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23 March 1982

EUROPEAN COUNCIL

BRUSSELS 29/30 MARCH 1982

TRADE RELATIONS WITH THE US AND JAPAN

Brief by Foreign and Commonwealth Office and Department of Trade

OBJECTIVE

1. To support development of concerted Community approaches which are both firm and reasonable.

GENERAL

2. EC must impress firmly on US Administration and Japanese Government need for them to pull their weight in reducing strain on open economic system.

RELATIONS WITH THE US

(a) Steel

3. Right that Community should continue to keep up its robust attack on anti-dumping and countervailing cases filed by US industry. UK would favour negotiated settlement when the time is right. But accept that it would be bad tactics for Community to show its hand too soon.

(b) Agriculture (If discussion develops)

4. Do not dissent from Commission defence of Community policies as consistent with GATT rules. Hope however internal developments will lead to improvement in relations with US and other major exporters of agricultural produce.

(c) Draft reciprocity legislation (If raised)

5. Administration clearly regard existence of draft bills as a useful stick with which to threaten the Japanese. But at same time seem well aware of potential conflict with principles of open, multilateral trading system. Our

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concern should be to ensure they do not let domestic pressure get out of control.

(d) Economic policy/interest rates

[See Brief No 3 - Economic and Social Situation]

(e) Transatlantic Relations

[See Brief No 9 - Political Cooperation]

RELATIONS WITH JAPAN

6. Welcome conclusions of March Foreign Affairs ECOFIN Councils.

Essential to have firm approach on trade. Little prospect of pressure proving effective unless EC maintains a united front. Should be possible to move towards a common EC position on imports from Japan without making things worse for individual member states. Provided this is accepted those member states with national controls [France, Italy] should be able to put them on a Community basis. UK would do so, so long as others [Germany] accept principle of Community-wide restraint measures in key sectors. This would be part of stronger Community position which we all surely believe to be necessary, if we are to get Japan to take really effective action.

7. Action by Japan to increase imports of manufactures needed both on trade front and through adjustment of economic policies aimed at easing the current account surplus and at appreciation of Yen. These are the points we must make a concerted effort to get across to Japanese in bilateral meetings and in multi-lateral fora leading through OECD Ministerial (May) to Versailles Summit (June), and beyond (eg IMF Board of Governors (October) and GATT Ministerial (November)).

8. Must keep Americans alongside to make our pressure more effective and reduce the risk of being shut out from any benefits they negotiate.

9. Japanese may try to deflect EC pressure from them on to US interest rates and draft reciprocity legislation. Must make point firmly that these issues, worrying though they are, do not absolve Japanese Government of responsibility to take action on trade.

10. (If there is discussion of inward investment/industrial cooperation)  
Inward investment and industrial cooperation clearly have a role to play in improving EC/Japan economic relationship. Prepared to consider any proposals Commission may put forward but would obviously need careful scrutiny by officials. Meanwhile UK encourages only inward investment projects which are of significant benefit, producing goods with high Community content. Reasonable for same criteria to apply throughout EC.

BACKGROUND

References : A - Conclusions on Japan of 22 March Foreign Affairs Council

B - Conclusions on Japan of 15 March ECOFIN Council

ECONOMIC AND SOCIAL SITUATION

11. In different ways, US and Japanese Government policies are putting strains on the open trading system, and creating serious problems for economies of EC member states. Both countries need to adjust their policies if these strains are not to prove intolerable - with the need more urgent and wider-ranging in the case of Japan.

RELATIONS WITH THE US

12. The most immediate cause for concern in Europe is the prospect of a large budget deficit, the effect this is having on UK interest rates, and the implications for EC countries who face a choice between similar high interest rates and currency depreciation. These problems are compounded by a dispute about steel; increasing US frustration with the operation of the CAP; the threat of legislation providing for retaliation against countries which fail to trade with the US 'on a reciprocal basis'; and political tensions within the Alliance over Poland, the Middle East etc.

(a) Steel

13. US industry anti-dumping and anti-subsidy cases cover the bulk of EC steel exports to the US. Commission have been taking robust line, emphasising need for US to respect international obligations. GATT requires proof of material injury (difficult to substantiate in the case of ECSC products since EC share of

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declining US market fell to 4.7 per cent in 1981 compared with 6.7 per cent in 1979 - last normal year). In addition US industry is alleging that all finance from Government/Community sources constitutes subsidisation. EC position is that GATT permits action only against export subsidies. Investigation procedure likely to drag on to late summer if allowed to run its full course. Uncertainty damaging to importers but could well affect US producers too. By filing their cases they prompted withdrawal of trigger price mechanism (tpm) which had previously helped maintain orderly market by effectively setting a floor price. Likely therefore to be pressure on both sides to reach negotiated settlement involving voluntary restraint of exports by EC. But we agree with Commission that for EC to make first move before the time is right would place us in a weak negotiating position.

(b) Agriculture

14. US Administration displaying increasing frustration with operation of CAP, particularly disposal of high cost surpluses on world markets with the aid of export restitutions. Commission response is that US fail to appreciate GATT provisions which permit subsidisation of exports of primary products provided that world market price is not undercut and that the exporting country does not obtain a 'more than equitable share' of the world market. We believe the EC cannot afford to be indifferent to the views of other major agricultural exporters like US. The attempt to contain/reduce agricultural surpluses and agriculture's share of the budget in the Mandate context should go some way to alleviating international pressure.

(c) Draft reciprocity legislation

15. A number of bills have recently been introduced by individual senators which if enacted would give Administration discretion to erect new barriers to imports from countries which fail to trade with US 'on a reciprocal basis'. Little likelihood of making early progress through Congress but symptomatic of

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growing protectionist pressures. Primarily directed against Japanese but Canada and EC (in agricultural sector) also possible targets.

RELATIONS WITH JAPAN

16. Japanese announced in January package of import promotion measures which includes implementation this year of Tokyo Round tariff cuts originally scheduled for 1984; the removal of at least 67 non-tariff barriers; and an ombudsman to deal with complaints by importers. Though some of these measures are potentially helpful the tariff cuts are marginal and the overall impact is unlikely significantly to reduce Japan's trade surpluses with other major industrialised countries. US have made it clear that they do not regard these measures by themselves as adequate. EC has taken similar view. Japanese imports of manufactures as a proportion of GDP remains exceptionally low (3 per cent compared with 6-10 per cent for other major economies). The UK believes Japan is threatening stability of world economy from opposite direction to US. We are concerned to consolidate the gains that have been made world-wide in reducing inflation and would not wish to urge expansionary measures on the Japanese (though they may be thinking on these lines themselves in response to the economic downturn in the last quarter of 1981). But in our view Japan should ease the current account surplus by relaxing fiscal policy so as to expand domestic demand; and should tighten monetary policy so as to encourage appreciation of the Yen. This message was relayed to Mr Esaki, Japanese Prime Minister's Representative when he visited London on his European tour (12-21 March)

17. At UK suggestion ECOFIN Council on 15 March discussed Japanese macro-economic policy and concluded that Community policy should cover macro-economic issues as well as trade. Monetary Committee was given remit to pursue with a view to reaching an agreed Community position.

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18. Foreign Affairs Council on 22 March decided:

- (i) to submit complaint about Japan's closed market to GATT dispute settlement procedure (Article 23 of the General Agreement);
- (ii) to keep up pressure on Japan on export restraint, macro-economic policy and generally in multilateral fora (OECD Ministerial, Versailles Summit);
- (iii) to commission study of possibilities of formulating common EC policy on imports from Japan and review implications of Japanese export strategy.

19. France and Italy were lukewarm about the GATT initiative which they felt could stimulate a Japanese counter-attack on their range of national quotas on imports from Japan which pre-date signature of EEC Treaty but <sup>they</sup> were persuaded to go along with the Commission proposal. It is a more responsible course than the reciprocity legislation being discussed in the US.

20. While the Community is now in a position to develop a coherent and potentially effective strategy, there remain difficulties ahead. Germans and Danes will continue to be reluctant to agree to anything on the import side which looks protectionist. But an effective Community policy would mean all member states including those without restraint arrangements at present, accepting that imports of sensitive products (including, if necessary, new products) into the EC market as a whole should be subject to restriction. Equally those member states with national measures (notably France, Italy, UK) will insist that any Community arrangement should give them protection which is at least as effective as what they already have.

21. If there is discussion of Commission proposals on industrial cooperation we would not want to sound too negative but should give no commitment. In fact we see little role for the Commission in this area; the initiative must rest with individual firms.

Foreign and Commonwealth Office

Department of Trade

23 March 1982

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GENEVA

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ATHENS STRASBOURG OTTAWA UKDEL OECD.

COUNCIL OF MINISTERS (FOREIGN AFFAIRS): 22 MARCH

EC/JAPAN

MIPT

1. FOLLOWING IS THE (PROVISIONAL) TEXT OF THE COUNCIL CONCLUSIONS:

BEGINS

1. THE COUNCIL EXAMINED THE QUESTION OF RELATIONS WITH JAPAN, WHICH REMAINED A MATTER OF SERIOUS BILATERAL CONCERN AND WHICH RAISED NUMEROUS MULTILATERAL ISSUES AFFECTING THE FUNCTIONING OF THE INTERNATIONAL TRADING SYSTEM. IN THIS CONNECTION THE COUNCIL CONSIDERED THAT THE MEASURES RECENTLY ANNOUNCED BY THE JAPANESE GOVERNMENT, AIMED AT FURTHER OPENING THE JAPANESE MARKET, REFLECTED AN ENCOURAGING POLITICAL AWARENESS BUT THAT THEIR PRACTICAL EFFECT ON THE EVOLUTION OF TRADE WOULD BE VERY LIMITED AND COULD NOT THEREFORE CONSTITUTE THE RESPONSE EXPECTED BY THE COMMUNITY. AS PART OF A COMPREHENSIVE COMMON STRATEGY THE COUNCIL AGREED THAT THE FOLLOWING COURSE OF ACTION SHOULD BE PURSUED.

2. EFFORTS SHOULD BE CONTINUED IN BILATERAL CONTACTS AND MULTILATERAL FORA TO PERSUADE JAPAN TO MODIFY ITS TRADING AND ECONOMIC POLICIES AND TO ACHIEVE A MORE BALANCED INTEGRATION OF THE JAPANESE ECONOMY WITH THAT OF ITS MAIN INDUSTRIALIZED PARTNERS. THE AIM HERE WILL BE TO ADDRESS THE CAUSE OF ECONOMIC FRICTION AT ITS ROOT, IE JAPANESE LOW IMPORT PROPENSITY. WHILE THE REMOVAL OF SPECIFIC BARRIERS TO IMPORTS AT THE FRONTIER REMAINS WELCOME, WHAT IS NEEDED, BEYOND THAT, IS DETERMINED AND SWIFT ACTION BY THE JAPANESE GOVERNMENT POSITIVELY TO PROMOTE IMPORTS, EG THROUGH GUIDANCE TO PUBLIC AND PRIVATE SECTORS.

3. JAPAN IS AGAIN CALLED UPON TO PROVIDE TANGIBLE ASSURANCES THAT, FROM 1982 ONWARDS, IT WILL PURSUE A POLICY OF EFFECTIVE MODERATION TOWARDS THE COMMUNITY AS A WHOLE AS REGARDS JAPANESE EXPORTS IN SECTORS WHERE AN INCREASE IN JAPANESE EXPORTS TO THE COMMUNITY WOULD CAUSE SIGNIFICANT PROBLEMS NOTABLY PASSENGER CARS, COLOUR TELEVISION SETS AND TUBES, CERTAIN MACHINE TOOLS INCLUDING NUMERICALLY CONTROLLED LATHES AND MACHINING CENTRES, IN ORDER TO IMPROVE THE SITUATION.

4. THE COUNCIL REITERATED THE CONCLUSIONS OF THE ECO/FIN COUNCIL ON 15 MARCH 1982, ACCORDING TO WHICH THE COMMON POSITION OF THE COMMUNITY SHOULD COVER BESIDES TRADE ASPECTS, ASPECTS OF MACRO-ECONOMIC POLICIES AND THE DEVELOPMENT OF THE YEN. IT NOTED THAT IT HAD BEEN AGREED TO EXAMINE THESE ASPECTS IN DEPTH AT A FORTHCOMING SESSION WITH A VIEW TO FORTHCOMING INTERNATIONAL CONFERENCES. JAPAN'S POLICY IN THESE AREAS HAD TO TAKE ACCOUNT OF JAPAN'S INTERNATIONAL RESPONSIBILITIES. THIS IS AN ESSENTIAL COMPLEMENT TO ACTION IN THE FIELD OF TRADE.

5. THE COUNCIL RECALLED THE NEED FOR EUROPEAN INDUSTRIES TO STRENGTHEN THEIR INTERNATIONAL COMPETITIVENESS THROUGH ADEQUATE INVESTMENT AND MODERNIZATION EFFORTS. THE COUNCIL RECOGNIZED THE NEED TO COMPLETE A COMMUNITY POLICY WITHIN WHICH EUROPEAN FIRMS WILL BE BETTER ABLE TO DEVELOP POSITIVE STRATEGIES TO MEET JAPANESE COMPETITION. THE COUNCIL INSTRUCTED THE PERMANENT REPRESENTATIVES COMMITTEE TO ESTABLISH A HIGH-LEVEL WORKING PARTY TO CONSIDER THE ISSUES INVOLVED, BOTH FROM THE POINT OF VIEW OF TRADE POLICY AND INDUSTRIAL STRUCTURAL ADJUSTMENT POLICY. THIS WORKING PARTY SHOULD ALSO REVIEW THE GENERAL JAPANESE EXPORT STRATEGY AND ITS IMPLICATIONS FOR EUROPEAN INDUSTRY. IT SHOULD REPORT TO THE PERMANENT REPRESENTATIVES COMMITTEE WITHIN THE NEAR FUTURE MAKING APPROPRIATE RECOMMENDATIONS.

6. THE COUNCIL ALSO AGREED THAT THE POSSIBILITIES OF SCIENTIFIC AND TECHNOLOGICAL CO-OPERATION BETWEEN THE COMMUNITY AND JAPAN SHOULD BE EXPLORED. THE APPROPRIATE COMMUNITY BODIES SHOULD EXAMINE THE SPECIFIC SECTORS WHICH MIGHT BE ENVISAGED, WITH A VIEW TO ACHIEVING BALANCED CO-OPERATION.

7. SINCE THE BENEFITS EXPECTED BY THE COMMUNITY AS A RESULT OF SUCCESSIVE GATT NEGOTIATIONS WITH JAPAN HAVE NOT BEEN REALIZED, AND SINCE THE RESULTS OF BILATERAL DISCUSSIONS HAVE BEEN UNSATISFACTORY, THE COUNCIL AGREED THAT THE PROCEDURES OF ARTICLE XXIII OF GATT BE INITIATED WITH JAPAN.

THE DETAILED ASPECTS OF THE REPRESENTATIONS TO BE MADE WILL BE FINALIZED IN CONSULTATION WITH THE ARTICLE 113 COMMITTEE AND THE PERMANENT REPRESENTATIVES COMMITTEE. THE OBJECTIVE WILL BE TO SECURE PROMPT ACTION BY JAPAN ON THE LINES OF THAT DESCRIBED IN PARAGRAPH 2.

8. THE COMMISSION WAS REQUESTED TO REPORT TO THE COUNCIL AS APPROPRIATE AND TO SUBMIT A COMPREHENSIVE REPORT FOR CONSIDERATION, AT THE EARLIEST OPPORTUNE MEETING OF THE COUNCIL.

ENDS

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| FCO



FCO ADVANCE TO:

FCO - PS, PS/LPS, PS/PUS, CROWE, KINCHEN (ECD(E), PIRNIE (ECD(I)

CAB - HANCOCK, GOODENOUGH

DDI - GILL, FARROW, GENT (ICA)

DDT - PS/SOS, PS/MR REES, FRANKLIN, GRAY, CAINES, SUNDERLAND  
DUNNING, FOSTER (OT2) MEADWAY (ITP) GARROD (INF)

TSY - SLATER, MS SINCLAIR

FCO PASS SAVING TO:

COPENHAGEN THE HAGUE DUBLIN LUXEMBOURG ATHENS STRASBOURG OTTAWA

UKDEL OECD

BUTLER

REPEATED AS REQUESTED      ADVANCED AS REQUESTED

FRAME EXTERNAL

ECD (E)

FED

CONCLUSIONS OF ECOFIN COUNCIL, 15 MARCH 1982

EEC-JAPAN RELATIONS

Economic and financial problems

The Council considered that the joint Community position toward Japan should, apart from the commercial aspects, include aspects of macro-economic policy and the evolution of the yen.

To this end the Council conducted an initial exchange of views on a working document submitted by the Commission and setting forth certain guidelines.

Winding up this exchange of views, the Council agreed to discuss these matters further at a forthcoming meeting.