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Foreign and Commonwealth Office

London SW1A 2AH

15 December 1981

Dear John,

f.a. MR 16/12

Visit of the Prime Minister to the European Parliament

Thank you for your letter of 14 December to Francis Richards. I attach an up-to-date brief on EC/Japan trade relations as requested.

I am also taking this opportunity to enclose a slightly amended draft of the paragraph for the Prime Minister's speech dealing with this subject. There are two small changes from the version which you sent under cover of your letter. The first (the substitution of 'now' for 'must') is designed to reflect the important fact that the Foreign Affairs Council has in effect set a time limit for the Japanese by saying that it intends to assess their response in February. The second is designed to deal with the Japanese issue, and that continued national measures are a necessary complement to these efforts, rather than an alternative. If time permits I hope it may be possible for you to submit these suggestions to the Prime Minister for her consideration.

yours ever
Roderic Lyne

(R M J Lyne)
Private Secretary

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10 Downing St

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PRIME MINISTER'S VISIT TO THE EUROPEAN PARLIAMENT

STRASBOURG, 16 DECEMBER 1981

EC/JAPAN

POINTS TO MAKE (If raised)

1. Have read with interest Resolution passed unanimously by European Parliament in July. Agree about importance of common EC approach. While there may be differences of emphasis between individual Member States Council has consistently made clear that Community is united in its concern about excessive concentration of Japanese exports in sensitive industrial sectors and low level of Japan's imports from main industrialised trading partners.

2. On 8 December Foreign Affairs Council agreed detailed list of specific requests for action by Japan. This has now been transmitted to Japanese Ambassador to EC in Brussels by Vice President Haferkamp who will have made it clear that a reply is expected in time for the Foreign Affairs Council meeting on 22 February.

3. (If asked about reports that Japanese are considering cutting tariffs). December Foreign Affairs Council agreed this would constitute a step in the right direction, but would not address the central problem. Effect marginal (e.g. biscuit tariff would go down from 38 per cent to 36 per cent in April 1982 instead of in April 1984).

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4. (If asked about the possibility of giving up national restraint measures in favour of Community measures). UK for its part would not rule this out if Commission put proposals forward. But would want to ensure that Community measures were at least as effective as existing national arrangements. In present circumstances national arrangements an important complement to Community approach.

5. (If asked about Community involvement in inward investment). Council is agreed that industrial cooperation and investments have an important contribution to make. But UK believes decisions on specific cases must remain a matter for individual member states concerned. So far as UK is concerned we seek to encourage only those projects which offer Europe a real economic benefit.

6. (If asked about EC surveillance of cars, imports of colour TV's and tubes and certain machine tools). Understand Commission figures show no serious overall deterioration in three sectors concerned. But surge in imports of particular products within those sectors (notably light commercial vehicles and 'machining centres' (a type of machine tool) gives cause for concern. Surveillance will continue in 1982.

/BACKGROUND

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BACKGROUND

References:

- A - Conclusions of 8 December Foreign Affairs Council
- B - Text of EP Resolution (passed unanimously on 10 July)

7. 8 December Foreign Affairs Council agreed that it would not be adequate for the Japanese simply to bring forward the tariff reductions due to be implemented in any case in 1984 as a result of the Tokyo Round of GATT Multilateral Trade Negotiations. It was decided that in addition the Japanese should be asked to consider and act urgently upon a list of specific requests. This list sets out the Community's requirements in detail under the following headings:

(a) Effective action by the Japanese Government to encourage imports of manufactures e.g. through public purchasing and reduction of bureaucratic delays in import procedures;

(b) A significant cut in the tariff on a number of processed foodstuffs and alcoholic beverages (including biscuits, chocolate and Scotch whisky of particular interest to the UK);

(c) Improvements in Japanese standards, testing and acceptance procedures and in the conditions for banking, insurance and investment operations in Japan;

(d) Continued insistence on effective moderation of Japanese exports in sensitive sectors (i.e. vehicles, colour TVs and certain machine tools including machining centres).

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The intention is that the Commission should seek the Japanese response at the next round of regular high level EC-Japan consultations which are to take place in Tokyo in late January and that the February Foreign Affairs Council should assess the outcome.

National Restraint Measures

8. There is no common EC regime for imports from Japan. Most Member States retain formal pre-EEC quotas on differing products and at different levels on imports from Japan. France and Italy have most such quotas. UK exceptionally has none, but informal inter-industry understandings covered about one quarter of total UK imports from Japan last year.

9. [Not for use: the Commission have long been unhappy about these various national restraint arrangements and the EP predictably shares their concern. (The EP Resolution was based on a draft prepared by Sir J Stewart Clarke on behalf of the External Economic Relations Committee which in turn is chaired by Sir F Catherwood). However the Commission have in recent months begun to adopt a more pragmatic and less doctrinaire approach to this question; as a result they are now seeking ways in which the Community can exert real pressure on the Japanese rather than simply complaining about the continued national restraint arrangements which will inevitably continue until the Community can put something as effective in their place. As Presidency it would therefore

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be advisable to take the line that national restraints 'complement'
the Community approach, which is now being developed].

Foreign and Commonwealth Office

14 December, 1981

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FM UKREP BRUSSELS 081435Z DEC 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 4771 OF 8 DECEMBER

INFO IMMEDIATE TOKYO

INFO SAVING BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS

BONN LUXEMBOURG ATHENS STRASBOURG WASHINGTON UKMIS GENEVA

COUNCIL OF MINISTERS (FOREIGN AFFAIRS): 8 DECEMBER
EC/JAPAN

SUMMARY

1. LIST OF EC REQUESTS ADOPTED. AGREED THAT COMMISSION SHOULD CONVEY LIST URGENTLY TO JAPANESE, SEEK RESPONSE IN HIGH LEVEL CONSULTATIONS, AND REPORT BACK TO FEBRUARY COUNCIL.

DETAIL

2. FROM THE CHAIR, YOU NOTED THAT THE COUNCIL WAS CALLED UPON AGAIN THE DEAL WITH THE EC'S TRADE AND OTHER ECONOMIC RELATIONS WITH JAPAN - RELATIONS WHICH GAVE RISE TO INCREASING CONCERN. THE ARTICLE 113 COMMITTEE HAD DRAWN UP A DRAFT LIST OF EC REQUESTS (DOC 11496/81), AND DRAFT COUNCIL CONCLUSIONS.

3. HAFERKAMP (COMMISSION) SAID THAT, IF THE COUNCIL APPROVED THE WORK OF THE ARTICLE 113 COMMITTEE, THE COMMISSION WOULD CONVEY THE LIST AT ONCE TO THE JAPANESE, WOULD SEEK A RESPONSE IN THE HIGH LEVEL CONSULTATIONS IN JANUARY, AND WOULD REPORT ON PROGRESS TO THE FEBRUARY COUNCIL.

4. THE LIST OF EC REQUESTS WAS ADOPTED, AND THE COUNCIL CONCLUSIONS CONTAINED IN MIFT AGREED, WITHOUT DISCUSSION.

FCO ADVANCE TO:-

FCO - PS, PS/LPS, PS/PUS, MS LAMBERT (ECD(E)), PIRNIE (ECD(I))

CAB - GOODENOUGH

IDI - FARROW, GENT (ICA)

IDT - SUNDERLAND, DUNNING, FOSTER (CRE2)

FCO PASS SAVING COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN
LUXEMBOURG ATHENS STRASBOURG WASHINGTON UKMIS GENEVA
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ECD (E)

(REPEATED AS REQUESTED) (ADVANCED AS REQUESTED)

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-) to intensify its existing programme for informing European businessmen and industrialists, including those from medium and small sized businesses and European trade union representatives, on the best means of penetrating the Japanese market, with the full cooperation of the Council to make the appropriate financial means available to this end, and to enlist the full cooperation of the Japanese in this endeavour;
- (i) to make proposals, after consultation with the Japanese authorities, for extending the Commission's language and business training programmes for the formation of young European business executives and technicians who will specialize in trade and commercial cooperation with Japan and to make financial provision in the 1982 budget to initiate this programme;
- (j) to take steps to ensure that any agreement with Japan will include provisions ensuring full reciprocity of banking and investment facilities between the two partners; any such investments, whether on a wholly-owned or joint shareholding basis, must have written agreements to ensure that a substantial percentage of components or materials used in production are sourced locally and that research and development resources are introduced as a result in order to promote employment possibilities and financial expansion in the area or region concerned;
- (k) to set up a joint EEC/Japan Investment Bureau to facilitate and to encourage appropriate investment from either side. The rôle of such an Investment Bureau should include that of coordinating and extending joint undertakings between Japanese and Community countries in third countries;
- (l) to explore with the Japanese government the means to bring about early collaboration on major development projects in the Third World (outside the scope of the Lomé Agreement) which would permit the mutual enjoyment of sub-contracting opportunities and the purchase of available equipment;
7. Urges the representatives of European industry, wherever appropriate in consultation with the Commission, to cooperate closely in such fields as marketing and Research and Development and rationalization in order to find not only the best means of penetrating the Japanese market but also of achieving viable competitiveness with respect to both Community and third country markets;

... on the Council and Commission to ensure that any agreement concluded
... de for reciprocal measures on the part of Japan in respect of any
concessions which may be granted by the Community to Japan;
... rges the Commission ..

- a) to continue its efforts to ensure the harmonization of trade policy measures taken by individual Member States, and also to ensure that the Community will speak "with one voice" through the Commission in its dealings with Japan;
- (b) to ensure, with respect to the Community's competition policy, that the relevant clauses of the Treaties (Articles 85 to 94) are not applied with the result that industry within the Community is penalised to the advantage of industry from third countries, including Japan;
- (c) to agree with Japan, on a voluntary basis, specific quantifiable restraints in respect of the exports to the Community. This will have to be a continuous process which will require close cooperation, at Community level, not only between Commission and Member States but also between the Commission and representatives of European industry;
- (d) to make clear to Japan that any failure to abide by these restraints must lead to counter-measures on behalf of the Community;
- (e) to be prepared, where it can be established that non-tariff barriers to trade exist, to introduce, at Community level, reciprocal measures within the framework of the GATT;

recommends in this context that the Commission should be endowed with adequate funds to institute a service to investigate allegations of concealed protectionism, recognising that industry itself may find difficulty in dealing with such protectionism;

- (f) to be prepared to accept the need, if necessary, to make existing regulations and directives regarding 'type approval' of manufactured articles, particularly motor vehicle parts, mandatory rather than permissive;
- (g) to help preserve and promote Community exports to Japan in those fields in which the balance of trade is favourable to the Community: in particular, to safeguard the reputation of Community exports of food and drink entitled to 'appellations d'origine' by introducing suitable measures within the Community and by urging the Japanese to make provision for the recognition and protection of such 'appellations';

- regretting that notwithstanding the Council Memorandum of 17 February, Member State Governments found it more convenient to maintain or improve independent arrangements with regard to imports of Japanese cars than to adopt a single Community approach,
- recognising that the effective resolution of the problems created by the deficit in the balance of trade between the Community and Japan can best be achieved by the formulation by the Commission of a vigorous common Community trade policy towards Japan, including -
 - a) closer cooperation and improved efficiencies within European industry,
 - b) working together to eliminate both tariff and non-tariff barriers,
 - c) encouragement of efforts by European exporters to secure a greater share of the Japanese market,
 - d) reciprocity in banking and investment facilities,
 - e) quantifiable self-restraint in exports by Japan in specific sectors, and a substantial increase in its imports from the Community,
- considering that in the absence of an effective Community policy for relations with Japan, Member States will come under increasing pressure to take unilateral protectionist action,
- noting that the problems of the Community's relations with Japan are inextricably linked with the relationship between Japan and the United States,
- having regard to the motion for a resolution tabled by Sir Fred WARNER and others (Doc. 1-966/80),
- having regard to the report of the Committee on External Economic Relations (Doc. 1-240/81),

1. Requests the Council and the Commission of the European Communities to ensure that all negotiations with Japan will be conducted firmly and constructively and be based not only on an understanding of the needs of the Community but also of those of Japan and the USA who together form the world's three most significant trading groups and on whose effective cooperation any lasting global trade arrangements must depend;
2. Regrets the fact that no progress was recorded during the consultations between the EEC and Japan held at the beginning of June;
3. Believes that in the absence of a general agreement between the Ten and Japan, there must inevitably be national agreements to stabilize market penetration by Japanese products in each EEC country at the lowest level;
4. In view of the forthcoming Ottawa Conference, considers that a common Community position in regard to trade with the United States and Japan must be established and that this must be directed towards the voluntary limitation of trade surpluses;

Ep: 10.7.81

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M. Kouchin, CCB (L)

Ref B

RESOLUTION

on trade relations between the EEC and Japan

The European Parliament,

- concerned by the persistent and increasing deficit in the Community's balance of trade with Japan,
- aware that this deficit, although comparatively small in the context of the Community's overall trade figures implies a severe threat to the Community in certain specific sectors, particularly in manufacturing industry,
- convinced that a reduction of the present trade imbalance would contribute towards a better overall understanding between the Community and Japan which would go further than purely commercial considerations and in turn lead to closer cooperation in fields such as development aid, security, monetary stability, energy conservation, and the supply of raw materials,
- recognising that it is in Japan's interest to work towards greater understanding with the Community in view of her vulnerability both in terms of national security and energy supplies,
- recognising that the problem is one which can primarily be satisfactorily resolved by increasing the competitiveness of European products vis-à-vis the Japanese in all markets and stressing therefore the need for greater effort by European industry in this respect,
- acknowledging the risk that protectionist measures may be taken by individual Member States, with resultant serious consequences not only for EEC/Japan commercial relations but also for inter-Community and world trade, and convinced that this can be averted by a greater degree of understanding by Japan of the problems that the present trade deficit poses both economically and politically for the Community,