEXT FOR THE COUNCIL. COREPER WILL BE READY TO MEET IN THE MARGINS OF THE COUNCIL LATE TUESDAY MORNING, IF NECESSARY.

DETAIL.

2. WITH DENMAN'S RETURN FROM WASHINGTON DELAYED, CASPARI (COMMISSION) WAS NOT ABLE TO PROVIDE ANY NEW INFORMATION ON US ATTITUDE (OTHER THAN THE POINTS ON CARS REPORTED IN WASHINGTON TELNO 474).

3. RUTTEN (DUTCH PRESIDENCY) SAID THAT, ON PROCEDURE, HE SAW NO OPTION BUT TO LEAVE PREPARATION OF A DRAFT DECLARATION FOR THE COUNCIL TO THE ARTICLE 113 COMMITTEE ON 16 FEBRUARY, AND FOR THAT COMMITTEE TO SUBMIT THE RESULTS DIRECT TO THE COUNCIL.

4. IN A FIRST TOUR DE TABLE DELEGATIONS SPOKE AS FOLLOWS:

(A) FRANCE: IN A RAMBLING INTERVENTION, NANTEUIL PRAISED THE DOCUMENT OF THE COMMISSION SERVICES ENTITLED "INITIAL ANALYSIS OF THE CONCENTRATION OF JAPANESE EXPORTS TO THE EC" (CIRCULATED TO 113 COMMITTEE ON 6 FEBRUARY AND SENT BY BAG THAT DAY). THIS SHOWED THAT FRANCE'S INSISTENCE AT THE 25 NOVEMBER COUNCIL ON SECTORAL STUDIES HAD BEEN JUSTIFIED. JAPAN'S TACTIC WAS TO CONCENTRATE ON CERTAIN SECTORS, AND WHEN THESE WERE SATURATED OR WHEN JAPAN WAS ITSELF THREATENED BY NEW COMPETITION, THEY MOVED ON TO OTHER SECTORS. ON PROCEDURE, NANTEUIL REGRETTED THAT NO TEXT WOULD BE AVAILABLE UNTIL THE EVE OF THE COUNCIL AND THAT COREPER WOULD THEREFORE NOT BE PREPARING THE COUNCIL PROPERLY.

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/(B) UE:

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(B) UK: I SPOKE IN ACCORDANCE WITH YOUR TELEGRAM UNDER REFERENCE.

(C) BELGIUM; NOTERDAEME AGREED WITH THE UK ON THE NEED FOR A UNITED EC RESPONSE. ANY COUNCIL TEXT MUST CONTAIN A REFERENCE TO EXCESSIVE JAPANESE PENETRATION IN CERTAIN MARKETS AND CERTAIN REGIONS.

(D) GERMANY; POENSGEN SAID THAT HIS DELEGATION'S POSITION HAD NOT CHANGED FROM THE LAST DISCUSSION (MY TELNO 373). GERMANY HAD NOT YET AGREED TO THE COMMISSION'S RECOMMENDATIONS. THEY HAD DOUBTS ABOUT SURVEILLANCE; FURTHER STATISTICAL ANALYSIS WAS NECESSARY; AND THERE WERE GROUNDS FOR HOPE THAT ECONOMIC AND MONETARY FACTORS WOULD CAUSE JAPANESE EXPORTS TO THE EC TO FALL OFF. IT SHOULD BE REMEMBERED THAT JAPANESE EXPORTS RESULTED FROM DECISIONS BY INDIVIDUAL ENTERPRISES IN FREE MARKET CONDITIONS, AND THERE WAS NOT MUCH THAT COULD BE DONE IN THE FINAL ANALYSIS TO INFLUENCE THESE DECISIONS IN A FREE MARKET.

5. I SAID THAT THERE SEEMED TO BE A GREAT RISK OF DISAGREEMENT AT NEXT WEEK'S COUNCIL, WHICH WOULD HAVE SERIOUS IMPLICATIONS FOR THE EC. WE THOUGHT THAT A COMMON EC APPROACH COULD HAVE AN INFLUENCE ON THE JAPANESE ESTABLISHMENT, BY MAKING THEM UNDERSTAND THAT IT WAS DANGEROUS FOR THEM TO CARRY ON AS THEY HAD DONE HITHERTO. RETROSPECTIVE SURVEILLANCE DID NOT MEAN THAT QUOTAS WOULD FOLLOW SHORTLY, BUT IT WOULD PROVIDE A SIGNAL TO THE JAPANESE. THE COMMISSION RECOMMENDATIONS, AND OUR FURTHER SUGGESTIONS, WERE INTENDED TO PUSH THE JAPANESE TO TAKE THE EC MORE SERIOUSLY. GERMANY SHOULD UNDERSTAND THAT ALL MEMBER STATES SHOULD DO THEIR BEST TO TRY TO GET AGREEMENT.

6. NANTEUIL AGREED. THE COUNCIL MUST ADOPT AN EFFECTIVE EC POSITION. AT THE MOMENT, THE JAPANESE WERE DOING NO MORE THAN OFFERING SOMETHING ON THE GERMAN MARKET, IN RESPONSE TO STATEMENTS BY LAMBSDORFF, AND SOMETHING FOR THE BELGIANS, BECAUSE THEY HAD GONE TOO FAR THERE. SURVEILLANCE WAS A MINIMAL RESPONSE.

7. RUGGIERO (ITALY) AGREED WITH FRANCE AND THE UK. IN THE ABSENCE OF A COMMON POSITION, THERE WOULD BE A RISK OF PROTECTIONIST ACTIONS. THE COMMISSION PROPOSALS SEEMED TO BE A STRICT MINIMUM. NOTERDAEME ALSO SPOKE IN SUPPORT: IT MAY BE NECESSARY TO TAKE UNPLEASANT MEASURES UNLESS THERE WAS A FIRM AND COMMON COUNCIL POSITION. THE COUNCIL SHOULD GIVE A CLEAR SIGNAL TO THE JAPANESE THAT CERTAIN ACTIONS WERE NECESSARY ON THEIR PART IF THE EC WAS TO REMAIN ON THE STRAIGHT AND NARROW PATH OF FREE TRADE.

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8. CASPARI SAID THAT IT WAS ESSENTIAL THAT THE COUNCIL ADOPTED A COMMON POSITION. SURVEILLANCE WAS INTENDED BOTH AS A SIGNAL TO THE JAPANESE AND TO ENABLE BETTER COLLECTION OF STATISTICS -- CURRENTLY, THE COMMISSION HAD JAPANESE FIGURES BEFORE EC STATISTICS.

9. RUTTEN SAID THAT IF THE COUNCIL WAS TO ADOPT A COMMON POSITION THERE WAS A NEED FOR EACH MEMBER STATE TO TAKE ACCOUNT OF THE POSITIONS OF THE OTHERS. ON PROCEDURE, THE COMMISSION WOULD PRODUCE A DRAFT TEXT FOR DISCUSSION IN THE 113 COMMITTEE ON THE AFTERNOON OF 16 FEBRUARY. JAPAN WOULD BE TAKEN AS THE FIRST SUBSTANTIVE ITEM IN THE COUNCIL ON 17 FEBRUARY. COREPER SHOULD BE READY TO MEET IN THE MARGINS OF THE COUNCIL AT THE END OF TUESDAY MORNING, IF NECESSARY.

FCO ADVANCE DESKBY TO ALL:

FCO - KINCHEN (ECD(E)) JACK (FED)

CAB - JOHNSTON

DI - GENT (ICA)

DOT - PS/SOFS PS/MR PARKINSON SIR K CLUCAS GRAY SUNDERLAND
DUNNING

FCO PASS SAVING COPENHAGEN ROME DUBLIN ATHENS

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[ADVANCED/REPEATED AS REQUESTED]

FRAME EXTERNAL

ECD (E)

FED

ADDITIONAL DISTRIBUTION
JAPANESE TRADE



From the Secretary of State

CONFIDENTIAL

The Rt Hon The Lord Carrington KCMG MC
 Secretary of State for Foreign and
 Commonwealth Affairs
 Foreign and Commonwealth Office
 Downing Street
 London, SW1A 2AL

11. February 1981

Dear Peter,

EC/JAPAN TRADING RELATIONS

The Foreign Affairs Council will consider at next week's meeting the Commission's report on the consultations which had been held with the Japanese to follow up the Council's statement of 25 November 1980. The Council's main aims were to seek effective moderation of Japan's exports to Europe, a commitment to substantial and early increase in imports of Community products and, in respect of imports, equally favourable treatment with Japan's major trading partners.

In the Commission's view, the outcome of the consultations - essentially some vague indications of moderation in exports of cars and television sets to Benelux and Germany - leaves a substantial gap between Japan's response and the Council's statement.

The Commission recommend that this unsatisfactory response must be countered by keeping up the pressure on Japan. They accordingly make two main proposals for the immediate future:-

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From the Secretary of State

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- (i) for Community surveillance on imports of cars, colour televisions and tubes and some advanced machine tools from Japan (I understand that to win German support and to minimise United States reactions this is likely to take the form of monitoring of actual imports rather than licensing prior to importation);
- (ii) given its worldwide implications, the subject of trade and economic relations with Japan should be placed on the agenda for the Ottawa Summit;
- (iii) the Community Ambassadors in Tokyo should make joint representations with the Commission to the Japanese Foreign Minister.

Any lesser response would be unlikely to register with the Japanese, and I propose that Cecil Parkinson, who will be attending the Council, should aim to ensure that these proposals are adopted. In coming to this conclusion I have had in mind these factors:-

- (i) We pressed at the last Council meeting for stronger measures and a common approach; a united front is more than ever necessary now, in the face of a temporising response from the Japanese.

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From the Secretary of State

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- (ii) Only by putting firm pressure on Japanese exports to the Community will we induce them to go on making investments here. Although the surveillance proposal has no real teeth, it could persuade the Japanese that the Community is preparing to take firmer action if they do not respond. This could help to set the seal on the Nissan deal and encourage other firms to look at manufacturing in the Community.

- (iii) Getting the Community to put the subject on the agenda for the Ottawa Summit would considerably raise the level of political pressure on Japan. The Americans, who have hitherto preferred to deal bilaterally with Japan, would be brought into the discussion in a way which would emphasise the political risks the Japanese are running.

- (iv) The Commission's selection of cars, TVs and machine tools for surveillance is satisfactory so far as it goes. We should, however, pay attention to the developing Japanese threat to some new, high-technology industries such as micro-electronics and telecommunications, and we should be exploring the scope for including some of these products in the surveillance scheme.

- (v) The Commission should maintain their pressure on Japan to eliminate barriers to Community imports, though the short-term gains from this are more likely to be in the psychological effect on the Japanese than in a substantial increase in our exports.

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From the Secretary of State

I judge from reports of official-level discussions that unless the French decide to indulge in wrecking tactics, there is a good chance of the Commission's proposals being accepted without too much of the kind of discussion that we have had in previous Councils and which has left the Japanese with a strong impression of internal divisions.

I am copying this letter to the Prime Minister, to other Members of OD(E), Keith Joseph and Sir Robert Armstrong.

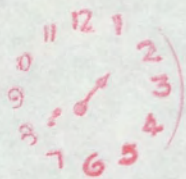
A handwritten flourish or signature consisting of a single, continuous, wavy line.

A handwritten signature in cursive script that reads "John Biffen".

JOHN BIFFEN

CONFIDENTIAL

17 FEB 1981



JAPAN REF 3

RESTRICTED

MXE 021/4

REC'D
25 FEB 1981

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ATHENS UKMIS GENEVA.

ARTICLE 113 COMMITTEE (FULL MEMBERS): 6 FEBRUARY
EC/JAPAN
MY TELNOS 373 AND 374

42
43
MXE 121/306/1

SUMMARY

1. THE MAJORITY OF DELEGATIONS RESPONDED FAIRLY POSITIVELY TO THE COMMISSION'S RECOMMENDATIONS FOR THE 17 FEBRUARY COUNCIL: BUT THERE WAS AN APPARENT HARDENING OF THE GERMAN POSITION IN THE FORMAL SESSION, ALTHOUGH IN LATER INFORMAL DISCUSSION THE GERMANS APPEARED LESS RIGID. THE 113 COMMITTEE WILL MEET ON 16 FEBRUARY TO TRY TO PREPARE A TEXT FOR THE COUNCIL.

DETAIL

2. DENMAN (COMMISSION) INTRODUCED THE COMMISSION COMMUNICATION TO THE COUNCIL IN SIMILAR TERMS TO HIS STATEMENT AT COREPER ON 5 FEBRUARY (MY FIRST TUR). MEMBER STATES TOOK THE FOLLOWING POSITIONS.

(A) BELGIUM: JAPANESE FORECASTS FOR CAR EXPORTS TO BENELUX (TOKYO TELNO 60) SHOWED THAT THEY WERE BEGINNING TO UNDERSTAND THE PROBLEMS, BUT THE FORECAST WAS CLEARLY INADEQUATE. DENMAN SAID THAT IN A MESSAGE JUST RECEIVED FROM TOKYO, MITI HAD SAID THAT THEY WERE TRYING TO IMPROVE THEIR OFFER, IE TO REDUCE EXPORT GROWTH TO WELL BELOW THE 10 PERCENT PREDICTED FOR THE BENELUX MARKET.

(COMMENT: IT WAS CLEAR BOTH FROM THIS AND FROM INFORMAL DISCUSSION LATER THAT THERE HAS BEEN INTENSE DIPLOMATIC ACTIVITY BETWEEN BRUSSELS AND TOKYO).

(B) UK: GRAY SAID THAT UK MINISTERS, INCLUDING THE NEW SECRETARY OF STATE FOR TRADE, HAD YET TO CONSIDER THE COMMISSION RECOMMENDATIONS. AT OFFICIAL LEVEL WE THOUGHT THAT THE JAPANESE RESPONSE WAS INADEQUATE AND INSENSITIVE. IT SEEMED DESIRABLE TO BRING HOME TO THEM THE IMPORTANCE OF IMPROVING THE RELATIONSHIP. THE COMMISSION'S RECOMMENDATIONS SAID LITTLE ON THE QUESTION OF IMPORTS INTO JAPAN: THE JAPANESE SHOULD HELP US MORE, BOTH IN PRACTICE AND PSYCHOLOGICALLY, NOT LEAST TO CONTAIN PROTECTIONIST PRESSURES. WE WOULD LOOK CAREFULLY AT THE IDEA OF INCLUDING TRADE RELATIONS WITH JAPAN ON THE AGENDA OF THE OTTAWA SUMMIT. ON EXPORT RESTRAINT, WE ATTACHED IMPORTANCE TO ENSURING THAT NOTHING WAS DONE TO UPSET RESTRAINTS ALREADY IN FORCE. ON SURVEILLANCE, IT WAS NOT CLEAR WHETHER THE COMMISSION WERE PROPOSING PRIOR OR RETROSPECTIVE MONITORING. THERE WERE CERTAIN

ADVANTAGES IN THE LETTER (STAFF RESOURCES AND ACCURACY OF INFORMATION). BUT TO BE EFFECTIVE, ANY ACTION SHOULD BE MADE PUBLIC. ON PROCEDURE, WE AGREED VERY MUCH ON THE NEED TO AVOID A ROW IN THE COUNCIL. IDEALLY, A TEXT SHOULD BE AGREED IN ADVANCE. (C) DENMARK: NETTERSTROEM AGREED THAT THE RESULTS OF THE TOKYO TALKS WERE PRETTY MEAGRE. HE AGREED WITH THE UK THAT THE COMMISSION PAPER MIGHT HAVE SAID MORE ON THE QUESTION OF ACCESS TO THE JAPANESE MARKET: EC/JAPAN PROBLEMS WOULD BEST BE RESOLVED BY OBTAINING BALANCE AT A HIGHER LEVEL OF TRADE. WE SHOULD LET THE JAPANESE KNOW CLEARLY AND PRECISELY WHAT WERE THE EC'S NEEDS. THE COMMISSION'S SUGGESTION OF SURVEILLANCE MERITED CONSIDERATION, BUT ANY SURVEILLANCE SHOULD BE RETROSPECTIVE.

(D) FRANCE: PRAGUE SHARED THE COMMISSION'S DISAPPOINTMENT AT THE RESULTS OF LAST WEEK'S TALKS. BUT HE DID NOT SHARE THEIR OPTIMISM ABOUT THE LIKELY FUTURE TREND OF JAPANESE EXPORTS. ON THE U.S. DIMENSION, BROCK' LETTER TO HAFERKAMP ON CARS WAS PRACTICALLY AN AFFRONT TO THE EC IN VIEW OF ASSURANCES WHICH THE U.S. SEEMED TO HAVE RECEIVED OVER THEIR CAR IMPORTS. ANY TEXT FOR THE 17 FEBRUARY COUNCIL SHOULD STATE CLEARLY THE EC'S DISAPPOINTMENT. ANY DISCUSSIONS ON TV'S AND CARS (PARAS (B) AND (C) OF MY SECOND TUR) SHOULD NOT TAKE PLACE UNTIL THE COMMISSION HAD CONDUCTED THE STUDIES REFERRED TO IN THE 25 NOVEMBER COUNCIL DECLARATION. SURVEILLANCE WOULD HAVE A CERTAIN SYMBOLIC VALUE IN WARNING THE JAPANESE, BUT ITS INTRODUCTION BY THE EC COULD BE REGARDED BY EUROPEAN PUBLIC OPINION AS A RATHER FEEBLE RESPONSE TO THE CURRENT SITUATION. FOR THAT REASON, ANY SURVEILLANCE SHOULD BE PRIOR RATHER THAN RETROSPECTIVE.

(E) ITALY: SARDI EXPRESSED DISAPPOINTMENT AT BOTH JAPANESE UNWILLINGNESS TO SHOW REAL RESTRAINT IN SENSITIVE SECTORS AND THEIR FAILURE TO OPEN UP THEIR MARKET. HE AGREED WITH THE FRENCH THAT THE INTRODUCTION OF RETROSPECTIVE SURVEILLANCE MIGHT NOT BE CONSIDERED AS AN APPROPRIATE REPLY BY EUROPEAN PUBLIC OPINION. HE AGREED ON THE NEED TO AVOID DISSENT IN THE COUNCIL.

(F) GERMANY: MRS STEEG THOUGHT THAT THE JAPANESE HAD BEGUN TO UNDERSTAND THAT THEIR TRADE RELATIONS WITH THE EC WERE NOT SATISFACTORY AND THAT THEY MUST DO SOMETHING. THE GAP WAS THEREFORE NOT AS BIG AS IT HAD BEEN IN NOVEMBER. THE EC APPROACH SHOULD BE RATIONAL AND UNEMOTIONAL. WE COULD NOT EXPECT THE JAPANESE TO TREAT ALL MEMBER STATES SIMILARLY WHEN THERE WAS NO COMMON POLICY, AND WHEN CERTAIN MEMBER STATES MAINTAINED LIBERAL POLICIES UNDER PRESSURE, WHILE OTHERS - FOR UNDERSTANDABLE REASONS - DID NOT. IN EXAMINING AN EC POLICY, A CLEAR PICTURE MUST BE AVAILABLE OF MEMBER STATES' INDIVIDUAL POLICIES. GERMANY DID NOT LIKE THE FACT THAT THE JAPANESE HAD STATED FIGURES FOR THEIR EXPORTS OF CARS AND TV'S TO THE GERMAN MARKET. ON THE COMMISSION'S RECOMMENDATIONS, SHE SAID THAT POSITIVE ASPECTS OF THE POLITICAL AND DEFENCE RELATIONSHIP SHOULD BE BORNE IN MIND. GERMANY HAD NEVER AGREED RESTRAINT LEVELS ON CARS AND TV'S WITH THE JAPANESE AND DID NOT WISH TO ASK THE COMMISSION TO PURSUE RESTRAINT:

INDEED, YEN MOVEMENTS MIGHT EASE MATTERS. SHE WAS UNEASY ABOUT THE PROPOSAL TO INTRODUCE SURVEILLANCE; SUCH A POLITICAL SIGNAL MIGHT SET THE PACE FOR PROTECTIONIST ACTIONS, ESPECIALLY BY THE AMERICANS. PRIOR SURVEILLANCE WAS UNACCEPTABLE. AS FOR RESTROSPECTIVE SURVEILLANCE, SHE WOULD LIKE MORE INFORMATION ON THE COMMISSION'S THINKING, AND IN ANY CASE IT WOULD BE IMPORTANT TO KNOW IN ADVANCE THE LIKELY U.S. REACTION. THE IDEA OF RAISING THE ISSUE OF TRADE RELATIONS WITH JAPAN AT THE OTTAWA SUMMIT SEEMED GOOD. ANY DECLARATION BY THE 17 FEBRUARY COUNCIL MIGHT INCLUDE A RECOGNITION OF THE FACT THAT THE WORLD STILL HAD A FUNDAMENTALLY LIBERAL TRADE REGIME; GIVE PROMINENCE TO INCREASING IMPORTS INTO JAPAN; STATE THAT JAPAN SHOULD NOT UNDULY CONCENTRATE THEIR EXPORTS, BUT WITHOUT SPECIFYING SECTORS; AND CALL FOR EC INDUSTRY TO IMPROVE ITS COMPETITIVENESS.

(G) NETHERLANDS: MOQUETTE SUPPORTED THE BELGIAN STATEMENT ON CARS, ADDING THAT THE DUTCH HAD NOT YET MADE UP THEIR MIND ABOUT WHAT SHOULD BE DONE NEXT. ON SURVEILLANCE, THERE WAS A RISK THAT INTRODUCTION OF A COMMUNITY WIDE REGIME MIGHT ENCOURAGE FORESTALLING OF EXPORTS FOR FEAR OF PROTECTIONIST ACTION: THE DUTCH HAD NOT YET GOT A POSITION ON THIS RECOMMENDATION. PUTTING JAPAN ON THE OTTAWA SUMMIT AGENDA MIGHT BE A GOOD IDEA, ESPECIALLY AS THE COMMISSION WOULD BE THERE TO PUT A VIEW FOR ALL MEMBER STATES.

(H) IRELAND: CAROLAN COULD ACCEPT THE COMMISSION'S RECOMMENDATIONS, WITH PROMINENCE GIVEN TO OPENING UP THE JAPANESE MARKET.

3. IN LATER INFORMAL DISCUSSION DENMAN SAID THAT HE THOUGHT THAT THE U.S. MIGHT NOT COMPLAIN AT THE INTRODUCTION OF RESTROSPECTIVE SURVEILLANCE. THE GERMANS GAVE SOME IMPRESSION THAT IN THOSE CIRCUMSTANCES THEY MIGHT GO ALONG WITH IT.

4. ON A POSSIBLE COUNCIL STATEMENT, DENMAN SUGGESTED THAT IT MIGHT CONTAIN THE FOLLOWING ELEMENTS: A STATEMENT OF REGRET AT THE JAPANESE RESPONSE; A MESSAGE OF CONCERN TO BE DELIVERED IN TOKYO JOINTLY BY THE EC AMBASSADORS AND THE HEAD OF THE COMMISSION DELEGATION; AND A LIST OF SPECIFIC MEASURES (AS IN THE COMMISSION'S RECOMMENDATIONS).

5. IN FURTHER DISCUSSION ON THE POSSIBILITIES OF RAISING THE MATTER AT THE OTTAWA SUMMIT MRS STEEG PROPOSED THAT THE QUESTION SHOULD BE FLAGGED FOR THE FORTHCOMING PERSONAL REPRESENTATIVES MEETING IN LONDON, THOUGH NOT DEALT WITH SUBSTANTIVELY THEN. A HIGH LEVEL GROUP OF EXPERTS ON TRADE, SIMILAR TO THAT ON ENERGY, MIGHT MEET IN OTTAWA IN PARALLEL WITH THE SUMMIT. THESE SUGGESTIONS APPEARED TO COMMAND SUPPORT.

RESTRICTED

6. ON PROCEDURE, IT WAS AGREED THAT THE 113 FULL MEMBERS SHOULD MEET ON THE AFTERNOON OF 16 FEBRUARY TO TRY TO PREPARE A TEXT FOR THE COUNCIL.

FCO ADVANCE DESKBY TO:

FCO - KINCHEN(ECD(E), JACK(FED)

CAB - JOHNSTON

DDI - GENT (ICA) MILLS(V) ROWE(IT)

DDT - PS/SOS, PS/MR PARKINSON, PS SIR K CLUCAS, GRAY, ABRAMSON
SUNDERLAND, DUNNING

FCO PASS SAVING TO:

COPENHAGEN ROME DUBLIN ATHENS UKMIS GENEVA

BUTLER

[ADVANCED & REPEATED AS REQUESTED]

FRAME EXTERNAL

ECD (E)

4
RESTRICTED

Envo Pd



SECRETARY OF STATE FOR
FOREIGN AFFAIRS
LONDON SW1A 2JY

R. Lancaster

NBPA

Handwritten initials and date: - 9/11

01 211 6402

Rt Hon Lord Carrington PC KCMG MC
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

4 December 1980

De PCE

COMMISSION PROPOSALS FOR A COMMON COMMUNITY POLICY TOWARDS JAPAN

Thank you for sending me a copy of your minute of 21 November to John Nott about the Commission's proposals for a more broadly based dialogue with Japan.

I recognise that there may be a case for touching on energy questions in a Community approach to Japan. But I think it important that we continue to concentrate our exchanges on energy matters with the Japanese in the International Energy Agency. The Japanese take the IEA seriously and have been responsive to representations made to them in that forum which includes, of course, the Americans. To open an international dialogue with them about energy on another front risks confusing and possibly detracting from our efforts in the IEA. This is particularly so where the new forum is one in which progress may be doubtful.

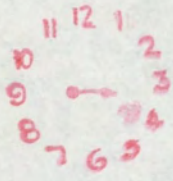
The issue of stock-building is central to current exchanges within the IEA about the Iran/Iraq shortfall, and will be a major topic of discussion at the 9 December IEA Ministerial. Active and effective Japanese cooperation is vital. I would therefore, prefer, energy not to be given undue prominence in the EC/Japan dialogue.

I am sending copies of this letter to the Prime Minister, to members of OD(E) and to Sir Robert Armstrong.

Handwritten signature: Davis

D A R HOWELL

4 DEC 1980



Envo pol
MODR 2/2

R H

4 December, 1980

I am writing on behalf of the Prime
Minister to thank you for your letter enclosing
a document regarding Japan and the EEC.

M. O'D. B. ALEXANDER

HE Mr Naraichi Fujiyama

88

Acknowledgement for this circular please. 4/12

01-493 6030.

EMBASSY OF JAPAN,
46, GROSVENOR ST.,
LONDON,
W1X 0BA

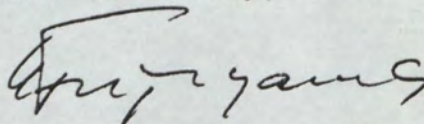
December 1980

Dear Mrs Thatcher, RH/12

I should like to draw your attention to the enclosed document which outlines Japan's position on a number of issues relating to Japan and Europe as I feel that considerable progress is currently being made towards a greater cooperation between the EEC and Japan.

I hope that you will find this background material useful and should you require further explanation, please do not hesitate to contact Mr. Y. Hatano, Director of the Japan Information Centre.

Yours sincerely,



Naraichi Fujiyama
Ambassador

JAPAN AND THE EEC: TODAY AND TOMORROW

JAPAN-EEC RELATIONS IN THE GLOBAL ECONOMY

The postwar free world economic order, based on the Bretton Woods arrangements, underwent major changes in the 1970s and against this background a new tripolarisation emerged comprising of Japan, Europe and the US. The two oil crises of this decade had the effect of making us more aware than ever of our global economic interdependence and the crucial importance of international co-operation for world economic stability and development.

It was this awareness that prompted the major industrialized nations to hold summit meetings to co-ordinate their policies for the attainment of non-inflationary sustained growth based upon the common foundations of market mechanisms and free trade. As one of the original participants in these summit meetings Japan has sought to fulfill its role in a spirit of international co-operation.

The Japanese economy has recently shown a relatively good performance with one of the highest growth rates of any industrialized country (5% in 1979) and a fairly moderate rate of growth in consumer prices of 8-9%. Japan has also met its international responsibilities by not only considerably reducing its current account surplus, but by accepting a fair share of current account deficit resulting from the soaring prices of oil. The favourable performance of the Japanese economy is the result of strenuous and painful efforts by both the Government and the private sector to cope with a slackening growth rate, worsening inflation, an insecure energy situation and other difficulties brought about by the first oil crisis. These efforts include the expansion of domestic demand, suppressing home-made inflation, restructuring industries, and improving energy efficiency and labour productivity.

Herculean efforts for corporate rationalization, for example, brought about an average improvement in Japanese labour productivity of 3.5% between 1973 and 1980. This compares with rates in the major industrialized countries of:

| | |
|-----------------------------|------|
| United States | 0% |
| Great Britain | 0.4% |
| France | 2.7% |
| Federal Republic of Germany | 3.1% |

A similar improvement was achieved in the field of energy saving. Japan's GNP grew 27% in real terms between 1973-80 with virtually no increase in its energy consumption. Industrial adjustment has also progressed in fields such as textiles (where 300,000 people were reassigned to other work in the 1970s), and shipbuilding (where there has been a 35% cut in productive capacity). These adjustment efforts were highly regarded in the recent annual OECD survey on Japan.

Japan is firmly resolved to continue to play its due role in the interest of the sound development of the world economy, but this calls for co-operation between Japan, the EEC and the United States. The efforts to strengthen the Japan-EEC relationship is particularly important because of its great potential.

As the economic relations between Japan and the EEC expanded in recent years, a trade imbalance has emerged, and Japan has taken the following measures to improve the situation:

- Measures to promote imports from the EEC
- Import promotion missions to the EEC
- Improved access to the Japanese Market

By simplifying the import testing procedures and revising the laws regulating foreign exchange and trade transactions.

Co-operation with the EEC to promote exports to Japan, Seminars, Corporate training programmes, etc.

It has to be pointed out with regret, however, that the growth of EEC exports to Japan is slipping while Japan's imports of manufactured goods are on the increase. There is strong sentiment in some European countries to the effect that Japan is a closed market and that is why the European exports have been stagnating. However, the Japanese market is no more closed than that of the EEC. Even when a market is open it takes a lot of positive effort to be successful in promoting exports to that market. Japan's successful export growth has been due to active and persistent efforts in marketing as well as the competitiveness of Japanese products.

The problems in Japan-EEC relations to be solved include the discriminatory measures against Japan in certain European countries, and the concern over exports of specific Japanese products to the EEC market. Constructive efforts have been made between the two parties since 1979 to solve these problems, and understanding is growing. What is important in considering these economic problems is that we should not yield to the temptation of narrow-minded nationalism or protectionism, but rather be guided by the principles of a free economy and international co-operation, aiming at an expanding equilibrium in the Japan-EEC economic relationship.

Leadership by Japan and the EEC is considered crucial for the management of the world economy in the years ahead, and we should make persistent efforts and maintain close dialogue between us in order to mould a new relationship covering a variety of fields, including industrial co-operation.

There are arguments in Europe that Japan is essentially a different kind of society, and therefore there is no tangible basis for fair competition to take place. It should be stressed that in Japan as well as in Europe, exactly the same principles for a free economic system operate, and that the vitality of both our societies are basically sustained by the principle of free competition. It should also be pointed out that Japan has absorbed considerable elements of European civilization in the process of its modernization, and the Japanese people even today hold European culture - the arts, music and fashion - in very high esteem. More than four hundred thousand Japanese tourists visit Europe annually, and the mass media brings the latest (European) news to every corner of Japan. Consequently the Japanese people generally feel familiar with and attached to Europe. This favourable sentiment coupled with the enormous size of the Japanese market is expected to play a major part in promoting Japan-EEC relations.

RECENT JAPAN-EEC ECONOMIC RELATIONS

Trade Imbalance

Although Japan-EEC trade has grown considerably in recent years, it has been accompanied by a gradual widening of our trade imbalance. This trend was checked last year when European exports to Japan grew faster than Japanese exports to Europe. But the trade surplus in favour of Japan has increased again this year as EEC exports to Japan have stagnated while Japanese exports to Europe have performed well. It is important to note that Japanese imports taken as a whole have in fact increased considerably this year. While this is in part due to the higher prices of oil, Japanese imports, excepting petroleum and petroleum products, increased by 15.9% in the January-September period of this year. According to OECD forecasts (as of July 1980), Japan's current account deficit is expected to reach \$17.3 billion with a trade deficit of \$14.9 billion. Consequently, it may be argued that EEC exports to Japan have been sluggish this year not because the Japanese Market is closed, but because EEC products are less competitive than other foreign products.

Imports from the EEC

More than 80% of all EEC exports to Japan are manufactured goods, and it should be noted that Japan's tariff for manufactured and mining products are among the lowest of all major countries as a result of the MTN agreements and Japan's intention to implement fully all the MTN codes concerning non-tariff barriers. Nevertheless, Japan is poorly endowed with natural resources and has to import almost all her requirements of petroleum, iron ore and coal.

Her trade pattern has therefore been one of importing raw materials and exporting manufactured products. It is also true that she has tended to produce the necessary industrial products domestically in the absence of advanced industrialized economies in the vicinity. However, Japan's imports of manufactured goods have grown faster than those of any other industrialized countries in the last five years. Moreover, we have instituted measures unmatched by any other nation to promote the imports of manufactured goods.

In July 1979, the committee for Manufactured Goods Import Measures was established with members from both the government and the private sector to examine the measures to be taken for manufactured goods import. Various measures have been taken such as import promotion missions and expanding the activities of the manufactured imports promotion organization (MIPRO).

European exports of manufactured products to Japan increased faster than manufactured imports from the US or the world as a whole in 1977 and 1978, but the trend reversed last year. In the January-September period of this year, the United States expanded its exports of manufactured goods to Japan by 27.5% year-to-year, although the EEC exports of manufactured goods remained virtually unchanged from the 1979 level. Manufactured exports are strongly affected by price competitiveness and the marketing efforts of the exporters.

In order for EEC-manufactured goods to successfully penetrate the Japanese market, it is essential to improve the price competitiveness and step up their export efforts. The introduction in 1979 by the EEC commission of a programme to send young European businessmen to Japan to study the language and receive on-the-job training was a welcome step to this end. France has successfully managed to increase her exports of manufactured goods to Japan by 23.6% in the first half of 1980, which exceeds the average growth rate of Japan's manufactured imports. Her exports of chemical goods to Japan, in particular, increased by as much as 91.7%.

Japanese Exports to the EEC

As already noted, the main cause of this year's trade imbalance has been the sluggish performance of EEC exports to Japan. However, one often hears reference to the "flooding" of Japanese products. Imports from Japan accounted for only 4.5% of all EEC imports in 1979. (Incidentally imports from the EEC account for 6.8% of Japan's overall imports. There has, however, been a steady increase of Japanese exports which has been made possible because of improved productivity. The bulk of Japan's exports to Europe are automobiles, cameras, tape recorders and other products where marketing efforts to meet consumer needs are of utmost importance. It follows that Japanese exports have responded to the requirements of European customers, and there is little substance to the allegations that the increase of Japanese exports is to blame for the EEC's various economic problems.

One reason why Japanese exports have become such an issue is that there are still many Europeans who believe the old fallacy that Europe is confronted with unfair competition from Japan. Is not the Japanese government pursuing economic management and foreign exchange policy especially designed to promote exports? Has not the Japanese Government adopted resource allocation policies primarily aimed at economic growth without meeting her responsibility as an advanced nation in areas such as defence and economic co-operation? Are not Japanese industries enjoying the advantages of low wages and low social security costs? These are some of the misconceptions widely held in Europe.

In Europe there still exists a misconception that Japanese industries have unduly strong competitiveness on account of low wages, low social welfare costs, and long working hours. Is this correct?

Firstly, the average hourly wage in the Japanese automobile industry, for example, was US \$6 in 1979 (converted at the rate of \$1 = 220 ¥). This was lower than in West Germany, on a par with France and higher than in the UK. The average hourly wage (including overtime) for all workers in manufacturing industries (excluding office workers) but including the automobile industry, was about US \$4.7 (converted at the rate of \$1 = 210 ¥) in 1978, this was lower than in West Germany, but higher than in France and the UK.

Secondly, the Japanese social welfare system is comparable to those in Europe in terms of pensions, public welfare support, health insurance and other aspects. For example, in the case of pensions, the standard "Welfare Pension" in Japan was US \$392 per month (in 1979): US \$191 in UK (1978): US \$419 in West Germany (1978): US \$191 in France (1977). In addition, it should be pointed out that the Japanese company incurs considerable welfare costs in the form of housing, athletic facilities, holiday-accommodation, cooking classes, flower-arrangement classes and foreign language classes.

Thirdly, in comparing actual working hours worked in the Japanese and European automobile industries, it has been claimed that whilst Japanese employees work longer hours, precise international comparison of working hours is difficult because of the differing system of statistical compilation, especially in view of the recession and the comparatively small number of working days lost by strikes, it is not appropriate to make direct comparisons simply drawing on statistics.

DAYS OF WORK LOST DUE TO STRIKES (PER 1000 POPULATION)

| COUNTRY | DAYS LOST | COUNTRY | DAYS LOST |
|---------|-----------|--------------|-----------|
| Spain | 458 | Australia | 118 |
| Italy | 294 | France | 69 |
| UK | 183 | Japan | 13 |
| US | 166 | West Germany | 0.4 |

SOURCE: ILO Statistics 1977

Is the Japanese Government pursuing policies specifically designed to promote exports?

Firstly, although there are those who argue that the Japanese authorities are intervening to keep the Yen artificially undervalued for increasing the price competitiveness of Japanese exports, the Japanese Government understands that this view is not supported by any of the European monetary authorities. Not only is the foreign exchange market outside of the Government's control, but also the Japanese Government has also economic policy reasons for not wanting to see the Yen undervalued. An undervalued Yen invites an unbearable increase in the prices of imports, particularly that of oil.

Secondly, is there truth in the argument that Japan failed to meet her international responsibility in the fields of economic co-operation or defence, thereby diverting the saved resources for economic growth?

As for economic co-operation, in order to expand its official development aid, Japan fixed a medium-term target of doubling it in three years from 1978. This target is to be achieved this year as scheduled. Consequently, there should be substantial improvement in the ratio of ODA to GNP.

Japan will continue to maintain this positive attitude and aim to raise the ratio of ODA to GNP in spite of the difficult fiscal situation.

As regards our efforts in the security field, Japan has been making steady efforts to improve her national defence capability. At the same time, Japan, being deeply committed to peace, has chosen not to take the path to becoming a military power. We have thus continuously pursued peaceful diplomacy in an effort to contribute to world peace and prosperity. Japan has been trying to do her best to contribute positively to world peace and security by playing an international role, political as well as economic, commensurate with her capabilities, while standing firmly on the friendly relationship with the United States.

More specifically, Japan has taken concerted measures with the European countries and the US in the wake of the Soviet military intervention in Afghanistan, and has sought to contribute positively to the recovery of peace in Indo-China, including contributions to the solution of the refugee problem and furthermore has contributed to the improvement of the North-South relations through economic co-operation etc. Japan is thus striving to make due contribution to the maintenance of peace and stability in Asia and the World.

It is not appropriate to evaluate a nation's contribution to the International Society by simply comparing such figures as the ratio of defence expenditure to the GNP, which are superficial and tell only part of the story, totally missing the circumstances described above.

THE FUTURE OF JAPAN-EEC ECONOMIC RELATIONS (INDUSTRIAL CO-OPERATION)

In order to make the economic relations between Japan and the EEC multi-dimensional, it is necessary to further industrial co-operation in such fields as exchange of direct investments, research and development, and co-operation in Third Country Markets.

Industrial co-operation is essentially promoted by the initiative of private enterprises, and their governments are in a position to support such a move.

Industrial co-operation should be promoted with due respect for the principle of competition and free trade.

It is gratifying that concrete co-operation is pursued in a substantial number of cases and at different levels in the field of high technology. These endeavours go beyond a simple co-operation between Japan and the EEC in the economic field. but contribute to the progress of mankind as a whole. This co-operation should be supported as much as possible from both sides.

The instances of industrial co-operation between Japan and the EEC member countries include:

In the field of the Aircraft Industry, joint development of the fan jet engine with the UK (Rolls Royce) and joint development of the helicopter with Germany (Messerschmitt-Bolkow-Blohm).

In the field of Atomic Energy, co-operation with UK, France and Germany on the Light Water Reactor and Fast Breeder Reactor.

In the field of the Automobile Industry, business collaboration with the UK (BL), and joint venture with Italy (Alfa Romeo).

In the Electronics Field, direct investment such as IC plants are being made in the UK.

There are many instances of co-operation in Third Country Markets. The agreement on co-insurance signed with Belgium last June is a good example for the promotion of industrial co-operation through the encouragement of an International Consortium.

GROWTH OF REAL GNP/GDP

(% change from previous year seasonally adjusted at annual rates).

| | US | JAPAN | GERMANY | FRANCE | UK | ITALY | BELGIUM | NETHERLANDS |
|-------|-----|-------|---------|--------|-----|-------|---------|-------------|
| 1978: | 4.4 | 6.6 | 3.5 | 3.3 | 3.5 | 2.6 | 2.5 | 2.4 |
| 1979: | 2.3 | 5.9 | 4.4 | 3.2 | 1.7 | 5.0 | 3.3 | 2.6 |

CONSUMER PRICES

(% change from previous year)

| | US | JAPAN | GERMANY | FRANCE | UK | ITALY | BELGIUM | NETHERLANDS |
|-------|------|-------|---------|--------|------|-------|---------|-------------|
| 1979: | 11.3 | 3.6 | 4.1 | 10.8 | 13.4 | 14.8 | 4.5 | 4.2 |
| 1980: | 14.7 | 8.4 | 5.8 | 13.9 | 21.8 | 20.9 | 6.4 | 6.4 |

(Japan: calendar 1980 1st qtr 7.5, 2nd qtr 8.3, 3rd qtr 8.4).

CURRENT BALANCES

(\$ billion, seasonally adjusted)

| | US | JAPAN | GERMANY | FRANCE | UK | ITALY | BELGIUM | NETHERLANDS |
|-------|------|-------|---------|--------|------|-------|---------|-------------|
| 1979: | -0.3 | -8.8 | -5.7 | 1.5 | -5.2 | 5.2 | - | -2.5 |
| 1980: | -2.4 | -17.3 | -15.9 | -3.9 | -2.5 | -2.7 | - | -1.6 |

PRODUCTIVITY (GNP/EMPLOYMENT)

(% change, average)

| | US | JAPAN | GERMANY | FRANCE | UK | ITALY |
|---------|----|-------|---------|--------|-----|-------|
| 1973/80 | 0 | 3.5 | 3.1 | 2.7 | 0.4 | 1.9 |

AVERAGE TARIFF RATE

(After reduction 1978)

| US | JAPAN | EEC |
|------------------------|----------|-----------------------|
| Slightly more than 4%. | About 3% | Slightly less than 5% |

SHARE OF TRADE WITH JAPAN IN EUROPEAN COMMUNITY'S TRADE WITH NON EEC COUNTRIES (%)

(Eurostate, ECU basis)

| | Exports | Imports |
|------|---------|---------|
| 1978 | 2.1 | 4.9 |
| 1979 | 2.4 | 4.5 |

SHARE OF TRADE WITH EEC IN JAPAN'S TOTAL TRADE (%)

(Customs clearance basis, US \$ basis)

| | Exports | Imports |
|---------------|---------|---------|
| 1978 | 11.4 | 7.7 |
| 1979 | 12.3 | 6.8 |
| 1980 Jan-Sept | 12.9 | 5.4 |

GROWTH OF JAPAN'S IMPORTS OF MANUFACTURED GOODS (%)

| | 1978 | 1979 | 1980 (Jan-Sept) |
|-------|------|------|-----------------|
| Total | 39.5 | 35.6 | 11.4 |
| EEC | 47.2 | 20.6 | 2.6 |
| US | 30.0 | 41.0 | 27.5 |

(Customs clearance basis)

AVERAGE WAGE PER ACTUAL WORKING HOUR

(US \$)

| | JAPAN | US | FRANCE | GERMANY | UK |
|------|-------|------|--------|---------|------|
| 1978 | 4.66 | 6.62 | 4.56 | 6.69 | 3.47 |

(Converted at the average exchange rate to the US \$, 1978).

AVERAGE EMPLOYEE'S PENSION INSURANCE BENEFITS

| | JAPAN | US | FRANCE | GERMANY | UK |
|------|---------|---------|---------|---------|---------|
| 1979 | ¥85.939 | ¥83.338 | ¥51.191 | ¥91.819 | ¥55.303 |
| | \$392 | \$396 | \$191 | \$419 | \$263 |

(\$1:¥219.17)

(US, UK: 1978, FRANCE: 1977).



FCS/80/163

SECRETARY OF STATE FOR TRADEEurope
Policy

②

Rennie Rennie

MB Rennie

Commission Proposals for a Common Community
Policy Towards Japan

(Yon have seen)

Thank you for your letter of 17 November, which concentrates on the trade aspects of the Commission's proposals. I recognise that it is on the trade front that action is most urgently required. But we do, I think, need to bear in mind that, as your letter recognises, what is being proposed by the Commission is a more broadly based dialogue with the Japanese which would cover such things as investment in both directions, the transfer of technology and other forms of industrial cooperation. Exploring these avenues should in the longer term help us to contain the problems posed by Japanese competition. It ought also help to create a more stable and harmonious relationship with Japan, which is an important political as well as economic objective; we need Japanese cooperation over a growing range of international issues. And, in the short run agreement to a wide-ranging dialogue has the practical advantage of reinforcing Member States' claims to be involved with the Commission in negotiations with the Japanese.

It is of course important that we should work for agreement on a firm approach. As you say, we should be able to count on the Italians and the French (who have the largest range of formal import quotas) to take the lead in arguing that, in present economic circumstances,
/existing



existing national safeguards must be preserved. We can afford to let them make the running on this point, though we should make clear that our line too is firm. It will be interesting to see what you can discover about the likely French position if you are able to visit Paris before the Council.

You are right to point out that the Japanese would take comfort from a failure of the Commission's initiative. What we need to ensure therefore is that it goes forward on the right lines. It is satisfactory that the latest working paper tabled by the Commission states unequivocally that discussions with the Japanese "cannot fruitfully be launched unless conditions for their successful conduct can be created" and it makes clear that the first of these conditions should be "moderation" in Japanese exports to the Community.

I should like to add one point to your suggested outline of a Community policy. I suggest that the Community approach should include energy questions as well. We need to reinforce representations to the Japanese about their tendency to bid up world oil prices by pursuing an aggressive stocking policy in the present tight market situation.

I think this fits in well with our objective of widening the scope of the proposed dialogue.

I am sending copies of this minute to the Prime Minister, to colleagues in OD(E), to the Secretary of State for Energy and to Sir Robert Armstrong.

C



Erin P...

NBPN

Ph...
- 2/1

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

21 November 1980

The Rt. Hon. The Lord Carrington, KCMG., MC
Secretary of State for Foreign and Commonwealth
Affairs

Dear Peter

EC TRADING POLICY TOWARDS JAPAN

In his letter to you of 17 November, John Nott set out the line he proposes to take at the Foreign Affairs Council on 24-25 November. I share his concern about the implications of the rapid rise in Japanese exports. To a large extent this may reflect the huge improvement in competitiveness caused by the fall in the yen during 1979 and to some extent the present strength of the yen may serve to moderate this surge. But in the meantime the burden of adjustment which Japan's trading partners have to bear is severe and I believe we should make this very clear to Japan.

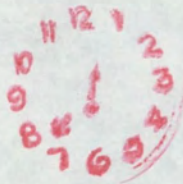
I too share many of his reservations about a Commission initiative. We could end up with the worst of both worlds - have made little progress in changing Japan's trading practices but having surrendered those safeguards that we have negotiated at national level. I agree very much with the dual approach he has outlined. In addition to the Commission's initiative, the Member States should adopt a united front in exerting pressure on Japan. I agree also that moderation of exports is a more promising avenue than promotion of access to Japanese markets.

I am copying this letter to the Prime Minister, to colleagues on OD(E) and to Sir Robert Armstrong.

[Handwritten signature]

GEOFFREY HOWE

21 NOV 1980





From the Secretary of State

Prime Minister.

The sidelined fanage overleaf
is striking.

avoid (2)

Print 17/XI

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The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London, SW1A 2AL

17 November 1980

Dear Peter.

nr

EC TRADING POLICY TOWARDS JAPAN

The Foreign Affairs Council on 24/25 November will revert to the question of the Community's trading relations with Japan. With public attention regularly focussed on Japanese car imports and with a bilateral trade deficit which is likely to exceed £1 billion this year, the topic is of domestic political sensitivity as well as having important implications for our general trade policy. On a European level it is no less significant since the Japanese visible trade surplus with the EC has grown very rapidly of late, reaching £5 billion in 1979.

The Commission has revised its thinking since its proposals for a common policy were criticised by the Council in July. The essential elements of its strategy are now:-

- (i) opening a "wide-ranging dialogue with Japan" to cover not only trade but also industrial co-operation, investment, financial questions and energy;

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From the Secretary of State

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- (ii) an examination of the possibilities for "reciprocal liberalisation". This would involve removal of certain restrictions on Japanese exports (other than cars, which are all too difficult at present) in return for a measure of temporary export restraint in unspecified areas, coupled with the removal of certain barriers on the Japanese side;
- (iii) apparently, some prior demonstration by the Japanese of a willingness to restrain exports and increase imports to help create the right climate for discussions under (ii).

It would of course be quite easy to go along with this initiative in the rather cynical belief that it will change little. I feel, however, that its lack of realism means that it will achieve nothing of benefit to the United Kingdom and could indeed damage our interests. We should therefore aim to firm up the discussion so that the Commission do not put forward a rather flimsy "common policy", but rather they convey to the Japanese the fact that the Member States are united in their concern about the continuing trade imbalance. The line we pursue should take into account the following factors:-

- (a) the scope for increasing our exports to Japan is strictly limited. British (and indeed European) industry in general is simply not competitive with the Japanese. Our Embassy in Tokyo has just estimated that action on the six most important barriers to our trade would not increase our exports by more than £15 million a year. We must not therefore look to liberalisation of the Japanese market as a principal remedy (as (ii) above suggests);

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From the Secretary of State

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- (b) the Japanese would not expect the Commission initiative to be limited to demands; they would be looking for concessions from the Community, and there is none that we are ready to give;
- (c) we have a number of legal and voluntary safeguards against Japanese imports. We need to make sure that we preserve these - as the French and the Italians will surely do - until we can be certain that alternative and equally effective measures are in force. These will need to incorporate some arrangement for checking Japanese in-roads into important new sectors such as machine tools;
- (d) despite the Commission's assurances, it will not necessarily be easy to keep cars out of the dialogue once it gets going;
- (e) the whole strategy has to be looked at in the light of our policy of attracting Japanese inward investment. Here, the lesson seems to be that a firm stand on imports brings results.

Undoubtedly there is potential for coping with the Japanese problem more effectively if Member States are united in their approach to it. The Japanese would take comfort from a failure of the Commission's new initiatives. I therefore believe we should be prepared to discuss the proposals at the coming Council, and I append a note of the line I propose to take. Given that the French and the Italians have more to lose from an eventual move to a common commercial policy, I would expect them to be in the lead in stiffening the Commission, and I hope to visit Paris before the Council to sound out the views of the new Minister of Commerce specifically on this.

I am copying my letter to the Prime Minister, to colleagues on OD(E) and to Sir Robert Armstrong.

John Nott
John

JOHN NOTT

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COMMUNITY POLICY TOWARDS JAPANUK Objective

To reduce the bilateral deficit between Japan and the UK, and to act through the Community where appropriate to achieve a united approach towards this question.

Line to Take

- 1 In spite of a series of initiatives over the years the Community has failed to reverse the trend towards an increasingly wide gap on visible trade.
- 2 Unless stronger tactics are adopted which deploy the strength of the Community as a whole, the Japanese may be able to pick off the member states one by one.
- 3 Since Japan is aware that the Community is seeking to adopt a common approach, we must not now be seen to be divided.
- 4 It is therefore appropriate to give the Commission a fresh mandate for discussions. But it is vital that the Commission get across to the Japanese the message that unless they adjust their policies they can expect the Community to defend itself more comprehensively than hitherto.
- 5 Action by Japan could take the form of a substantial increase in imports from the Community or a corresponding moderation in exports, or more likely, a combination of these, but the main emphasis should be on the latter. A significant upward movement in the value of the yen would be important.
- 6 Existing bilateral safeguards should be maintained in the meantime.

- 7 Once we have positive proof that the action described in paragraph 5 has taken effect, but not before, the Community should be prepared to examine ways in which a more united Community policy towards Japan can be achieved.
- 8 In discussions about our import problems, the Community must look ahead to ensure that we anticipate and provide for new as well as existing problem sectors.
- 9 It would add to the Community's impact in the wide-ranging discussions if member states joined the Commission in the approach to the Japanese. At all events, it is essential that the Commission consult fully and frequently with member states on the progress of discussions.

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EURO 102
Has seen
Prime Minister

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From the Secretary of State

Michael Alexander Esq
Private Secretary
10 Downing Street
London, SW1

14 November 1980

Dear Michael

EC/JAPAN

I believe that my Secretary of State spoke to the Prime Minister in the House last night about his view that we should be taking a tougher stance in our trading relations with Japan. He mentioned to her that he was proposing to go to Paris next week to discuss this question with French Ministers before it is taken in the Council of Ministers on 24/25 November. He is also considering a visit to Bonn at the beginning of next month to discuss trade policy issues with Lambsdorff. In the meantime, however, he has suggested that it would be preferable if knowledge of his intention to discuss the Japanese problem with the French was not made known to the German Government, for example in the course of the forthcoming summit.

I am sending a copy of this letter to Paul Lever (FCO).

Yours sincerely,

Stuart Hampson

S HAMPSON
Private Secretary

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Exo for.

EXTRACT FROM THE SUMMARY RECORDS PRESIDENT GISCARD LUNEL
16.9.80

Kreisky was thinking in terms of holding a meeting early in 1981. The President of the Republic said that he thought that the meeting could wait and should not be held until after the French Presidential election. He and the Prime Minister agreed that it would be preferable if the North-South Summit were postponed until after the Ottawa Economic Summit.

In the context of the OPEC contribution to aid, Monsieur Giraud drew attention to the dangers inherent in the proposals discussed by the OPEC strategy committee:-

(a) The proposals for indexation of oil prices were so constructed as to be highly disadvantageous to the industrialised countries;

(b) The proposals for helping the less developed countries were so constructed that a considerable part of the benefit to those countries would in practice come out of the resources of the industrialised countries, who would thus be paying not only their own share of oil price increases, but also part of the share of the less developed countries.

Monsieur Barre was sceptical about the practical effect of any proposals for indexation of oil prices. Whatever the nominal prices, the actual cost to consuming countries would be determined by supply and demand. Decisions on levels of production would be what mattered; and it was very important for the industrialised countries to reduce their demand for oil by sustained efforts to save energy and develop alternative sources.

Imports from Japan

There was then a discussion of the threat of Japanese imports to European industries. Monsieur Giraud said that the threat was not generalised, but the Japanese concentrated their efforts on particular goods: on radio and television, on watches, on photographic equipment, on motorcars, and perhaps in future on information technology. The technique was always the same: the market was flooded with Japanese imports; the resulting payments surplus was then invested in local manufacture or in the distribution system, which served to keep down the exchange value of the Yen, preserve

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the competitiveness of the goods and increase the market penetration, at the expense of the locally manufactured product. European industry could not stand much more of this type of competition. Even if it was assumed that European industry could match the technological efficiency of Japanese industry, it could not match the social factors which served to make Japanese labour more productive than European labour.

The Prime Minister said that she did not favour protectionism, though she accepted the need for a measure of voluntary self-limitation agreed between Japanese manufacturers and their European counterparts in circumstances of special difficulty. In considering whether to impose any measures of import freeze or control, it would be necessary to have regard for the possible political consequences for Japan's relations with other industrialised countries of the Western world.

Monsieur Barre did not favour protection. The problem was to get European goods into Japan. As the Prime Minister pointed out, they tended to be kept out not only by a "Buy Japanese" prejudice but also by the opacity and complexity of the Japanese distribution system. Rather than restrict Japanese imports into Europe, he would prefer to induce the Japanese to match their imports into Europe with imports of European goods into Japan. They should be invited to import European goods to the same degree of market penetration as that enjoyed by Japanese goods in Europe. He believed that they could do this if they wanted to; and he suggested that their willingness to do so could be re-inforced by the threat that, if they failed to do so, Japanese imports into Europe could be frozen, and only permitted to increase in proportion with increases in European exports to Japan.

The President of the Republic said that he was not a protectionist, though he was slightly more inclined that way than Monsieur Barre - a fact that might help his standing in France, which according to the latest opinion polls had slipped slightly while Monsieur Barre's had risen, since the French were naturally protectionist. In answer to a question from the Prime Minister, he confirmed that imports of Japanese cars into France were held at a very low level by an agreed measure of self-limitation. They would not be allowed to go

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above that level, and the Japanese were well aware that, if self-limitation was not honoured, other measures would have to be adopted. The President went on to say that there were differences between the Europeans and the Japanese for which no amount of technological efficiency could compensate. What European worker would give up one of his three weeks holiday to come down to the Japanese worker's two weeks? Or, still less, spend that holiday under his employer's aegis being subjected to instruction and propaganda about the need for and benefits of increased production. It was not a matter of protection but of correction for ineradicable national differences.

The discussion concluded at about 3 p.m., when the President of the Republic and his guests moved to the Plenary meeting.

20 September 1980

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TELEGRAM NUMBER 631 OF 5 NOVEMBER

INFO PRIORITY UKREP BRUSSELS, BONN, PARIS, WASHINGTON

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FOREIGN AFFAIRS COUNCIL : EC/JAPAN

1. FROM THE ACCOUNTS WHICH WE HAVE RECEIVED HERE ABOUT DR OKITA'S VISIT TO BRUSSELS LAST MONTH IT WOULD APPEAR THAT THE JAPANESE HAVE NOT YET FULLY REALISED THE SERIOUSNESS WITH WHICH EUROPEAN GOVERNMENTS ARE VIEWING THE RISE OF JAPANESE EXPORTS AT A TIME OF SERIOUS RECESSION, VERY HIGH UNEMPLOYMENT AND RISING PROTECTIONIST PRESSURES. HIS LINE IN BRUSSELS THAT THE WORST OF THE RECESSION WOULD BE PASSED BY THE SECOND HALF OF 1981 AND THAT IRANY CASE JAPANESE EXPORTS WERE NOT RESPONSIBLE FOR UNEMPLOYMENT IN EUROPE SMACKS OF THE STANDARD JAPANESE TACTIC OF ENGAGING IN DEBATING POINTS AND BUYING TIME.

2. THERE IS NO INDICATION HERE THAT THE MINISTRY OF FOREIGN AFFAIRS LET ALONE MITI OR OTHER GOVERNMENT DEPARTMENTS ARE AT THIS STAGE LOOKING FOR ANYTHING MORE THAN A PALLIATIVE. THIS IS PARTLY BECAUSE OTHER PROBLEMS (EG WITH THE AMERICANS) HAVE TO BE GIVEN PRIORITY AND PARTLY BECAUSE THE JAPANESE ARE INCLINED TO SEE THE COMMISSION AS A PAPER TIGER. FUKADA, DIRECTOR GENERAL OF THE ECONOMIC AFFAIRS BUREAU IN THE MFA, TOLD ME TODAY THAT THEY WERE WORKING ON A GENERAL STATEMENT WHICH MIGHT BE MADE BY MR ITO BEFORE THE FOREIGN AFFAIRS COUNCIL. WHEN I ARGUED THAT THIS SHOULD BE AS SPECIFIC AS POSSIBLE HE REPLIED THAT AS THEY HAD HAD NO SPECIFIC REQUESTS FROM THE COMMISSION THEY COULD NOT GO BEYOND GENERALITIES.

3. IN THE NEXT FEW WEEKS THE JAPANESE WILL BE PRIMARILY (PERHAPS ALMOST EXCLUSIVELY) CONCERNED WITH DEVELOPMENTS IN THE GERMAN ATTITUDE. THE SINGLE MOST IMPORTANT FACTOR IN RECENT WEEKS IN BRINGING THE JAPANESE TO THEIR PRESENT REALISATION THAT THEIR ECONOMIC RELATIONS WITH EUROPE ARE TURNING SOUR HAS BEEN THE RAPID, AND TO THE JAPANESE UNEXPECTED, CHANGE IN THE GERMAN VIEW OF JAPANESE EXPORTS. BUT APART FROM THE GENERAL VIEW THAT JAPANESE CAR EXPORTS SHOULD NOT BE ALLOWED TO TAKE MORE THAN ROUGHLY THE PRESENT 10% OF THE GERMAN MARKET THERE DOES NOT APPEAR TO BE A COHERENT GERMAN VIEW OF HOW THEIR AND THEIR EUROPEAN PARTNERS' ECONOMIC RELATIONS WITH JAPAN SHOULD BE ORDERED. BUT IF WE ARE TO ARRIVE AT A EUROPEAN AS OPPOSED TO SEPARATE NATIONAL APPROACHES TO THE JAPANESE PROBLEM IT WILL BE IMPORTANT TO CARRY THE GERMANS WITH US IF WE ARE TO BE TAKEN SERIOUSLY BY THE JAPANESE.

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4. I SUGGEST THAT THERE ARE THREE MAIN AREAS WHICH WE SHOULD TACKLE:
- A) JAPANESE EXPORT RESTRAINT.

THE JAPANESE HAVE STILL TO BE BROUGHT TO REALISE THAT IF THEY DO NOT EXERCISE EXPORT RESTRAINT IN CERTAIN SENSITIVE FIELDS (CARS AND CONSUMER ELECTRONICS AT PRESENT BUT OTHER SECTORS WILL ARISE IN THE YEARS AHEAD) THEY WILL BE FACED WITH AN UNENDING SERIES OF TRADE ROWS OF THE SORT THEY HAVE HAD WITH THE AMERICANS FOR AT LEAST THE LAST 12 YEARS AND/OR THE ERECTION OF DE FACTO TRADE BARRIERS. THE FIRST MOVES ON THIS MUST BE THE SPEEDY CORRECTION OF THE JAPANESE OVERSHOOT OF CAR EXPORTS TO THE UNITED KINGDOM AND AN UNDERSTANDING ON CAR EXPORTS TO THE FEDERAL REPUBLIC FOR 1981. IF THIS SORT OF MOVE COULD BE BROADENED IN DUE COURSE TO A SYSTEM OF COMMUNITY-WIDE RESTRAINT, THIS WOULD SEEM FROM HERE TO BE WORTH TRYING FOR. BUT THE LEVEL OF RESTRAINT WOULD HAVE TO VARY FROM ONE COUNTRY TO ANOTHER FOR SOME CONSIDERABLE TIME AND IT WOULD PROBABLY BE UNREALISTIC TO EXPECT THAT ANY MOVES TOWARDS THIS WIDER RESTRAINT COULD HAVE BEEN CONSIDERED BEFORE THE FRENCH PRESIDENTIAL ELECTION IN MAY 1981:

- B) OPENING UP THE JAPANESE MARKET

ANY INCREASE IN BRITISH EXPORTS TO JAPAN IF THE JAPANESE MARKET WERE 'COMPLETELY LIBERALISED' WILL NOT BE VERY GREAT (I HOPE TO PROVIDE SOME ROUGH ESTIMATES BEFORE THE FOREIGN AFFAIRS COUNCIL). NEVERTHELESS THERE ARE CERTAIN SECTORS IN WHICH WE COULD DO BETTER IF THE JAPANESE ALLOWED US TO DO SO AND WE SHOULD GO ON PRESSING FOR THIS WHILE RECOGNISING THAT DEVELOPMENTS ON THIS FRONT WILL BE SLOW AND THAT THIS PROBLEM SHOULD NOT BE ALLOWED TO DETRACT FROM THE PRIORITY ISSUE IN (A) ABOVE. IT IS UNLIKELY TO BE IN OUR INTEREST TO LINK THE ISSUE OF INCREASED MARKET ACCESS TOO CLOSELY WITH A NEGOTIATION FOR REMOVAL OF NATIONAL QR'S BY SOME EC MEMBER STATES AS THE COMMISSION HAVE DONE IN THEIR PAPER TO THE COUNCIL. THE FRENCH AND ITALIANS ARE UNLIKELY TO REMOVE THE QR'S WHICH REALLY BITE ON JAPANESE EXPORTS AND LINKAGE WITH IMPROVED ACCESS TO THE JAPANESE MARKET WILL PROVIDE AN EXCUSE FOR JAPANESE PROCRASTINATION:

- C) THE LONGER TERM PROBLEM OF JAPANESE TECHNOLOGY ADVANCE.

THIS COULD PRODUCE A VERY SERIOUS PROBLEM FOR OUR FIRMS IN THE KNOWLEDGE AND INFORMATION INDUSTRIES PERHAPS 3 TO 8 YEARS FROM NOW. THIS RAISES THE BROADER ISSUE OF WHAT OUR OVERALL ECONOMIC RELATIONSHIP WITH JAPAN SHOULD BE, EITHER AS BRITAIN OR AS EUROPE. THE REQUIREMENT HERE IS FOR A LONG HAUL EFFORT ON THE PART OF BRITISH INDUSTRY TO INVOLVE THEMSELVES MUCH MORE CLOSELY WITH JAPAN IN ORDER TO KEEP ABREAST OF TECHNOLOGICAL ADVANCE HERE IN CERTAIN SECTORS AND TO PROFIT FROM THE JAPANESE SKILL IN BEING ABLE TO APPLY ADVANCE TECHNOLOGY IN SHORT ORDER IN MASS-PRODUCED GOODS. THIS WILL MEAN THE PURCHASE OF ADVANCED JAPANESE TECHNOLOGY. AT THE SAME TIME WE NEED TO PRESS HARD FOR INCREASED JAPANESE INVESTMENT IN MANUFACTURING IN BRITAIN.

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5. IN SUM, AS SEEN FROM HERE, THE OVERRIDING PROBLEM FOR THE SHORT TERM IS THE ISSUE OF JAPANESE EXPORT RESTRAINT, PROMISE AND PRACTICE, IN CERTAIN SECTORS. FOR THIS I DO NOT THINK THAT ANY TANGIBLE QUID PRO QUO SHOULD BE NECESSARY. THE JAPANESE WOULD ACHIEVE A LOWERING OF THE TENSION AND A REDUCTION IN THE PRESSURES FOR PROTECTIONISM FOR 20 YEARS IN THE 1950'S AND 1960'S AND WHICH HAS NOW ACHIEVED A COMMANDING POSITION IN WORLD TRADE IN CARS AND CONSUMER ELECTRONICS AS WELL AS STEEL AND SHIPBUILDING THIS SHOULD BE SUFFICIENT RECOMPENSE.

6. THER WOULD I SUGGEST BE CONSIDERABLE ADVANTAGE IN PUTTING SOME OF THESE POINTS, PARTICULARLY (A) AND (C) IN PARAGRAPH 4 TO MR ITO IN LONDON IN DECEMBER AND TO MR TANAKA THE MITI MINISTER (IF SUCH A VISIT CAN BE ARRANGED). I HOPE ALSO THAT SIR RAYMOND PENNOCK MAY BE BRIEFED ALONG SIMILAR LINES BEFORE HIS VISIT TO JAPAN WHICH MAY TAKE PLACE IN FEBRUARY.

FCO PASS SAVING ALL ADDRESSEES.

CORTAZZI

REPEATED AS REQUESTED

INTERNATIONAL TRADE
FED

THIS TELEGRAM
WAS NOT
ADVANCED

PERSONAL & CONFIDENTIAL

TPL to see o/r Japan
MAD 11/x

BL Limited
35-38 Portman Square,
London W1H 0HQ.
Telephone: 01-486 6000. Telex: 263654.
Cables: Leymotors London W1. Telex.

27 August 1980

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RLH/JMA

cc Mr Hoskyns PRIME MINISTER

T Lankester Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON
SW1

I think that you
will find the whole
of this of interest

MS
29/8

Dear Tim,

I enclose for your information a copy of Ford of Europe's submission to Commissioner Davignon, principally on the subject of Japan. It was sent on a personal and confidential basis to Sir Michael by Bob Lutz, Chairman of Ford of Europe; and Sir Michael has forwarded copies, on a similar basis, to the Secretaries of State for Trade and Industry and to Robin Ibbs.

Sir Michael regards the Ford submission as a particularly well-argued case for a firm response to the current aggressive trading policies being pursued throughout the world by Japan. You will of course have to judge for yourself whether the document merits the Prime Minister's attention.

Yours ever,

Roger

ROGER HOLMES
Assistant to the Chairman



Ford of Europe Incorporated
Chairman of the Board

Brentwood Essex CM13 3J
England

August 5, 1980

Viscount Etienne Davignon
Commissioner, Internal Market
and Industrial Affairs
E C Commission
200 Rue de la Loi
1049 Brussels
Belgium

Dear Viscount Davignon,

It is with pleasure that I herewith transmit Ford of Europe's response to your request for our views on the current problems facing our industry as well as our thoughts on the revitalization and restructuring of this key sector of Europe's economy.

As you will see, we feel that a period of containment of Japanese (and potentially East Bloc) volume and market share growth is essential if the European vehicle industry is to survive and prosper.

To those who would carry the doctrine of free trade to an illogical extreme and express their willingness to witness the Darwinian struggle for "survival of the fittest", including its certain outcome in favor of the Japanese, let me offer the following:

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1. The process of Darwinian evolution, or adaptation of a species to a changed or more hostile environment, takes time. A brutal, sudden change in environment will cause the demise of the species. The second oil crisis, with its resultant dislocations in exchange rates and world monetary flows, has produced such a brutal change. Japanese efforts to keep the Yen undervalued make the problem even more severe.
2. European producers are true competitors in an Adam Smith sense. Some of us are stronger and more efficient than others. Many of us are fully capable of coping with competition from similar motor vehicle companies, whatever their nationality. What we cannot do, however, is compete as individual companies with "Japan, Inc." which, far from being a symbolic entity, is a living functioning structure, with an elaborate interlocking network of "close liaison" and "cooperation" between MITI, the large banks, the major vehicle producers and their suppliers. To suggest that such an arrangement would invite the attention of the anti-trust authorities if it were practiced in the US or Europe would probably be an understatement. Why, then, do we regard this as "fair" trade?
3. The Japanese totally excluded European and American participation from their market when they were developing their fledgling motor industry in the post-war period. This prevented the interpenetration of markets which is such a key element in trade. Why, then, would it be "unfair" for Europe to make use of a partial shielding of its automotive industry for a limited time during a necessary period of restructuring and re-adaptation?
4. Many "free trade" advocates argue that Europe's auto industry can ill afford a protectionist stance because each European country depends on export markets to absorb about half of its automotive production. This argument is specious because these "exports" are, in the vast majority, cars and trucks destined for other EEC and EFTA regions. As I showed you, "off-shore" exports, and especially those to the Asia-Pacific region, will approach nil in the 1980's for the European industry.

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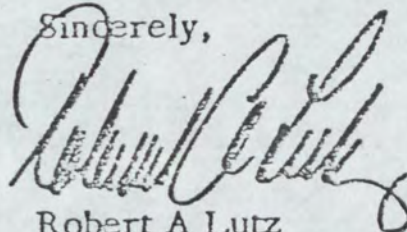
There seems no reason to believe that a limitation of Japanese imports by the EEC would affect, say, German exports to France, Italy, Finland, Spain, South Africa, South America or the US.

5. Possibly Europe has been able to afford the near loss of its indigenous industries in cameras, calculators, motorcycles and entertainment electronics (to name only a few) because none of these accounted for really large employment and none had a substantial multiplier effect on supplier and basic industry. The car and truck industry, however, is a different matter. It is a large employer, and that employment is multiplied by our component suppliers, not to mention such industrial sectors as plastics, paint, glass, automotive fabrics, steel and rubber. A loss or even severe reduction of the automotive and related industries would, in my estimation, be tantamount to the de-industrialization of Europe.

In summary, it is my conviction that we are not facing a normal free and fair trade situation. Rather, we are facing a highly determined, single-minded adversary operating from a socio-cultural base wholly different from (and alien to) our own, assisted towards its goals by the oil-induced disruption in world commodity and monetary flows. The goal of this competitor is not a free, fair interpenetration of markets. The goal, in my personal estimation, is total dominance of the world vehicle industry regardless of the damage and destruction this inflicts on other regions.

It is imperative that Europe's industry be given the respite it needs to reorganize, modernize and streamline its operations. We must strive for something closer to a "Europe, Inc." while obviously respecting the constraints imposed by legal requirements. In this endeavour, we look to your leadership while assuring you of our deep commitment and full assistance.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Robert A. Lutz', written in a cursive style.

Robert A Lutz

INTRODUCTION

Ford of Europe is glad to reply to the request of the Commissioner for its views on the present situation in the European automobile and industrial vehicle sector. Our reply will discuss the current state of the motor vehicle industry in Europe, its need for rationalisation, and the need for a constructive environment in which to carry out the actions necessary to improve its productivity and competitiveness.

1. SUMMARY OF KEY ASPECTS

The Outlook for the European Car Market

Lower
growth
rate

Demand for cars in Western Europe is expected to expand relatively slowly between 1979 and 1985, at a trend rate of no more than 1.9 per cent. This compares with a rate of 5.7 per cent achieved in the decade to 1973. This slower rate of growth will impose much more rigorous competitive conditions than in the past.

The Japanese and East European Challenge

Japanese
and East
European
export
growth

The Japanese exported over 750,000 cars to Western Europe in 1979. Ford estimates, based on projected investment plans of Japanese manufacturers, suggest that this could increase to 1,900,000 by 1985. Other estimates are as high as 2,300,000. East European exports to Western Europe, only some 150,000 in 1979, could reach 800,000 by 1985. Japan has a major cost advantage and Eastern Europe has a non-cost-related pricing policy. This enables both to achieve their export targets once sufficient capacity is installed. For example, the basic retail price of a Datsun Cherry in Japan is £1,255 and the landed cost in the EC is £1,611, against a current retail price in Europe of £2,221. In the US, Japanese vehicles sell for as much as 30 per cent below EC prices. Thus Japan's motor manufacturers have considerable flexibility to increase sales by reducing prices without serious loss of profitability.

Profitability

Potential
loss of
400,000
jobs in
Europe

It has been estimated that such an increase in imports, together with a potential loss to the Japanese of former export markets, would make some 200,000 jobs redundant in the European vehicle industry. At least another 200,000 would be lost amongst component and material suppliers. In addition, profits of all EC motor manufacturing companies would fall by two-thirds compared to the levels achieved in the second half of the Seventies (cf Ford study: Non-European Imports and other Factors Affecting the Car Industry in Europe to 1985). It is probable that an influx of Japanese cars of low-cost manufacture and of East European cars dumped at prices unrelated to cost would also depress the pricing level in the EC. Thus actual profitability would be still further depressed. Many European companies would fail in these circumstances and profitability would be below the levels required to maintain investment. Suppliers would be severely affected as European companies would be forced to purchase components from Japan to match Japanese cost levels.

II. THE THREAT OF INCREASED IMPORTS

The Japanese Challenge

The most severe and pressing threat facing the European motor manufacturing industry is the loss of sales volume to imports. This will occur unless specific remedial actions are taken.

Effects of
Japanese
capacity
increases

Japanese car production capacity is projected to increase from 6.2 million units in 1979 to 9.3 million in 1985. After increased volumes are supplied to the Japanese, North American and other markets, it is estimated that up to 1.9 million cars a year will of necessity be directed towards the Western European market. Japanese cost-competitiveness is sufficient to ensure that the additional capacity can be sold, unless remedial action is taken.

The Japanese cost advantage is due to considerable economies of scale, to the ownership and backing of the industry by large banks, and also to a favourable attitude from MITI. This cooperative atmosphere, which has been termed "Japan Inc.", has given the industry strong support for many years. Cost

Low Japanese production costs from "Japan Inc." support

benefits occur because the industry is able to supply a domestic market virtually free of imports and is also exporting substantial volumes to North America and Europe, all from highly concentrated manufacturing facilities. In addition, the Japanese have been able to invest in the most modern plant and equipment even in periods of low or negative profitability thanks to the support they receive from the major banks. The industry has expanded for twenty years behind a protective barrier which until recently barred imports, foreign investment, or take-overs of Japanese companies unless they were on the brink of failing. Japanese vehicle producers have also benefited from the utilisation of highly effective manufacturing techniques, put into place by a management and workforce which have been highly adaptable and welcoming of change.

Advantageous currency situation

Another advantage enjoyed by the Japanese vehicle producers is a Yen exchange rate that has remained extremely competitive despite huge exports of manufactured goods. Japan's reliance on imported oil has facilitated the holding of this position. Japanese banks, government and industry have consciously collaborated to foster ideal conditions for the development of exporting industries. Under this "Japan Inc." philosophy, which embraces all elements of the economy, Japanese motor companies have at times operated as a quasi-cartel under government leadership.

Eastern European Exports

East European capacity increases

The capacity of East European vehicle producers is estimated to increase from 2.3 million cars in 1979 to 3.8 million in 1985. Much of this capacity is destined to supply imports for Western Europe, often of cars based on recent western designs. Pricing philosophies which bear little relation to production cost will enable the East European manufacturers to dump this volume in Western Europe unless remedial measures are taken.

III. SHORT-TERM DISADVANTAGES OF THE EUROPEAN INDUSTRY

Development from National Bases

An integrated approach to the vehicle market does not yet exist in the EC in the sense that it does in North America and

Lack of
integrated
marketing
approach

Japan. Most manufacturers have remained based in their home countries with export operations in other EC nations. Despite the growth in intra-Community trade, national product preferences remain strong. Ford has been a pioneer of the concept of a truly European manufacturing system, with car assembly plants in four countries and truck assembly operations in three. Few other companies in Europe, however, manufacture substantially outside their base country.

The Need for Rationalisation

Vehicle producers in Europe, which have evolved from a large number of independent motor companies in separate national markets, have not yet fully adapted their operations to the more integrated EC of today. This is continuing to impose structural pressures on the European vehicle industry.

Lower
production
efficiency
in Europe

The industry in Europe has not yet had time to adapt fully to its new environment or to rationalise its operations to the extent achieved outside Europe. Many of the companies are relatively small. As a result, plant sizes and production runs tend to be smaller than in other producing areas. Much needless duplicate investment is occurring in areas like engines (petrol and diesel), axles, 5-speed and automatic transmissions and major truck components. Much of the plant and equipment in Europe is far older than in Japan, since Europe has not enjoyed the recent production growth of Japan, which has been based on the penetration of Western markets.

The Need for Investment

Profitability
in Europe
is low

Europe's disadvantage in productivity of vehicle manufacture relative to both Japan and North America needs to be reduced over the next decade. But this can only be accomplished if the industry can earn the profits required to invest in more modern capacity and to rationalise its structure into larger and more competitive units. Profitability in the European vehicle industry has historically been lower than in North America or Japan due to the more segmented nature of the market and to the much larger number of manufacturers competing for that market. Complex and differing legislative requirements have inhibited economies of scale in production.

The Structure of the Industry in Europe

Large
number of
manufacturers

Whilst North America has only five domestic car manufacturers, of which two are substantially linked to large external groups, the industry in Europe still consists of a large number of discrete manufacturers. Six major groups (Peugeot, Renault, Fiat, Volkswagen, Ford of Europe and General Motors) manufacture vehicles within the Community. A further five substantial companies manufacture vehicles in smaller quantities (BL, Volvo, Alfa Romeo, Daimler-Benz, BMW).

EC open
to
vehicle
imports

In addition the Community has been open to imports from Spain, Sweden, the East European bloc and especially Japan. In this important respect the EC market has differed from the Japanese market, where imports remain very low, and the US market, where at least in the large-car sector the US manufacturers have faced little external competition until recently.

IV. INDUSTRY'S RESPONSE TO THE CHALLENGE

Changing Industry Structure

The European vehicle industry is already taking steps to eliminate its competitive disadvantage. Collaborative agreements between European motor manufacturers and between European and Japanese groups are aimed at reducing component design and manufacturing costs and investments. Despite its links to Ford US, Ford of Europe is actively pursuing a number of collaborative ventures with European partners in both passenger and commercial vehicles.

Investment
in
Southern
Europe

Much investment in new capacity is being directed towards the poorer regions of the enlarged Community as it will be in 1984/5. This will provide a beneficial wage cost advantage and will help ensure the continued survival of those facilities already existing in the industrially developed regions. New automated techniques of manufacturing, planned for these plants, will match the best in the world. Efforts are being made to persuade both management and the workforce to accept some of the best aspects of Japanese methods.

New products now on the drawing boards take advantage of superior European design skills and are being planned to achieve greater economies of production. But investment in this industry

takes at least five years to implement. During this period the European motor industry will continue to be highly vulnerable to Japanese competition.

V. RECOMMENDED GUIDELINES FOR EC ACTION

The decade ahead is one in which the European vehicle industry needs to restructure and rationalise its operations to meet external challenges. It will not be able to do this in an environment where the anticipated loss of export markets is aggravated by a growing penetration of imported vehicles into its home market, the EC. Both US-owned and European-owned companies are fully capable of undertaking the investments and developments required, provided that the domestic European base market remains stable.

Need for balanced trading conditions

Ford of Europe, as one of the more consistently profitable producers in Europe, is confident that it has the financial and human resources in Europe to achieve the tasks ahead. But this confidence is based on the premise that the EC will not permit unbalanced or damaging trading conditions.

Importance of internal EC harmonisation

The EC must seek to ensure that standardisation of legislation in Europe contributes to the development of a more open market within the Community. It should endeavour to use its political influence to ensure that European neighbour countries follow common EC standards also.

Importance of manufacturing in Europe

We are concerned at the unrestrained and rapid penetration of certain European markets which has been evident in recent years. We are also aware of certain projects to assemble vehicles from Japanese components in European factories. Unless it can be assured that these vehicles use a high proportion of European manufactured content, they will serve to exaggerate rather than mitigate the social consequences of increased import penetration in EC markets. Therefore we consider it essential that the EC should police such agreements to ensure that major components are sourced in Europe. An appropriate move would be to raise the definition of European manufacture from 50 per cent by value to 80 per cent of the ex-factory price. All vehicles assembled in the EC that fail to achieve this figure should be subjected to the same import restraints that would apply to imported built-up vehicles.

Ford of Europe believes that if the European industry is to accomplish a rationalisation and re-equipment program to put it on a level basis with the Japanese industry, it will need a measure of protection against unlimited non-European imports for a period of five years.

RECOMMENDATIONS

Ford of Europe proposes the following measures:

1. Japanese vehicle sales in the EC to be limited for a five-year period to the overall share achieved in 1979 for both cars and commercial vehicles.
2. Sales shares to be allocated on a country-by-country basis which takes account of current patterns and also considers the need to replace existing quotas on Japanese imports in certain markets. Each year's sales should be based on a fixed percentage of the previous year's total market. Thus 1981 sales would be x per cent of the total 1980 market. Exceptions for products manufactured from Japanese components in Europe should only be permitted when the European content by value exceeds 80 per cent of the total, at ex-factory price, including warranty. (See separate Ford of Europe submission on this topic for further detail.)
3. East European vehicles should be subject to anti-dumping investigation. They should also be limited to a total volume in EC markets in the same manner, unless offset by a barter arrangement allowing counterbalancing exports.
4. European commercial vehicle weights and passenger vehicle safety and emissions rules should be harmonised. Efforts should also be made to have these adopted by neighbouring European countries, such as Sweden and Switzerland, that enjoy strong trade relationships with the EC. Proposals for new automotive emission control legislation should be subjected to rigorous cost/benefit and fuel economy impact analysis at EC level.
5. The EC should endeavour to alter taxation policies which, as in Austria and Greece, actually discriminate against European products.

6. The EC should consider giving selective export assistance to vehicle manufacturers competing in the Asian and African markets most heavily attacked by the Japanese.
7. The EC should encourage fiscal legislation in member countries that would provide faster depreciation on new investments that would have the effect of increasing efficiency through rationalisation.
8. Social and health-and-safety legislation which currently penalises European companies should be controlled to an efficient minimum.
9. A direct and more frequent dialogue should be initiated and institutionalised between the EC and all major European vehicle manufacturers.

Submission by Ford of Europe
to Viscount Etienne Davignon
EC Commissioner for Interior Market and Industrial Affairs

We have been asked to suggest a method by which Japanese car and commercial vehicle exports to the European Community should be subjected to voluntary restraint.

We would make the following recommendation:

1. All existing quotas and voluntary restraints in EC member states to be replaced by a single system, administered by the EC.
2. The Japanese to be restrained to the 1979 level of penetration in the EC, i. e. 7 percent for cars and 7 percent for commercial vehicles under 3.5 tonnes. Over 3.5 tonnes, Japanese imports do not now present a problem.
3. During 1980, apparently in anticipation of quota controls, the Japanese have pushed cars and commercial vehicles into Europe - especially to Germany. Thus 1979 penetrations, not the atypical 1980 figures, should be used as a base.
4. Permissible sales volume to be calculated on the basis of the previous year's total market. Thus allowable 1981 sales would be based on 7 percent of the 1980 total market for cars and 7 percent for commercial vehicles. We estimate this would mean 579,000 cars and 56,000 commercial vehicles under 3.5 tonnes for 1981.
5. The voluntary restraint should last for 5 years, that is until the end of 1985.
6. From 1982, the Japanese would not be allowed to obtain more than 20 percent of any individual EC market or more than 6 percent of the market in the major vehicle manufacturing countries (Britain, France, Germany, Italy). This is a necessary constraint to avoid concentration on the most profitable markets.

7. Each country's agreed volume in any one year would be calculated as not more than 20 percent (6 percent for the major countries) of the previous year's market. Thus the total permitted in Belgium in 1982 would be 20 percent of the total 1981 market in Belgium. This would be advantageous to the Japanese for planning purposes in providing a clearly established volume each year, at the beginning of the year.
8. We appreciate that the various national governments may not be prepared to accept the simple harmonized formula that we have expressed above. However, we believe that the same principle of a 7 percent limitation should apply to the EC even if the 6 - 20 percent formula is not applied to individual countries. It would be possible, for instance, to substitute 4 percent for Italy and France and 8 percent for the UK and Germany if this coincided better with national preference.
9. Cars and commercial vehicles assembled in Europe from Japanese components must be considered as part of the assembly country's total agreed volume unless the European content in the ex-factory price (including warranty) exceeds 80 percent. This is necessary to avoid widespread evasion of the voluntary restraint system by token European assembly operations.
10. Spain and Portugal should be integrated into the system at their dates of EC entry and Greece from the outset.
11. For purposes of equity, East European imports should be subjected to the same system. They should also be investigated for dumping.

