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REPORT ON AN ECONOMIC PARTNERSHIP AGREEMENT BETWEEN CANADA AND JAPAN

Report of the Standing Committee on International Trade

**Hon. Rob Merrifield
Chair**

FEBRUARY 2013

41st PARLIAMENT, FIRST SESSION

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THE STANDING COMMITTEE ON INTERNATIONAL TRADE

has the honour to present its

SIXTH REPORT

Pursuant to its mandate under Standing Order 108(2), the Committee has studied a comprehensive and high-level economic partnership agreement (EPA) with Japan and has agreed to report the following:

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REPORT ON AN ECONOMIC PARTNERSHIP AGREEMENT BETWEEN CANADA AND JAPAN

INTRODUCTION

Japan, the world's third-largest economy after the United States and China, is a large market for Canadian exporters and investors. In addition to being a major energy importer and the world's largest importer of food, Japan is a nation with considerable manufacturing and export capabilities.

Canada and Japan maintain excellent relations based on shared values and close ties between the people of the two countries. They are also partners in several international bodies, including the World Trade Organization and the Asia-Pacific Economic Cooperation forum.

Several economic and geopolitical advantages make Japan an important trade partner for Canada and a priority market for the future. Japan is the world's fifth-largest merchandise importer and provides access to other Asian markets. Its manufacturing companies are a part of supply and value chains that reach across Asia and around the world.

Japanese companies are also prominent in foreign investment, which explains why Japan is the world's top net creditor and holds the world's second-largest foreign exchange reserves. Many Japanese multinational companies have invested in Canada in recent decades.

Like the economies of many other countries, Japan's economy was affected by the recent global recession. In response to the economic challenges that the country is facing, the Japanese government recently proposed new measures to increase Japan's exports, as well as to open the agricultural and services sectors to greater foreign competition. In particular, the government is focused on concluding free trade agreements with some of Japan's key trading partners.

It is in this context that, in recent years, Canada and Japan began discussions designed to strengthen relations between the two countries. A joint study started in 2011 revealed that there was sufficient common ground to recommend launching negotiations for a Canada–Japan economic partnership agreement (EPA).¹ In March 2012, the prime ministers of Canada and Japan announced the start of EPA negotiations.

1 The term “economic partnership agreement” is used in Japan to designate what Canada refers to as a “free trade agreement”.

On 24 April 2012, the House of Commons Standing Committee on International Trade (hereinafter the Committee) decided to conduct a study on negotiations for an EPA with Japan. The Committee's primary objectives were to identify the Canadian priorities as well as the views of stakeholders in this regard.

The Committee held hearings in Ottawa from May to November 2012 in order to obtain input from Canadian stakeholders with regard to the principal issues in these negotiations. As well, half of the Committee's members travelled to Japan in late October and early November 2012 to meet with Japanese parliamentarians, officials of the Government of Japan, and stakeholders who are involved in or have an interest in the EPA negotiations. The objective was to gain a broader understanding of the benefits and challenges of implementing a Canada-Japan EPA and to highlight Canada's priorities in the negotiations.

This report provides information on current trade and investment relations between Canada and Japan as well as the issues under consideration during the EPA negotiations, describes the Committee's meetings in Ottawa and Japan, and makes recommendations to the federal government.

BACKGROUND

Trade and investment relations between Canada and Japan²

Japan is Canada's fifth-largest trading partner, after the United States, China, Mexico and the United Kingdom. In 2011, Canada's merchandise exports to Japan totalled \$10.7 billion and imports from Japan totalled \$13.1 billion.

Japan is growing in importance as a destination for Canada's merchandise exports. From 2006 to 2011, the value of Canadian exports to Japan rose at an average rate of 2.5% per year, compared to 0.3% for Canadian exports worldwide. Over the period, the value of Canada's exports to Japan as a proportion of its global exports increased from 2.1% to 2.4%.

From 2006 to 2011, the value of Canadian imports from Japan declined at an average rate of 3.2% per year, compared to an average annual increase of 2.4% for Canadian global imports. Over the period, the value of Canada's imports from Japan as a proportion of its global imports fell from 3.9% to 2.9%.

2 Data in this section reflect Statistics Canada annual data as of November 2012. The merchandise trade data are customs-based; the services trade and foreign direct investment data are balance-of-payments-based.

Table 1 — Canada's Merchandise Trade with Japan, 2006-2011
\$ millions

	2006	2007	2008	2009	2010	2011
Total Exports	9,420	9,223	11,086	8,316	9,195	10,672
Total Imports	15,327	15,458	15,292	12,352	13,447	13,058

Source: Statistics Canada

In 2011, the provinces of British Columbia and Alberta had the highest merchandise exports to Japan, with exports to that country valued at \$4.7 billion and \$1.8 billion respectively.

Raw materials accounted for 56% of the value of Canada's exports to Japan in 2011, while manufactured goods accounted for the remaining 44%.

Table 2 — Top Canadian Exports to Japan, by industry, 2011
\$ millions

Raw Materials		Manufactured Products	
Industry	Total	Industry	Total
Coal mining	2,184	Animal slaughtering and processing	1,047
Oilseed (except soybean) farming	1,386	Sawmills and wood preservation	787
Copper, nickel, lead and zinc ore mining	1,051	Pulp mills	381
Wheat farming	471	Seafood product preparation and packaging	221
Soybean farming	243	Non-ferrous metal rolling, drawing, extruding and alloying (except copper and aluminum)	175

Source: Statistics Canada

In 2011, manufactured goods accounted for 99.8% of the value of Canada's imports from Japan. The top imports were cars and car parts, which together accounted for 35.3% of the value of Canada's merchandise imports from the country.

Canada–Japan services trade totalled \$2.6 billion in 2011; Canadian services exports to Japan were valued at \$1.2 billion, while imports were valued at \$1.4 billion. Commercial services were the principal source of Canada’s services trade deficit with Japan in that year; the value of Canada’s commercial services imports from Japan was \$668 million, while commercial services exports to that country totalled \$261 million. In that year, Canada reported a trade surplus in all other services categories with Japan, including travel, transportation and government services.

Investment continues to be an important part of bilateral relations between Canada and Japan. Japan is the largest destination for Canadian direct investment in Asia. The stock of Canadian direct investment in Japan totalled \$8.4 billion in 2011, making Japan the 14th-largest foreign destination for Canadian investment. In that year, the stock of Japanese direct investment in Canada was \$12.8 billion, making Japan the 8th-largest source of foreign direct investment in Canada.

Current Negotiations

Negotiations for a Canada–Japan EPA began at the February 2011 meeting of the Canada-Japan Joint Economic Committee, when consensus was reached to launch a joint study on the possibility of a Canada–Japan EPA.

On 7 March 2012, Canada and Japan published a document entitled *Report of the Joint Study on the Possibility of a Canada–Japan Economic Partnership Agreement*, which found that there was sufficient common ground to recommend launching negotiations to ratify an EPA between the two countries.

A joint modeling exercise concluded that both countries would derive economic benefits from an EPA. Gross domestic product (GDP) gains³ were estimated to be between US\$3.8 billion and US\$9.0 billion for Canada and between US\$4.4 billion and US\$4.9 billion for Japan.⁴

The first full round of EPA negotiations between Canada and Japan took place in Tokyo on 26-30 November 2012.

EPA negotiations can be complex and technical, and can take several years to complete in order to achieve an agreement that meets the expectations of the parties involved. That said, the Committee was told that negotiations between Canada and Japan for an EPA could result in an agreement within a relatively short time frame; according to some participants with whom the Committee met in Japan, an agreement could be reached within 18 months.

3 Absolute value, based on 2010 GDP data.

4 Government of Canada and Government of Japan, [Report of the Joint Study on the Possibility of a Canada-Japan Economic Partnership Agreement](#), March 2012.

Optimism regarding a short duration for these negotiations is attributable in part to the support of most Japanese stakeholders for an EPA with Canada. Likewise, most Canadian experts and stakeholders from whom the Committee heard supported the EPA negotiations. Stakeholders from both countries also pointed out the complementarity of the Canadian and Japanese economies.

Officials from the Department of Foreign Affairs and International Trade (DFAIT) expressed the government's desire to move forward as quickly as possible with the signing and implementation of an EPA with Japan. Ian Burney (Assistant Deputy Minister, Trade Policy and Negotiations Branch, DFAIT)⁵ said:

From a Canadian standpoint, we'd like to move this forward as quickly as possible, but it takes two to tango in a negotiation, and we know that both countries have very full dance cards. In the case of Japan, we understand that they will soon be launching negotiations with the European Union. There's the possibility of a trilateral negotiation that's being discussed among Japan, China, and Korea. It's possible that might end up being a series of bilateral agreements. Japan has been discussing the possibility of negotiating with Mongolia. And from our perspective we also have a multitude of negotiating initiatives.⁶

Economic and political conditions in Japan

Economy

After several consecutive years of economic growth in the early 2000s, growth in the Japanese economy—like economic growth in many other countries—began to slow, and Japan entered a recession in 2008. The government responded by increasing public spending to stimulate the economy, which began to recover by late 2009 and into 2010, only to contract again in 2011 after the 9.0-magnitude earthquake and subsequent tsunami, which significantly disrupted the country's manufacturing sector.

On several occasions, the Committee heard that Japan's economy is facing challenges that could have a significant impact on the long-term health of the country's economy. These challenges include persistent deflation, high government debt,⁷ and an ageing and shrinking population.

The Committee was told that the Japanese government has taken steps in recent years to increase its exports and to open up the agriculture and services sectors to international competition. Particular emphasis has been placed on negotiating free trade

5 Following his appearance before the Committee, Ian Burney was appointed Chief Trade Negotiator for a Canada–Japan EPA.

6 Ian Burney, *Evidence*, Meeting No. 33, 1st Session, 41st Parliament, May 1, 2012.

7 According to the International Monetary Fund, Japan's gross governmental debt as a percentage of the country's gross domestic product was estimated to be 237% in 2012, the highest ratio in the world. That said, most of that debt was held domestically by public entities, including the Bank of Japan, and by Japanese governmental trust funds, Japanese financial institutions and Japanese households.

agreements with Japan's key trading partners and on participating in the Trans-Pacific Partnership (TPP) negotiations.

In that regard, Ian Burney mentioned the Basic Policy on Comprehensive Economic Partnerships, announced by the Japanese government in 2010, which confirmed Japan's commitment to promote high-level economic partnerships with major trading countries, including Canada, and to move ahead with fundamental domestic reforms to enhance Japan's competitiveness.⁸ The Committee was told that the Japanese Ministry of Foreign Affairs may exercise political pressure to conclude an agreement with Canada in order to advance this policy.

The Committee was informed that Japan's desire to liberalize trade coincided with efforts by other Asian countries to integrate their economies. According to Wendy Dobson (Professor of International Business, Director of the Institute for International Business, University of Toronto), most Asian governments are actively liberalizing their trade and investment flows in order to keep pace with domestic companies and their cross-border initiatives.⁹

Wendy Dobson also commented that the Japanese business model is going through a period of change; the traditional keiretsu-based¹⁰ model is being abandoned in favour of models promoting more diversification of business activities, and greater positions in Asian supply chains.¹¹

Despite a greater integration of Asian economies, some of the individuals with whom the Committee met in Japan expressed concerns that South Korea seemed to be particularly active in pursuing liberalized trade, having recently signed free trade agreements with the United States and the European Union. These individuals felt that Japan's less aggressive approach could negatively impact the competitiveness of Japanese companies in foreign markets, especially in the automotive sector.

The Committee's Canadian witnesses and Japanese participants also mentioned that Japan, like Canada, is located next to a global economic power. Japan's economy is increasingly integrating into China's economy, which—while not surprising given the investment capacities of Japanese companies and China's production capacity—is a concern for Japan's political class and the Japanese public. Yves Tiberghien (Associate Professor, Department of Political Science, University of British Columbia) indicated that:

8 Ian Burney, *Evidence*, Meeting No. 33, 1st Session, 41st Parliament, May 1, 2012.

9 Wendy Dobson, *Evidence*, Meeting No. 37, 1st Session, 41st Parliament, May 15, 2012.

10 Keiretsu are conglomerates made up of many different companies that are usually interlinked financially, usually with a bank at the top of the structure. Mitsubishi is an example of a Japanese keiretsu.

11 Wendy Dobson, *Evidence*, Meeting No. 37, 1st Session, 41st Parliament, May 15, 2012.

Japanese exports 10 years ago used to be just 10% to China and 20% or 30% to the U.S. Today we are at 22% to China, 18% to the U.S., and by 2020 we'll be 30% to China and 10% to the U.S. Japan is increasingly hooked to the Chinese mainframe, but this is not matched by a strong institutional capacity. There was no investment treaty—they've just signed one now—and in general, although Japanese industry is pushing for more East Asian integration, the Japanese politicians and Japanese public are a bit ill at ease with this growing integration with China. There's an interest in keeping a second strong leg across the Pacific with the U.S., and now Canada.¹²

The high value of the yen compared with major world currencies was another source of concern for the Japanese business people with whom the Committee met. Some said that, although a reduction in or elimination of customs tariffs would benefit many sectors of the Japanese economy, the relative value of the yen continues to be a much more important factor as far as the competitiveness of Japanese products in foreign markets is concerned.

Politics

Several witnesses spoke to the Committee about political conflict in Japan, and pointed to a lack of political stability in the country. Based on discussions with elected officials in Japan, the Committee nonetheless noted that negotiations for a Canada–Japan EPA would have the support of the country's main political parties. The election of a new government is not expected to impact significantly the Japanese government's pursuit of EPA negotiations with Canada.¹³

In his appearance, Julian Dierkes (Centre for Japanese Research, Institute of Asian Research, University of British Columbia) confirmed the consensus that seems to exist among Japan's politicians with regard to negotiations with Canada. He said:

[W]e've seen a rapid turnover of Japanese prime ministers for some years now, and it hasn't had much of an impact on international relations or the policies the government has pursued. The prime minister can champion particular issues personally, and Prime Minister Noda has taken TPP as one of his causes as well. Still, I would suspect that even a change of government would not make much difference in the discussions over a Canada EPA.¹⁴

Doing business in Japan

The Committee's witnesses often highlighted Japan's unique business culture. They noted the importance of establishing relationships characterized by trust with Japanese partners before doing business with them. Although companies trying to enter

12 Yves Tiberghien, *Evidence*, Meeting No. 39, 1st Session, 41st Parliament, May 29, 2012.

13 In the general election held on December 16, 2012, the Liberal Democratic Party won the majority of seats in the House of Representatives, replacing the Democratic Party of Japan that had been in power since August 2009.

14 Julian Dierkes, *Evidence*, Meeting No. 38, 1st Session, 41st Parliament, May 17, 2012.

the Japanese market could see this approach as a barrier, the reality is that it is a characteristic of Japanese society and culture. According to Bob Kirke (Executive Director, Canadian Apparel Federation), people seeking business partners in Japan must have a long-term strategy if they want to do well. He believed that, with such a strategy, many Canadian industries will succeed in the Japanese market.¹⁵

Stakeholders with whom the Committee met in Japan also said that it is important for Canadian companies to have a medium- or long-term strategy if they want to succeed in the Japanese market. Some participants indicated that the need for such an approach could be problematic for small- and medium-sized companies that may not have the human and financial resources to develop and implement such a strategy.

In providing the perspective of the founder of a small company, Jacqueline Sava (Director of Possibilities and Founder, Soak Wash Inc.) told the Committee that her main concern is the availability of resources to help small companies benefit from an eventual Canada–Japan EPA. In her opinion, such resources need to be easier to access and to help companies identify the applicable standards and/or regulations that apply to the products they wish to export to Japan. She noted that Japan’s regulatory system can be extremely difficult for foreigners.¹⁶

Despite challenges posed by Japan’s business culture, the Committee was informed that, once the Japanese form a partnership, the partnership can last for a lifetime. Several witnesses described their experience in Japan and the loyalty of Japanese business people, including Ken Ilasz (Owner, Boulanger Bassin Bed and Breakfast). He stated:

Another thing I learned quite quickly was that the Japanese don't like to deal with lawyers. I've never had any legal agreement. I've never signed anything. It's always been done on word of mouth. I've been paid on time. It's a whole different approach to doing business. A lot of it is done on a handshake and on your word.¹⁷

Trans-Pacific Partnership

In October 2012, Canada was officially invited to join 10 other countries¹⁸ in TPP negotiations. Although the Japanese government has expressed an interest in joining these negotiations, it has not yet made an official request.

15 Bob Kirke, *Evidence*, Meeting No. 36, 1st Session, 41st Parliament, May 10, 2012.

16 Jacqueline Sava, *Evidence*, Meeting No. 50, 1st Session, 41st Parliament, October 16, 2012.

17 Ken Ilasz, *Evidence*, Meeting No. 41, 1st Session, 41st Parliament, June 5, 2012.

18 The TPP refers to negotiations for a free trade agreement covering part of the Asia-Pacific region. At present, Australia, Brunei Darussalam, Canada, Chile, the United States, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam are involved in the negotiations.

Most Canadian witnesses from whom the Committee heard recommended that the Canadian government consider the negotiation of a Canada–Japan EPA and the TPP negotiations as two parallel processes. On that point, Joy Nott (President, Canadian Association of Importers and Exporters) believed that “it’s imperative that Canada be included in the TPP and keep all of that going, but Japan is a slightly unique entity within Asia and we think that the [EPA] talks should definitely continue.”¹⁹

Donald Campbell (Senior Strategy Advisor, Davis LLP and former Canadian Ambassador to Japan) concurred, saying: “I am also a strong advocate for our participation in the Trans-Pacific Partnership, but I don’t think it is a substitute for a Canada–Japan free trade agreement.”²⁰

DFAIT officials told the Committee about the plan to move forward with two parallel negotiation processes, even if both Canada and Japan participate in the TPP negotiations.²¹

Jean-Michel Laurin (Vice-President, Global Business Policy, Canadian Manufacturers & Exporters) suggested nonetheless that Canada would have greater leverage in negotiating an agreement with Japan in the context of TPP negotiations, considering that it could benefit from the support and influence of its *North American Free Trade Agreement* (NAFTA) partners, especially the United States.²²

During its meetings in Japan, the Committee learned from some stakeholders that the country’s potential inclusion in the TPP negotiations is strongly resisted by the Japanese public, while negotiations for an EPA with Canada are supported by both the stakeholders involved and the Japanese public. Among those commenting on the TPP issue, most of the Japanese individuals with whom the Committee met said that Japan’s inclusion in the TPP negotiations was controversial in their country because of the risks perceived by farmers and the likely uncompromising approach of some negotiating countries pursuing complete liberalization of merchandise trade.

Despite the large number of agricultural producers in Japan, Japanese government officials and representatives of Japanese agricultural associations described the country’s low level of agricultural self-sufficiency, which gives rise to concerns about food security. Agriculture—especially rice cultivation—has always been a stumbling block in the Japanese government’s negotiation of free trade agreements, and this issue is particularly relevant in the context of the TPP, given the large number of rice–producing countries at the negotiation table.

19 Joy Nott, *Evidence*, Meeting No. 52, 1st Session, 41st Parliament, October 23, 2012.

20 Donald Campbell, *Evidence*, Meeting No. 54, 1st Session, 41st Parliament, November 6, 2012.

21 Department of Foreign Affairs and International Trade, *Evidence*, Meeting No. 33, 1st Session, 41st Parliament, May 1, 2012.

22 Jean-Michel Laurin, *Evidence*, Meeting No. 35, 1st Session, 41st Parliament, May 8, 2012.

Support provided by the Canadian Trade Commissioner Service

As discussed earlier, and as explained by the Committee's witnesses, unlike trying to enter markets where business relationships tend to be transactional in nature, Canadian companies trying to enter the Japanese market must make lengthy and expensive investments of time and resources in building solid business relationships with Japanese partners.

During its meetings in Japan, the Committee saw firsthand the priority that Japanese business people attach to the existence of relationships characterized by trust. The Committee was advised that it would be important for a Canada–Japan EPA to be accompanied by a promotional campaign within the Canadian business community, so that companies seeking to export their goods and/or services to Japan or to invest in that country could benefit from the new business opportunities that will result. The vital support provided by the Canadian Trade Commissioner Service in Japan was also mentioned.

Although Canadian and Japanese stakeholders seemed to be satisfied with the services provided by the Canadian Trade Commissioner Service, some were disappointed by the closure of the Canadian Consulate in Osaka in March 2007. The Committee was told that Osaka, which is the third-largest city in Japan and is located in the heart of one of the country's most dynamic economic regions, offered numerous business opportunities for Canadian exporters and investors; from that perspective, an official Canadian presence in Osaka is needed in order to take advantage of these opportunities. Although he understood the financial considerations that led to the closure of the Canadian Consulate in Osaka, John Tak (Vice-President, International Business, Factors Group of Nutritional Companies Inc.) urged the government to reconsider the closure. In his opinion, the cost of reopening the consulate would be a worthwhile expense if the result was increased trade between Canada and Japan.²³

Donald Campbell said that, in his opinion, Japanese discontent following the closure of the Canadian Consulate in Osaka was limited and that all governments must make tough decisions of that nature. He stated: "One of the really difficult things is the cost of an operation in Japan is significantly more, given the value of real estate and given the incomes of locally engaged staff, than it is in many other countries."²⁴ That said, in his view, the Canadian government should reverse its decision given the unique nature of the business community in Osaka and the fact that the Kansai region alone has a GDP that is larger than that of Canada.

During its meetings in Osaka, the Committee saw that—despite the closure of the Consulate—the Embassy of Canada to Japan is proactive in ensuring that Canada continues to have some official presence in Osaka. For example, the Consulate of Canada

23 John Tak, *Evidence*, Meeting No. 41, 1st Session, 41st Parliament, June 5, 2012.

24 Donald Campbell, *Evidence*, Meeting No. 54, 1st Session, 41st Parliament, November 6, 2012.

to Japan in Nagoya recently opened an office at the Osaka Chamber of Commerce and Industry, and has one full-time employee working there. Moreover, Canada's Consul in Nagoya spends several days each month in Osaka.

EXPECTED IMPACTS OF A CANADA–JAPAN EPA

Although numerous negotiation-related topics were addressed, the Committee noted that most of the issues raised by the Canadian witnesses and participants in Japan could be grouped into three categories: merchandise trade, specifically trade in agricultural and agri-food products, automobiles and natural resources; trade in services and labour mobility; and investment protection.

Overall impact

Most of the Committee's Canadian witnesses were in favour of negotiations for a Canada–Japan EPA. Some felt that an EPA would serve as a catalyst in improving relations between the two countries. According to Ian Burney, "beyond the specific elements you have in a free trade agreement, you have positive momentum that is generated in a relationship by having a free trade agreement and all the publicity and attention associated with it."²⁵ The Committee was also told that free trade agreements often generate economic activity that is not specifically related to any single provision in the agreements.

Yves Tiberghien believed that the signing and implementation of an EPA between Canada and Japan would lead to extensive media coverage in Japan, thereby stimulating Japanese tourism to Canada and increasing the number of Japanese students attending Canadian universities.²⁶ Japanese political and economic stakeholders confirmed that, for Japan, an EPA with Canada would have a significant symbolic value beyond the agreement itself, and could have positive economic and diplomatic effects.

Other witnesses said that, in order to give Canadian companies an edge in the Japanese market, it is strategically important for Canada to sign an EPA with Japan before it signs one with its main competitors. Sam Boutziouvis (Vice-President, Policy, International and Fiscal Issues, Canadian Council of Chief Executives) used the *Canada–Colombia Free Trade Agreement* as an example, as it has allowed Canadian exporters, including agricultural and agri-food producers, to benefit from the agreement with Colombia ahead of its competitors. He also said that, in the South Korean market, Canada will be at a disadvantage compared with the United States, as that country has already signed a free trade agreement with South Korea.²⁷

25 Ian Burney, *Evidence*, Meeting No. 33, 1st Session, 41st Parliament, May 1, 2012.

26 Yves Tiberghien, *Evidence*, Meeting No. 39, 1st Session, 41st Parliament, May 29, 2012.

27 Sam Boutziouvis, *Evidence*, Meeting No. 38, 1st Session, 41st Parliament, May 17, 2012.

The possibility of an EPA with Japan being a launching point into the Asian market for Canada was raised by a number of the Committee's witnesses, including Janice Hilchie (Vice-President, Government and International Relations, Canadian Life and Health Insurance Association Inc.). According to her:

Japan can and should be seen as an effective beachhead for Canadian companies who operate in Asia. Given its democratic values, stable government, strong legal system, protection of intellectual property, world-class infrastructure, and Japan's own FTAs in Asia, it's an ideal starting point for Canadian companies looking to ease into the region. Similarly, Canada can provide entry for Japanese firms into the U.S. and the Americas. In order to fully leverage this potential, we need this economic partnership agreement.²⁸

From a different perspective, other witnesses expressed concern that a Canada–Japan EPA could potentially worsen Canada's trade balance in the manufacturing sector. James Stanford (Economist, Canadian Auto Workers Union) said that Canada's trade balance in the manufacturing sector has deteriorated in recent years. In his view, signing an EPA with Japan will not reverse that trend in Canada's favour.²⁹

Stuart Trew (Trade Campaigner, Council of Canadians) concurred. In his opinion, before signing an FTA, Canada should consider both the possibility of increasing exports in certain sectors and the impact of imports on the Canadian economy. He believed that trade agreements signed by Canada in the past did nothing to improve Canada's deteriorating trade balance and did not improve the value-added content of Canada's exports. He suggested a different approach:

Instead of reinforcing this external dependence of the Canadian economy on exports or certain types of exports, perhaps trade negotiations should be conducted to further a national trade, economic, and sustainable development strategy. Canada's existing free trade deals prohibit many but not all of the ways in which a government can seek to move its economy up the value-added supply chain by turning raw resources into finished goods here in Canada. The benefit of a more hands-on approach to developing our economy is that it allows you to do this in a much more sustainable way and to avoid the resource trap we seem to be getting into.³⁰

With regard to Canada's trade balance with Japan, Joy Nott mentioned that, in today's global economy, it is difficult for Canadian manufacturers to source all of their components domestically, and the viability of Canadian manufacturers depends on imports. She said:

[I]mport[s] and exports are generally viewed as two discrete operations where imports are generally considered bad for the economy and exports are generally considered good for the economy. In today's global environment with the supply chains integrated the way they are, that's not really the case any more for business. In fact, I think it actually hurts

28 Janice Hilchie, *Evidence*, Meeting No. 35, 1st Session, 41st Parliament, May 8, 2012.

29 James Stanford, *Evidence*, Meeting No. 37, 1st Session, 41st Parliament, May 15, 2012.

30 Stuart Trew, *Evidence*, Meeting No. 37, 1st Session, 41st Parliament, May 15, 2012.

Canadian companies when the philosophy is that imports are less than favourable for the Canadian economy, because no Canadian exporter can successfully export without importing at least something for the manufacturing process.³¹

Although negotiations for a Canada–Japan EPA were supported by most of the Committee’s witnesses, the Committee was told that an EPA is only one of the tools that Canadian companies need in order to expand business opportunities in Japan. Gordon Bacon (Chief Executive Officer, Pulse Canada) said that, to optimize the performance of Canadian companies in Japan, “a systematic approach to identifying and eliminating tariff and non-tariff barriers to trade, along with efforts to gain additional efficiencies for the entire logistics chain in Canada,”³² are also necessary.

Regional Impact

The Committee was informed that the provinces and territories supported the launch of negotiations for a Canada–Japan EPA.

The Committee heard that a Canada–Japan EPA could be very beneficial for British Columbia, given its geographical location and the close relations between the province and Japan. That said, provinces with less of a geographical advantage also expect to benefit from an EPA between Canada and Japan. Allen Roach (Minister of Innovation and Advanced Learning, Government of Prince Edward Island) told the Committee that his province expected to benefit from an EPA with Japan, with opportunities in sectors such as seafood and aquaculture, agriculture and agri-food, tourism and manufacturing.³³

Although Canada’s western provinces could benefit the most from an EPA with Japan, a number of witnesses mentioned that redirecting a greater proportion of exports from the western provinces to Japan would create opportunities for the other Canadian provinces to move into certain export markets currently served by the western provinces. Andrew Casey (Vice-President, Public Affairs and International Trade, Forest Products Association of Canada) summarized the situation by saying:

[I]f B.C. starts to ship a greater percentage of its overall production to Japan, that's going to open up market space elsewhere. While it does directly benefit the B.C. producers, the east coast producers are going to benefit because the B.C. guys are going to leave the U.S. marketplace or the European marketplace, and that will allow the east coast guys to move in.³⁴

31 Joy Nott, *Evidence*, Meeting No. 52, 1st Session, 41st Parliament, October 23, 2012.

32 Gordon Bacon, *Evidence*, Meeting No. 44, 1st Session, 41st Parliament, June 19, 2012.

33 Allen Roach, *Evidence*, Meeting No. 39, 1st Session, 41st Parliament, May 29, 2012.

34 Andrew Casey, *Evidence*, Meeting No. 36, 1st Session, 41st Parliament, May 10, 2012.

With regard to the degree of provincial and territorial participation in the Canada–Japan EPA negotiation process, Dana Hayden (Deputy Minister, Ministry of Jobs, Tourism and Innovation, Government of British Columbia) said that British Columbia had greatly appreciated the federal approach to the negotiation of the comprehensive economic and trade agreement (CETA) with the European Union (EU), where the provinces participated in the discussions. She hoped that this model would be adopted for the negotiations with Japan.³⁵ DFAIT officials confirmed that the provinces and territories would be consulted at every stage of the EPA negotiation process; however, they were not sure whether the provinces and territories would be directly involved in the negotiations, as has been the case with the Canada–EU CETA negotiations.³⁶

Finally, representatives of the Japanese government informed the Committee that they hoped to gain greater access to the provincial and territorial government procurement markets as part of the negotiations for an EPA with Canada.

Merchandise trade

Most of the Committee’s Canadian witnesses expressed the view that an EPA between Canada and Japan would benefit Canada’s economy overall. According to Sam Boutziouvis, although such an agreement would likely cause job losses in certain sectors, it would provide a net benefit to the economy and employment in Canada. In his view, a Canada–Japan EPA would provide opportunities for Canadian businesses in all sectors.³⁷

Reminding the Committee that Canada has a significant trade surplus in raw materials and an equally significant deficit in manufactured goods, Jean-Michel Laurin said that he feared an EPA with Japan could worsen the latter. He expressed the hope that such an agreement would address the structural barriers to the Japanese market, and that the end result would be free and reciprocal access to both nations’ markets and a net benefit for Canadian manufacturers.³⁸

That said, DFAIT officials spoke to the Committee about the potential benefits of an EPA with Japan for Canada’s manufacturing sector. Ian Burney stated: “There are a lot of high-value products within the resource sectors that are going to Japan, and the percentage of our exports to Japan that are in high-valued manufactured and processed

35 Dana Hayden, *Evidence*, Meeting No. 41, 1st Session, 41st Parliament, June 5, 2012.

36 Department of Foreign Affairs and International Trade, *Evidence*, Meeting No. 33, 1st Session, 41st Parliament, May 1, 2012.

37 Sam Boutziouvis, *Evidence*, Meeting No. 38, 1st Session, 41st Parliament, May 17, 2012.

38 Jean-Michel Laurin, *Evidence*, Meeting No. 35, 1st Session, 41st Parliament, May 8, 2012.

goods is actually growing as well. It's entirely possible that trend would be accelerated in the context of free trade."³⁹

Wendy Dobson emphasized how important it is for Canada to participate in high-value-added niches in supply chains that are now global in scope. She argued that, in negotiating an EPA with Japan, Canada "should explore the possibilities for promoting more intra-industry trade in which Canada and Japan exchange different components, materials and services in the same industries."⁴⁰

Vicky Sharpe (President and Chief Executive Officer, Sustainable Development Technology Canada) told the Committee that Japanese companies are first-rate partners in cutting-edge technology sectors, such as clean energy technologies. In her view, they have significant resources that can be invested in joint projects. Moreover, she indicated that Japan is an important market for Canadian companies involved in the development and marketing of energy-efficient and renewable energy products and processes.⁴¹

Other witnesses explained that Canada has strategic assets that will enable it to benefit from the special access to Japan that an EPA should provide. In addition to Canada's natural resources, the positive Canadian brand image in Japan and the two countries' common values, Canada has logistical advantages. From this perspective, Greg Stringham (Vice-President, Oil Sands and Markets, Canadian Association of Petroleum Producers) noted:

Not many people recognize that we are actually strategically advantaged by the distance between ourselves and Japan when it comes to shipping routes. That gives us a competitive advantage over other regions, such as the Middle East and even Australia, which is competing in this market right now. It provides a good reason for us and for Japan to look at capitalizing on that opportunity, simply because, even though we often think how long the flights are from here to Japan, it really is close in commodity shipping terms.⁴²

Agriculture and agri-food

Japan's agricultural sector is relatively small. While Japan is normally self-sufficient in rice, the Committee was told that the country is highly reliant on foreign markets for agri-food products. According to Ray Price (President, Canadian Meat Council), 60% of the agri-food products consumed in Japan each year are imported.⁴³

39 Ian Burney, *Evidence*, Meeting No. 33, 1st Session, 41st Parliament, May 1, 2012.

40 Wendy Dobson, *Evidence*, Meeting No. 37, 1st Session, 41st Parliament, May 15, 2012.

41 Vicky Sharpe, *Evidence*, Meeting No. 51, 1st Session, 41st Parliament, October 18, 2012.

42 Greg Stringham, *Evidence*, Meeting No. 51, 1st Session, 41st Parliament, October 18, 2012.

43 Ray Price, *Evidence*, Meeting No. 50, 1st Session, 41st Parliament, October 16, 2012.

Japan is one of the largest importers of agri-food products in the world. In 2011, it imported C\$82.5 billion worth of agri-food products, 6% of which came from Canada,⁴⁴ making Canada the country's fourth-largest source of these imports.⁴⁵ Each year, Japan is Canada's second-largest agricultural export market.⁴⁶ In 2011, Canada's top three agricultural exports to Japan were canola seeds, pork and non-durum wheat.⁴⁷

During its meetings in Japan, the Committee noted that the absence of rice production in Canada and Canada's generally balanced approach to trade liberalization are two factors that have lessened Japanese farmers' traditional resistance to freer trade in agricultural products. Representatives of Japan's national farmers' associations confirmed that they are not opposed to an EPA between Canada and Japan that recognizes sensitivities in both countries.

Considering Japan's many sensitive products in the agricultural sector, the Committee was told that the tariff protection of products under Canada's supply management systems should not be affected by negotiations for an EPA with Japan. On this subject, Ian Burney asserted: "I think you can be confident that we would not be negotiating away our supply management system. I think I could also add that during all of the exploratory discussions we've had with Japan, we've been given no reason to believe that represents an offensive interest for them."⁴⁸

Many Canadian witnesses noted that the Japanese market is extremely strict about the safety of its food products and imposes high food safety standards on its importers. Jacques Pomerleau (President, Canada Pork International) noted that Japanese standards are similar to those in Canada, which are also very high, but that Japanese consumers have much higher expectations because of past food safety incidents. Japanese importers often require additional measures to reassure their buyers and distributors.⁴⁹

That said, the Committee was also told that Japanese consumers are prepared to pay a higher price for high-quality products, which explains the appeal of this market for Canadian agricultural and agri-food producers that can meet Japanese standards.

The Committee was informed that Japan's rigorous approach to food safety has had collateral benefits for Canada's agri-food sector. According to Jean-Guy Vincent (Chair of the Board of Directors, Canadian Pork Council):

44 Agriculture and Agri-Food Canada, [Japan – At a Glance](#), 2012.

45 Agriculture and Agri-Food Canada, [Agri-Food Consumer Profile – Japan](#), 2011.

46 Ibid.

47 Agriculture and Agri-Food Canada, [Japan – At a Glance](#), 2012.

48 Ian Burney, *Evidence*, Meeting No. 33, 1st Session, 41st Parliament, May 1, 2012.

49 Jacques Pomerleau, *Evidence*, Meeting No. 34, 1st Session, 41st Parliament, May 3, 2012.

These requirements have enabled the Canadian pork industry to develop high-quality food safety programs, such as the Canadian quality assurance program. These programs have assisted the industry in accessing Japan and other international pork markets.⁵⁰

In their appearance before the Committee, Canadian agri-food stakeholders said that an EPA with Japan should address that country's escalating tariffs.⁵¹

Richard White (General Manager, Canadian Canola Growers Association) said that his organization would like the tariffs on all edible oils to be eliminated. In his opinion, if the tariffs remain, they should be converted to ad valorem duties, that is, duties calculated as a percentage of the value of the product, rather than fixed duties.⁵²

Other witnesses indicated that Japan's ability to apply safeguard duties on beef and pork products if a certain volume of imports is exceeded is a major barrier for Canadian producers. Jacques Pomerleau told the Committee that Mexico and Chile were exempted from these safeguard duties when they signed an EPA with Japan.⁵³

The complexity of the Japanese regulatory system was also cited as a significant barrier to trade with Japan. For example, Dan Paszkowski (President and Chief Executive Officer, Canadian Vintners Association) explained that the Japanese regulatory system governing winemaking practices can be difficult to navigate and is a costly obstacle to trade. He hoped that mutual recognition of winemaking practices and processes as well as product characteristics, along with a process to deal with new or modified winemaking practices, can be part of a Canada–Japan EPA.⁵⁴

Finally, the Committee was told that Canada and Japan still have not reached an organic products equivalency recognition agreement, which seriously complicates the task of Canadian organic producers seeking to export their products to Japan. To have their products recognized as organic, Canadian producers must go through the Japanese certification process. This situation is especially problematic because the United States already has such an agreement with Japan, giving American organic producers an advantage in the Japanese market.

50 Jean-Guy Vincent, *Evidence*, Meeting No. 34, 1st Session, 41st Parliament, May 3, 2012.

51 Tariff escalation means that Japanese customs duties depend on the extent to which food products have been processed. For example, refined canola oil faces higher tariffs than crude canola oil, which in turn is subject to higher tariffs than canola seed.

52 Richard White, *Evidence*, Meeting No. 38, 1st Session, 41st Parliament, May 17, 2012.

53 Jacques Pomerleau, *Evidence*, Meeting No. 34, 1st Session, 41st Parliament, May 3, 2012.

54 Dan Paszkowski, *Evidence*, Meeting No. 52, 1st Session, 41st Parliament, October 23, 2012.

Forest products

Japanese culture promotes the use of wood, and Japan is a major consumer of high-value wood products and structural lumber for housing. In 2011, Canadian forest product exports to Japan totaled \$1.4 billion.⁵⁵

Andrew Casey explained the unique nature of the Japanese market, stating:

One of the interesting things about the lumber that we do ship there is that it's a premium grade lumber. It's called J-grade or Japan-grade lumber. To make an agricultural analogy, it's like taking the beef tenderloin and shipping only that. It's the best part of the tree, the straightest part with the fewest knots. They love it, and they pay a premium for it. From that standpoint, it's a very important marketplace.⁵⁶

During its meetings in Japan, the Committee learned that Japanese demand for Canadian forest products has weakened in recent years because of the country's stagnating population growth and weak economic growth. Moreover, Japan's demographic trends—including a declining and ageing population—are expected to have a negative effect on the country's home construction market for the foreseeable future.

The Committee was informed that, to promote the use of wood in non-residential buildings, the Japanese government recently passed a law to promote the use of wood as the principal construction material for all government-funded buildings. In the medium and long term, the reconstruction effort in Japan following the earthquake and tsunami of 2011 could also benefit Canadian businesses that already export forest products to Japan or that wish to enter the Japanese market.

Witnesses told the Committee that Canadian forest product exports to Japan face customs duties of between 0% and 7.5%. The same duties apply to forest product exports from the United States and the Scandinavian countries, which are Canada's main competitors in the Japanese lumber market. Canada's principal competitors in the markets for particle board, veneer and plywood are the Southeast Asian countries, such as Indonesia, which have preferential access to these product markets because they have EPAs with Japan. Eliminating or reducing Japan's tariffs on Canadian forest products would give Canadian producers an advantage over their key competitors in products such as lumber and would level the playing field with countries that currently export processed products, such as particle board, to Japan.

As with agricultural and agri-food products, witnesses expressed the hope that a Canada–Japan EPA could address technical trade barriers resulting from the Japanese regulatory system. Paul Newman (Executive Director, Market Access and Trade, Council

55 Natural Resources Canada, [Forest Product Exports](#), 2012.

56 Andrew Casey, *Evidence*, Meeting No. 36, 1st Session, 41st Parliament, May 10, 2012.

of Forest Industries, Canada Wood Group) summarized the complexity of the Japanese regulatory system for the certification of foreign forest products as follows:

Japan has a tendency to develop unique regulations and requirements when it comes to standards and requirements, and this makes it difficult for international exporters to comply with local standards and local building requirements. One example would be in the area of conformity assessment. Products used in construction, say, are assessed and deemed suitable for use. Japan typically doesn't recognize foreign certification systems or foreign certification organizations, and they usually require registration under their own system. That adds costs and complexity for foreign exporters.⁵⁷

Representatives of Canadian forestry companies and of Japanese forest product importers with whom the Committee met in Japan also cited Japan's excessively long approval times for forest products. They hoped that an EPA between Canada and Japan will encourage the latter to accept North American standards for certifying forest products, mainly in the area of innovative construction methods.

The Committee also learned that Canadian forest sector stakeholders are worried about the Japanese government's efforts to increase the market share of domestically produced lumber. Paul Newman explained that Japan has preferential buying policies for Japanese lumber and that the government subsidizes the local industry. He also expressed concerns about the policy of some local governments in Japan that allows reduced mortgage rates for Japanese home owners who use local wood to build their homes.⁵⁸ Japanese participants also indicated that other non-tariff barriers exist, including social pressure to use Japanese wood in renovation projects and subsidies for the purchase of mill equipment.

Energy resources

Like food security, energy security is a critical issue for the Japanese government and the Japanese public in general, especially now, when virtually all of the country's nuclear reactors have been offline since the earthquake and tsunami of March 2011.⁵⁹ As pointed out by Vicky Sharpe, Japan completely revised its energy supply strategy after March 2011 and committed, for example, to reducing energy consumption and diversifying its energy sources.⁶⁰

Under these circumstances, Canada is seen as a reliable supplier—the most reliable, according to some with whom the Committee met in Japan—of energy resources

57 Paul Newman, *Evidence*, Meeting No. 40, 1st Session, 41st Parliament, May 31, 2012.

58 *Ibid.*

59 The newly elected Japanese government has publicly stated its desire to restart Japan's nuclear reactors, provided that certain safety requirements are met. At present, all but two of the nuclear reactors in Japan remain offline.

60 Vicky Sharpe, *Evidence*, Meeting No. 51, 1st Session, 41st Parliament, October 18, 2012.

for Japan. The Committee learned that Canadian energy exporters could experience long-run benefits from Japan's shift in energy production if it turns to resources like natural gas, oil or coal. Restarting Japan's nuclear reactors would also present opportunities for Canadian uranium producers. Donald Campbell expressed the view that Canada could benefit from Japan's revised energy supply plans, and said:

[Japan] finds itself in a very difficult situation with most of the oil that it uses coming through the Strait of Hormuz in the Middle East, and with natural gas. It's the largest importer in the world of natural gas, which comes from the Middle East, from Australia, and from Indonesia, which is a declining market. There is a sense of vulnerability. There are enormous opportunities in energy for Canada.⁶¹

In this context, the Committee was told that there is enormous potential for Canada to supply liquefied natural gas to Japan over the medium and long term. However, Canada will need to build the required infrastructure in order to take advantage of these market opportunities.

Given Japan's energy situation, few barriers apply on energy products entering Japan. As Greg Stringham indicated, "all we want to entrench in a free trade agreement is something that ensures those tariffs would not come in the future and would remain as open as they are today."⁶² In this regard, he believed that the goal of Canadian negotiators regarding an EPA with Japan should be to guarantee barrier-free access to the Japanese market for energy product exports.

Witnesses also informed the Committee that Japanese companies are major investors in the Canadian energy sector and that Canada benefits from this source of capital. As well, they pointed out that Japan was the first foreign country to invest in the Alberta oil sands, having done so in 1978.

Representatives from Japan's energy sector spoke about Japanese companies' many substantial projects in Canada. These projects involve the oil sands, natural gas, shale gas, solar energy, uranium and metallurgical coal. Japanese firms are also interested in various strategic minerals found in Canada, including rare earths, copper and zinc, which are essential to the electronics, clean technologies and automobile sectors. The Committee heard that Japan's energy sector considers Canada to be one of the most open and barrier-free markets in the world.

During the Committee's meetings in Japan, Japanese mining sector representatives expressed interest in reducing restrictions in relation to foreign involvement in Canada's uranium mining industry. Currently, non-residents cannot own more than 49% of a company that mines uranium in Canada.

61 Donald Campbell, *Evidence*, Meeting No. 54, 1st Session, 41st Parliament, November 6, 2012.

62 Greg Stringham, *Evidence*, Meeting No. 51, 1st Session, 41st Parliament, October 18, 2012.

Automobiles

According to some of the Committee's witnesses, improved access to the Canadian automobile market is one of Japan's most important offensive interests in negotiating an EPA with Canada.

At present, Canada applies a 6.1% duty on light vehicles from countries that are not NAFTA signatories, and Japanese manufacturers would like this tariff to be eliminated. David Worts (Executive Director, Japan Automobile Manufacturers Association of Canada) said that removing the tariff would help these manufacturers "better compete in the market in Canada, particularly with advanced technology vehicles, because they tend to be higher cost, and we would be able to introduce environmentally friendly, fuel-efficient and safer vehicles."⁶³

The Committee was also informed that, since 1993, Canada has been a net exporter of Japanese-brand vehicles. Since the 1980s, Japanese manufacturers—led by Toyota and Honda—have assembled vehicles in Canada and in 2011, Canada exported at least three times more Japanese-brand vehicles than it imported from Japan.

Regarding the removal of the tariff on Japanese automobiles entering Canada, DFAIT officials told the Committee that the Government of Canada received 32 submissions from Canadian stakeholders as part of its consultations on an EPA with Japan; the only submissions deemed "critical or concerning" referred to the potential effects of eliminating the tariffs on automobiles imported from Japan under such an agreement.⁶⁴ According to James Stanford, such an agreement could exacerbate the bilateral trade imbalance in automotive products in Japan's favour. Accordingly, he recommended that this sector be excluded from an EPA with Japan. He said:

It's not realistic for me to understand any scenario in which a free trade agreement with Japan would generate benefits for our auto industry. I suspect that in the wake of a free trade agreement we would see a widening of the bilateral auto trade imbalance to the order of \$7 billion to \$8 billion, instead of \$5 billion, and tens of thousands of lost jobs as a result.⁶⁵

A study conducted for DFAIT predicted that the effects of an EPA with Japan on the Canadian automotive sector would be minimal, with no more than a 0.3% change in automobile production in Canada.⁶⁶ DFAIT officials also told the Committee that Canada

63 David Worts, *Evidence*, Meeting No. 36, 1st Session, 41st Parliament, May 10, 2012.

64 Department of Foreign Affairs and International Trade, *Evidence*, Meeting No. 33, 1st Session, 41st Parliament, May 1, 2012.

65 James Stanford, *Evidence*, Meeting No. 37, 1st Session, 41st Parliament, May 15, 2012.

66 Department of Foreign Affairs and International Trade, [Impact of FTAs on Canadian Auto Industry](#), June 29, 2012.

could take advantage of the access to the Japanese market that would result from an EPA between the two countries.⁶⁷

Regarding Canadian access to the Japanese automotive market, the Committee was told that, even though the Japanese tariff on foreign vehicles is 0%, more than 95% of the vehicles sold in Japan are made there. Mark Nantais (President, Canadian Vehicle Manufacturers' Association) and James Stanford explained that foreign manufacturers have trouble penetrating the Japanese market for reasons such as consumer preferences, different vehicle standards, the lack of opportunities for stakeholders to participate in developing standards and regulations, and the obstacles to developing distribution and service networks. In their view, an EPA with Japan will not make it easier for North American manufacturers to enter the Japanese market.⁶⁸

Representatives of Japanese manufacturers with whom the Committee met did not share the view that the Japanese market is closed to foreign automobiles. In their opinion, the low market share of foreign automotive manufacturers in the Japanese market, mainly North American manufacturers, is more a reflection of the effort they have made to access the Japanese market. Moreover, the Committee was told that North American automakers often manufacture and prefer to market larger vehicles, which are not popular in Japan. The example of European manufacturers was cited to demonstrate that foreign vehicles can be sold in Japan, as they have experienced steady sales growth in recent years owing to a sustained effort and models that correspond to Japanese consumer preferences.

Trade in services and labour mobility

Trade in services comprises a significant portion of bilateral trade between Canada and Japan. According to the Committee's witnesses, the issues in this area should pose a lesser challenge to negotiators than those concerning merchandise trade.

When negotiating free trade in services, Canada and Japan have typically used the same approach, whereby everything is included except what is specifically excluded. This similarity should result in greater liberalization of trade in services between the two countries if an agreement is reached.

According to DFAIT officials, Canadian financial and insurance service providers already have a significant presence in Japan, and there are opportunities for growth in these sectors. Furthermore, they believed that there are many opportunities in the areas of professional services and energy services.⁶⁹ The Government of British Columbia has

67 Department of Foreign Affairs and International Trade, *Evidence*, Meeting No. 33, 1st Session, 41st Parliament, May 1, 2012.

68 Mark Nantais, *Evidence*, Meeting No. 40, 1st Session, 41st Parliament, May 31, 2012 and James Stanford, *Evidence*, Meeting No. 37, 1st Session, 41st Parliament, May 15, 2012.

69 Department of Foreign Affairs and International Trade, *Evidence*, Meeting No. 33, 1st Session, 41st Parliament, May 1, 2012.

reached the same conclusion and wants barriers preventing Canadian service providers from taking full advantage of business opportunities in Japan to be removed. From this perspective, Dana Hayden said:

We also believe on the services side that there are huge opportunities in British Columbia. For example, in the technology sector, the international education sector, and the tourism sector, we have an opportunity to increase the services flow in the provision of services from British Columbia into Japan. There's certainly an interest in that market in what we have to offer, but there are barriers that prevent us from realizing the extent of those opportunities, which we would like to see eliminated through an agreement.⁷⁰

That said, representatives of Canadian personal insurance companies spoke to the Committee about the Japanese government's involvement in the delivery of financial and insurance services by Japan Post. Janice Hilchie explained that, from the perspective of the association she represents, the bill passed last spring to reform Japan Post violates Japan's international trade obligations and grants Japan Post Insurance special exemptions that give it a competitive advantage over private insurers.⁷¹

During its meetings in Japan, the Committee learned that certain Japanese labour mobility measures negatively affect Canadian suppliers' ability to provide their services. For example, the Committee was informed that it is impossible for a foreign pilot to obtain a pilot's licence in Japan even though demand for them is strong and Canada has notable expertise in this field. Similarly, many Canadian construction workers attempted to go to Japan following the March 2011 earthquake and tsunami to help rebuild the affected areas, but it was very complicated—if not impossible—for them to obtain work permits.

According to the Committee's witnesses, trade in services is an important facet of the negotiations for the Japanese government and Japanese stakeholders. That said, they provided few examples of barriers in Canada that affect them, other than the foreign-ownership restrictions in the telecommunications sector.

Investment protection

As pointed out to the Committee on numerous occasions, a major component of Canada's economic relationship with Japan is direct investment. Ian Burney summarized the importance of this relationship, indicating:

In 2011 Japan was Canada's single largest source of foreign direct investment from Asia, even ahead of China. At the end of 2011 Japan had a foreign direct investment stock of \$12.8 billion in Canada. More than 330 Japanese subsidiaries and affiliate companies now operate in Canada, employing tens of thousands of Canadians. Not surprisingly, many Canadian companies are active in Japan as well, with the stock of Canadian direct investment in Japan totalling \$8.4 billion in 2011. For example, companies such as

70 Dana Hayden, *Evidence*, Meeting No. 41, 1st Session, 41st Parliament, June 5, 2012.

71 Janice Hilchie, *Evidence*, Meeting No. 35, 1st Session, 41st Parliament, May 8, 2012.

Manulife, Magna, Linamar, Celestica, Bombardier and Scotiabank all have a direct and active presence in the Japanese market.⁷²

The Committee heard that Japan has considerable potential as an investor in Canada and is also a market for Canadian investors, and that an EPA between Canada and Japan would enable this potential to be realized.

Some witnesses believed that including an investment chapter in an EPA between Canada and Japan would likely protect foreign investors from discriminatory treatment in the host country. The main advantage of investment protection provisions in trade agreements is the degree of certainty and stability they provide to foreign investors. The inclusion of such provisions is typically important for agreements with developing countries, which may have unstable or rudimentary legal systems that can deter foreign investors.

While Japan has an advanced, predictable and stable legal system, DFAIT officials told the Committee that a rule-based framework would provide an additional level of stability and security for Canadian and Japanese investors.⁷³

In speaking from the perspective of the Government of Prince Edward Island, Allen Roach believed that an investment promotion and protection chapter in a Canada–Japan EPA would have a positive economic impact on the province. He said:

As well, we see an opportunity in inward investment. Negotiating predictable investment rules and guaranteeing access to Japanese markets will help create a level playing field for Prince Edward Island investors and businesses and reduce the risks associated with investing abroad. This would lead to a greater two-way investment that would help create jobs and long-term prosperity for hard-working Islanders.⁷⁴

The inclusion of clauses that make it possible for investors and states to settle their disputes directly was discussed by the Committee's Canadian witnesses, who were divided on the issue. Some believed such clauses in an EPA or an FTA ensure that governments uphold their obligations under the agreements that they negotiate. Moreover, the Committee was told that not having to petition their government to act on their behalf every time they have a problem that relates to a foreign investment would be an added advantage for Canadian investors.

Other witnesses said that giving investors the option of taking legal action against a government if it adopts legislative or regulatory provisions that affect their ability to make profits restricts legislatures' ability to meet their public policy objectives. These witnesses believed that such provisions should not be included in a Canada–Japan EPA, especially

72 Ian Burney, *Evidence*, Meeting No. 33, 1st Session, 41st Parliament, May 1, 2012.

73 Department of Foreign Affairs and International Trade, *Evidence*, Meeting No. 33, 1st Session, 41st Parliament, May 1, 2012.

74 Allen Roach, *Evidence*, Meeting No. 39, 1st Session, 41st Parliament, May 29, 2012.

since, in their view, such provisions have not historically made it easier for investment to flow between Canada and its trading partners or encouraged new investors either to begin or to cease investing in Canada.

Among those commenting on the inclusion of clauses for an investor-state dispute resolution mechanism in a Canada–Japan EPA, most of the participants with whom the Committee met in Japan supported the idea.

CONCLUSION

Based on the testimony heard in Ottawa and the meetings in Japan, the Committee believes that most Canadian and Japanese stakeholders support negotiations for an EPA between Canada and Japan. In the Committee’s view, the economic impact of liberalizing trade between Canada and Japan should be positive for both countries, and an EPA could strengthen relations between Canada and Japan.

The Committee feels that it can be difficult to access and/or penetrate the Japanese market, and believes that patience and resources are usually required to overcome the barriers to access. By eliminating certain tariff and non-tariff barriers, an EPA could facilitate access to the Japanese market for Canadian exporters and investors, and make it easier to establish partnerships. The Committee is aware, however, that some barriers are cultural in nature and require a longer-term investment by Canadian companies. Nevertheless, the reward for those who successfully enter the Japanese market is very loyal partners and extremely solid partnerships. Given the unique characteristics of the Japanese business world, Canadian companies will still need resources—such as the Canadian Trade Commissioner Service—to support them as they establish themselves in Japan and to ensure that they benefit fully from a Canada–Japan EPA.

Furthermore, the Committee recognizes the existence of high quality and safety standards for goods exported to Japan, but also realizes that the Japanese consumers are prepared to pay a relatively higher price for high-quality products. In this context, and recognizing the quality of Canadian products and the good reputation of Canadian institutions in Japan, Canada has a clear interest in working with Japan during the EPA negotiations to ensure the compatibility of standards and certification methods.

Consequently, the Committee recommends:

Recommendation 1

That, as soon as possible, the Government of Canada conclude an economic partnership agreement with Japan that provides a net benefit to Canada.

Recommendation 2

That, in relation to the goods and services of interest to Canada, the Government of Canada ensure access to the Japanese market that is at

least equivalent to the commitments made by the Japanese government to other countries.

Recommendation 3

That the Government of Canada negotiate a reduction in or elimination of Japan's escalating tariffs, especially those in relation to processed agricultural products.

Recommendation 4

That, concurrent with the negotiations for an economic partnership agreement with Japan, the Government of Canada advance negotiations on an organic equivalency recognition agreement between the two countries.

Recommendation 5

That, following the entry into force of an economic partnership agreement between Canada and Japan, the Government of Canada develop an action plan to support Canadian exporters and investors seeking to access the Japanese market.

Recommendation 6

That, following the conclusion of an economic partnership agreement with Japan, the Government of Canada review its diplomatic presence in Osaka.

LIST OF RECOMMENDATIONS

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APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
<p>Department of Agriculture and Agri-Food Denis Landreville, Lead Negotiator, Regional Agreements, Trade Negotiations Division, Trade Agreements and Negotiations Directorate</p> <p>Department of Foreign Affairs and International Trade Ian Burney, Assistant Deputy Minister, Trade Policy and Negotiations Branch</p> <p>Phil Calvert, Director General, North Asia Bureau</p> <p>Dany M. Carrière, Director, Trade Policy and Negotiations II Division</p> <p>Shenjie Chen, Head, Research Projects Unit, Office of the Chief Economist</p> <p>Marvin Hildebrand, Director General, Trade Negotiations Bureau</p>	2012/05/01	33
<p>Canada Pork International Jacques Pomerleau, President</p> <p>Canadian Cattlemen's Association John Masswohl, Director, Government and International Relations</p> <p>Canadian Pork Council Jean-Guy Vincent, Chair of the Board of Directors</p>	2012/05/03	34
<p>Canadian Life and Health Insurance Association Inc. Janice Hilchie, Vice-President, Government and International Relations</p> <p>Peter F. Wilkinson, Senior Vice-President, Government Relations, Manulife Financial</p> <p>Canadian Manufacturers and Exporters Jean-Michel Laurin, Vice-President, Global Business Policy</p> <p>Grain Growers of Canada Richard Phillips, Executive Director</p>	2012/05/08	35
<p>Canadian Agri-Food Trade Alliance Kathleen Sullivan, Executive Director</p> <p>Canadian Apparel Federation Bob Kirke, Executive Director</p>	2012/05/10	36

Organizations and Individuals	Date	Meeting
<p>Forest Products Association of Canada Andrew Casey, Vice-President, Public Affairs and International Trade</p>	2012/05/10	36
<p>Japan Automobile Manufacturers Association of Canada David Worts, Executive Director</p>		
<p>Canadian Auto Workers Union James Stanford, Economist</p>	2012/05/15	37
<p>Council of Canadians Stuart Trew, Trade Campaigner</p>		
<p>University of Toronto Wendy Dobson, Professor of International Business, Director, Institute for International Business</p>		
<p>As an individual Julian Dierkes, Centre for Japanese Research, Institute of Asian Research, University of British Columbia</p>	2012/05/17	38
<p>Canadian Canola Growers Association Richard White, General Manager</p>		
<p>Canadian Council of Chief Executives Sam Boutziouvis, Vice-President, Policy, International and Fiscal Issues</p>		
<p>Food Secure Canada Diana Bronson, Executive Director</p>		
<p>Paul Slomp, Representative, Youth Vice President, National Farmers Union</p>		
<p>As an individual Yves Tiberghien, Associate Professor, Department of Political Science, University of British Columbia</p>	2012/05/29	39
<p>Canada Beef Inc. Brad Wildeman, Chairman</p>		
<p>Government of Prince Edward Island Hon. Allen F. Roach, Minister of Innovation and Advanced Learning</p>		
<p>Kal Whitnell, Director, Trade and Economic Policy, Innovation and Advanced Learning</p>		
<p>As an individual Raymond Loo</p>	2012/05/31	40
<p>Canada Wood Group Paul Newman, Executive Director, Market Access and Trade, Council of Forest Industries (COFI)</p>		

Organizations and Individuals	Date	Meeting
Canadian Honey Council Lee Townsend, Vice-Chair	2012/05/31	40
Canadian Vehicle Manufacturers' Association Mark A. Nantais, President		
Malting Industry Association of Canada Philip de Kemp, President		
As an individual Ken Ilasz, Owner, Boulangier Bassin Bed and Breakfast	2012/06/05	41
Factors Group of Nutritional Companies Inc. John Tak, Vice-President, International Business		
Government of British Columbia Dana Hayden, Deputy Minister, Ministry of Jobs, Tourism and Innovation Janna Jessee, Manager, Trade Policy, Trade Initiatives Branch, Ministry of Jobs, Tourism and Innovation Don D. White, Executive Director, Trade Initiatives Branch, Ministry of Jobs, Tourism and Innovation		
Grain Farmers of Ontario Erin Fletcher, Manager, Public Affairs and Communication Henry Van Ankum, Chair		
Manitoba Beef Producers Ray Armbruster, Director and President Cam Dahl, General Manager Lauren Stone, Policy Analyst	2012/06/19	44
Pulse Canada Gordon Bacon, Chief Executive Officer		
Canadian Meat Council Ray Price, President	2012/10/16	50
Maple Leaf Foods Inc. Barry Sutton, Vice-President, International Sales		
Savia Wine Agency Pablo Garrido, Owner		
Soak Wash Inc. Jacqueline Sava, Director of Possibilites and Founder		

Organizations and Individuals	Date	Meeting
Chris Wilkinson, Director of Sales and Operations		
Canadian Association of Petroleum Producers Greg Stringham, Vice-President, Markets and Oil Sands	2012/10/18	51
Sustainable Development Technology Canada Vicky J. Sharpe, President and Chief Executive Officer		
Sailesh Thaker, Vice-President, Industry and Stakeholder Relations		
Brian Moore Log Homes Aaron Moore, Owner	2012/10/23	52
British Columbia Trucking Association Louise Yako, President and Chief Executive Officer		
Canadian Association of Importers and Exporters Joy Nott, President		
Canadian Vintners Association Dan Paszkowski, President and Chief Executive Officer		
Posiflex Design Inc. Lyne Noiseux, President Sébastien Tardif, Vice-President, Sales and Marketing		
Railway Association of Canada Michael Bourque, President and Chief Executive Officer		
Bruce Burrows, Vice-President, Public and Corporate Affairs		
Robert Taylor, Director, Federal Government Affairs, Canadian Pacific Railway		
Department of Foreign Affairs and International Trade Nadia Bourély, Director, Trade Policy and Negotiations Division II	2012/10/25	53
Alain Gendron, Director, Northeast Asia Division		
Marvin Hildebrand, Director General, Trade Negotiations Bureau		
Peter McGovern, Assistant Deputy Minister, Asia and Chief Trade Commissioner		
Davis LLP Donald Campbell, Senior Strategy Advisor	2012/11/06	54

APPENDIX B

LIST OF INDIVIDUALS WITH WHOM THE COMMITTEE MET (OCTOBER 29 – NOVEMBER 2, 2012)

Organizations and Individuals	Date	Location
Arcus Research Limited Peter Tasker Japan Branch	2012/10/29	Tokyo, Japan
ASAHI Agency Yoshizo Nagahama, President		
Asian Development Bank Institute Ganeshan Wignaraja, Director of Research		
BNP Paribas Securities (Japan) Limited Philippe Avril, Chief Executive Officer and Representative Director		
Brewers Association of Japan Masaaki Hachisuka, General Manager		
Canada Beef International Institute Daisuke Shimojima, Senior Director Japan		
Canada Pork International Shoji Nomura, Japan Marketing Director		
Canon Institute for Global Studies Akinari Horii, Special Advisor and Member of the Board of Directors		
Department of Foreign Affairs and International Trade (Canada) Isabelle Therrien, Trade Commissioner - Japan		
Deutsche Bank Group David Hatt, President and Chief Executive Officer		
Embassy of Canada to Japan Jonathan Fried, Ambassador Chris Anderson, First Secretary (Commercial) and Trade Commissioner Michel Bouvier, Second Secretary (Economic) Robert Derouin, Minister and Deputy Head of Mission Chad Fleck, Counsellor (Commercial) Naina Thoppil, Counsellor and Head of the Economic and Financial Section		

Organizations and Individuals	Date	Location
Embassy of Canada to Japan Paul Thoppil, Minister (Commercial) David Watt, Counsellor and Head of the Political Section	2012/10/29	Tokyo, Japan
Flour Millers Association Masaaki Kadota, Executive Director		
Food Marketing Institute Noriko Nakama, Member Support Manager		
Goldman Sachs Japan Co., Ltd. Shigemitsu Sugisaki, Vice Chairman		
Japan Center for International Finance Takatoshi Kato, President		
Japan External Trade Organization Hiroyuki Ishige, Chairman and Chief Executive Officer Junji Kurokawa, Director, North America Division, Overseas Research Development Tadayuki Nagashima, Director-General, Overseas Research Department Michitaka Nakatomi, Special Advisor Keiichi Nishimoto, Senior Coordinator, (North America, Oceania), Planning Department Masahiro Sakurauchi, Deputy Director, North America Division, Overseas Research Department		
Japan Fisheries Association Hiroki Miyamoto		
Japan Ham and Sausage Processors Cooperative Association Tatsuo Yamamoto, Managing Director		
Japan Meat Traders Association Tatsuo Iwama, Executive Director		
Japan Oilseed Processors Association Yoshinori Komura, Managing Director		
Ministry of Foreign Affairs (Japan) Shotaro Oshima, Special Representative of the Government of Japan in charge of consultations toward participating in the TPP negotiations with the countries concerned		

Organizations and Individuals	Date	Location
<p>Mitsubishi UFJ Securities Holdings Co., Ltd. Akira Kamiya, Deputy President, Managing Officer, Mitsubishi UFJ Financial Group, Inc.</p> <p>Morgan Stanley MUFG Securities Co., Ltd. Robert Alan Feldman, Managing Director</p> <p>New Supermarket Association of Japan Tokutaro Masui, Vice Chairman</p> <p>Nisshin OilliO Group, Ltd. Kenji Koike, Assistant General Manager/Oils and Oilseeds Group Manager Oilseeds and Meals Department</p> <p>Nomura Holdings, Inc. Shigesuke Kashiwagi, Senior Managing Director, Corporate Office</p> <p>Research Institute of Economy, Trade and Industry IAA Williem Thorbecke, Senior Fellow</p> <p>Showa Sangyo Co., Ltd. Kazuhiko Niitsuma, Managing Director</p> <p>Tokyo Stock Exchange Group, Inc. Shunzo Kayanuma, Director, Global Communications</p> <p>Waseda University Yutaka Harada, Professor, School of Political Science and Economics</p>	2012/10/29	Tokyo, Japan
<p>Canada Wood Group Barry D. Ford, General Manager Shawn Lawlor, Director, Japan Operations</p> <p>Canfor Japan Corporation Jason Nomura, President</p> <p>Embassy of Canada to Japan Stéphane Beaulieu, Counsellor (Investment) and Senior Trade Commissioner (Energy and Natural Resources) Laird Hindle, First Secretary (Political) Akira Kajita, Trade Commissioner (Building and Forest Products) Investment, Energy and Resources</p> <p>House of Councillors Yukihisa Fujita, Member</p>	2012/10/30	Tokyo, Japan

Organizations and Individuals	Date	Location
House of Councillors Kuniko Tanioka, Member	2012/10/30	Tokyo, Japan
House of Representatives Takako Ebata, Member Yuichi Goto, Member Hiroshi, Hamamoto, Member Motohisa Ikeda, Member Takahiro Kawagoe, Member Isao Kuwabara, Member Hiroyuki Moriyama, Member Yoshitaka Murata, Member Hiroshi Nakai, Member Yasutoshi Nishimura, Member Naokazu Takemoto, Member Denny Tamaki, Member Yukio Ubukata, Member		
Interex Forest Products (Japan) Ltd. Kazuya Minegishi, Vice President and Managing Director Seiji Omote, Chairman		
ITOCHU Mineral Resources Development Corporation Satoshi Kondo, Chief Executive Officer and President		
Ministry of Agriculture, Forestry and Fisheries (Japan) Takahiro Sasaki, Senior Vice Minister of Agriculture, Forestry and Fisheries Member, House of Representative		
Ministry of Economy, Trade and Industry (Japan) Yosuke Kondo, State Minister of Economy, Trade and Industry Member, House of Representatives Naoko Munakata, Director-General, Multilateral Trade System Department Takatsugu Ryuzaki, Director for FTA Affairs, (Economic Partnership Division) Trade Policy Bureau		

Organizations and Individuals	Date	Location
<p>Ministry of Economy, Trade and Industry (Japan) Tomoyoshi Yahagi, Director, Americas Division, Trade Policy Bureau</p>	2012/10/30	Tokyo, Japan
<p>Ministry of Foreign Affairs (Japan) Shuji Kira, Parliamentary Senior Vice Minister for Foreign Affairs Member, House of Representatives</p> <p>Makoto Hayashi, Director Japan-U.S. Economic Coordination Division, North American Affairs Bureau</p> <p>Yasushi Takase, Deputy Director-General Economic Affairs Bureau, Latin American & Caribbean Affairs Bureau</p> <p>Mikito Tomiyama, Executive Assistant, Parliamentary Senior Vice Minister for Foreign Affairs</p>		
<p>Tiger International Ltd. Toru Kamata, President</p>		
<p>Weyerhaeuser Japan Ltd. Hirotoshi Iwabuchi, Vice President and General Manager</p>		
<p>Communications & Information Network Association of Japan (CIAJ) Katsumi Takahashi, Vice President, International Affairs</p> <p>Hiroaki Takeichi, Executive Vice President</p>	2012/10/31	Tokyo, Japan
<p>Corel Corporation Kazuo Sakai, President, Corel Japan Ltd. Senior Vice President, Corel Corporation</p>		
<p>Embassy of Canada Albert Lee, Counsellor (Commercial) and Senior Trade Commissioner</p> <p>Mark Mylvaganam, Second Secretary (Commercial) and Trade Commissioner</p> <p>Kevin Winkless, Trade Commissioner</p>		
<p>Hino Motors, Ltd. Hiroyuki Omori, General Manager, Business Planning Department, North America Division</p>		
<p>Honda Motor Co. Ltd Fumihiko Ike, Senior Managing Officer and Director</p> <p>Shiro Kojima, General Manager, External Affairs Division</p>		

Organizations and Individuals	Date	Location
<p>Honda Motor Co. Ltd</p> <p>Hiroshi Mikajiri, General Manager, External Affairs Division</p> <p>Naoto Muraoka, General Manager, External Affairs Division</p> <p>Chisato Sugimura, Manager, North America Automobile Sales Division</p>	2012/10/31	Tokyo, Japan
<p>Japan Automobile Manufacturers Association, Inc. (JAMA)</p> <p>Yasuo Aoki, Deputy Director General, International Department</p> <p>Osamu Nagata, Chairman, International Committee Deputy Chief Officer, External Affairs Group Managing Officer, Toyota Motor Corporation</p> <p>Yujiro Uchida, International Department</p>		
<p>Japan Automobile Manufacturers Association of Canada</p> <p>David P. Worts, Executive Director</p>		
<p>Japan Information Services Technology Industry Association (JISA)</p> <p>Hiroshi Ohsawa, Member, International Public Policy Committee</p>		
<p>JA-Zenchu</p> <p>Shigeo Fuji, Senior Executive Director, Central Union of Agricultural Co-Operatives</p> <p>Hirofumi Kobayashi, General Manager, Agricultural Policy Department, Central Union of Agricultural Co- Operatives</p>		
<p>Mazda Motor Corporation</p> <p>Minoru Mitsuda, Executive Officer, Corporate Liaison</p>		
<p>Mitsui and Co., Ltd.</p> <p>Hideaki Katsube, Deputy General Manager, Airline Business Department, Aerospace Systems Division Marine and Aerospace Business Unit</p>		
<p>Mitsui Bussan Aerospace Co., Ltd.</p> <p>Toshinori Aoki, Deputy General Manager, First Helicopter Division</p>		
<p>NAMCO BANDAI Games Inc.</p> <p>Satoko Nakatsuka, Division Manager, Strategy Division, Consumer Entertainment Business Management Group</p>		

Organizations and Individuals	Date	Location
<p>Nissan Motor Co., Ltd. Tetsuya Minami, Manager External and Government Affairs Department</p> <p>Sojitz Corporation Koichi Yamaguchi, General Manager, Aerospace Department, Marine and Aerospace Unit, Machinery Division</p> <p>Suzuki Shigeyuki Yamamura, Branch Manager, Tokyo Branch, Corporate Planning Office</p> <p>Toyota Motor Corporation Ron Haigh, Project Manager, Americas and Europe Group, Overseas Department No. 1, Overseas External Affairs Division</p>	2012/10/31	Tokyo, Japan
<p>Embassy of Canada to Japan Matthew Fraser, Consul and Senior Trade Commissioner, Consulate of Canada, Nagoya</p> <p>Teiko Oba, Trade Commissioner, Canada Office at the Osaka Chamber of Commerce and Industry</p> <p>Kansai-Canada Business Association (KCBA) Jaffer Hussainee, Chairman, Board of Governors, Managing Partner, Carigar Consulting</p> <p>David Leangen, Vice-Chair, Board of Governors, CEO, Bio Scene Informatics Inc.</p> <p>Aya Tsuda, Vice-Chair, Board of Governors, Manager, Tsuda Sangyo</p> <p>Christopher Campbell, Member, General Manager, Inter Global Japan</p> <p>Kyoji Hanasaki, Member, Professor, International Relations, Osaka University</p> <p>Kazuyoshi Hirata, Chair, Member Events Committee, President, Hirata Associates</p> <p>Wayne Kim, Member, Board of Governors, Owner, Kinder Kids International Schools</p> <p>Carlos Ramirez, Member, Board of Governors, Managing Director, Valhalla Management Co. Ltd.</p> <p>Kazumi Suzuki, Treasurer, Board of Governors Representative Director, Institute of Business Risk Management</p>	2012/11/01	Osaka, Japan

Organizations and Individuals	Date	Location
<p>Kansai-Canada Business Association (KCBA) Yasuhiro Tsuchida, Member, Attorney at Law, Daiichi Law Office</p> <p>Ushio Tsuda, Member, Board of Advisors, President and CEO, Tsuda Sangyo</p> <p>Matty International Shusei Matsumoto, Pharmaceutical Business Consultant</p> <p>NTN Corporation Hironori Inoue, Managing Director, Production, Procurement and Cost Logistics</p> <p>Shoji Kido, Corporate Advisor</p> <p>Fukumatsu Kometani, Senior Managing Director, Corporate General Manager of China H.Q., Corporate Strategy H.Q.</p> <p>Takao Maki, General Manager, Business Planning Dept, ASEAN, Oceania, Indian & West Asia Headquarters</p> <p>Tatsuo Nagao, Project Manager, Corporate Planning Department</p> <p>Satoshi Ueda, Senior Manager, Procurement and Cost Planning Department</p> <p>Osaka Chamber of Commerce and Industry Ryoji Asano, General Manager, Certification Center, Deputy Director, International Division</p> <p>Kazuko Kamado, Manager, International Division</p> <p>Yasutsugu Kohzuki, Executive Director, Secretary General, Canada-Japan Society of the Kansai</p> <p>Yumiko Nagoshi, Assistant Manager, International Division</p> <p>Osaka Gas Co., Ltd. Toru Kamoi, Senior General Manager, Planning Department</p> <p>Keisuke Mizumoto, General Manager, Energy Infrastructure Development Team 2, Energy Resources and International Business Development Department</p> <p>Yuji Oda, Manager, Energy Development Team 2, Energy Resources and International Business Development Department</p>	2012/11/01	Osaka, Japan

Organizations and Individuals	Date	Location
Megumi Tsuda, General Manager, Research and Planning Team, Energy Resources and International Business Development Department	2012/11/01	Osaka, Japan
<p>Osaka Gas Co., Ltd. Kenichi Matsushita, Manager, Research and Planning Team, Planning Department Energy Resources and International Business Unit</p> <p>Hidetaka Matsuzaka, Senior Executive Officer, Member of the Board, Head, Energy Resources and International Business Unit</p>		
<p>Osaka Prefectural Government Takahiro Nagai, Director, Commerce and Industry Promotion Office, Economic Relations Division, Department of Commerce, Industry and Labor</p> <p>Hitoshi Sato, Assistant Director, International Relations and Tourism Division Osaka Promotion Bureau</p>		
<p>Osaka Prefectural Government Assembly Yoshinori Maeda, Member</p> <p>Katsuhisa Mita, Member</p> <p>Koji Okuda, Member</p> <p>Takashi Takeshita, Member</p>		
<p>Embassy of Canada to Japan Curtis Ajmani, Trade Commissioner and First Secretary, Energy and Natural Resources</p> <p>Hiroyuki Kunitake, Trade Commissioner Investment, Energy and Resources</p>	2012/11/02	Tokyo, Japan
<p>Institute of Energy Economics, Japan (IEEJ) Nobuo Tanaka, Global Associate for Energy Security and Sustainability</p>		
<p>ITOCHU Mineral Resources Development Corporation Satoshi Kondo, Chief Executive Officer and President</p>		
<p>Japan Chamber of Commerce & Industry Satoshi Niwa, Executive Secretary to Chairman</p> <p>Tadashi Okamura, Chairman</p> <p>Hidehiro Okayama, Project General Manager</p>		

Organizations and Individuals	Date	Location
<p>Japan Foreign Trade Council, Inc. Toyonari Yamagishi, General Manager, International Affairs Group</p>	2012/11/02	Tokyo, Japan
<p>Japan Chamber of Commerce & Industry Yoshihiro Inoue, Deputy Chair, International Market Committee, Executive Officer, Energy and Infrastructure Project SBU, Toyota Tsusho Corporation</p>		
<p>Japan Oil, Gas and Metals Corporation Shinji Fujino, Director General, Business Strategy Department, Oil and Gas Upstream Department</p> <p>Sumio Kozawa, Director General Metals Strategy Department</p> <p>Tsuguyo Takahashi, Senior Advisor, Metals and Coal Finance and Environment Unit</p> <p>Kentaro Yamazaki, Planning Division, Business Strategy Department</p>		
<p>Japan Petroleum Exploration Co., Ltd. (JAPEX) Jun-ichiro Ando, General Manager of LNG Project Department, America and Russia Project Division</p>		
<p>JCU (Canada) Exploration Co., Ltd. (JCU) Tomio Hamai, Vice President, Exploration and Development, Director, Manager of Technical Department</p>		
<p>Keidanren Ako Dobashi, Canada Committee Co-chair</p> <p>Kazuyuki Kianbara, Director of International Affairs Bureau</p>		
<p>Keizai Doyukai Yoshiaki Fujimori, EPA Committee Chair</p> <p>Kiyohiko Ito, Managing Director</p>		
<p>Mitsubishi Corporation Mitsuru Hiyama, General Manager, The Americas Team, Global Strategy and Business Development</p> <p>Hideto Nakahara, Senior Executive Vice President and Member of the Board, Global Strategy and Business Development, Logistics Management</p> <p>Hideki Sato, Assistant General Manager, External Relations Team, Global Strategy and Business Development Department</p> <p>Keiichiro Segawa, Deputy General Manager, Shale Gas Business Unit, Natural Gas Business Division B</p>		

Organizations and Individuals	Date	Location
Akiko Shirai, Assistant General Manager, The Americas Team, Global Strategy and Business Development Department	2012/11/02	Tokyo, Japan
Mitsui Matsushima Co., Ltd. Yoichi Haginoya, Executive Officer, General Manager, Overseas Business Department		

APPENDIX C LIST OF BRIEFS

Organizations and Individuals

Julian Dierkes

Yves Tiberghien

Canada Wood Group

Canadian Agri-Food Trade Alliance

Canadian Association of Petroleum Producers

Canadian Vintners Association

Factors Group of Nutritional Companies Inc.

Food Secure Canada

Manitoba Beef Producers

Pulse Canada

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the Government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* ([Meetings Nos. 33-41, 44, 50-54 and 60-63](#)) is tabled.

Respectfully submitted,

Hon. Rob Merrifield

Chair

Supplemental Report of the Official Opposition New Democratic Party of Canada

The Official Opposition New Democratic Party of Canada is very supportive of deepening and broadening Canadian economic relations with Japan. We share the view that closer economic relations between Canada and Japan can lead to greater prosperity for the people of both nations. We believe that pursuing an effective economic partnership agreement between our two countries is an important means to this end.

As such, we support in principle, and in many specifics, the findings and recommendations contained in the Report.

However, we believe the findings and recommendations in the Report are incomplete.

Evidence received by the Committee made it clear that economic progress for Canada is dependent on more than simply signing an economic partnership agreement. Economic benefits will accrue fully to Canada only if the necessary policy and structural supports are provided. Careful and skilful negotiations are essential to achieve an economic partnership agreement that preserves democratically-determined policy-making, recognizes the importance of both private and public interests and deals successfully with the real issues at hand.

The following expresses those additional findings and recommendations that we believe are necessary to achieve stronger economic relations with Japan and help the Canadian economy, environment and society flourish.

Agriculture - The Committee's trip to Japan revealed how important and sensitive the agriculture industry is to that nation. As one official stated, Japan is likely the only country in the world where its citizens are "...acutely aware of its food security index". Although Japan imports over half of its agri-food needs annually, it is very protective of the production that does occur on its soil. We believe that this is a critical issue for Canada to respect in its negotiations. Representatives of the Japanese national farmers' association made it very clear that its members would support a trade agreement with Canada only if it was beneficial to their interests. Similarly, we believe that Canadian negotiators must ensure that Canadian food producers' interests are similarly advanced, and that our supply-managed sector is completely defended.

Airline Service - We heard reports from a variety of Canadians and Japanese that there is inadequate airline service between our two countries. Clearly, ensuring that business persons, academics, students and visitors can more easily access our two nations is of no small importance to increasing economic relations. Accordingly, we believe that the Canadian government ought to work with private sector airlines and airport authorities to encourage the expansion of direct flights, particularly between Canada and Osaka, and Nagoya.

Automobile Manufacturing - Canadian automobile manufacturers and labour unions raised concerns that the Japanese market contains a variety of non-tariff barriers that work to prevent full access to Canadian products. They, and other witnesses, cited examples

ranging from exhaust system regulations to vertical integration of Japanese supply chains. However, other witnesses maintained that the difficulty Canadian manufacturers have in selling products in Japan is due to factors unrelated to trade barriers. New Democrats believe in the vital importance of the automobile industry to Canada's economy. Therefore, the Canadian automobile sector, both management and labour, must be actively consulted and engaged throughout negotiations to ensure that any significant non-tariff barriers that inhibit fair access to the Japanese market, if such exist, are satisfactorily resolved in any final agreement. New Democrats believe that trade agreements must benefit value-added industries and the stable, high-paying jobs they create.

Consular and Trade Commission Services - Witnesses in Canada were unanimous that the recent decision of the Government of Canada to close the Canadian Consulate in Osaka was misguided and unhelpful. This view was reinforced by a variety of people in Japan. Both the process that was employed (abrupt, with no advance notice to the Japanese government or stakeholders) and the substance of the decision were roundly perceived to be in error. Osaka is a very important economic region of Japan, with a market of some 30 million people and a very strong commercial ethos. It was noted that the Consulate's services included trade commissioners. In our view, reducing trade commission services at the same time as we are embarking upon negotiations geared toward increasing trade is counter-productive and sends the wrong message. Accordingly, the Osaka Consulate should be re-opened immediately, with trade commission services restored. It is our further view that Canada ought to open additional consulates in Japan in major commercial centres and increase its trade commission presence in order to help Canadian businesses to better access the Japanese market. In addition, we believe that Canada should bolster its trade commission services in Canada, both to assist Japanese businesses wishing to operate in Canada, and Canadian businesses who require information about Japan.

Effective Canadian Regulatory Systems - Japan has a well-known reputation for demanding high-quality, safe products. In order to successfully access the Japanese market, Canada must ensure that our quality and safety standards are sufficient to ensure our products will be attractive to the Japanese consumer. Recent challenges in the beef sector point to the serious economic consequences for Canadian producers when lax Government oversight leads to lapses in Canada's food safety system. Therefore, the Government must reverse its trend of decreasing staff and resources to our product safety regulatory system. Instead, Canada must increase investment in an effective domestic regulatory structure to ensure products meet high quality, safety, sanitary and phytosanitary standards.

Energy and Natural Resources - Canada benefits from an abundance of natural resources, and Japan is a net importer of these products. Renewable energy and innovative technologies are also of critical importance to citizens of both countries. We recommend that any economic partnership agreement encourage the development of sustainable and value-added products in these areas. We also believe that Canadian negotiators ought to make increased Canadian production of value-added industrial and manufacturing goods a primary focus.

Environment, Labour and Human Rights - As modern economies and mature democracies, Canada and Japan share a commitment to advancing standards in the environmental, labour and human rights areas. New Democrats believe that such issues are core components of economic pacts and that standards in each area ought to be raised as a result of trade agreements. We accordingly recommend that these be given first-order priority in negotiations.

Investor-State Dispute Settlement (ISDS) - ISDS procedures are of increasing, serious concern to Canadians. Such provisions permit foreign corporations to sue governments for enacting measures that are perceived to interfere with their profit expectations. Many feel that ISDS processes place undue restrictions on democratically-elected bodies to legislate economic, environment or social policies to the benefit of their citizens. Others have expressed concerns that ISDS processes violate principles of the rule of law, including the lack of an effective appeal procedure, conflicts of interest and no security of tenure for adjudicators. As Canada and Japan both have well-established, independent judiciaries, and because private actors have other means with which to protect their interests, there appear to be insufficient reasons to justify the inclusion of an ISDS process in any economic partnership agreement between our two countries.

Intellectual Property Rights (IPRs) - IPRs did not receive focused discussion in testimony before the Committee. New Democrats believe that such rights should always strike a balance between the interests of rights holders and the interests of consumers—for example, ensuring costs are not increased on prescription medication for Canadians. We believe this principle must be respected in any economic partnership agreement.

Political, Social, Cultural Connections - Increasing economic relations to mutual advantage takes more than a formal agreement. A number of Canadians with expertise in Asian relations have noted that taking advantage of opportunities to participate in regional Asian political bodies helps build trust, and increasing social and cultural exchanges fosters relationships that are intertwined with economic opportunity. Accordingly, we believe that the Government of Canada ought to increase its participation in regional Asian political bodies, and support the expansion of social and cultural exchanges, like those conducted through “sister city” pairings between municipalities. In addition, the Government should provide resources to provinces to increase opportunities for Canadian students to learn the Japanese language.

Sub-Federal Canadian Governments - Economic partnership agreements invariably, and increasingly, affect provincial, municipal and other sub-federal governmental bodies. This is especially the case if Investor-State Dispute Settlement, public procurement or investment chapters are included in such agreements. It is therefore essential that such bodies be afforded the broadest possible consultation and participation roles in the negotiation process.

Trans-Pacific Partnership (TPP) - The Government of Japan has not made a formal request to enter into the TPP process. We heard clearly that there is strong public opposition to the TPP in Japan. It was pointed out that the TPP does not include any of the major Asian economies, such as China, Japan, South Korea, Indonesia, or India.

According to Japanese sources, economic modelling indicates the presence of Japan is a significant factor in generating economic benefits for the current participants; a TPP without Japan, however, provides marginal benefits. Japanese sources also reported that they regarded the TPP process to be highly secretive, with unacceptable conditions to enter the talks, and concerns were expressed that the United States was crafting an imbalanced agreement in favour of its own interests. New Democrats believe these points should be noted in this Report.

Transparency and Accountability - New Democrats believe that trade and investment agreements must be negotiated in as transparent and accountable a manner as possible. Such treaties are not pursued for the benefit of the Government, or political parties; they are negotiated for the benefit of the public. Therefore, Canadians have a right to be consulted both prior to and during negotiations. In addition, we believe that Parliament and the Standing Committee on International Trade ought to be consulted and receive regular briefings from the Government throughout negotiations. The government also has a constitutional duty to consult First Nations on measures that impact their rights. To date, the Conservatives have maintained an unacceptable pattern of secrecy and selective consultation in trade negotiations that is not in keeping with accountable government or broad access to policy making. New Democrats recommend that this trend be replaced by a more transparent process in the Canada-Japan negotiations.

Transportation Infrastructure - The Committee heard strong evidence that increased trade requires modern and efficient Canadian infrastructure. We must ensure that we have sufficient rail, handling and port facilities in place to manage not only present volumes of exports and imports, but also anticipated increases in the future. These facilities are needed across Canada as the Japanese market is accessed from both coasts. Accordingly, the Canadian government must make necessary investments in vital transportation infrastructure.

Visa Services in Japan - Witnesses unanimously testified that the decision of the Canadian government to close its visa processing centre in Tokyo for Japanese residents and relocate same to Manila, Philippines, was a significant error. Like the decision to close the Canadian Consulate in Osaka, this move was done with little advance warning to the Japanese government or stakeholders. We heard that Japanese citizens do not like having to deal with a foreign country to obtain Canadian visas or being compelled to obtain foreign currency in order to do so. We also heard that competition from other countries for Japanese students, workers and business is substantial, and any barriers that Canada erects in this regard risk us losing these highly desirable visitors to other countries. In our view, Canadian visa services for Japanese residents should be fully restored to Tokyo at once. Canada should further consider expanding visa services to other regions of Japan as well.

Recommendations

The NDP recommends that the Government of Canada:

1. Ensure that Canada's supply-management system is wholly protected in an economic partnership agreement with Japan.
2. Work with private sector airlines to encourage the development of more direct flights between Canada and Japan, particularly with Osaka and Nagoya.
3. Consult with management and labour representatives of the Canadian automobile manufacturers and ensure that any tariff and non-tariff issues affecting this sector be addressed in negotiations to increase Canadian access to the Japanese market.
4. Immediately re-open its consulate in Osaka and ensure it is staffed to provide a full complement of services, including trade commissioners.
5. Explore the opening of additional consular offices in major Japanese commercial centres, and increase trade commission services in Canada to assist Canadian businesses to access the Japanese market.
6. Maintain and improve effective regulatory systems to ensure safe, high quality products, especially food, sanitary/phyto-sanitary and safety-sensitive products.
7. Maintain a negotiating position that encourages the development of sustainable and value-added energy products, and make increased Canadian production of value-added industrial and manufacturing goods a primary focus of negotiations.
8. Make the protection and promotion of standards in environment, labour and human rights core elements of an economic partnership agreement.
9. Neither propose nor accept the inclusion of an Investor-State Dispute Settlement mechanism in an economic partnership agreement with Japan.
10. Encourage the exchange of social, cultural and economic delegations between Canada and Japan.
11. Increase its participation in regional Asian political bodies.
12. Provide funding to the provinces to encourage the study by Canadian students of Japanese language, culture and society.
13. Provide resources to Canadian cities to strengthen and expand "sister city" relationships with Japanese cities.

14. Invite all Canadian provinces and territories to participate in trade negotiations with Japan and, in the event that sub-federal jurisdictions are engaged by such talks, obtain the consent of the provinces and territories for such measures.
15. Conduct wide public consultations on the Japan agreement, including with First Nations, Inuit and Metis populations, as well as diverse civil society stakeholders, provide regular progress updates to Canadians, Parliament, and the Standing Committee on International Trade, and conduct negotiations in as transparent and accountable a manner as possible.
16. Invest in necessary transportation infrastructure to efficiently handle increased imports and exports.
17. Reverse its decision to transfer Canadian visa services for Japanese citizens to the Philippines, and restore and relocate such visa services and processing to Japan.

LIBERAL PARTY - SUPPLEMENTARY REPORT TO THE NEGOTIATIONS OF AN ECONOMIC PARTNERSHIP AGREEMENT BETWEEN CANADA AND JAPAN

While the report of the committee covers a number of issues related to promotion of trade with Japan through an Economic Partnership Agreement (EPA) there remain some points which the committee should have placed more emphasis upon. First, we should recognize that we are not doing as well within signed trade agreements as we could and secondly Canada should develop an internal strategy to complement and take advantage of trade agreements.

In the International Trade publication Canada's State of Trade 2011 the department provided a forecast for Canadian merchandise exports. It listed the top twenty destinations for 2009 and 2040. Japan, according to the government's own analysis would slip from fourth to eighth in terms of destination for our merchandise exports. This is a point that should be placed at the forefront of this supplementary report, the fact that the government itself has conceded that "newly emerging economies are becoming global powers, while advanced economies are beginning to see their influence wane."

International Trade ADM, Ian Burney in his testimony before the committee placed this EPA in an interesting context when he said he was pleased to speak to the committee about the "launch of the Canada – Japan free trade agreement or to use Japan's preferred terminology, economic partnership agreement." (#33, p. 1) It would appear that the two countries have a very different interpretation as what is being negotiated, and Canada has adopted the more limited language of the Japanese. As a point of reference, the European Union describes their initiative with respect to Japan as "negotiations on a Free Trade Agreement between the EU and Japan."

The reality of concluding an FTA – or as the Japanese have insisted an EPA with Canada is not one easily concluded. The final report of the committee fails to make note of the fact that the first initiative toward entering into an agreement between Canada and Japan extends back to 2005 when the Prime Ministers of Canada and Japan released a joint statement announcing the commencement of the effort toward achieving an EPA. This time frame is similar to that of the U.S. when in June 2001 the US President and Japanese Prime Minister made a similar announcement with respect to a US – Japan EPA. The point being that an EPA between Canada or the US with Japan have not been easily or quickly achieved – and remain elusive.

The premise upon which an effective "partnership" arrangement should be established is one of reciprocity. This is a principle which this arrangement with Japan and which the report of this committee fails to address.

The Canadian Manufacturers and Exporters Association, which represents 10,000 manufacturing and service related industries across Canada with sales last year of \$571 billion, made the following statement to the committee (#35, p. 5):

“We want reciprocity. It’s okay for Japanese companies to come here and compete with us, but only to the extent that we can actually go to their market and compete on the same basis.”

The government has placed far too much reliance upon the economic projections prepared in advance of negotiations. While government may use the studies to boast about the supposed advantages which will befall Canadians as a result of an agreement those projections are at best nothing more than projections.

During the course of the committee’s hearings on Canada – India, Assistant Deputy Minister for Trade Policy with International Trade, Don Stephenson made the following observation regarding the pre-negotiation studies:

“I want to make the point these are theoretical econometric studies. They are projections... I’d like to say that these are absolutely accurate assessments and predictions, but they can’t be.” (September 29, 2011, p. 8). During the course of a later hearing of the committee, Mr. Stephenson repeated this observation, stating, “The joint study is just an economic modelling exercise.” (December 1, 2011, p. 10)

The Report of the Joint Study on the Possibility of a Canada-Japan EPA, found on the International Trade website references the fact the computable general equilibrium (CGE) model was used to reach the conclusion that “both countries would derive significant economic benefits from a possible EPA.”

With respect to the projections of the government study Wendy Dobson, stated that the “joint study reveals very small benefits” (#37, p. 9). The degree to which for example, agricultural trade will derive a significant benefit, Ms. Dobson stated: “I have no idea. It will be revealed in the negotiations. It’s very hard to discern from the joint study.” (#37, p. 9). She continued by stating that “I don’t expect huge returns from this effort with the Japanese. It will not be a free trade agreement” (#37, p. 10)

The concerns stemming from the optimistic projections are reflected in the expectations for specific sectors of the economy. Another example, is the impact of the EPA on our auto industry.

The ADM for International Trade in his testimony stated that the department viewed an EPA with Japan as an opportunity for the auto sector even though the department was told by the Canadian Vehicle Manufacturers Association (CVMA) that the non-tariff barriers in Japan are the issue – not tariffs. However, he also told the committee (#33, p. 4) that the projected benefits to the auto sector would be “very minimal”, which came as a surprise even to Conservative MP’s representing ridings in which the auto sector is very active. (#33. p. 4).

The representative for the CMEA went on to inform the committee (#35, p. 5) that it is the scope of the Japanese non-tariff barriers which impose a serious restrictive regime limiting the ability of Canadian manufacturers to have access to their domestic market:

The optimism expressed by International Trade’s ADM for Trade before this committee prompted a substantive and contrary response from the CAW’s Jim Stanford where he

pointed out the imbalance in terms of the auto sector whereby Japan allows so few automotive products in, “is not the result of tariffs or other explicit trade barriers. In fact, Japan charges no tariff at all on imports of finished vehicles, so a free trade agreement is not going to change that imbalance. How do we explain the lopsided nature of automotive trade with Japan? A range of structural factors are clearly at play, including the aging demographic makeup of Japanese society, falling automotive purchases, stagnant incomes in recent years, consumer tastes for vehicles that are not always like the ones we make in North America, and of course the structural impact of regulations, marketing practices, and other non-tariff barriers that are very hard to identify and, I would argue, impossible to credibly eliminate.” (#37, p. 6)

With respect to the balance of trade between Canada and Japan the issue of Canadian exports of resources versus exports of value added, manufactured goods was raised.

Canada’s energy resources are considered a priority for the Asian market. In a recent article in Policy Options (September 2012, p. 16) the former Clerk of the Privy Council, Kevin Lynch stated the following:

“Canada is very much on the global energy radar, not just as a potential supplier but in many respects as a preferred choice over other suppliers in troubled parts of the world.”

Lynch reinforced the point with respect to Asia’s interest in our natural resources over our manufactured goods by placing this in a very specific context (Policy Options, September 2012, p. 14):

“Canada was spared a more severe recession in 2009, in part because of robust demand from Asia – especially China – for our natural resources.

When asked to speak to the point that Japanese imports from Canada are most heavily in the resource as opposed to the manufactured sector, the ADM for International Trade began by declaring that total trade between the two countries was currently equal but when pressed on the individual sectors he told the committee he didn’t have “the detailed breakdown in terms of sector by sector.” (#33, p. 3)

In their presentation to the committee the Canadian Manufacturers and Exporters had no difficulty in informing the committee as to the reality of trade between Canada and Japan on a sectoral basis (#35, p. 1):

“Coal, canola, copper, lumber and pork are our top five exports to Japan, and they account for 58% of our exports to that country. Autos, auto parts, heavy equipment, printing equipment, tires, aerospace parts, and telecommunications equipment – these seven products taken together account for 52% of Japan’s exports to Canada. As you can see, the majority of our exports to Japan are natural resources.”

In a recent article in Policy Options, Charles McMillan using data compiled by among others, the WTO, Industry Canada found that Canada’s main exports to Japan consisted of coal and seeds while our main imports comprised autos, parts and electronics. (Policy Options, September 2012, p. 61).

The fact is that our relationship in terms of value added exports with Japan has and will likely remain unbalanced in favour of Japan.

In looking at the recommendations of the report it speaks to the need to conclude an EPA with Japan which will provide “a net benefit to Canada”.

Even the committee report confirms that to the Japanese energy security is one of the most critical issues the country faces and that Canada “is seen as a reliable supplier”.

In a recent article Roger Gibbons former President of the Canada West Foundation (Policy Options, August 2012, p. 35) asked a question key to the reality of the declining manufacturing base within Canada:

“How do we handle a future where the western Canadian hewers of wood and drawers of water seem to be doing very well and where the manufacturing sector struggles?”

What Gibbons is referring to is the “commodification” of our export economy an export policy driven by Asian demand for resources – not for manufactured goods.

“Expanding Canada’s gateway to Asia,” said Gibbons, “is seen in unabashedly positive terms in the west, whereas the possibility of greater and more unfettered Asian trade is at best a mixed blessing for a manufacturing sector already struggling with international competition.”

The observation put forward by Roger Gibbons appears to be supported in an internal federal government document produced by officials at Environment Canada. According to news reports the document indicated that while manufacturing remains a critically large component of the Canadian economy the oil and gas resource sector is outperforming it in terms of growth. “the oil and gas sector was growing, on average, by 0.2 per cent per year over the past decade, while the overall manufacturing sector was averaging annual declines of 1.7 per cent over the same period.” (Manufacturing leads growth: memo (Ottawa Citizen, January 16, 2013)

“Canada’s comparative advantage,” Wendy Dobson told the committee, “lies in natural resources and energy, unless we work with judicious policies, some of which have been outlined by Mr. Stanford.” (#37, p. 9)

The question remains, to what purpose should any enhanced trade initiative whether with Japan or any other country be directed – resource exports, value added exports, or a balance of both?

In his testimony, Jim Stanford supported the observation of Ms. Dobson with respect to the role of our natural resource exports (#37, p. 5):

In terms of the composition of our trade, I think free trade agreements have also reinforced a tendency for Canada to export resources and import more technically sophisticated value-added products. I view this as a losing proposition for Canada in the long run. And as was just mentioned by the previous witness, our bilateral trade with Japan very much conforms to that pattern. It is what I would call structural underdevelopment in our export relationships.

And what were those judicious policies?

Here is what Jim Stanford suggested specifically in relation to our resource sector (#37, p. 5):

The true reasons for Canada's poor trade performance do not have to do with a lack of free trade agreements, or even the existence of trade barriers in our trading partners. I think it is a failure of Canadian-based companies to develop and sell innovative, high-value products and services the rest of the world wants to pay good prices for. That's a structural weakness in our economy that will not be helped by signing free trade agreements, and I think it could be harmed by it.

Other countries in the world that are successful exporters to date—places like Germany, Scandinavia, Korea, Brazil, and China—have not built their success by signing as many free trade agreements as possible. Rather, they have focused on developing and nurturing domestically based, globally oriented companies that can sell things the rest of the world wants. That's where I think Canada's policy should be directed, instead of trying to sign as many free trade agreements as possible.

Later in his testimony, Mr. Stanford re-emphasized that earlier point (#37, p. 7)

“On your question with regard to what sorts of policies should be implemented, there is no magic bullet to this. If we look at the experience of other successful exporters in the world—as I mentioned, Germany, Japan, Korea, Brazil today, Scandinavia—we'll see they've all involved a range of proactive interventions involving government, business, and other stakeholders, running the gamut between technology and innovation policy, directed flows of capital into particular strategic industries, proactive integration of training efforts with the needs of innovative export-oriented businesses, protection and support and nurturing for domestically based companies to produce high-value products.

The fact that this government enters into an almost endless series of trade negotiations does not minimize the growing evidence that what is lacking is a policy whereby value added exports take precedence over the export of unprocessed or at best semi-processed resources. The key to a strong and reciprocal trading relationship with Japan is one based upon reciprocity of goods and commodities traded.

Recommendations:

1. That the Canadian government negotiate an agreement on the premise of reciprocity of access to each countries markets.
2. That, concurrently with the negotiations between Canada and Japan for an economic partnership agreement (EPA), the Government of Canada develop a national trade and industrial strategy. A focus of the strategy should be strengthening the domestic manufacturing base in order that, once an EPA is concluded, Canada's businesses that participate in value-added production chains are able to maximize the benefits resulting from the EPA.

