

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L2)(80)4 Revise

26 November 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

PROBLEMS OF INDUSTRY AND TRADE

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. To stress the need for quick effective action to tackle trade problems, and to respond to any industrial questions raised.

POINTS TO MAKE

International Trade Questions

(a) Protective Action

2. British Government have resisted strong pressure for import restrictions in a number of sectors. Recognise dangers of unjustified protectionism. But recession is causing serious problems. Industry is entitled to expect EC to react as effectively as other developed countries to import surges and unfair trade.

(b) EC/Japan

3. (a) Welcome declaration on Community approach adopted by Foreign Affairs Council on 25 November. Right to use stronger tactics which deploy the strength of the Community as a whole. Previous initiatives over the years have failed to reverse the trend towards an increasingly wide gap on visible trade.

- (b) Vital to get across to Japanese the message that unless they adjust their policies they can expect the Community to defend itself more comprehensively than hitherto.

CONFIDENTIAL

(c) Council declaration calls for commitment by the Japanese Government to a substantial and early increase in imports of Community products and for effective moderation in exports in sensitive sectors. In present circumstances main emphasis has in practice to be on the latter.

(d) There can be no question of liberalisation of import restrictions by EC until we get results from Japan. On the UK side there are in any case no formal quota restrictions to be negotiated away. Mistake to dismantle our existing inter-industry arrangements unless there is something more effective to put in their place.

(e) In discussions about import problems the Community must provide for new as well as existing problem sectors.

(f) Right for Commission to maintain close contact with Member States. In wider dialogue it would add to Community's impact for Member States to join the Commission in the approach to the Japanese.

(c) US Oil And Gas Price Controls

4. (a) Essential for credibility of Western cooperation over energy that there is no delay in implementing US commitment to raise prices to world levels.

(b) Together with low dollar, US price controls are having a devastating effect on the UK textiles industry and damaging the chemicals industry. We must seek an urgent solution.

(c) Concerted effort needed to step up Community pressure on Reagan administration. But in any new approach to US EC case must be well substantiated and convincing. Commission draft statement seems to be on the right lines. But what exactly do the Commission have in mind? Consultations in the GATT are unlikely to produce early results as the existing talks on fibres show.

(d) If the issue cannot be resolved before the next economic summit (Ottawa - July 1981) we should consider using that occasion to bring home our concern to President Reagan personally.

(d) Multi-Fibre Arrangement (MFA)

5. We must have an effective successor to the present MFA.

UK industry is in a very difficult situation.

(e) Industrial Questions

6. (a) Steel

Community has made a successful start in tackling problems of domestic overproduction. Important that all EC companies comply with the quotas. Must now seek to reduce surplus capacity and restructure. Have already made difficult decisions ourselves. Externally we look for voluntary arrangements with suppliers which will be no less rigorous than the demands imposed on the domestic producers.

(b) Industrial Innovation

The Communication is a useful analysis of some of the problems. The Council should take note of it. We welcome the recognition that innovation is largely determined by the market place. The Community's role is, together with Member States, to help to create the right framework and in particular in identifying barriers to innovation and in proposing means of removing them.

(c) Telematics

Welcome Commission initiative. Hope work can move forward quickly. Particular need to liberalise market in telecommunication terminals.

BACKGROUND

References:

- A : Commission Communication on Industrial Development and Innovation;
- B : Commission Communication on International Trade Problems;
- C : UKREP telno 5209 giving text of Council Declaration on EC/ Japan;
- D : Tokyo telno 646 giving text of statement by Japanese Minister of Foreign Affairs on EC/Japan.

EC/JAPAN

7. In response to a rapidly deteriorating trade imbalance between the Community and Japan the Commission have proposed a new overall Community strategy. In addition to trade this would cover wider issues of political and technological cooperation. The working paper submitted to the 24/25 November Foreign Affairs Council paid more attention than previous drafts to the concessions which the Community should obtain from the Japanese. In particular it made it clear that 'moderation' by Japan over exports to the EC would be a precondition to discussion of reduction of Member States' import barriers. France, which together with Italy has the largest number of formal quotas on imports from Japan, has taken the lead in expressing reservations about the Commission's proposal and at the Foreign Affairs Council initially attempted to secure agreement to a statement dealing only with sectoral problems. Eventually however the Council adopted a declaration based on the Commission's working paper. It is clear the Japanese Government would have taken comfort from a failure.

/by

CONFIDENTIAL

by the Foreign Affairs Council to support the Commission initiative. A week before the Council meeting a tough statement in relations with the EC was issued by Mr Ito the Foreign Minister (who is to visit London on 10 December immediately before his talks with the Commission).

8. The basic UK objective is to reduce our bilateral trade deficit with Japan and we want to act through the Community where appropriate to help achieve this. It is also for us an important political concern that the Community should develop a more stable and harmonious overall relationship with Japan. Discussion of wider economic and political issues could in the longer term make a useful contribution. We need to encourage a greater Japanese stake in the health of our economies through inward investment and industrial cooperation which can involve import substitution and transfer of Japanese technology. In the political field it is the Japanese who often feel the greater need to look to Europe (eg. the then Foreign Minister's visit to Luxembourg in April at the time of the debate in the Nine about sanctions against Iran).

9. Japanese car exports represent a major threat to the continued operation of the open trading system. The SMMT have asked for an assurance that they will continue to honour their commitment to market prudently in the UK (where their market share is likely to be over 12% in 1980). Despite the world-wide drop in demand the Japanese have increased their penetration in the USA to over 20% and in Germany to over 10%. The European manufacturers' association (CCMC) has called for formal import controls. A high level delegation including Sir M Edwardes and the heads of Renault, Volkswagen and Fiat visited Tokyo for talks on 18 November. JAMA apparently expressed understanding but gave no specific assurances.

10. Count Lambsdorff (FRG Economic Minister) suggested during a visit to Japan in July that Japanese exporters would be prudent to show restraint but the German Government remains formally

/opposed

opposed to import restrictions. It is strongly in the interest of the Japanese that this should continue to be the case. They are likely to try to play the Germans off against other Member States eg. by keeping their share of the German car market below 10%.

11. A particular threat is diversion of trade both to the EC and the EC's traditional export markets if restrictions are imposed on access to the US market. This threat remains despite the US International Trade Commission's ruling (by three votes to two) on 10 November that Japanese imports were not causing injury to American producers. President-elect Reagan has said that he is opposed to formal restrictions on Japanese car imports but he still believes their level should be reduced. He has had support from the US automobile manufacturers in his campaign for the Presidency.

US OIL AND GAS PRICE CONTROLS

12. President-elect Reagan has said he will maintain the Carter administration's objective of decontrolling US oil prices by October 1981 and gas prices by 1985/1987. This timescale is nothing like short enough to satisfy the European textile and chemical industries. On the other hand bringing gas prices up to world market levels is as sensitive an issue in the US as in the UK.

13. The Commission's draft statement envisages urgent consultations with the US authorities. We need to know precisely what the Commission have in mind. Consultations with the US in the GATT have been going on for some time but have produced no concrete results so far nor are they likely to in the foreseeable future. The Americans continue to argue that their producers' competitive edge derives mainly from higher productivity and movements in the exchange rate. In the circumstances it might be useful if the third sentence of the draft statement could be expanded to read "The Council instructed the Commission to engage urgently in consultations with the US authorities in order to explore the possibility of eliminating these distortions to international trade or to find other means of mitigating their effects".

CONFIDENTIAL

14. As the Commission communication to the Council points out the Community authorised the UK in February 1980 to restrain imports of two US synthetic yarns. The Government are now reviewing the situation for 1981 against the background of intense pressure from the textile industry for additional quotas.

MULTI-FIBRE ARRANGEMENT (MFA)

15. The rate of contraction of the UK textiles industry is accelerating. In the first eight months of 1980 60,000 jobs have already been lost. The Prime Minister told an industry delegation in July that a tough successor to the present MFA would be needed.

16. In practice a majority of EC Member States and other developed countries favour a successor arrangement. The Germans are the main developed country advocates of liberalisation. They have made it clear that they will be seeking credit for this in their relations with the developing countries.

17. Negotiations on a new MFA are not likely to begin in earnest until autumn 1981 (at about the same time as the next session of North/South global negotiations). There is a real prospect of a serious North/South confrontation.

INDUSTRIAL QUESTIONS

Steel

18. On 30 October Council gave unanimous assent to Commission proposals for mandatory production quotas under Article 58 of the ECSC Treaty which apply until 30 June 1981. The next step is to renegotiate the voluntary restraint arrangements with major third country suppliers to reduce imports in tune with internal quotas. The Commission are also to provide a report to the Council on restructuring in the next few months. We have already carried out major closures and the French have also been active, the Italians and the Belgians less so. The Foreign Affairs Council on 25 November considered revised Commission proposals to provide aid for early retirement

(including

(including severance pay) and short time working. There was general agreement that social measures were needed in the steel sector, but agreement was not reached on the specific proposals because of difficulty over the funding of the measures. We and other Member States have doubts about the vires of using the EEC Budget. Discussions will continue and the Council on December 15/16 will again discuss this subject.

Industrial Innovation

19. Innovation is the term for the industrial exploitation of technical and scientific developments. A Community role has yet to be defined. The Commission are trying to develop a policy to promote innovation in established industries, research in the new technologies and the establishment of a science and technology policy. The Communication to the Council "Industrial Development and Innovation" identifies some of the problems (investment demands, resistance to change, educational needs), and asks that the Commission and Member States reinforce public consciousness of these obstacles. The Communication makes no detailed proposals for action at the Community level. The Commission may see a Council endorsement of the analysis as giving them cover to act in specific areas and to obtain access to Community funds. The Council should therefore note rather than endorse the analysis. We believe that innovation will thrive better when companies have incentive and operate in a suitable economic climate.

Telematics

20. This is the term for the convergence of computer and information technologies. The subject was first raised at the European Council in November 1979 at the Commission's initiative when they were asked to bring concrete proposals to the Council. The UK welcomed this, and particularly favoured progress on telecommunications. First Commission proposals were produced in September and will be discussed in Working Groups shortly. The proposal for the open and competitive supply of telematic terminal equipment in all Member States would be consistent but

not as far reaching as the UK's liberalisation of the Post Office monopoly, would provide for reciprocity, and should benefit UK industry.

OTHER MEMBER STATES' AIDS TO THE STEEL AND TEXTILES INDUSTRY

21. We do not know precisely what state aids are given by each Member State, because in spite of the provisions of the Treaties, Member States do not divulge details of all their aids. Such details as we have are not exact and should not be quoted.

22. In the textiles sector the Commission becoming increasingly concerned at levels of aid, and have opened Article 93.2 procedures against the Dutch. Holland has announced £6.6m, 1978-80 for restructuring and £6.5m towards modernisation; Belgium recently £526m over next five years; France £7m per annum for restructuring and recently announced plans to reorganise and modernise the industry at substantial but unspecified cost. In comparison in 1979/80 we disbursed, mostly under the Industry Act and to a lesser extent short time working compensation, some £26m to the textile sector.

23. In the steel sector no assistance by other Member States appears comparable to the sums provided in direct financial support by the UK. £4b capital+loans since 1975. France has made available under the 1978 restructuring programmes assistance likely to amount to £2150m; Belgium a State contribution to investment programme of £335m, with debt relief of £92m per annum; Italy £800m since 1977; Luxembourg £46m; Holland £8m since 1977.

FOREIGN AND COMMONWEALTH OFFICE

26 November 1980

ENG(L2)(80)4

REF B

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 758 final

Brussels, 20th November 1980

INTERNATIONAL TRADE PROBLEMS

(Communication from the Commission to the European Council,
Luxembourg, 1st-2nd December 1980)

COM(80) 758 final

International trade problems

Background note by the Commission

The Community faces some difficult problems in the field of international trade. This note sets out and comments on some of the more difficult as background to a discussion in the European Council.

2. World trade, which rose in volume by 6% in 1979 compared with 1978, is expected to grow only between 2% and 3% this year over 1979; the figure for 1981 is expected to be in the region of 2%. All this means growing protectionist pressures both in the Community and in our main export markets and a growing threat to our exports. It also gives added weight to the conclusion of the Venice Summit in June of this year that "we are resolved further to strengthen the open world trading system. We will resist pressures for protectionist actions which can only be self-defeating and aggravate inflation". It is against this general background that some of our main problems must be seen.
3. The difficulties in the external economic field cannot be solved by means of commercial policy alone. They result from the fact that the European economy with respect to third countries and especially Japan has lost in some critical sectors its former competitive advantage in part or entirely. This is true not only in the European market but especially in the Far East, the USA and the Middle East. The recovery of the maintenance of the international competitiveness of European industry must be a priority objective of economic and industrial policy in the Community.
4. Trade with Japan has featured in discussion at a number of previous European Councils. Annex A sets out the current state of affairs. After a discussion of a possible joint Community approach at the General Affairs Council of 25 November the problem will be taken further in discussion with Mr Ito, the Japanese Foreign Minister, when he visits Brussels on 11 December and in exploratory discussions at official level early next year. Thus the first meeting of the European Council in the Spring of 1981 may well find the problems of our trade with Japan high on its agenda.

5. The current Multi Fibre Agreement governing world trade in textiles, in particular access to developed countries for the textiles of developing countries, runs out at the end of 1981. There is now rising pressure from industry in Community countries for a tough successor agreement. The timing and tactics of our approach here need to be carefully considered. There is broad agreement among Member States that a successor arrangement of some kind will be necessary if a jungle of national restrictions across the world is to be avoided. The negotiation of a new agreement will involve a delicate balance between the needs of our domestic industry and our need for a constructive relationship with the developing countries, all the more necessary at the time of the global negotiations in New York next year.

6. By the end of this year we, with the other signatories of the agreement, will need to say whether we consider a further agreement of some kind necessary. The negotiation of such an agreement would take place in the second half of 1981.

7. Concern has been voiced by European industry about American exports of petrochemicals and synthetic fibres based on artificially low prices in the United States of oil and natural gas. Annex B sets out where we stand on this issue. The essential point is that wherever action has been possible and compatible with our GATT obligations the Community has taken it; thus the Commission authorized in February restrictions on imports of certain synthetic fibres into the United Kingdom where injury or the threat of injury could be demonstrated and in a number of cases anti dumping action has been taken. It would be difficult for the Community to take further action to increase tariffs or to restrict imports without violating existing GATT rules. Moreover such action would probably militate against our interests as the world's biggest exporter. The Commission recognizes that there remains in this field a very serious problem. We are in consultations with the U.S. Administration. In the meantime the European Council might wish to issue a statement to emphasize the importance the Community attaches to this question. A draft is attached at Annex C.

8. The main axis of the Community's policy should continue to be to give full effect to the results of the multilateral trade negotiations and to the strengthening of GATT.

Japan

Trade with Japan has featured in discussion at a number of previous European Councils; in particular a Commission note SEC(79) 923 of May 1979 analysed the problems involved and recommended continued pressure on the Japanese. At the end of the Tokyo Round last year it became clear that with the exception of some useful steps in removing testing restrictions the Japanese response has been meagre. It also became increasingly clear that our present commercial relationship with Japan - with its absence of a common Community approach and a patchwork of long-standing bilateral national restrictions by Member States - was hardly suitable for a Japan-EEC relationship in the 1980s.

2. So in July of this year the Commission put to the Council proposals for a new look at our relationship with Japan; these included exploration of the possibilities of removing trade restrictions on both sides and discussions on industrial cooperation. These proposals were discussed by the General Affairs Council in July but no decision was taken; partly in the light of press reports of this discussion the Japanese attitude hardened; Japanese exports to the Community also began to rise alarmingly.
3. In view of this the Commission invited Mr Okita, the Japanese Minister responsible for external trade negotiations, to visit Brussels. This he did on October 27. Vice-President Haferkamp and his colleagues emphasized to Mr Okita on this occasion the need in particular for Japanese restraint in exports to the Community and for a fundamental change in the Japanese attitude towards imports. The Japanese Government issued a statement on 17 November indicating in general terms its concern at Community difficulties and its willingness to examine issues.

4. In the light of these developments the Commission has put informally to Member States revised proposals for the outline of a common Community approach to Japan; after discussion of them by the General Affairs Council of November 25 the Commission will be able to put them to Mr Ito, the Japanese Foreign Minister, when he visits Brussels on 11 December and explore whether there is a political will on the part of the Japanese Government to engage in a dialogue with the Community on this basis. A considered Japanese reply would be forthcoming when the next High Level Consultations with Japan take place at official level in Tokyo on January 28/29. In the light of the considered Japanese response it will be for the next Commission to report and if necessary put forward to the Council proposals for action. Thus the first meeting of the European Council in the Spring of 1981 may well find this item high on its agenda.

Trade in petrochemicals and synthetic fibres

Concern has been voiced by European industry about American exports of petrochemicals and synthetic fibres based on artificially low prices in the United States of oil and natural gas. The price differential on oil should be phased out by the autumn of next year but that on natural gas will not be phased out until 1985. In the meantime European chemical producers complain that US exports which benefit from these advantages are having a damagingly depressive effect on European prices.

2. There is no provision in the GATT to prohibit domestic price controls on raw materials resulting in access to supplies much cheaper than world market prices. The conjunction of such price controls with export restrictions (which exist in the US) can under certain conditions be challenged in the GATT but these provisions are extremely complex, have never been used, and in any case do not provide for unilateral counter action. But there are provisions in the GATT for emergency action when imports are causing or threatening serious injury to domestic producers and for anti-dumping action. The Commission has taken action under these provisions whenever the situation justified it.
3. Thus the Community authorized action in February of this year to limit imports into the United Kingdom of polyester filament yarn and nylon carpet yarn; in both cases it was found that serious injury was being caused by imports. It was not felt that the case for action on man-made fibre carpets was sufficiently established. It was not easy to negotiate compensation with the Americans in respect of the first two items. Indeed, the Americans have publicly announced that continuation of these measures after the end of the year will provoke retaliation on their part.
4. In addition to the action taken on synthetic fibres we have also exercised our full rights in relation to anti dumping. At the end of 1979 we imposed a provisional anti dumping duty on acrylic fibres followed by a definitive duty in May of this year. In early September we imposed anti dumping duties on various types of polyester yarn. We have opened anti dumping investigations into vinyl acetate monomer and styrene monomer as well as orthoxylene and paraxylene.

5. All these actions have been in conformity with our GATT obligations. It should go without saying that fulfilment of these obligations is of crucial importance to the world's biggest exporter. The value of our export trade to the United States alone is of the order of 34 billion dollars.

6. The Commission recognizes that there remains a serious problem. We have suggested to both the Americans and the European chemical industry that our consultations with the U.S. Administration on this should be continued with the help of experts from industry; this has been accepted by the Americans and we hope the first of this pattern of consultations will take place in December. A report will then be made to the General Affairs Council.

ANNEX C

The European Council discussed the difficulties resulting for European chemical and synthetic fibre manufacturers from the artificially restricted level of oil and natural gas prices in the United States. The Council recalled the conclusion of the Tokyo Summit in June 1979 that "we agree on the importance of keeping domestic oil prices at world market prices or raising them to this level as soon as possible". The Council instructed the Commission to engage urgently in consultations with the US authorities in order to explore the possibility of eliminating these distortions to international trade. The European Council asked the Council to examine this problem in the light of reports from the Commission.

CONFIDENTIAL

GR 900

UNCLASSIFIED

FRAME EXTERNAL

DESKBY 260900Z

FM UKREP BRUSSELS 252151Z NOV 80

TO IMMEDIATE F C O

TELEGRAM NUMBER 5209 OF 25 NOVEMBER.

INFO IMMEDIATE TOKYO.

INFO ROUTINE ROME, PARIS, BONN AND WASHINGTON.

INFO SAVING BRUSSELS, COPENHAGEN, THE HAGUE, DUBLIN, LUXEMBOURG,
ATHENS, UKMIS GENEVA, UKDEL OECD.

REF C

TOP COPY

COUNCIL OF MINISTERS (FOREIGN AFFAIRS) : 25 NOVEMBER 1980

EC/JAPAN

MIPT

1. FOLLOWING IS THE TEXT OF THE COUNCIL DECLARATION:

BEGINS

THE COUNCIL EXPRESSES ITS SERIOUS CONCERN AT THE PRESENT STATE OF TRADE BETWEEN JAPAN AND THE COMMUNITY AND ITS LIKELY FUTURE DEVELOPMENT.

IT FINDS THAT THE PENETRATION OF EUROPEAN COMMUNITY PRODUCTS ON THE JAPANESE MARKET REMAINS INADEQUATE.

IT FURTHER CONSIDERS THAT JAPANESE COMPETITION BY ITS NATURE AND THE EXTENT OF THE EFFORT BEHIND IT AND BY ITS CONCENTRATION ON A SMALL NUMBER OF PARTICULARLY SENSITIVE SECTORS LEADS TO AN IMBALANCE WHICH PLACES A STRAIN ON THE NORMAL DEVELOPMENT OF INTERNATIONAL TRADE. THE COMMISSION, IN CONJUNCTION WITH THE MEMBER STATES, SHOULD UNDERTAKE A DETAILED ANALYSIS OF THE CONCENTRATION OF JAPANESE EXPORTS TO THE COMMUNITY, AND, MORE GENERALLY, OF THE INDUSTRIAL AND COMMERCIAL STRATEGY OF JAPAN.

THE COUNCIL THEREFORE AGREED ON THE NEED FOR A WIDE-RANGING DIALOGUE BETWEEN THE COMMUNITY AND JAPAN BASED ON A COMMON STRATEGY.

FUNDAMENTAL TO THIS APPROACH SHOULD BE THE CONCEPT THAT JAPAN SHOULD NOT ATTEMPT TO DEAL WITH THE BALANCE OF PAYMENTS DEFICIT CAUSED BY RECENT OIL PRICE INCREASES BY AN EXAGGERATED EXPORT DRIVE, AND THAT IT SHOULD AS A MATTER OF URGENCY INCREASE ITS IMPORTS OF COMMUNITY PRODUCTS.

IN ORDER TO PROMOTE THIS DIALOGUE CERTAIN DEVELOPMENTS ARE ESSENTIAL. THESE SHOULD BE :

- (1) IN THE SECTORS WHERE A CONTINUED INCREASE IN JAPANESE EXPORTS TO THE EUROPEAN COMMUNITY WOULD LEAD TO DIFFICULTIES THERE NEEDS TO BE EFFECTIVE MODERATION DESIGNED TO PRODUCE EARLY AND TANGIBLE RESULTS. THIS

CONFIDENTIAL

/ SHOULD

CONFIDENTIAL

SHOULD APPLY TOWARDS THE EUROPEAN COMMUNITY AS A WHOLE AND NOT ONLY TO CERTAIN MARKETS :

- (II) THE YEN SHOULD REFLECT THE FUNDAMENTAL STRENGTH OF THE JAPANESE ECONOMY :
- (III) THERE SHOULD BE NO NEW MEASURES ON THE PART OF THE JAPANESE AUTHORITIES TO RESTRICT IMPORTS. INDEED, THERE SHOULD BE A CLEAR COMMITMENT ON THE PART OF THE JAPANESE GOVERNMENT TO A SUBSTANTIAL AND EARLY INCREASE IN THE IMPORTS OF COMMUNITY PRODUCTS. THE JAPANESE AUTHORITIES SHOULD FACILITATE OPPORTUNITIES FOR EUROPEAN INVESTMENT AND BANKING IN JAPAN :
- (IV) IN RELATION TO IMPORTS, REGARD SHOULD BE PAID BY THE JAPANESE AUTHORITIES TO AVOID MEASURES OR POLICIES WHICH GIVE OTHER MAJOR TRADING PARTNERS MORE FAVOURABLE TREATMENT THAN IS GIVEN TO THE COMMUNITY :
- (V) ON THE EUROPEAN SIDE FURTHER PROGRESS MUST BE MADE IN GETTING EUROPEAN INDUSTRIES TO DEVELOP POSITIVE STRATEGIES TO DEAL WITH JAPANESE COMPETITION, INCLUDING NOT ONLY RESTRUCTURING IN EUROPE BUT ALSO BY GREATER INVOLVEMENT IN THE JAPANESE MARKET.

TO THE EXTENT THAT TANGIBLE PROGRESS IN THESE AREAS IS MADE, CERTAIN POSSIBILITIES IN RELATION TO LIBER-8'-589, ON BOTH SIDES COULD BE EXPLORED.

IN ADDITION, THERE SHOULD BE DISCUSSIONS - INCLUDING IN PARTICULAR DISCUSSIONS BETWEEN THE BUSINESSMEN AND FIRMS CONCERNED - ON INDUSTRIAL COOPERATION, INCLUDING CONDITIONS FOR INVESTMENT BOTH IN JAPAN AND THE COMMUNITY, FACILITIES FOR JOINT VENTURES AND THE TRANSFER OF TECHNOLOGY.

ON THIS BASIS AND IN THE LIGHT OF FURTHER STUDIES CARRIED OUT IN CONJUNCTION WITH MEMBER STATES, OF BOTH GENERAL AND SPECIFIC PROBLEMS, THE COMMISSION WILL PURSUE ITS FORTHCOMING DISCUSSIONS WITH THE JAPANESE AUTHORITIES. IT WILL DO THIS IN CLOSE CONTACT WITH MEMBER STATES, IN PARTICULAR THE 113 COMMITTEE AND WILL REPORT BACK TO THE COUNCIL BEFORE THE END OF FEBRUARY 1981.

CONFIDENTIAL

THE COUNCIL WILL BE INFORMED CONTINUOUSLY ABOUT THE RESULTS OF THE DIALOGUE. THE COUNCIL WILL GIVE THE COMMISSION AT ANY PARTICULAR TIME AND IN THE LIGHT OF THE RESULTS OF THESE EFFORTS THE NECESSARY DIRECTIVES FOR THE NEGOTIATIONS.
ENDS

FCO ADVANCE TO:-

FCO - PS/SOFS, PS/LPS, PS/PUS, FITZHERBERT, KINCHEN, PIRNIE
CAB - GOODENOUGH
DDI - MANZIE, GENT (ICA)
DDT - PS/MR NOTT, SIR K CLUCAS, SUNDERLAND, ABRAMSON, DUNNING,
FOSTER

FCO PASS SAVING TO COPENHAGEN, DUBLIN, ATHENS, UKMIS GENEVA,
AND UKDEL OECD.

BUTLER

[ADVANCED AND REPEATED AS REQUESTED]

FRAME EXTERNAL

ECD

COPIES TO:

ADVANCE ADDRESSEES

CONFIDENTIAL

GR 703

RESTRICTED

FRAME EXTERNAL

FM TOKYO 150200Z NOV

TO PRIORITY FCO TELNO 646
OF 15 NOVEMBER INFO UKREP BRUSSELS, PARIS, BONN, WASHINGTON.

SAVING TO UKMIS GENEVA, UKDEL OECD.

UKREP BRUSSELS TELNO 4968: EC/JAPAN

FOLLOWING IS ADVANCE TEXT OF STATEMENT BY THE MINISTER
OF FOREIGN AFFAIRS, MR ITO, ON EC/JAPAN ECONOMIC RELATIONS
EMBARGOED UNTIL 6PM (0900Z) MONDAY, 17 NOVEMBER.

BEGINS:-

1. THE GOVERNMENT OF JAPAN WELCOMES THE INCREASINGLY
CLOSE RELATIONS BETWEEN JAPAN AND THE EUROPEAN COMMUNITIES
WHICH ARE RECENTLY WITNESSED IN BOTH POLITICAL AND ECONOMIC
FIELDS. IT IS THE INTENTION OF THE GOVERNMENT OF JAPAN
TO FURTHER PROMOTE SUCH CLOSE RELATIONS FROM THE PERSPECTIVE
OF CONSOLIDATING THE COOPERATION BETWEEN INDUSTRIALIZED
COUNTRIES SHARING THE COMMON BASIC PHILOSOPHY OF RESPECT
FOR FREEDOM AND DEMOCRACY. THE GOVERNMENT OF JAPAN BELIEVES
THAT, IN PROMOTING THE CLOSE COOPERATION, THE GUIDING
PRINCIPLE IN TRADE RELATIONS SHOULD BE THE DETERMINATION
TO MAINTAIN AND IMPROVE THE OPEN AND MULTILATERAL WORLD
TRADING SYSTEM AND TO AVOID PROTECTIONIST MEASURES AS
STATED IN THE NEW DECLARATION ON TRADE POLICY ADOPTED
BY THE GOVERNMENTS OF THE MEMBER COUNTRIES OF THE ORGANIZATION
OF ECONOMIC COOPERATION AND DEVELOPMENT.

2. ON THE OTHER HAND, THE GOVERNMENT OF JAPAN RECOGNIZES
THAT CONCERN PRESENTLY EXISTS IN THE EUROPEAN COMMUNITIES
THAT AGAINST THE BACKGROUND OF CURRENT ECONOMIC DIFFICULTIES,
DEVELOPMENTS WITHIN THE EUROPEAN COMMUNITIES WHICH THREATEN
THE PRINCIPLE OF FREE TRADE MAY POSSIBLY BE INTENSIFIED DUE
TO THE TRADE IMBALANCE WITH JAPAN AND THE RAPID INCREASE
OF IMPORTS FROM JAPAN IN SOME SECTORS DURING THIS YEAR.

3. THE GOVERNMENT OF JAPAN MAINTAINS THE BASIC POSITION
THAT THE TRADE BALANCE SHOULD BE VIEWED ON A GLOBAL BASIS
AND THAT INVISIBLE TRADE AND OTHER ACCOUNTS SHOULD BE
CONSIDERED WHEN DISCUSSING BALANCE OF PAYMENTS PROBLEMS.
THE GOVERNMENT OF JAPAN IS ALSO OF THE VIEW THAT THE ALLEGATION
ATTRIBUTING THE PRESENT ECONOMIC DIFFICULTIES FACING
THE EUROPEAN COMMUNITIES TO THE INCREASE IN JAPAN'S EXPORTS
TO THE EUROPEAN COMMUNITIES IS NOT WELL FOUNDED.

CONFIDENTIAL

14. THE GOVERNMENT

REF D
TOP COPY

CONFIDENTIAL

4. THE GOVERNMENT OF JAPAN MAINTAINS THE VIEW THAT THE TRADE IMBALANCE BETWEEN JAPAN AND THE EUROPEAN COMMUNITIES SHOULD BE IMPROVED BASICALLY BY INCREASING EXPORTS FROM THE EUROPEAN COMMUNITIES TO JAPAN AND THAT GREATER EFFORTS ON THE PART OF ENTREPRENEURS IN THE EUROPEAN COMMUNITIES ARE THE PRIMARY REQUIREMENTS FOR MEETING THIS END. IF ENTREPRENEURS IN THE EUROPEAN COMMUNITIES EXPERIENCE ANY DIFFICULTIES IN PENETRATING THE JAPANESE MARKET, THE GOVERNMENT OF JAPAN CONSIDERS IT USEFUL TO STUDY, TOGETHER WITH THE COMMISSION OF THE EUROPEAN COMMUNITIES, THE SPECIFIC CASES AS THEY OCCUR.

ON THE OTHER HAND, IN VIEW OF THE CURRENT SITUATION OF THE WORLD ECONOMY, THE GOVERNMENT OF JAPAN HAS NO INTENTION TO TAKE POLICIES SPECIFICALLY AIMED AT REDUCING RAPIDLY ITS CURRENT ACCOUNT DEFICITS. RATHER THE GOVERNMENT OF JAPAN HAS BEEN ENDEAVOURING TO MANAGE THE ECONOMY WITH DUE ATTENTION TO THE ESTABLISHMENT OF HARMONIOUS EXTERNAL ECONOMIC RELATIONS AND WILL CONTINUE TO TAKE, IN THE MEDIUM AND LONG TERM AS WELL, THE POLICY OF BASICALLY PURSUING A GROWTH PATTERN CENTERING UPON DOMESTIC DEMAND. FURTHERMORE, THE GOVERNMENT OF JAPAN WILL CONTINUE TO ADVISE PRIVATE ENTERPRISES NOT TO EXPORT SPECIFIC GOODS TO THE MARKET OF ANY REGION IN A TORRENTIAL MANNER.

5. THE GOVERNMENT OF JAPAN BASICALLY APPRECIATES THE NEW INITIATIVE BEING TAKEN BY THE COMMISSION OF THE EUROPEAN COMMUNITIES ON TRADE POLICY TOWARD JAPAN FOR IMPROVING THE ECONOMIC RELATIONS BETWEEN JAPAN AND THE EUROPEAN COMMUNITIES TO BE MORE OPEN. IF THE COMMISSION OF THE EUROPEAN COMMUNITIES WILL MAKE A CONCRETE PROPOSAL IN THIS REGARD, THE GOVERNMENT OF JAPAN IS PREPARED TO STUDY IT.

6. THE GOVERNMENT OF JAPAN WISHES IN FUTURE TO EXPAND ITS COOPERATION WITH THE EUROPEAN COMMUNITIES IN FIELDS SUCH AS INDUSTRIAL COOPERATION AND NORTH-SOUTH DIALOGUE AS WELL AS IN THE FIELD OF TRADE, THEREBY CONSTRUCTING A BROADER RELATIONSHIP BETWEEN JAPAN AND THE EUROPEAN COMMUNITIES.'

FCO PLEASE PASS SAVING ADDRESSEES

FCO COPY TO:
FCO-MCLAREN (FED), FITZHERBERT (EID(E))
DOI-GENT (IC(A))
DOT-DUNNING FOSTER (CRE2)
CORTAZZI

FRAME EXTERNAL
ECD (E)
FED
SIRE YOUDE
MR DONALD

[REPEATED AS REQUESTED]

COPIES TO
MR GENT (IC(A))
DEPT OF INDUSTRY
MR DUNNING FOSTER
CRE2 DOT

CONFIDENTIAL

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

COPY NO 1

EHG(L2)(80)4 Addendum 2

28 NOVEMBER 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

PROBLEMS OF INDUSTRY AND TRADE

Addendum to Brief by the Foreign and Commonwealth Office

Japan

1. In paragraph 8 of the brief reference is made to the political aspects of Europe's relations with Japan as well as the trade aspects. The European Council straddles both the business of the Community under the Treaties and the business of the Nine member states acting together on foreign policy questions in Political Cooperation. It therefore offers an ideal opportunity for the Europeans to reaffirm to the Japanese that EC/Japan relations are not exclusively about trade and that they also have an important political element (to which the Japanese attach considerable importance).

POINTS TO MAKE

2. There is an important political dimension to the Community's relations which with Japan, in addition to the trade dimension. Japan has made clear that she wants to build up a closer relationship with Europe, and in particular with the work of the Nine in Political Cooperation on international political issues.
3. It is in Europe's interest to encourage the Japanese in this since thereby the influence of Europe in the world will be increased.

/4.

CONFIDENTIAL

CONFIDENTIAL

4. There is a strong case therefore for clear recognition by European Council of importance of political aspect of EC/Japanese relations and confirmation of readiness of Nine in Political Cooperation to work closely with Japan wherever possible (as happened eg. over sanctions against Iran where the Japanese Foreign Minister of the day went to Luxembourg at the time of the meeting of EC/Foreign Ministers which decided on sanctions in April this year.

5. Such confirmation would be welcome to the Japanese and would balance the unwelcome things that have to be said by the Community about trade.

Foreign and Commonwealth Office

28 November 1980

CONFIDENTIAL