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Trade and the Single Car Market: The EC-Japan Elements of Consensus, 1985-1999

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On 18 July 1991, representatives from the European Community (EC) and Japan met at the Hague to sign a Joint Declaration. The two sides agreed to "strengthen their co-operation and partnership in order that the challenges of the future may be met," deepening their commitment to cooperation after years of confrontation over trade deficits.[1] Among the themes of the new partnership were pledges to coordinate their positions on a wide range of transnational challenges, from the environment and terrorism to the support of newly autonomous Central and Eastern European countries. But the crux of the agreement was oriented around the affirmation of "their common attachment to market principles, [and] the promotion of free trade." By ensuring equitable access to their respective markets and removing obstacles to trade and investment, the EC and Japan agreed to 'reject protectionism.'[2]

Such a bold and public declaration of trade liberalization made the secretive sectoral agreement struck just days later all the more significant.[3] On 31 July, following a series of letters exchanged between the European Commissioner for Industry (DG III) Martin Bangemann and his counterparts at the Japanese Ministry of International Trade and Industry (MITI), the EC and Japan agreed to "The Elements of Consensus" (EOC), hailed as possibly "the most important quota arrangement in the history of global trade."[4] The EOC restricted Japanese car exports to the EC to allow the European industry time to restructure before the full liberalization of the market planned by the EC's Single Market Program. In making this agreement with Japan, the Commission, responsible for collective EC trade negotiations under the Common Commercial Policy (CCP), shielded European automakers from Japanese competition by negotiating protections for the European car industry until 1999, well after the Single Market was declared complete (1992). The Consensus also did away with the previous patchwork of independent national quantitative restrictions (QRs) for car imports and enabled the Commission to realize an integrated external commercial policy for the new single car market. As a result, the EOC was at once a contradiction to and an advancement of the liberalization of trade between Europe and Japan, a lobbying victory for European producers and – especially on the issue of transplants – a bone of contention among Commissioners and between the region's leading firms.

This working paper examines the European automobile industry's influence on the EC's external trade relations with Japan and uncovers the process by which European producers lobbied for the EOC. It focuses its analytical lens on the industry's business interest associations (BIAs): the Committee for Common Market Automobile Constructors (CCMC) (1972-1990) and its successor, the European Automobile for Manufacturers Association (ACEA) (1991-present). BIAs like the CCMC and ACEA amplify the voices of individual firms, enabling them to exert considerable influence over

[1] The Commission began to shift its foreign policy approaches in the wake of the Single European Act of 1986. It launched industrial cooperation initiatives with Japan which contrasted sharply with the trade disputes of previous years.
[2] Commission of the European Communities, "Joint Declaration on Relations between the European Community and its Member States and Japan," The Hague, 18 July 1991.
[3] In 1985, before the Single Market Program was underway, the EC had declared its intention to "implement a common commercial policy in cars vis-à-vis third countries." See: European Parliament, "The Automobile Industry in the Community: Evidence given on the European Automobile Industry for the hearing organized by the Committee on Economic and Monetary Affairs and Industrial Policy," Archive of European Integration (AEI): A6170, 1985.
[4] Steven Greenhouse, "Issues Linger in Europe's Japan Auto Pact," *New York Times*, 12 August 1991.

policymaking in the domestic, transnational, and international arenas. But BIAs also fragment corporate demands when pluralism fails to give way to unity (Lanzalaco 2008). The "collective action" of "organizing capitalists" provides a matrix through which both individual and collective preferences become clear (Olson 1965; Streeck and Schmitter 1981, 1999). Whether "setting the agenda" for the Single Market Program, helping "businessmen of the world unite," or creating a forum for "private transnational governance," BIAs illuminate the social dimensions of corporate organized interest (Green Cowles 1995; Eichenberger 2020; Rollings and Kipping 2008; Galambos 1966). In the case of the EOC, an examination of collective action also exposes the fault lines between CCMC members that frustrated its aims and even led to its dissolution. Tensions between EC member states come into sharp focus too, as countries supporting their "national champion" firms took different positions on Japanese foreign investment and export restrictions, further complicating trade negotiations and the process of finalizing rules for the Single Market. In these tensions, the influence of the European auto industry becomes clear: the Commission came to see the protections producers wanted to maintain their profits as means by which they could advance the integration of EC markets and policies.[5] Consequently, this working paper contributes to scholarship on the complex relationship of business to European integration (Rollings and Warlouzet 2020; Drach 2020; Rollings and Moguen-Toursel 2012; Rollings 2007; Jones and Miskell 2005) as well as research on the influence of business on national and transnational politics (Laurens 2017; Balleisen 2015; Waterhouse 2014; Michel 2013; Culpepper 2012; Büthe and Mattli 2011). Its focus on the European auto industry puts it in conversation, too, with business history scholarship on the sector (Ramírez Pérez 2020; Fridenson and Wada 2019; Freyssenet et al. 2003).

By focusing on business associations and analyzing archival documents, this working paper fills two key gaps in existing scholarship. Histories of EC-Japan trade relations have considered exchange rate mechanisms, current account imbalances, and industrial cooperation, and have traced the arc of increasing liberalization from the mid 1980s to the present (Keck et al. 2013; Krotz et al. 2020), but have largely neglected the role of business in shaping trade negotiations. Furthermore, because details of the EOC were deliberately sealed from public view, most literature on the agreement has been written by trade officials or scholars using journalistic sources (Mason 1994). Close readings of Commission communications, memos, speeches, and letters exchanged between its Directorate-Generals and industry representatives enable this paper to reconstruct the discussions that produced the EOC and historicize the way business influenced the Commission.[6] By contextualizing its analysis within a comparison of the parallel trade relationship between the US and Japan and in light of the General Agreement on Tariffs and Trade (GATT), this paper also contributes new dimensions to research on Europe's response to the "Shock of the Global" (Warlouzet 2018).

Short histories of the Japanese auto industry's rise in European markets and the formation of the CCMC (Part I) lay the foundation for a discussion of the ways carmakers from both the EC and Japan related to the 1992 Program to complete the Single European Market (Part II). The two central pillars of this story then reconstruct the discussions through which the CCMC convinced the Commission of the need for extended protections (Part III) and the process by which the Commission brokered

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[5] This tension between free trade and protectionism permeated Commission debates about EC industrial and competition policies. For more on EC competition policy, see: Laurent Warlouzet, « La politique de la concurrence européenne depuis 1950 : surveiller les entreprises et les États, » (*CVCE*, 2012). Sigfrido Ramírez Pérez also addressed the dichotomy between "Europe dirigiste" and "Europe libérale" in "Anti-trust ou Anti-US," (2006): 203.

[6] Others have argued that the Commission had to "sell" carmakers on the proposed accord. See: Mark Mason, "Elements of Consensus: Europe's Response to the Japanese Automotive Challenge," *Journal of Common Market Studies*, Vol. 32, no. 4 (1994): 442.

the EOC (Part IV). This working paper concludes with an analysis of the EOC's implementation during the 1990s and the evolution of the trading relationship in light of Japanese decline, the recovery of producers in the ACEA, and the eventual liberalization of the Single Market for cars (Part V).

I. EC-Japan Trade and the CCMC, 1970-1985

i. The Rise of Japanese Autos

As Japanese officials and entrepreneurs worked to move postwar Japan upward on the technological ladder from low price products to high end goods, its auto industry became a chief economic priority.[7] New innovations, flexible specialization, lean production, and Japan's neo-mercantilist approach to the global economy all contributed to booming growth for the Japanese auto industry from the 1960s to 1980s and made Japanese producers much more of a threat to European carmakers by the 1980s than American ones. While the country's carmakers could barely produce 150,000 vehicles in 1960, they manufactured more than 3 million in 1970, many of which were exported to the markets of developed countries where consumer demand for durable goods was much higher than they were domestically.[8] This surge of auto exports, along with Japan's booming high-tech industries, resulted in a growing trade deficit between Japan and its chief trading partners, the United States and European Community (Figure 1). Between 1970 and 1984, the total value of Japanese exports multiplied by a factor of ten, more than double the rate of increase in its imports from the EC.[9] Similarly, the Japanese share of the US market for automobiles more than doubled between 1976 and 1980.[10] Japan had emerged from the rubble of the Second World War an industrial dynamo.

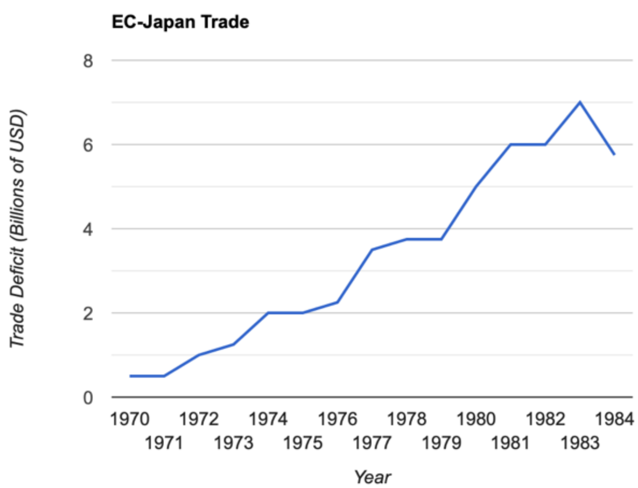

Figure 1: EC Trade Deficit with Japan, 1970-1984[11]

[7] For more analysis of Japanese industrial policy and an explanation of the Japanese 'miracle,' see: Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*. (Stanford University Press, 1982).

[8] Gregory S. Kurey, "GATT and the VRA: Japanese Automobile Imports and Trade Protectionism," *Dickinson Journal of International Law* (*Penn State International Law Review*), Vol. 5, no. 1 (1986): 51-80.

[9] Moreno Bertoldi, "Forty Years of EU-Japan Economic Relations: Were They Driven by Trade and Exchange Rate Concerns?" in Jörn Keck, Dimitri Vanoverbeke and Franz Waldenberger, eds. *EU-Japan Relations, 1970-2012: From Confrontation to Global Partnership*. (London: Routledge, 2013): 186.

[10] Kurey, "GATT and the VRA," 70

[11] Adapted from IMF data published by: Bertoldi, "Forty Years of EU-Japan Economic Relations," 186

ii. Europe in Decline

In Europe, the trade deficit with Japan was largely a sectoral problem, affecting automobile producers more than almost any other group.[12] Not only had the European industry reached a kind of saturation point following the postwar recovery and boom, but global demand for cars slumped in the 1970s. After growing at an average annual rate of nearly 6% in the 1960s, growth in demand slowed to 2.5% during the 1970s and just 0.5% in the early 1980s.[13] Some of this decrease was the result of the oil crises of the 1970s, which severely restricted the global supply of petroleum and drove up the commodity's prices, causing downward pressure on the demand for new gas-guzzling cars. In what became a buyers' market, the consumers financially positioned to make new purchases demanded much more of their passenger cars than ever before, prioritizing greater fuel efficiency and advanced technologies. The method of flexible specialization employed by Japanese producers allowed them to respond to consumer preferences very quickly, and the lightweight, fuel-efficient models they produced in the wake of the oil crises became all the more attractive to European consumers, helping them to capture market share quickly. According to studies by the International Motor Vehicle Program at the Massachusetts Institute of Technology, European firms required twice as many hours to assemble a car as their Japanese competitors.[14]

Such macroeconomic shifts did not affect all automakers equally, though; vehicle export rates varied greatly along national lines (Figure 2). While the crises of the 1970s had zeroed out any export gains the Federal Republic of Germany might have otherwise made between 1965 to 1985, it was still the largest net exporter of automobiles in the mid-1980s. The French auto industry was also hit hard, despite state interventions; by 1980, it was "no longer profitable," with the PSA Group (Peugeot and Citroën) and Renault losing significant revenue.[15] Sweden, Britain, and Italy fared far worse; their export rates plummeted during the 1970s and never recovered. Italy became a net importer of Japanese economy cars after 1980, although its domestic industry anchored by FIAT strengthened slightly by 1986. Britain experienced the most dramatic shift in the EC; in three decades it had nearly trebled its net imports. The US also became a net importer. In contrast to the decline experienced by many EC producers, Japan increased its balance of trade in autos by a stunning 6000% (Figure 1).

As European carmakers lost domestic market share to Japanese producers and watched their export sales decline, they were forced to lay off huge numbers of redundant employees. A Commission study found that the EC had lost more than 400,000 jobs in car manufacturing over the course of the 1980s – almost one quarter of the sector's total employment.[16] And with nearly 10% of all jobs in the EC either directly or indirectly dependent on the motor vehicle sector, these losses were not taken lightly.[17] In contrast to the decline experienced by many EC producers, the United States and Japan enjoyed exponential increases in their auto export volume, with the US boasting 780% growth, and Japan a stunning 6000% increase.

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[12] European technology firms also appealed to the Commission for regional coordination of R&D to compete with Japan.
[13] G. Lafay, C. Herzog, L. Stemitsiostis, D. Unal, *Commerce international: la fin des avantages acquis.* (Paris: Economica, 1989).
[14] Daniel T. Jones, "From Protection to Global Players: Corporate Strategy and the European Auto Industry," in Lars-Gunnar Mattsson and Bengt Stymne, eds., *Corporate and Industry Strategies for Europe: Adaptations to the European Single Market in a Global Industrial Environment.* (New York: Elsevier Science Publishing, 1991).
[15] Jean-Louis Loubet, *Renault: histoire d'une entreprise.* (Paris: Boulogne-Billancourt, 2000): 285.
[16] Commission of the European Communities, "The European Motor Vehicle Industry: Situation, Issues at Stake, and Proposals for Action," COM(92) 166 final, (Brussels, 8 May 1992): 2.
[17] Hitoshi Suzuki, "The New Politics of Trade: EU-Japan," *Journal of European Integration*, Vol. 39, no. 7 (2017): 876.

	FRG	France	Britain	Italy	Sweden	Japan	US
1965	1145	405	568	204	- 114	88	- 458
1970	1299	1084	532	240	66	706	- 1728
1975	706	956	67	283	- 35	1782	- 1434
1980	847	846	- 504	- 396	16	4199	- 2499
1985	1484	551	- 864	- 396	18	5099	- 3694
1986	1298	562	- 884	- 199	29	5465	- 4018

Figure 2: Balance of Trade in Cars (Measured in Thousands)[18]

At the GATT negotiations in 1982, the European Council attempted to rectify the trade imbalance in autos with Japan through recourse to Article XXXIII. This was unsuccessful, as the consultative meetings in Geneva had been the year before.[19] In response and out of growing concern for the industry and its future the European Parliament's Committee on External Trade Policy authored a report in 1982 on trade in autos with Japan, named after its rapporteur. The so-called Filippi Report articulated the urgency for "a new conception of a common industrial policy in autos," cooperation among European producers, coordinated research and development, the completion of a single car market by removing obstacles to intra-Community trade, and acceptance of the fact that "the period of restructuring needed to restore the competitive position of the European car industry must be accompanied by appropriate safeguard measures."[20] The Parliamentary Committee was calling for internal liberalization and external protectionism, but no legal actions accompanied this report.

iii. The CCMC

One recourse to European producers during this difficult period was the formation of a new regional industry association. In 1970, heads of Europe's largest car companies formed a technical committee – called the X Group – comprised of research and development directors from each of the leading producers in the EC.[21] This group became the platform through which the industry could, with the Commission's support, develop a more ambitious regional organization than any of its predecessors:[22] the Committee for Common Market Automobile Constructors (CCMC). Membership in the new CCMC included chairmen from Fiat, Renault, Peugeot, VW, Citroën, British Leyland Motors Corporation (BLMC), and Daimler-Benz, who first convened in 1972. After their initial meeting, these founding members decided to extend an invitation of membership to Alfa Romeo and, at the behest

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18 This data was adapted from the US Motor Vehicle Manufacturer Association and the French Chambre syndicale des constructeurs automobiles, as cited in: Fédérique Sachwald, "De la libéralisation au néo-protectionnisme. La cas de l'industrie automobile," *Politique Étrangère*, Vol. 54, no. 4 (Hiver 1989): 710.

19 European Parliament: Report Drawn Up on Behalf of the Committee on External Economic Relations on Imports of Japanese Cars into the EEC," Document 1-997/82, 15 December 1982. ["Filippi Report"] Archive of European Integration, p. 25.

20 Filippi Report, 27-29.

21 Sigfrido M. Ramírez Pérez, "Transnational Business Networks Propagating EC Industrial Policy: The Role of the Committee of Common Market Automobile Constructors," in Wolfram Kaiser, Brigitte Leucht, and Morten Rasmussen, eds., *The History of the European Union: Origins of a Trans- and Supranational Polity, 1950-72*. (London: Routledge, 2009): 77.

22 The Organization of International Automobile Constructors (OICA) (1955), the Liaison Committee of the Automobile Industry of the Countries of the European Communities (CLCA) (1958), the European National Car Federation, and the European Association of Manufacturers had all formed around issues of technical regulations.

of VW, to BMW.[23] Despite their long experience and extensive operations in the region,[24] the European subsidiaries of American producers, including General Motors and Ford Europe, were excluded out of fear that these American subsidiaries would pressure the Commission to adopt US technical and environmental protection standards.[25] Somehow, the enthusiastic CEO of Swedish Volvo, Pehr Gyllenhammar, negotiated his way into the group through the loophole of Volvo's ownership of truck maker DAF, based in in France. Throughout the 1970s, the CCMC worked with Commissioners like Alterio Spinelli and François-Xavier Ortoli to develop common norms and technical standards for the European auto industry, advancing the Commission's agenda of integration in exchange for reciprocal attention to its policy interests.[26]

iv. The US and EC Take Action

With Japan ascendant and its exports flooding foreign markets, the US and EC both claimed Japan had abused the GATT rules of trade. In 1981, the US demanded that Japan agree to voluntary export restraints (VERs), self-imposed limitations on its trans-Pacific exports for key product categories, particularly autos. The EC observed the US's VER agreement closely and with growing concern that Japanese exports blocked from the US would then be "dumped" in Japan's other target export markets in Europe. Rather than finding recourse in Article XXIII/2 of the GATT, which would have allowed the EC to take action against Japan's hostility toward foreign imports and investment, or Article XIX, which provided an escape clause against dumping, the Commission resorted to negotiating its own voluntary restraint agreement (VRA) with MITI on behalf of all member states, many of whom also had their own individual import quotas. Although illegal under GATT rules, the VRA was much easier to implement than the cumbersome mechanisms the GATT provided – and it offered more robust protections with greater discretion.[27] The VRA immediately mitigated the EC's trade deficit with Japan, reducing the imbalance by 1.25 billion USD between 1983 and 1984 (Figure 1). Japan also agreed to the EC's "Request to Revise Tariffs" from 1984 'reducing duties for motor parts,'[28] and began importing more European cars. Even so, the persistent trade imbalance, which topped 11.1 billion USD in 1985 further soured EC-Japan relations.[29] Commission President Jacques Delors went to Japan to negotiate an export monitoring deal with Foreign Minister Shintaro Abe and Premier Yasuhiro Nakasone, while Commissioner for Competition (DG IV), Peter Sutherland expressed the "need to put Japan under pressure."[30]

[23] Volkswagen wanted to ensure that its domestic competitor would be subject to the same standards as they and not be in a position to negotiate separately with either the West German state or the EC.

[24] Mira Wilkins, *American Business Abroad: Ford on Six Continents*. (Cambridge: Cambridge University Press, 2011); Hubert Bonin, Yannick Lung, and Steven Tolliday, eds. *Ford, 1903-2003: The European History*. (Paris: PLAGE, 2003).

[25] Gerhard Rosegger, "Interfirm Cooperation and Structural Change in the European Automobile Industry," *Review of Industrial Organization*, Vol. 11, no. 5 (1996): 716.

[26] Archive of European Integration (AEI): CAB/VII/130/73: "Report on the Future of Europe at the Meeting of the Istituto Affari Internazionali," by Alterio Spinelli, Rome, 21-24 November 1973. For more on auto standards in the EC, see: Marine Mougen-Toursel: "Emergence and transfer of vehicle safety standards: why we still do not have global standards," *Entreprises et histoire*, Vol. 51, no. 2 (2008): 88-102.

[27] Ironically, it was in the Tokyo Round of the GATT, 1973-1979, that signatories moved to revise Article XIX with a view to increased liberalization, but the round ended with no change to the Article. For more on the VRA and its comparison with GATT provisions, see: Kurey, "GATT and the VRA," 60.

[28] Historical Archives of the European Union (HAEU): KM-257: "Mr. De Clercq's Reaction on Japanese Tariff Moves," IP(85)291, undated.

[29] HAEU: KM-257: Press and Information Service, Tokyo, "Nakasone, Delors agree on creation of committee to monitor Japan's effort to import," Sankei Shimbun, 22 January 1986.

[30] HAEU: PSP-11: Commission of the European Communities, "Commission Agenda – External Relations (GATT)," from David O'Sullivan to Commissioner Sutherland, (5 March 1985): 1.

In contrast to the EC's particular concerns about its automobile industries, the US's disputes with Japan increasingly became a "macroeconomic and exchange rate problem."[31] In 1985, when the finance ministers of the Group of Five (G5) – France, West Germany, Japan, the US and UK – met at the Plaza Hotel in New York to discuss the macroeconomic conditions for their trading relationships, the US convinced Japan and Germany to let the US dollar depreciate against their currencies. This "Plaza Accord" soon delivered on the US' objectives to strengthen its export potential vis-à-vis Japan; it caused the exchange rate of the dollar to the yen to decline by more than 50% over the following 24 months and the German mark by about 40%. In fact, the Plaza intervention worked a bit too well. A run from the dollar in 1987 required the G7 to intervene again in the "Louvre Accord," which stabilized currency markets again in favor of the dollar.[32] As a result, the Japanese trade surplus with the US declined by 25% between 1987 and 1990, when the yen bubble burst and and the Japanese industrial economy began to decline.

II. Market Liberalization and Japanese Transplants, 1985-1990

i. Launching the Single European Market

If the Plaza Agreement backed Japan into a currency corner and limited its export capacity in the US, the launching of the Commission's "New Approach to Standardization" (1985) and the Single European Act (SEA, 1986) seemed at first to offer Japanese producers an export escape route into the EC. The SEA set in motion an ambitious 7-year plan to complete an internal market among the member states of the European Community by 31 December 1992. The removal of non-tariff barriers to trade and the "free movement of goods, services, capital, and people" (Article 13) across the region promised to boost the EC's global competitiveness. Article 16 of the SEA outlined the Council's approach to issuing directives, through which it endeavored "to attain the highest possible degree of liberalization." In Europe, the 1992 Program marked an exciting turning point from the Eurosclerosis of the 1970s to a future of integrated growth and development.

European automakers remained skeptical, however. In October 1985, the European Parliament's Committee on Economic and Monetary Affairs and Industrial Policy conducted an extensive survey of what a single car market would mean for the region's industry. Respondents – including trade unions, consumer protection advocates, importers, environmental groups, European producers, and companies from the US and Japan – gave wide-ranging feedback on issues like technical harmonization and emissions policy. One of the most divisive issues was the increasing presence of Japanese producers in EC markets. Umberto Agnelli, Chairman of Fiat, chronicled European industry's loss of competitiveness beginning with the first oil crisis of 1973, a downturn he claimed was "largely because of the penetration of Japanese manufacturers into traditional markets in Africa, the Middle-East and at home – Japan has 10.3% of the EC market."[33] Japanese cars produced in Europe, he argued, should have at least 80% local content. UK Transport and General Workers Union head Todd Sullivan, too, could find no "free market position between the European motor industry

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[31] Bertoldi, "Forty Years of EU-Japan Economic Relations," 187

[32] This G7 meeting included France, West Germany, Japan, Canada, the US, and the UK. Italy, the seventh member of the group, declined to sign the agreement.

[33] European Parliament, Committee on Economic and Monetary Affairs and Industrial Policy, "The Automobile Industry in the Community," (1985), 90. AEI: A6170.

and the Japanese."[34] Europe was faced with a choice between an open market to the detriment of the region's industry, or to erect barriers to allow the industry to "regenerate" to allow a "re-birth," similar to the "new birth" protection the Japanese government had offered to its firms. Bob Lutz, Chairman of Ford Europe, agreed that such barriers were needed because of Japan's singular aim "to improve their situation at the expense of everybody else." What is more, Lutz noted, Japanese manufacturers source entirely in the far east and export to Europe without allowing European imports, thus making no net contribution to the European economy.[35]

In the following year, the CCMC drafted a white paper to the Commission, raising concerns about the possible consequences of the SEA on their industry.[36] Like other groups, they worried that "the opening of the Community market will operate above all to the advantage of foreign companies"[37] in much the same way the nascent European Economic Community and its customs union had been a boon to American industrial firms in the 1950s and 1960s.[38] In their view, the SEA had formalized free market principles that would render European automakers all the more vulnerable to outside competition once the market was complete and protections were removed. The harshest criticism by the CCMC came from PSA Group Chairman and CCMC member Jacques Calvet, a French nationalist, who warned that Europe was being achieved "at the detriment of France."[39]

Outside the EC, the market 'relaunch' was viewed with increasing skepticism. Competitors in the US and Japan alike feared European efforts to exclude foreign products and investment from the external borders of their new internally-borderless market. These concerns were particularly acute for Japanese firms struggling against dollar devaluation, who also saw the SEA as a threat to the stability of VRA agreements made in 1983. In the words of one analyst, while the Americans may have "fired the first anti-'Fortress Europe' campaign salvo with their habitual megaphone amplification," the Japanese readily "join[ed] the chorus."[40] Commissioners were left with the difficult task of juggling competing commercial, industrial, and competition policies simultaneously – supporting regional industry by realizing the internal market on the one hand, and assuring its trading partners that "the liberalization inherent in the Single Market Program [would] echo around the world."[41] Just as the SEA took effect in 1986, the EC, Japan, and the GATT's other signatories launched the new Uruguay Round of negotiations, which aimed to shift the terms of trade agreements from the flexibility that accommodated bilateral VRAs to a more structured system, but its long delays left the door open for the kinds of side agreements the EC made with Japan in the EOC.

ii. Japanese FDI and the Issue of Reciprocity

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[34] European Parliament, Committee on Economic and Montetary Affairs and Industrial Policy, "The Automobile Industry in the Community," (1985), 97. Archive of European Integration: A6170.
[35] *ibid*
[36] HAEU: PE2-16864/16878: Livre blanc du Comité des constructeurs automobiles du marché européenne, December 1986.
[37] HAEU: KM-257: Commission of the European Communities, "1992: The Impact on the Outside World, part of The European Community in a Changing World: Speech by Willy De Clercq EC-Commissioner for External Relations and Commercial Policy," (Buenos Aires, 2 August 1988): 1.
[38] Jean-Jacques Servan-Schreiber, *Le Défi Américain.* (Paris: Denöel, 1967).
[39] "Peugeot: l'Europe au detriment de la France," *Le Figaro*, 9 January 1987.
[40] Jörn Keck, "1987-1990: Keeping Relations on an Even Keel," in Jörn Keck, Dimitri Vanoverbeke and Franz Waldenberger, eds. *EU-Japan Relations, 1970-2012: From Confrontation to Global Partnership.* (London: Routledge, 2013): 81.
[41] HAEU: KM-257: Commission of the European Communities, "Europe – World Partner," (19 October 1988): 1.

Japanese automakers like Nissan and Toyota quickly adapted to the increasingly hostile export environments in the US and EC. At MITI's encouragement, they pivoted from a focus on exports to a strategy of foreign direct investment (FDI).[42] Building on the footprint they had established in the EC in the 1960s and 1970s, they intensified their investment in local production. Navigating European politics proved difficult, and unionized European labor cost more than Japanese employees. But local production promised Japanese producers the chance to maintain their European market share regardless of export constraints. Per GATT rules, "transplant" vehicles produced by a Japanese marque in Europe should be considered European goods, and, as the CCMC feared, the internal market created by the SEA should legally allow those transplant cars to be bought and sold freely between member state markets. This transplant threat posed by "Japan Inc." would become a sticking point in the EOC negotiations.

Of course, national governments still had their say on issues of inward FDI. This is where Japanese producers became very shrewd about exploiting the European heterogeneity. While many European member states had implemented QRs on Japanese imports as early as 1955 and kept them in place as a bargaining chip in the event of bilateral negotiations with Japan, the circumstances of the 1970s and 1980s motivated some to see Japanese investment as a much more effective strategy than the 'economic warfare' of continued restrictions. Germany, whose auto industry was largely export-oriented, had implemented no explicit restrictions on Japanese investment, while France and Italy, whose industries were highly dependent on national markets, set narrow limits on both import and investment.[43] In Britain, the Society of Motor Manufacturers and Traders (SMMT) secured a VER on Japanese imports in 1976.[44] After making sizeable donations to the Conservative Party leadership, however, Nissan entered the UK and set up local production. Honda would follow by acquiring a 25% stake in Rover, and Toyota also made plans for a new production facility there. By 1990, all three of Japan's leading carmakers had invested in UK-based manufacturing. Japanese parts suppliers also set up local manufacturing in the US and EC, usually in the vicinity of the primary manufacturer's plants. These vertical *keiretsu* resulted in far lower levels of sourcing from domestic companies than the US had hoped when it approved such deals. Eager to avoid the same disappointment, the European Commission strove to increase the value-added on Japanese transplants by requiring foreign companies to link their FDI with European partners.[45] The implicit goal was to supplant imports with Japanese investment in local manufacturing, whereby Japanese production would contribute to European GDP and employ European workers, rather than pose a direct threat to GDP and employment rates as Japanese imports had done.

With some European states welcoming increasing Japanese FDI in the 1980s, the Commission, committed to a robust regional industrial policy, began to push for reciprocal access into the Japanese market for European exports and investment, which had been mostly closed to foreign firms for decades. By the 1980s, GATT trade agreements had removed Japanese tariffs, but non-tariff barriers (NTBs) like standards and technical specifications continued to block European goods and investment.[46] As the Delors Commission prepared to ask the Japanese government to reduce obstacles

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[42] HAEU: PSP-48: "Visit of President Delors to Japan – Debriefing Member States Ambassadors in Tokyo," (27 January 1986): 6.

[43] Stephen Roland, *Vehicle of Influence: Building a European Car Market.* (University of Michigan Press, 2000): 117.

[44] James T. Walker, "Voluntary Export Restraints between Britain and Japan: The Case of the UK Car Market (1971-2002)," *Business History*, Vol. 59, no. 1 (2015): 35-55.

[45] One outcome of this was regular meetings between the Japanese Automobile Manufacturers' Association (JAMA) and the European Association of Automotive Suppliers (CLEPA).

[46] Commission of the European Communities, "Japan: List of Non-Tariff Barriers," 1987; SEC 87/414.

to European FDI, Sutherland devoted much of 1985 to dialogue with Japanese industry and officials on the topic of forming an agreement that would support the competitiveness of European industry.[47] To his dismay, "nothing particularly new emerged" from Delors' first visit to Japan that winter.[48] In fact, when questioned about the Commission's possible quota for Japanese autos, Delors had "emasculated" the issue of import targets by replying: "I have too much respect for the Japanese government to insist on one formula or another."[49] In the aftermath, the EC scrambled to reset its approach, even allocating a significant budget to support European FDI.[50] But when Commissioner for External Relations, Willy De Clercq, met with European companies on the matter in 1988, they expressed little interest in investing in Japan.[51] What they wanted was market access for their exports and limits on Japanese imports to the EC.

By 1988, eliminating NTBs for European cars became the Commission's chief trade concern, thanks to repeated lobbying efforts by the CCMC and member state governments with sizeable car industries. It successfully compelled the Japanese government to progressively open its market to European cars, resulting in a boost in European car imports between 1988 and 1990 (Figure 3). Still, in the absence of fully reciprocal access for European firms in the Japanese market, De Clercq echoed the appeals of the CCMC in advocating to cap the Japanese share of the European car market at 10% through the 1990s.[52] This "transitional" arrangement, he argued, would allow the European industry to restructure.[53] Others balked at the proposal to artificially limit foreign sales amid the ongoing process of internal market liberalization. Commission Vice President Frans Andriessen expressed his view that "there was something absurd about the idea of the Community turning in on itself after 1992, as it would quite contradict the central goal of the whole programme: ensuring the European economy was internationally competitive."[54] In 1988, De Clercq agreed that the Community had "a vital interest in the maintenance of a worldwide, liberal trading system," but clarified that borders could only be opened "on the basis of a mutual balance of advantages." Even after 1992, he warned, "national protective measures may be replaced by appropriate measures at community level."[55] Liberal Bangemann recoiled.[56] In a private letter to De Clercq, he agreed with the public statements his colleagues had made about the EC's open trade policy, but said some of De Clercq's statements "give rise to the suspicion that a much closer bilateral, perhaps also sectoral reciprocity is being considered," irreconcilable "with the defining principles of the open multilateral trading system."[57] These disputes among Commissioners would be echoed in those among carmakers.

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[47] See Sutherland's Commission papers: HAEU: PSP-341-347.

[48] HAEU: PSP-48: David O'Sullivan, "Commission Agenda – Item 13c: President Delors' Visit to Japan," 28 January 1986.

[49] HAEU: PSP-48: President Delors' Press Conference in Tokyo, 23 January 1986

[50] COM(95) 73 final, p. 13. These efforts would continue into the 1990s with the Commission's Commission's Executive Training Program and "Gateway to Japan" designed to introduce European companies to the Japanese market.

[51] Keck, "Keeping Relations on an Even Keel," 88.

[52] HAEU: CPPE: 1491: "EC Seeks Pact with Japan to Restrict Auto Imports," *Wall Street Journal*, 29 February 1988.

[53] At the same time, the US initiated Market Oriented Sector Specific Approach (MOSS) and the Structural Impediments Initiative in the following year, both aimed at improving the US-Japan balance of trade and encouraging US FDI in Japan.

[54] Commission Vice-President Andriessen in Osaka on 24 March 1990, "Speech Manuscript," 6, as quoted by Keck, 108.

[55] HAEU: KM-257: Commission of the European Communities, "1992: The Impact on the Outside World, part of The European Community in a Changing World: Speech by Willy De Clercq EC-Commissioner for External Relations and Commercial Policy," (Buenos Aires, 2 August 1988): 1, 3, 7.

[56] Bangemann had led the German Free Democratic Party (FDP), which advocated for a free market economy.

[57] HAEU: KM-257: Martin Bangemann, "Letter to Willy De Clercq," (Bonn, den 29 Juli 1988): 1-2.

Billion (ECU)	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**
Exports to the EC/EU	26.23	31.17	32.66	39.66	43.47	42.07
Annual % Increase	3.10	18.83	4.78	21.43	9.61	-3.29
Imports from the EC/EU	16.19	18.41	15.39	20.39	25.54	27.52
Annual % Increase	5.00	13.71	-16.40	32.49	25.26	7.75
Japan's Trade Balance	10.04	12.76	17.27	19.27	17.93	14.52
Annual % Increase	2.03	27.09	35.34	11.58	-6.95	19.02

Figure 3: Japanese Trade with the EC/EU, 1985-1990[58]

The issue of reciprocity eventually motivated the Commission to change its negotiation strategy with Japan. Rather than focusing on trade disputes through a confrontational approach, "The Community and Japan" (1988) formally inserted the theme of "cooperation" into the relationship for the first time. Even the most cynical Commission staffers reasoned that, if cooperation could not solve the EC's trade deficit, it could at least offer some insurance lest talks between Brussels and Tokyo completely break down. Out of the cooperation approach came the Commission's suggestion to establish the EC-Japan Industrial Cooperation Center to foster industrial partnerships between leading firms and business elites in both markets. While its impact remained limited throughout the 1990s, the Center did serve as a symbol of the shift from pure competition to at least some cooperation. Its optimism notwithstanding, this new *leitmotif* of the EC's approach toward Japan did restrict the Commission's policy options with regard to the trade negotiations.

III. Negotiating Protections, the CCMC and the Commission

i. Lobbying for Regional Quotas

As the Commission worked throughout the late 1980s to fulfill the nearly 300 harmonization directives to complete the Single Market, automakers were growing increasingly concerned about Japan's growing competitive threat and its potential to capitalize on market liberalization in the EC. Throughout the spring, summer, and fall of 1989, members of the CCMC met and corresponded regularly with the European Commission, especially with Bangemann, who 'took so seriously and constructively his obligations as Commissioner of the Internal Market' as to 'become personally acquainted with the issues' important to the auto industry, even making several visits to manufacturing locations across the EC.[59] In May 1989, the CCMC, represented by its secretary general Mr. Perrin-Pelletier, who also sat on the board of Peugeot, articulated the group's unanimous position that EC-wide import quotas should remain in place to limit the market share of Japanese manufacturers for at least 5 years after 1992 to allow for necessary "stabilization." In October of the same year, Fiat chairman and CCMC president Umberto Agnelli reminded the Commission of the many crises experienced by European producers between 1975 to 1985, which had resulted in devastating losses in the European industry (See Part I). Although some firms had been able to recover from these crises by reorganizing their production and developing new models amid the growing consumer market after the recession of the mid-1970s had ended, Agnelli explained the CCMC's fear that European markets were "the favorite target of Japanese manufacturers," whose productivity rates remained higher than those of European automakers.[60] While the CCMC "supports Free Trade," said Agnelli, "it wishes to

[58] Data adapted from: "Europe and Japan: Next Steps," (Brussels, 8 March 1995): COM(95) 73 final, 21.
[59] HAEU: FL-714: CCMC Letter to Commissioner Martin Bangemann, (4 October 1989): 2.
[60] *ibid*, 2.

have a reasonable period of transition before the further opening of the European frontiers and corresponding opening of the Japanese market." Agnelli's letters did not address the issue of Japanese FDI.

Justification for regional quotas depended on the severity of the Japanese threat. As a memorandum from the discussions of seven Commissioners at a meeting held later that week noted, Japanese imports amounted to 1.2 million vehicles in 1988, roughly 9% of the EC auto market.[61] To some Commissioners in attendance, this figure seemed low – especially when compared to the fact that extra-EC countries with free access to the EC market had imported 4.2 million vehicles, or about one third of the total volume of cars sold in the EC in the previous year. Still, others were compelled by the fact that projections for the growth of Japanese producers put the Japanese share of the European market as high as 13% by 1997, with an anticipated increase of roughly 1.5% per year.[62] That Japanese producers could produce more efficiently at lower costs and enjoyed the technological advantages of making greenfield investments in European markets was also cause for worry on the part of EC member states and producers.[63]

A flurry of 1989 meetings between key Commissioners, including Sir Leon Brittan (DG IV), Bangemann (DG III) and Andriessen (DG I), discussed what, exactly, the Commission should do about the threat Japanese competition in autos posed to European producers, and how they should handle the liberalization of the European car market.[64] Through all of this, the CCMC's counterpart, the Japanese Automobile Manufacturers' Association (JAMA) maintained a "cone of silence" on the topic of export quotas, despite having an office in Brussels and other regular contact with the Commission. JAMA did participate in a questionnaire conducted by the European Parliament's Committee for Economic and Monetary Affairs and Industrial Policy in 1985 on the state of the European auto industry on a variety of themes. When asked about the international sector, JAMA responded that it hoped "that EC steps to harmonize the common market will be successful, and that the Community ensures that Spain and Portugal, when they join the Community, will not discriminate against Japanese imports or investment."[65] For its part, MITI, serving as Japan's key trade negotiator, was remarkably compliant with the EC's demands.

As he had done with De Clercq, Bangemann responded to these protectionist petitions of the CCMC by insisting that continued quantitative restrictions would be the antithesis of the Single Market and would create a true "Fortress Europe."[66] Furthermore, he warned his fellow policymakers that in the event of regional import restrictions, Japanese producers would likely set up production in third countries, over which the EC had far less recourse to monitor import volumes. In his view, it was obviously preferable to accept Japanese investments directly. He subsequently encouraged the European auto industry to prepare itself for the impending shift from a protected to a free market, in

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[61] HAEU: FL-714: "Aide Memoire: sur le dossier "Automobiles," European Commission, (11 October 1989), 2.
[62] *ibid*, 2.
[63] A series of technology and production studies conducted between 1982 and 1990 quantified these advantages enjoyed by Japanese carmakers over their European counterparts.
[64] HAEU: FL-714: "Note a l'attention de Monsieur Andriessen: conference de presse de M. Bangemann," (Bruxelles, le 12 julliet 1989): 1. See also: Roland, 125-126.
[65] European Parliament: Committee on Economic and Monetary Affairs and Industrial Policy, A6170, p. 107.
[66] HAEU: FL-714: "Note a l'attention de Monsieur Andriessen: Conference de Presse de M. Bangemann: Importations voitures japonaises."

which "national import barriers [would be replaced by] a European trade policy."[67] Bangemann also weighed in on the "problem of local content," Japanese vehicles produced in the EC, arguing that there would be "no scope for comparing Japanese vehicles made in the Community against exports from Japan," and that any attempt to curb foreign production in the EC "would conflict with the objective of progressively opening the restricted markets and of completely liberalizing imports into the Community. Moreover, […] it would be a dangerous precedent that one day might be turned against the Community."[68] In short, as the Commission deliberated the shape of its trade policy toward Japan after the completion of the Single Market, Bangemann opposed both import quotas and limitations to Japanese manufacturing investment in Europe.[69] But in early 1990, a Commission majority concluded differently: "Japanese competitors ha[d] increased their market share at the expense…of European producers, whether as a result of exports or…through local vehicle assembly." If European industry was to become competitive enough to take advantage of the opening of Eastern Europe and fully liberalize by the turn of the century, it could not be "endangered by large-scale importations of vehicles built in Japan."[70]

Then, in rapid succession, the Nikkei index dropped, the yen bubble created by the Plaza Accord burst, and the Japanese economy entered the "lost decade" of the 1990s. That Japan's GDP still reached 5% in 1990 kept Europeans on high alert about the 'Japanese challenge,' though. It would be another year before the full effects of the bubble would be felt across the macroeconomy and another four years before Japan would recover from the downturn. European producers and policymakers alike were certainly not convinced the Japanese threat had passed when Yutaka Kume, chairman of Nissan, declared in the early 1990s: "Europe is now my main objective."[71] What is more, at the same time the yen declined, Europe also entered into a recession, causing fresh concerns about unemployment and trade deficits, even if the trade imbalance between the EC and Japan had improved.[72] So, despite the relative decline of Japanese industry during the first half of the 1990s, the Commission – perhaps save Bangemann – still perceived the CCMC's appeals for protections to be warranted.

In August 1990, a preliminary agreement was drafted. This document outlined the commitment to eliminate national import restrictions by January 1993 when the Single Market was due to be completed. It also implemented a general VER for a period of five years. European producers found this an insufficient transitional period, saying more adjustment time was needed. Carmakers also insisted that the issue of transplant production had to be addressed.[73]

ii. Fractures in the CCMC, Forming the ACEA

[67] Andrew M. McLaughlin and William A. Maloney, *The European Automobile Industry: Multi-level Governance, Policy, and Politics.* (London: Routledge, 1999): 122.
[68] HAEU: FL-714: "Counting Rules for Japanese Vehicles Produced in the Community – Papier Bangemann pour la réunion de la Commission, "Brussels, (10 October 1989): 2.
[69] Vincent Dujardin, Éric Bussière, Piers Ludlow, Federico Romero, Dieter Schlenker and Antonio Varsori, eds., *The European Commission, 1986-2000: History and Memories of an Institution.* (Luxembourg: Publication Office of the European Commision, 2019): 84.
[70] European Commission, "The European Motor Vehicle Industry," COM(92) 166 final, (Brussels, 8 May 1992): 3, 17.
[71] Thierry Gandillot, *La dernière bataille de l'automobile européenne.* (Librairie Arthème Fayard, 1992): 20.
[72] Commission of the European Communities, "Communication from the Commission to the Council: Europe and Japan: Next Steps," COM(95) 73 final, Brussels, (08.03.1995): 9. The deficit reduced by about 15% per year between 1992 and 1995.
[73] Roland, 126.

Although the CCMC had been successful in convincing the Commission of the need for some general export restraints, contention over transplants proved an existential threat to the group. While some members agreed to allow Japanese FDI as long as export restrictions were implemented, Calvet vehemently opposed categorizing Japanese transplants as European products and argued that any Japanese marque made in the EC should count against annual EOC quotas. In a shift from its original position, volume manufacturer VW also opposed free access for transplants, which it saw as direct competition.[74] The disagreement became most bitter between Calvet and Agnelli, and fights between them ultimately rendered consensus impossible. Because of the CCMC's unanimity rule, the dispute resulted in an impasse, and the association dissolved in 1990.

BMW, which had remained relatively neutral during the disputes, was tasked with developing a new organization for the region's industry. In February 1991, leading European automakers – many of which had been members of the CCMC – formed the Association des Constructeurs Européenns d'Automobiles (ACEA), through which they could take collective decisions via a new qualified majority voting mechanism with a 75% threshold.[75] Unlike the CCMC, the ACEA welcomed European subsidiaries of American companies, and Ford Europe joined immediately. Together with VW, it formed the core of the ACEA's new position. The new group was much more functional than its predecessor from the outset, not only because of its improved structure, but also because the disputes of previous years found de facto resolution when Calvet refused to join the new ACEA. With Calvet out of the way – at least until the PSA Group rejoined its peers on the ACEA in 1993 – this group of European automakers had a more unified position from which to articulate collective concerns to the Commission, and they focused their attention on securing export restraints.

Calvet soon undertook his own "lonely fight" to block any trade deal with Japan.[76] In May 1991, he met with Delors to oppose any Commission automobile trade agreement with Japan.[77] Ever the pessimist, he believed "on the basis of current negotiations, European industry will disappear." The Community should not become a "simple free trade zone," he argued, and Europe should simply "not negotiate" with the Japanese. If any agreement was to be made at all, it should include the "widest possible definition of the Japanese vehicle, the lowest possible overall penetration rate, […] the regulation of parallel imports, […] and real reciprocity," so as to constrain Japanese market share in Europe and increase the foothold of European producers in Japan.[78] Finally, Calvet asked the Commission not to divulge its intentions to open the market by the end of the 1990s, which would be a "gift" to the Japanese since "the only thing the Japanese do not know how to handle is uncertainty."[79] After explaining the logic of competition policy to the staunch protectionist and – in what must have been an incisive jab at Calvet following the collapse of the CCMC – faulting European industry for not collaborating effectively as their Japanese competitors had done so well, Delors assured the chairman that the Commission was committed to offering companies a regional environment that could create "European champions." But, for Calvet, any Commission help with European industry handicaps of 'insufficient cash flow, problems of diversity and poor employee

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[74] Kendall, "The Elements of Consensus," 230. European parts manufacturers had their own interests: counter-purchasing agreements between Austria and Japan were eventually done in by Austria's accession to the EU in 1995.
[75] HAEU: MID-102: "Interview with Ms. Innike Herreman, ACEA, Brussels, December 1993; McLaughlin and Maloney, *The European Automobile Industry*, 123.
[76] Gandillot, *La dernière bataille de l'automobile européenne*, 107.
[77] Calvet once said: "There are three things I will never do: reduce the price of my cars; allow the Japanese to enter Europe; and sell PSA to a foreigner." See: Gandillot, 124.
[78] HAEU: FL-726: "Note pour le president: entretien du president avec J. Calvet," (13 mai 1991): 1.
[79] *ibid*, 2.

training, weak original equipment manufacturers (OEMs) relative to Japanese networks of suppliers, insufficient state support, and the problematic fluctuation of currencies and interest rates,' would only matter if they first blockaded European producers from the Japanese threat. His efforts failed to block the Commission from moving forward with the ACEA's push for an export agreement, exactly along the lines he rejected.

IV. The Elements of Consensus

i. Formal Talks and an Informal Arrangement

Also in May 1991, Jacques Delors traveled back to Tokyo to finalize a global EC-Japan trade agreement for the new Single Market, set to be completed in December of the following year. Delors addressed Prime Minister Toshiki Kaifu along with the Japanese political and business community in an attempt to convince them of the EC's view that "the globalization of economies means that cooperation between companies with a global dimension are not only inevitable but indispensable."[80] At the same time, while trying to excuse the protectionist position of Calvet which had clearly upset the Japanese, he declined the sweeping liberalization request of MITI leader Nakao Eiichi and asked instead for Japanese understanding of the fact that "European car companies [simply] need a certain amount of time to [be ready to] face international competition."[81] Resolution of this "bottleneck of EC-Japan trade negotiations,"[82] required reciprocity: Japanese producers had claimed a tenth of the European market share, whereas EC producers had only captured 3% of Japan's.[83] 'There would be no problem at all if Japan and Great Britain were subject to the same rules,' Delors assured them; the 'opening of the Japanese market would result in the corresponding opening of the EC market.'[84]

After Delors left Tokyo, Bangemann corresponded with his counterpart at the MITI about solving the trade imbalance through export quotas. By 31 July, the two sides had reached an agreement on the "modalities of a transitional period" and "a total liberalization of the Community automotive market by 31 December 1999."[85] Commission Vice-President Andriessen subsequently outlined the fourteen points of these "Elements of Consensus": the EC agreed to fully "abolish national restrictions of any kind (including registrations) taken under Article 115 [of the Treaty of Rome]" by the time the Single Market is completed on 1 January 1993,[86] to grant Japanese producers "Community type approval" by the same date,[87] and to remove restrictions on Japanese investment and the free circulation of its products in the Community.[88] In exchange, Japan agreed to an export monitoring scheme whereby demand for Japanese "passenger cars, off-road vehicles, light commercial vehicles and light trucks,

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[80] Fondation Jean Monnet pour l'Europe (FJME): JD-242: "Discourse de Jacques Delors President de la commission européenne," European Business Community, (Tokyo le 23 Mai 1991), 4.

[81] FJME: JD-242: "Press Conference by President Delors," Tokyo 24/05, Bruxelles le 24 Mai 1991.

[82] FJME: JD-242: *Japan Times*, Press and Information Service, Tokyo, 25 May 1991.

[83] FJME: JD-242: "Le Travaux d'approche de Jacques Delors a Tokyo: Le president de la commission européenne se rend en visite officielle au Japon," *l'Economie*.

[84] FJME: JD-242: "Delors Discussions with Prime Minister Kaifu," Visite de Jacques Delors au Japon (Tokyo), 5-6.

[85] HAEU: FL-713: "Elements of Consensus," Brussels, (31 July 1991): 1.

[86] Article 115 granted the Council to "issue directives for the approximation of laws, regulations, or administrative provisions of the member states as directly affect the establishment or functioning of the internal market." In effect, national policies made prior to member state accession were allowed to remain in place.

[87] Whole vehicle type approval was a major concern for automakers in the 1992 Program. The Commission's Elements of Consensus agreement extended type approval for Japanese imports by 1993 and anticipated: "[t]he EC side will achieve full Community acceptance of type approval for motor vehicles by the end of 1992."

[88] HAEU: FL-713: "Elements of Consensus," Brussels, (31 July 1991): 2-3.

including CKD sets" would be forecast and controlled in the restricted markets of France, Italy, Portugal, Spain, and the United Kingdom.[89] Importantly, the EOC made no mention of transplants or investment limits, leaving the issue unresolved. Both sides agreed to notify the GATT of the export arrangement, which would have otherwise violated international trade rules. But the negotiation process had left little by way of a paper trail. The Commission had not wanted to give member states with very different views on the matter a chance to appeal to the European Court of Justice if they disapproved of the arrangement, so it did not publish the specifics of the EOC in the Official Journal of the European Communities.[90] Because the SEA had done away with member states' abilities to set unilateral import restrictions – and because full external liberalization was seen as untenable by both member states and producers – the only viable solution was an informal bilateral arrangement.[91] And, in the words of Commissioner Andriessen, "the position taken by the Commission in its talks with Japan is largely the same as that adopted by the European car industry."[92]

The monitoring scheme hinged on regular forecasts and reviews of demand for Japanese imports as a share of the total European market for automobiles. Twice a year from 1991 to 1999, the Commission met its counterparts from MITI for two days at a time, alternating between Brussels and Tokyo. In the fall, the two sides would analyze the 'current year's export trends, forecast exports for the following year, and make a preliminary outlook on the level of exports for the year after that.' These forecasts focused on each of the five formerly restricted markets, plus the important and differentiated market of Germany, and it fell to the Commission's Directorate-General for Industry (DG III) to collect market data to estimate demand.[93] The resulting calculations produced a "global monitoring level" for the entire EC as well as particular quota levels for specific national markets. In the spring, representatives would reconvene to assess the 'actual result of exports for the previous year, forecast the level for the current year and adjust if necessary, and make a preliminary outlook on the level of exports for the following year.'[94] Any "disproportion" between the forecast and actual demand then set the tone for the next round of negotiations in which the deviation would be reduced "equitably" by 75% rather than the full difference.[95]

Why did Japan agree to such terms, and was it really a "Consensus" between the EC and Japan? Some observers perceived Japanese Prime Minister Kaifu as having adopted a "politics more than economy approach" in both of the 1991 agreements with the EC. Whereas Japan had previously conducted its international relations on the basis of its economic capacity, both the Joint Declaration and the EOC marked a shift. The collapse of the yen and the threat of a "Fortress Europe" had changed Japan's calculus. By pursuing collaboration and playing the long game with the terms of trade and market access, Japan hoped its export strategy and FDI in Europe, which was not restricted by the EOC, would preserve its place in the global economy. In a way, a short period of regional export quotas was a win for Japanese producers, which could look forward to a fully liberalized Single Market in just a

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[89] The document noted that the motor industries – and leading firms – of the UK and Japan had "periodically exchanged their views on the market conditions therein."

[90] Christopher Kendall, "The Elements of Consensus: Liberalising EC-Japanese Passenger Car Trade in the 1990s," in *EU-Japan Relations, 1970-2012: From Confrontation to Global Partnership*, eds. Jörn Keck, Dimitri Vanoverbeke and Franz Waldenberger. (London: Routledge, 2013): 230.

[91] Stephen Roland, 120.

[92] Roland, 129, citing *Debates of the European Parliament*, 11 June 1991: 112.

[93] Kendall, "The Elements of Consensus," 232.

[94] HAEU: FL-713: Section 8: "Operation of Monitoring System at Both Levels: Monitoring Twice Yearly Consultations," 2 August 1991.

[95] HAEU: FL-713: "International Declaration by the Commission concerning the Operation of the Monitoring System," 31 July 1991.

few years. In the meantime, local investment granted them access to the Single Market anyway. Or so they thought.

i. Transplants and National Markets

In practice, the monitoring system proved to be an accounting headache, since any disproportion in national markets had to be offset against the global monitoring level. Small countries without car industries, like Denmark, Belgium, and the Netherlands, took interest in ensuring that the global monitoring mechanism of the EOC did not disrupt the flow of Japanese imports to their distribution networks. Annual quotas became complicated in the case of Spain, which wanted to protect its domestic industry, but residents of whose Canary Islands territory required the 4x4 vehicles made by Japanese producers to navigate the archipelagos rugged terrain.[96] For its part, Portugal wanted to keep its flow of Complete Knocked-Down Kits (CKDs), packages of pre-manufactured component parts, coming from Japanese producers, which were then assembled in Portugal by local workers. The rather inelegant solution to such problems was to transfer quotas between member states so as to meet domestic needs without altering the disproportion at the global monitoring level. For the most part, quota transfers solved problems of export monitoring.

But the transplant issue shone a bright light into the cracks between European member states, and Japan recognized in these fissures the opportunity to further divide Community trade policy through "targeted promises of direct investment."[97] Nissan redoubled its investment in the UK in 1988 as Margaret Thatcher actively worked to attract Japanese investment.[98] This caused a Commission debate about how to "determine a percentage of local content" in the case of the Nissan Bluebirds being shipped from the UK to France.[99] It also prompted Calvet to call the United Kingdom 'a Japanese aircraft carrier moored off the northwest coast of Europe'[100] for having invited in the 'Trojan horses' of Nissan, Honda, and Toyota.[101] While demand for Japanese cars was increasing steadily in Britain and Portugal, the "Latin" "Club Med" of France, Italy and Spain refused to cede market share from "national champions" to foreign competitors.[102] Of particular concern for at least one panicked member of European Parliament was the plight of European parts manufacturers, who employ over a million workers. Despite seeming "unruffled" and going "so far as to welcome the arrival of Japanese manufacturers on the old continent," he thought they had "everything to fear."[103] Bangemann replied optimistically about the potential for Japanese subsidiaries in the EC to utilize "a high level of local content," boosting European parts manufacturers rather than hurting them.[104] Honda and Nissan further exacerbated the transplant issue by exploiting the loophole of exporting to Europe cars they made in the US, which were considered "American made" and were not subject to the EOC.

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[96] Kendall, "The Elements of Consensus," 235.
[97] Keck, "1990-1995: Trade and Economics from Confrontation to Conversation," 132.
[98] Kenjiro Ishikawa, *Japan and the Challenge of Europe 1992*. (London: Royal Institute of International Affairs, 1990): 99.
[99] HAEU: FL-636: Commission of the European Communities, "Automobile: Affaire Nissan," (Bruxelles, 10 Octobre 1988): 1.
[100] Diana T. Kurylko, "No Fear: Europe's Makers Put Away Protectionism as Japanese Import Quotas Run Out," *Automotive News*, 1 July 1999.
[101] Albrecht Rothacker, "The EC and Japan: From Mutual Neglect to Trade Conflicts and Beyond," in Ulrich Krotz, Kiran Klaus Patel and Federico Romero, eds., *Europe's Cold War Relations: The EC Towards a Global Role.* (London: Bloomsbury, 2020): 112-113.
[102] Tommaso Pardi, "Industrial Policy and the British Automotive Industry under Margaret Thatcher," Business History, Vol. 59, no. 1 (2016): 75-100.
[103] HAEU: PE3-6745: "Written Question no. 2730/91 by Mr. André Sainjon to the Commission: QXW2730/91EN"
[104] HAEU: PE3-6745: Reponse donnée par M. Bangemann au nom de la Commission (6 mars 1992): 1.

After the agreement was finalized, however, tensions over the issue of transplants soared. Following Andriessen's phone call to finalize the EOC with MITI Minister Nakao on 1 August 1991, he issued a written declaration to address the topic of Japanese production in the EC. Couched in terms of "constructive cooperation," the Commission Vice-President retroactively stated the EC's position that the estimate of vehicle sales in the Community by the end of the transition period in 1999 included 1.2 million vehicles produced by Japanese owned factories located in the EC.[105] In his written response to Andriessen, Nakao protested: "during these negotiations, the Japanese side has based itself on the working assumption that the export figure at the end of the transitional period is forecasted taking into account total demand and the EC manufacturers supply capacity as a whole," counting Japanese production in the EC as European, rather than Japanese. He subsequently bristled, "let me call your attention to your commitment in the 'Elements of Consensus' that Japanese investment or sales of its products in the Community shall not be restricted."[106] But in this negotiation, the EC clearly had the upper hand. A corresponding 'Internal Declaration' from the Cabinet of the EC President clarified: the benefit of any increase in demand in excess of the EOC forecasts would be divided $^{1}/_{3}$ to Community manufacturers and $^{2}/_{3}$ to Japanese manufacturers. If demand fell below the forecast, Japanese producers would assume ¾ of the deficit, whereas Community builders would only bear ¼ of the decrease.[107] In short, "if transplants increase, direct imports must decrease."[108] When the Japanese began to publicly express frustration with the EC's restriction on Japanese production in the EC, Bangemann retorted, "I can't understand what the confusion is about. It's absolutely clear that the agreement places no limits on Japanese transplants."[109] Likewise, the Commissioner for Competition (DG IV), Sir Leon Brittan, dismissed Japanese claims as being smear campaigns made by a disgruntled party. Since the agreement was kept out of the EC Official Journal and its details had not been widely publicized, it was the EC's word against Japan's.

V. Implementing the EOC, 1991-1999

In the months that followed the EOC agreement, the EC completed its 1992 Program's harmonization directives. Many European industrialists viewed the completion of the Single European Market as an unparalleled economic event capable of propelling growth and development in the region. As Europe celebrated its liberalized market, EOC quotas protecting the European car industry remained in place.[110] Officials from MITI and the Commission continued to meet twice per year to make estimates, set quotas, and calculate disproportion for Japanese imports into the EC. And from the mid-1990s onward, the trade deficit equilibrized. Not only had the EOC constrained Japanese imports into the EC, but when the bottom fell out of the European car market in 1993, Japanese imports were reduced by 75%. Transplants were counted against this adjustment; rather than export cars back to Japan, the tally of transplant overproduction against the deficit was counted as a "carry-forward" to the next

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105 HAEU: FL-713: "Declaration du VP Andriessen à M. Nakao: Voitures japonaises: déclarations 'conclusives' version finale," 31 July 1991.

106 HAEU: FL-713: "Réponse de M. Nakao à M. Andriessen: Voitures japonaises: déclarations 'conclusives' version finale," 31 July 1991.

107 HAEU: FL-713: Le Cabinet du President – Francois Lamoreaux, "Note pour le president: voitures japonaises: déclarations "conclusives," Bruxelles, 31 julliet 1991.

108 *ibid*, 1.

109 Charles Goldsmith, "EC Denies Curbs on Japan 'Transplants,'" *International Herald Tribune*, 19 September 1991.

110 By this time, the Commission had also developed a new policy tool, the Trade Assessment Mechanism (TAM), which was much more flexible than its previous approaches. The Commission's updated Communication on Japan, *A Consistent and Global Approach, A Review of the Community's Relations with Japan* (1992), introduced its new method as a statistical analysis, designed to identify "obstacles to the normal development of sales by Community firms on the Japanese market."

year, adjusting subsequent quotas. Throughout the EOC's implementation from 1991-1999 and even when the Commission changed the rules, Japan honored its VRA and EOC agreements faithfully.[111]

Member states proved more petulant. In 1995, the Commission was still pleading with national governments to coordinate their positions on Japan with those of the Commission, since "it does not assist the credibility of EU action in Tokyo when the Community and its member states make parallel demarches on subjects linked to market penetration," and when "a fragmented, national approach allows Japan to play one member state off against another and seriously weakens the image of the Union, thus reducing its ability to deliver the results sought by all."[112] In such an environment, the Commission increasingly saw leading firms and BIAs like the ACEA as important mouthpieces for addressing national issues. It declared its intention "to remain in close contact with European business, both directly and through representative organizations," continuing "to welcome information from European business on any specific problems encountered regarding access for goods and services to the Japanese market."[113] In many ways, the ACEA became a forum for discussions that had failed at the member state level.

While the EOC deal brokered by the Commission on behalf of the European auto industry solved many trade tensions on the European side, reciprocity remained an issue. As a Commission document summarized in the mid-1990s: "relations have been dominated by the EU view that unnecessary and unacceptable obstacles hamper access to the Japanese market. At the same time the Japanese current account surplus is perceived as excessively high." In the Commission's public perception, "since the completion of the Internal Market, Japanese exports face almost no structural barriers in the world's largest unfragmented market…Japanese inward investment is welcomed and even sometimes subsidized."[114] European companies, in contrast, faced significant barriers to exporting to and investing in Japan. Japan's efforts to progressively open its own market to European investment at the behest of the Commission were of little consequence by then; the 1997 Asian financial crisis soon threw Japan into another economic lurch. In such an environment, concerns about sectoral trade deficits gave way to fears of macroeconomic and financial contagion, were Japanese banks to fail in the wake of the crisis.

Even after the yen bubble burst in 1990, even after the trade deficit improved, European industry restructured, and Japanese producers endured a financial crisis, leaders of the European auto industry, were reluctant to support the eventual opening of the European market. As late as 1997, Renault Chairman Louis Schweitzer was still calling for further extension of the quotas on Japanese imports in part, he said, because the Japanese were manipulating their production systems in order for their cars to be categorized as European or third-country products, accusing them of "cheating." And in 1998, the ACEA made sure the Commission would maintain the EOC through the end of the EOC agreement to allow European producers to take full advantage of the "carry forward" clause and offset excessive Japanese imports from previous years.

Still, if the EOC was not an anachronism in 1991, it certainly was by 1999. By then, Peugeot was building engines for Honda and Toyota was exporting cars it had produced in France back to Japan.[115]

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[111] Gandillot, *La dernière bataille de l'automobile européenne*, 172.
[112] Commission of the European Communities, "Communication from the Commission to the Council: Europe and Japan: Next Steps," COM(95) 73 final, Brussels, (08.03.1995): 6.
[113] *ibid*, 15.
[114] Commission, "Next Steps," section 3.
[115] Kendall, "The Elements of Consensus," 237.

Renault acquired a major stake in Nissan, and its balance sheet reveals that its change of strategy had taken it from 'bankruptcy to profit,' no longer in need of stringent protections.[116] Even Calvet's PSA Group had revised its view of Japanese competition so dramatically that it partnered with Mitsubishi in the production of passenger cars in France with the hope of benefitting from the same production methods that had propelled the Japanese industry to its leading global position. Such a dramatic shifts in position reveals how much had changed in just a decade. With the primacy of Japanese producers in decline by the late 1990s, the European auto industry had become not just prepared for but actually a proponent of a more liberal approach to international trade and foreign investment within the new Single Market. Looking ahead to the new millennium, Japanese Ambassador Takayuki Kimura reflected on how the 'trade conflict had not been solved, but rather had disappeared into the changing global economy.'[117]

Conclusion

In the end, was the EOC a step toward liberalization or protectionism for the Single car Market? By reconstructing the discussions and debates that produced the 'Consensus,' this history has highlighted the ability of European producers to capture the Commission's support for protectionist quotas because a regional monitoring system offered the Commission something it desperately wanted: a means of ending disparate national restrictions and realizing a common commercial policy. It was, at least in the Commission's view, a means of liberalization through protectionism, even if the federative effect never really materialized.[118] While the cautionary tale of the CCMC demonstrates the susceptibility of BIAs to the same pitfalls as any social group – infighting, fragmentation, and failure – the success of the ACEA in pushing the Commission to secure a deal with Japan evinces the effectiveness of the "lowest common denominator" approach to export restraints rather than transplants. As a detractor and defector, Calvet exerted less influence on Commission policy when he tried to go it alone. And until the very last stage of the agreement in 1999, European producers got the protections and increasing liberalization they wanted.

Without reference to archival documentation of the ways European automakers brokered protections against Japanese competition or the details of the EOC agreement, scholars of international political economy have offered various interpretations of the "sudden" liberalization of trade in autos in 2000. Explanations for "what happened to 'Fortress Europe'?" have ranged from fundamental changes in international competition to changes in firm preferences, the progressive erosion of nation state power over the setting of import controls to the inherently liberal institutional context of the European Union itself.[119] There is some truth to all of these. By the mid-1990s, competition in autos had changed significantly even from a decade before, away from a purely 'Japanese threat' toward a much more global contest among a panoply of Korean, French, Japanese, Italian, American, and German producers. New technologies and advanced computing had restructured production in the region. As Eastern Europe opened and developing economies in Asia and Latin America offered new labor pools and eager consumer markets to producers, a new business environment emerged for European

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116 Tom Donnelly, Tim Donnelly and David Morris, "Renault 1985-2000: From Bankruptcy to Profit," *Caen Innovation Marché Entreprise*: Cahier n. 30 (2004): 1-18.
117 Suzuki, "The New Politics of Trade: EU-Japan," 876.
118 Bourke, "EC-Japan Relations," 149. Not only was there discord among the Commissioners about the EOC, but the Consensus did not, in the long run, resolve the problems of the Common Commercial Policy.
119 Helen Milner, *Resisting Protection: Global Industries and the Politics of International Trade*. (Princeton University Press, 1988); Brian T. Hanson, "What Happened to Fortress Europe?: External Trade Policy Liberalization in the European Union," *International Organization* 52, no. 1 (1998): 55–85.

automakers, who were far more competitive than they had been a decade prior. At the same time, European producers also became far less export dependent as the Single European Market became the primary destination for their cars in the late 1990s and early 2000s. And, as EC member states allowed progressively more Japanese FDI, "Fortress Europe" became, in the words of one policymaker, more of a "sandcastle."[120]

Ultimately, this archival history of the EOC reveals that the agreement was always set to expire in 1999. Liberal commissioners like Bangemann were convinced to act on the CCMC's appeals because of the severity of the trade deficit in the 1980s and with the caveat of a term limited quota system. Documentation of industry exchanges with the Commission, trade statistics, and firm annual reports show that between the EOC and the economic crises Japan experienced in the 1990s, there was little will even by European producers to extend protections again after the EOC expired. In fact, as the global economy evolved, so too did their preferences. By the 2000s, trade disputes had given way to cooperation, and by the 2010s, the relationship between Japan and the European Union had become one of the closest and least disputed.[121]

[120] Rothacker, "The EC and Japan," 112.
[121] Suzuki, "The New Politics of Trade," 875.

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