Japanese Prime Minister Junichiro Koizumi is in Luxembourg for talks with European Union officials about economic and political issues, including a stand-off over where to build an experimental international nuclear fusion reactor.

The two sides have been at pains to craft a compromise over competing Japanese and French bids to host the £6.8billion International Thermonuclear Experimental Reactor.

The ITER plant, intended to show that nuclear fusion is a vast and safe source of energy, is to be jointly funded by the US, Russia, Japan, South Korea, China and the EU.

Backed by the US and South Korea, Tokyo wants it at Rokkasho in northern Japan. Russia, China and Paris’ EU partners want it at Cadarache in southern France.

Koizumi, leading a high-level Japanese mission, will meet with European Commission President Jose Manuel Barroso, EU External Relations Commissioner Benita Ferrero-Waldner, EU security affairs chief Javier Solana and Luxembourg Prime Minister Jean-Claude Juncker, whose country now holds the EU presidency.

The EU and Japan will assess political and economic aspects of their relationship and global issues such as the environment, the upcoming ministerial meeting of the World Trade Organisation in Hong Kong and political topics such as Japan’s currently touchy relations with China.

In recent years, the two sides have stepped up cooperation to promote peace and security, enhance trade and tackle such challenges as global warming. The EU is pursuing more cooperation in customs matters, science and technology and the peaceful use of nuclear energy.

Increased across-the-board cooperation in recent years reflects a desire in both the EU and Japan – which together account for 40% of global economic output – to project their influence on the world stage.

EU officials expected Koizumi to raise Tokyo's bid for a permanent seat on the UN Security Council. The 25 EU leaders are to debate proposed United Nations reforms in June. Germany wants a UN Security Council seat, as do Brazil, India and Japan.

Koizumi discussed the seat issue on a visit to India last week. After India, he visited Pakistan, a country he praised for its efforts in the war against terrorism. Koizumi said Japan would resume loans to the South Asian country, which were suspended after Islamabad’s 1998 nuclear tests.