



*“Capitalizing on Natural Synergies:
Towards an EPA Agreement Between Japan & Canada”*

CCCJ Trade Policy Paper

Presented By:

The Canadian Chamber of Commerce in Japan
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President's Message

As the voice of the Canadian business community in Japan, the Canadian Chamber of Commerce in Japan (CCCJ) welcomes the opportunity to provide the attached input for the upcoming Trade and Investment Dialogue (TID) between Canadian and Japanese officials.

Ongoing, regular discussions between the private sector and government play an important role in maintaining a healthy trade and economic relationship by helping governments to identify regulatory problems or policy decisions that create barriers to trade. While past efforts by our two governments to improve the business environment have been laudable, recent changes in the global order have seen the profile of the Canada-Japan relationship slip in comparison to Canada's relationships with China, India and elsewhere. Extra efforts are required to ensure that we make the most of our bilateral relationship.

The 2010 Canada-Japan Joint Declaration on Political, Peace and Security Cooperation signed by Prime Minister Harper and Prime Minister Kan in Yokohama on November 14th is the most recent sign of the importance that both governments attach to the bilateral relationship. Similar to what is taking place on the political side, the CCCJ encourages both governments to look for ways to increase the dialogue with their respective business communities. A good model for increasing the effectiveness of dialogue with government entities on both sides of the Pacific is the dialogue established through the Japanese Cabinet Office's Expert's Committee of the Japan Investment Council to identify and resolve issues relevant to foreign firms investing and working in Japan. We recommend that the Canadian government set up a series of similar dialogues with representatives of the Japanese business community in Canada. We also recommend that the Japanese government use the above model to open new channels for regular dialogue with the Canadian Chamber of Commerce in Japan for the same purposes.

A number of issues raised in the attached paper, including the elimination of the JET program, tax deductibility for school fees, and spousal employment, may not be considered as "traditional" trade policy issues. Nonetheless, these issues affect the ability of Canadian businesses in Japan or Japanese businesses in Canada to attract qualified staff and we believe therefore are an appropriate element of the trade

dialogue.

The four sector priorities identified as of special concern to CCCJ members (financial services; air transport; forest and building products; and food and agriculture) are discussed in detail in the attached paper. Addressing these issues identified will help Canada and Japan achieve their domestic goals of promoting sustainable economic growth, increasing exports of goods and services and generating new jobs related to trade. In addition, there may be issues in other sectors that may be brought to our attention by our members. As part of our commitment to an ongoing dialogue, the CCCJ will not hesitate to raise these issues with government when appropriate.

Finally, I would like to reaffirm our strong support for the implementation of an Economic Partnership Agreement between Canada and Japan as the best way to secure a stable and long-lasting trading relationship that enhances prosperity in both of our great countries.

Eric de Groot

President

A handwritten signature in black ink, appearing to read "Eric de Groot". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

BACKGROUND

I. Canada-Japan Economic Relations

Japan is Canada's fourth largest trading partner. Although trade and investment volumes dropped markedly in 2009 as a result of the global recession, there are encouraging signs that trade volumes have rebounded sharply in 2010 as the global economy begins to stabilize. However, while trade and investment levels remain significant, they are still significantly smaller than should be the case given the high levels of trade between Canada and Japan vis-à-vis the United States and given the natural synergies between the Canadian and Japanese economies.

A healthy Canada-Japan trade and economic relationship depends on government policies that promote open markets and a stable business environment. In recent years, the Canada-Japan trade and economic relationship has generally been free of high-profile issues. However, the lack of high profile issues has contributed to insufficient visibility and understanding of the vital trade relationship between Canada and Japan and has deterred efforts to strengthen mutual economic ties. It is the view of the Canadian Chamber of Commerce in Japan (CCCJ) that the governments of Japan and Canada undertake measures to assign a higher political priority to the bilateral economic relationship in view of capitalizing on natural synergies between both nations.

Of particular importance to the business community is the development of a framework that can establish clear priorities for addressing issues that arise in a timely manner and help to create a coherent strategic bilateral economic agenda. For this reason, the Chamber greatly welcomed the adoption of the Canada-Japan Economic Framework by the two governments in 2005, which provided a useful mechanism for the business community to have input in government discussions on issues raised by the private sector. The Joint Study Report in October 2007 summarized Japan-Canada cooperation in the economic field and identified measures that needed to be taken to strengthen bilateral economic relations, proposing enhanced cooperation in a number of areas, including (a) regulatory reform (b) investment promotion (c) bilateral taxation issues (d) food safety, (e) energy (f) science and technology (g) air services (h) intellectual property, and (i) telecommunications equipment.

Following the agreement reached by the Joint Economic Committee, the first meeting of the Trade and Investment Dialogue (TID) was subsequently held in November 2008 to further identify ways to

improve the business environment, regulatory cooperation, and trade policy. While these efforts by our two governments are laudable, they have been insufficient to allow Canada and Japan to make the most of their already-strong relationship. Moreover, moves by both governments towards bilateral free trade agreements (FTAs) with other countries, such as Japan's FTA with Mexico, run the risk of creating distortions that can harm the logical flow of trade between Japan and Canada in a number of sectors such as food and agricultural products.

For the TID dialogue to be successful, the Canadian Chamber of Commerce in Japan believes that representatives from government and the private sector must meet regularly in an executive-level committee or forum. This committee should be charged with responsibility for reporting to the respective governments at regular intervals. As the official voice of Canadian business in Japan, the CCCJ expects to be involved in the selection process of forum members.

Greater efforts also need to be made to overcome linguistic barriers to trade and commerce between Canada and Japan. The CCCJ recommends that a special group or committee be established that would be dedicated to ensuring English/French and Japanese translations of key statutes and regulations are available to the business communities of each country. Education and youth exchange should also be identified as priorities. More broadly, the CCCJ also wishes to see:

1. The facilitation of the movement of people between the two countries;

In this regard, the CCCJ views with concern recent announcements relating to the scaling back or possible elimination of the JET program.

The CCCJ recommends the continuation of the JET program as a valuable means of allowing young Canadians the opportunity to experience living in Japan and to acquire Japanese language skills, while at the same time introducing young Japanese people to Canadian values, languages and customs.

The current inability to deduct fees paid to international schools from taxable income is in our opinion not only unfair, but greatly increases the cost of living in Japan for Canadians with school age children. This in turn provides a disincentive for Canadian businesses to transfer qualified staff to Japanese operations, or even to establish such operations.

The CCCJ recommends that international school fees be made tax deductible for foreign residents of Japan.

The CCCJ recommends that work visa rules for spouses of short term expatriate Canadians posted to Japan be eased.

As with the non tax deductibility of international school fees, the current rules discourage qualified Canadians from accepting offers to relocate to Japan if their spouse is also interested in working during the assignment.

2. more communication of social and economic priorities in each country; with measures taken to ensure such priorities are reflected in laws and regulations that benefit citizens of both countries (e.g., tax policy harmonization, promotion of FDI); and
3. a discussion of matters of mutual interest in the administration of justice, including exchange visits by appeal court judges, and promoting mutual understanding of legal procedure for citizens of each country.

II. Achieving a Canada-Japan Economic Partnership Agreement (EPA)

The Board of Governors of the Canadian Chamber of Commerce in Japan has adopted the conclusion of an Economic Partnership Agreement (EPA) between Canada and Japan as a fundamental guiding principle. The CCCJ believes that the conclusion of an EPA will substantially enhance the trade in goods and services and bring greater welfare to citizens and businesses in both countries. While tariff levels in many sectors are already generally low, various non-tariff trade barriers remain and need to be addressed. In principle, an EPA should be as broadly encompassing as possible. Even those sensitive areas subject to high protective barriers, such as certain agricultural products, should also be brought to the table over the longer term, recognizing however that a phase-in period may be necessary.

RECOMMENDATIONS

Economic Partnership Agreement

The CCCJ urges the governments of Canada and Japan to work toward the implementation of an Economic Partnership Agreement at the earliest possible date.

An EPA between these two highly-developed trading partners sharing common values would:

1. open markets to new goods and services;
2. promote innovation and competition;

3. enhance national living standards;
4. reinforce strategic alliances by mutually securing enhanced access to natural resources, technologies and investment;
5. promote transparency; and
6. increase flows of people and enhance goodwill between our two countries.

Non-tariff Barriers

Existing non-tariff barriers that need to be addressed in the EPA include regulations that are overly complex or lacking in scientific basis concerning such products as building materials and certain agricultural goods. Mutually-acceptable solutions could be found and embodied in an EPA.

Innovation

Both Canada and Japan have highly developed R&D capabilities. A study by KPMG in 2006 showed that Canada does outstanding R&D in IT, energy, fuel cells and telecom. Also, Canada has cost advantages compared to other G7 countries through R&D tax credits. A bilateral EPA will serve to stimulate significant additional investment into R&D by both countries.

Transparency

Public projects in both countries should be awarded based on rational objective factors such as technical ability and price; in principle, through a transparent competitive bidding process. Canada can bring significant savings for Japanese taxpayers through its strengths in financial services, architecture, engineering and design, healthcare, business consulting, legal services and other services relevant to public procurement. An EPA agreement would allow Canadian service industry companies full access to Japanese government procurement projects.

Entrepreneurship and People Flows

Under the NAFTA, consumers in Canada and the United States have made gains through lower prices, better and more diversified services, more product choices and better use of taxes. Traders from small- and medium-size companies (SMEs) have flourished under NAFTA creating an engine of growth. An EPA between Canada and Japan would yield similar benefits. On the Japanese side, changes to the Commercial Code of Japan have made it easier to establish new corporations, partly reflecting greater emphasis on entrepreneurship in Japanese society. This will help Japan maximize the benefits of an EPA,

through economic diversification and creation of more SMEs.

Value Added Chain

The increasing integration of value-added chains between North America and East Asia, including the automobile assembly and auto parts industries of Japan and Canada, can amplify the benefits of an EPA. At the same time, the integration of manufacturing value-added chains within East Asia has made Japan more vulnerable to shocks and interruptions—financial, economic or political—in the region, especially in China. By further internationalizing the Japanese economy through greater integration with Canada via an EPA, Canada, with its competitive corporate tax structure and geographic proximity to the United States, stable economy and government, can provide Japan with strategic alternative to help mitigate global uncertainties. As one of the most resource rich nations of the world, Canada, under the framework of an EPA with Japan, can also ensure consistent and reliable access to increasingly scarce resources such as energy, minerals, forest and agricultural products.

Based on extensive input from Canadian Chamber of Commerce in Japan members, the following sections provide a sector by sector overview of the key bilateral trade challenges and opportunities. These sections serve to provide commercial context in view of advancing dialogue between the Japanese and Canadian governments towards a realization of an EPA agreement between both nations.

Sector Specific Recommendations

The following section looks at five sectors of the Japanese economy of special concern to CCCJ members as at the writing of this document. These are

1. Financial Services
2. Air Transport
3. Forest and Building Products
4. Food and Agriculture.

It is anticipated that over time the members of the CCCJ will want to amend or supplement the information contained in this report. As we move forward, there will almost certainly be issues brought to our attention by member companies outside these sectors, or regulatory developments that affect the content and emphasis of this submission. Therefore, while we are pleased to make the following sector specific recommendations to the government of Japan at this time, we would also like to request an annual or bi-annual opportunity to meet directly with representatives of the MOFA so as to provide regular updates on the concerns of the Japanese-Canadian businesses community. We feel strongly that this should be an ongoing dialogue that reflects not only the changing business

environment Canadian and Japanese companies find themselves in, but also the realities of ongoing trade discussions involving both governments, such as the Trans Pacific Partnership.

I. Financial Services

Since the collapse of Lehman Brothers in September 2008, Japan's financial system has remained stable compared to that of other major countries. The Chamber of Commerce in Japan ("CCCJ") applauds the authorities' efforts in recent years to strengthen the financial system, the merits of which are now clear. However, in a number of key areas results still fall short of the stated goal of a "free, fair, and global" financial marketplace. A proactive, ongoing program of deregulation will benefit both Japanese consumers and Japanese business by increasing customer choice and improving customer value. In particular, the CCCJ encourages the Government of Japan to proceed with change in the following areas:

1. Transparency

The CCCJ notes that the Financial Services Agency (FSA) has taken important steps in recent years to improve the quality of financial regulation and supervision through its "Better Regulation" initiative. One of the most significant changes under this initiative has been the increase in dialogue with financial institutions which has improved mutual understanding and communication.

The FSA's "Better Markets Initiative" (BMI) which was enacted through various legislative changes in 2008, deregulated important areas including the separation between banking and securities ("firewalls"). Further deregulation will help to strengthen the markets in Japan. In particular, the Government of Japan should seek ways to leverage the financial sector as an engine of economic growth by, for example, activating Japan's pools of capital such as the Government Pension Investment Fund (GPIF) and developing the corporate bond market.

Going forward, we encourage the FSA to continue to improve transparency in all aspects of regulatory oversight, with operating rules and procedures being clear and available for public review. Also, we recommend that the FSA provide more regular opportunities for all financial companies to discuss current operating rules or procedures and review any potential changes to these procedures.

2. Postal Insurance (*Kampo*)

While insurance products offered by *Kampo* compete directly with products offered by private insurance

companies in Japan, *Kampo* operates outside the scope of the Insurance Business Law and without the supervision of the FSA. We encourage the Government of Japan to create a level playing field, which would result in greater competition and a broader range of products and services available to Japanese customers.

3. Product and Rate Approval Process

The current regulatory process, which requires prior approval of all insurance products, results in higher costs, less choice for customers, and slower development of the financial market in Japan. We encourage the Government of Japan to move away from the current process to a system of notification combined with clear standards of public disclosure.

4. Financial Market & Pension Reform

Given Japan's rapidly ageing demographic, it is vital that the Japanese government undertake the reform of the pension system. The CCCJ advocates that the pension industry shift towards the private sector in order to empower individuals to have enhanced investment choices and accountability by being able to contribute directly to their own retirement savings. The CCCJ also encourages the government of Japan to introduce tax measures that stimulate retirement investment savings.

The CCCJ encourages the government of Japan review how the pension system can be shifted to individuals. In addition, the CCCJ recommends that government of Japan introduce tax measures that provide individuals greater incentives to manage their own investments and to invest their savings in the markets by such measures as tax-deferred schemes, attractive capital gains regimes and the elimination of the tax on dividends.

Japan's public sector is charged with managing hundreds of trillions of yen in pension funds, deposits and insurance premiums. It is essential to ensure that the funds are managed effectively and earn suitable returns. Developing a more robust fund management industry in Japan will result in higher investment returns through more active investment strategies.

The Japan Post Bank (JPB) plays a pivotal role in this regard. With holdings of approximately 90% of JGBs, the Japan Post Bank is a global financial leader. Although the process to privatize the JPB has been put on hold, opportunities nevertheless exist to capitalize on higher deposit returns and diversify investment portfolios.

The CCCJ encourages the JPB to undertake more assertive investment role in private credit markets to enhance financial market competition and investment returns.

In view of stimulating economic growth, diversification in terms of the quantity and types of direct corporate finance is necessary. Greater opportunities exist to enhance the depth and role of Japan's corporate bond market.

The CCCJ asks for a review of the structural and other barriers which may be impeding the development of the corporate bond market.

The International Accounting Standards Board (IASB) recently released an Exposure Draft for International Financial Reporting Standards (IFRS) 4. While we support the general scheme and much of the detail of the Exposure Draft, for long-term insurance we believe there is a significant problem in the proposed standard with regards to the determination of the discount rate. In many regulatory jurisdictions, life insurance company liabilities are essentially discounted at a rate that reflects the assets backing them, so changes in the market value of assets and the statement of liabilities move together. Under the current IFRS proposal, life insurance company liabilities would be discounted at a risk-free rate, rather than at a rate that reflects the assets backing the liabilities. With this de-linking, there would be substantial volatility in balance sheets and income statements, the result being a massive (and nearly meaningless) loss in one quarter, only to be followed by massive gains in subsequent quarters. Financial reports would be neither relevant, nor reliable, extremely difficult to explain, and likely lack comparability.

The CCCJ recommends that the Government of Japan, in its consultations with the IASB regarding IFRS 4, support a discount rate that does not lead to a mismatch in the valuation of life insurance company assets and liabilities.

II. Air Transport Policy

Both foreign airlines operating in Japan and Japanese airlines have raised concerns relating to capacity and costs. For example, landing fees in Japan are among the highest in the world. The pricing of international airfares in Japan and the ways in which they may be publicized are all matters of deep concern to the airline industry, as is the setting of fees for navigation in Japanese airspace and the setting of charges for the use of common spaces at Japanese international airports.

The CCCJ urges Japan to consider the following:

1. Slots at Narita continue to be a limited resource and the need to increase capacity at Narita still exists. There are still some operational constraints at Narita that limits increasing slot availability still further.
2. When Narita Airport is privatized, there is a need for constraints on the newly privatized entity from increasing charges to airlines, passengers and shippers thereby forcing up costs. An independent regulatory regime should be established to ensure that: (i) charges are just, reasonable and cost based; (ii) infrastructure development is timely and cost-effective; (iii) service standards are acceptable; and (iv) there is the ability to redress the users' weak bargaining position.
3. The initial internationalisation of Haneda Airport from 21 October 2010 should only be an initial step. Further international expansion of Haneda is required and long haul flights (e.g. to Canada) need to be allocated slots during the daytime, as opposed to the current 22:00pm & 07:00am operational limitation. Additionally, Haneda Airport terminal capacity needs to expand to keep pace with increased international flights. Ground transport access to Haneda needs to improve especially during the night operations. Additional transport choices and longer hours are required.
4. Airport costs at Japanese airports, especially Narita and Haneda are exorbitantly high and costs to airlines are among the highest in the world at these two airports. This is a matter of great concern.
5. Continue to move forward with international air tariff liberalization that will allow carriers to freely set international airfares to and from Japan based solely on market forces and principals. This improved flexibility will facilitate the marketing of air services to/from Japan and improve the overall competitiveness of Japan as a destination for business and leisure travelers.

III. Forest & Building Products

Over the last few years, the Government of Japan has made some notable achievements related to

housing and wood construction, key sectors for Canada's export industries. These positive results include:

- (i) amendments to the Building Standards Law ("BSL"), which moved toward performance based (rather than prescriptive) building standards;
- (ii) the Building Standards Law Revision in 2007 which ensures greater building sector accountability and public safety
- (iii) introduction of the Long Life Quality Housing Act in 2009 and Act to Promote Wooden Construction in Public Buildings in May of 2010 which enhance market opportunities for wooden building materials, improve building industry quality standards and lead the way towards a low carbon economy
- (iv) the implementation of a revised Japan Agricultural Standards Law allowing foreign organizations to obtain Registered Certification Organization and Registered Grading Organization status; and
- (iii) initiating a scheduled review of JAS standards.

The CCCJ suggests that mechanisms to further increase transparency, simplify regulations and comply with internationally recognized standards and practices, while not undermining consumer confidence, are needed in order to benefit both Japanese consumers and Canadian suppliers of building materials. In addition, initiatives aimed at promoting the use of domestic wood (*Kokusanzai*) relating to the Long Life Quality Housing Act and Act to Promote Wooden Construction in Public Buildings and their supporting subsidy programs have resulted in non-tariff market barriers for Canadian building products exporters. Discriminatory definitions contained in this legislation as well as preferential subsidy schemes requiring domestic wood content have emerged as key market access issues.

SPECIFIC RECOMMENDATIONS

1. Transparency

The 30-day review period is a welcome addition, but this does not allow sufficient time to fully understand the complex nature of these technical documents in order to comment.

The CCCJ urges Japan to provide an extended public review and comment period to allow for a more complete review of changes to building code regulations.

2. Internationalization

In moving to a more performance based building code, Japan has partially adopted international test methods and standards into their own codes pursuant to the BSL. Additionally, foreign organizations can be accredited to perform tests and evaluate products that do not meet either JIS or JAS standards. These changes are welcome and important steps towards a more international approach, but some challenges remain which can hinder foreign products from entering this market., including a tendency to develop regulations and standards which are unique to Japan. The new system has brought greater clarity but may not offer flexibility as many of the test methods are now codified. Also, while the notifications that set out test methods offer an equivalency clause, there is, as yet, limited or no experience with drawing on this for product approvals in Japan that are judged to also meet Japanese performance requirements under international test methods. In short, further clarity on the issue of conformity between Japanese and international test methods and standards is required.

The CCCJ urges Japan to:

- a) continually strive to adopt international standards and practices and revise notifications in this direction;
- b) ensure that “equivalency” clauses in notifications dealing with standards, test methods and procedures effectively allow for the approval of products judged to meet Japanese performance requirements.
- c) consider recognizing foreign organizations that already have designation pursuant to ISO certifications and encourage ministerial accrediting bodies to become full members of the International Accreditation Forum;
- d) Clarify and harmonize test protocols conducted by Japanese registered government testing agencies

3. Tariffs

Spruce Pine Fir (“SPF”) lumber from Canada is the primary species of lumber used in 2x4 platform frame construction which has grown to occupy 11.6% of Japan’s total housing starts in 2009. The Government of Japan has resisted repeated attempts to eliminate tariffs on SPF and Amabilis Fir (Balsam), despite favourable treatment of functionally similar products. In addition, glue laminated lumber, laminated veneer lumber, softwood plywood, oriented strand board (OSB) and particle board are subject to tariffs that contribute to more costly housing.

The CCCJ urges Japan to eliminate all tariffs on SPF and Amabilis Fir lumber and engineered

wood products.

4. Streamlining of Building Permit and Ministerial Approval Processes

The CCCJ is encouraged by recent MLIT efforts to streamline the building permit approval process in light of the adverse impact to the housing industry created by the BSL revisions in 2007. However, significant delays remain with the Ministerial Approval process. Confusion over test protocol requirements at authorized government testing agencies as well insufficient staff resources to process Ministerial Approvals in an orderly fashion appear to contribute to these delays.

The CCCJ urges Japan to take measures in view of resolving delays associated with the Ministerial Approval process.

5. Elimination of Discriminatory Domestic Wood Requirements

References to Domestic or Local wood in the Long Life Quality Housing Act and Act to Promote Wooden Construction in Public Buildings represents a non-tariff barrier to Canadian industry.

The CCCJ urges Japan to eliminate the use of biased *Kokusanzai* or *Chikizai* domestic wood terminology in building related legislation to ensure equitable market access. In addition, the CCCJ urges the elimination of government subsidies requiring the use domestic wood products in residential and non-residential at the national and prefectural levels.

6. Regulations Concerned with Fire Prevention

One of the main obstacles to Canadian market access resides in Japan's approach to fire codes. The CCCJ accepts without question the need for sound fire safety measures to ensure public safety and to minimize property damage in the event of fire. The CCCJ applauds MLIT for creating the framework resulting in wood frame construction achieving “fire-proof” approval. However, many of the regulations applied by Japan substantially increase the cost of housing in Japan. Factors that could be considered include building-related issues like firewalls. More broadly, statistics in North America and Europe suggest that dramatic improvements in fire safety could be realized without the need for enacting stringent building regulations if limits were placed on the flammability of upholstered furniture and mattresses and other interior furnishings and decorations. The CCCJ urges the Government of Japan and the agencies responsible for fire related issues to consider the following issues:

6.1 Prescriptive Size and Other Limitations

Current standards impose restrictions on large-scale quasi-fire proof wooden buildings and construction of "special buildings." They also prescribe material requirements as well as size and distance limitations. For example the size limit of 1500m² imposed on three-storey construction in quasi-fire protection districts severely restricts market access. In addition, prescriptive standards do not allow for sprinkler systems or other design-related solutions to fire safety concerns. Though the CCCJ recognizes the necessity of adaptation for the specific and unique circumstances of buildings in Japan, these restrictions lack sound scientific basis.

The CCCJ urges Japan to:

- a) examine alternative fire prevention and spread designs which would include sprinkler systems and other systems that may be appropriate.

7. Japan Agricultural Standards (JAS)

The CCCJ applauds the Ministry of Agriculture, Forests and Fisheries changes with respect to foreign Registered Overseas and Certification Body. Canadian certification bodies continue to work closely with Japanese officials to maintain accreditation under this system which has involved considerable investment by those Canadian organizations. More recent changes in the JAS Law will result in yet another certification system. While Canada supports this move to the internationally recognized ISO 65 Standard, JAS Law stipulates supplementary requirements which are burdensome and unnecessary, particularly in light of the historical performance of Canadian certification bodies. Another issue associated with certain aspects of the JAS grading system, is the heavy costs associated with mandating requirements for quality assurance. For instance, properties such as the formaldehyde emission of phenolic bonded products can be established and assured without the need for ongoing frequent testing. There is now a good opportunity to reduce this burden based on the extensive test data that has been developed.

On other JAS matters, significant issues remain. For example, wood species such as Hem-Fir(N) are not listed as a distinct species in structural glulam standard (JAS 111). Canada acknowledges Japan's effort to introduce new species adoption criteria for the JAS111 standard. However Canada has concerns respecting the testing procedures and criteria. Further, there is still no facility for the adoption of

commercially significant and technically documented Species Groups such as Hem-Fir North. We encourage the design of a performance based standard. Such a standard would better facilitate development of higher performance products, than the current standard that is based on the properties of the weakest species in a group.

The CCCJ urges Japan to:

- a) recognize Hem-Fir(N) species group in JAS 111
- b) revision of evaluation procedures to ensure all species are treated equitably and evaluated on the same basis.
- c) consider the development of a performance based standard for both JAS 111 and 143 to ensure recognition of higher performance products
- d) in accordance with internationally accepted practice reduce the frequency of formaldehyde testing for phenolic bonded products

IV. Food and Agriculture

Precise requirements and a high standard of taste, presentation and other specifications make Japan a complex market, requiring considerable patience and perseverance to succeed. Additionally, a variety of domestic subsidy programs, as well as regulatory and other barriers to entry, reduce Japanese consumers' ability to benefit fully from the high quality food and agricultural products that Canadians have to offer.

1. Zoning Initiative in the Event of an Outbreak of a Foreign Animal Disease and Regulations on Banned Product

Canadian pork processors have made significant investments in product innovation, research and technology, and traceability. Their continuous emphasis on food safety has garnered Canadian pork processors a reputation for maintaining high quality standards. Regardless of how diligent and quality conscious one is, however, there is always a risk of disease outbreak. For example, foot and mouth disease (“FMD”) is a highly contagious disease with the potential to severely damage the livestock of any country. Canada has strict measures in place to prevent FMD from entering the country. This has helped to keep Canada free from FMD for over 50 years. The risk of an outbreak in North America, albeit very small, still exists. If such an unfortunate event were to occur in one isolated region of Canada, all pork shipments from Canada would be halted. National borders, as opposed to regional ones, define the ensuing export restrictions.

Furthermore, a ban on all Canadian pork would subsequently be imposed for anywhere from 3 to 12 months. This action would effectively cripple the Canadian pork industry! With proper control measures, an outbreak could in fact be contained to a specific region. The Canadian government is working with the Canadian pork industry to put such controls in place. Recognizing the segregation of different regions would allow for pork shipments to resume in a more timely fashion. Canadian poultry and duck processors are subject to Canadian food inspection, safety system and bio-security measures. They share the same concern about the regionalization when an animal disease occurs in Canada. As the concept of zoning is now accepted by the Japanese government, we would ask that this be extended to Canadian poultry and duck processors.

The CCCJ urges Japan to recognize Canada's efforts in establishing standardized control measures and to be prepared to discuss the issue in greater detail once these controls are in place.

2. Safeguard Measures on Beef and Pork

Over the last decade, Japan has been steadily increasing its total volume of imported pork. The CCCJ remains concerned about the Japanese snapback safeguard measure on pork. This results in an increase of approximately 25% to the minimum import price. Since it was first triggered in 1995, the snapback safeguard has been of significant concern to the Canadian pork sector. As currently administered, these measures create considerable uncertainty for Canadian suppliers and Japanese importers.

The beef safeguard mechanism, as agreed to in the UR, was designated to protect Japanese producers against surges in imports. The domestic occurrence of BSE in September 2001 resulted in a dramatic drop in beef consumption and of imports. The subsequent recovery of the beef market in 2002 and the concomitant increase in beef imports in no way represents a surge in imports. Domestic production is above pre-BSE levels and live animal prices are above the government recommended price band. Imports however, are still below pre-BSE levels. It is apparent that these import volumes will result in the automatic triggering of the beef safeguard, resulting in a 50% tariff on imported beef. This automatic implementation neither advantages domestic producers (who supply a different part of the market) nor consumers. Japanese legislation neither obliges the automatic implementation of the beef safeguard, nor does it oblige implementation at the 50% tariff level. A full review of the effect this safeguard may have on the domestic situation and a subsequent revision of its foundation is recommended.

The CCCJ urges Japan to implement revised safeguard mechanisms that eliminate the market uncertainties of the current system.

3. Principles for Instituting Food Safety Standards in Japan

Food safety related problems in Japan have negatively affected consumer confidence in the safety of both domestic and imported food products sold in Japan.

The CCCJ recommends that the Government of Japan design and implement new policies regarding food safety in Japan in a manner that incorporates the following five principles:

1. Food safety policies, regulations, and administrative guidance should be based on sound scientific analysis.
2. Any policies, regulations and rules that are implemented should be consistent with international standards, such as those established by CODEX and other international organizations.
3. The development of food safety policies and regulations should be fully transparent with the full background and analysis supporting the proposed new rules being available to all interested parties.
4. Representatives of all parties which could be affected by the proposed policies or regulations, whether domestic or foreign, should have an opportunity to fully participate in the development of the proposed rules and to share their expertise and experience.
5. All food safety policies, regulations and guidance should treat both imported and domestically produced foods in an equal manner.