



The Canadian Chamber of Commerce in Japan
La Chambre de commerce du Canada au Japon

在日カナダ商工会議所

August 25, 2004

By Electronic and Regular Mail

Ms. Tomoko Hasegawa, Manager
International Economic Affairs Bureau
Japan Business Federation (Nippon Keidanren)
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Duplicate Signed Copies to:

Mr. Hiroshi Zaizen
Corporate Advisor
Mitsubishi Corporation
Executive Advisor to the Committee on Canada
Japan Business Federation (Nippon Keidanren)

Mr. Hiroyuki Yoshino
Director and Advisor
Honda Motor Co., Ltd.
Chairman, Committee on Canada
Japan Business Federation (Nippon Keidanren)

Dear Ms. Hasegawa:

On behalf of the Canadian Chamber of Commerce in Japan, we wish to express our sincere appreciation to you, Mr. Zaizen, Mr. Yoshino, and other members of Keidanren's Committee on Canada for meeting with us to discuss current trade issues facing Canadian business in Japan. We are pleased to report, as well, that we have been in contact with the Toronto Japanese Association of Commerce and Industry (Toronto Shokokai), and have learned about current issues facing Japanese businesses in Canada. We hope this is the beginning of a useful, cooperative relationship which will benefit members of our respective organizations.

In our meeting on August 11, 2004 at the CCCJ offices, we undertook to provide you with additional information relating to your questions on the pension reciprocity agreement, the tax treaty, and current CCCJ priorities. Our comments on these issues, and also on recent discussions relating to a Canada-Japan "framework agreement", are set out below.

1. **Pension Agreement information**

Messrs. Kira and Archer, as well as Mr. Tamagno, Special Advisor to the Assistant Deputy Minister, Social Development Canada, have responded to you in writing. If you have further questions, please let us know.

2. **Tax Treaty**

We enclose a copy of our position paper on the Canada-Japan Income Tax Convention and Protocol for your review. You asked us to provide you with information regarding actual impact on our members as a result of withholding tax issues. Amendments to the Japan-U.S. Tax Treaty have only come into force this year, so it is too early to show any negative impact arising from a discrepancy between the Canada-Japan treaty and the Japan-US treaty. In addition, we note that tax filing information is confidential, and is usually not shared by our members. We believe, however, that the negative impact will be inevitable. Canadian investment in Japan will be comparatively tax inefficient, in contrast to investments from the United States. Withholding tax issues are also a problem for Japanese corporations in Canada. In a recent submission to the Canadian Government, the Toronto Shokokai pointed out the need for reform of the Canadian tax treatment of interest and capital gains.

The CCCJ believes that the issue is even broader than this. Tax policy can affect the success or failure of future business between our two countries. Used wisely, tax policy is a powerful tool to promote trade, investment, and worthy social and economic goals of both countries. In the energy sector, for example, Canada leads the world in the area of fuel cell and hydrogen energy research and development. Cross-border services and technology transfer agreements are an important aspect of the global shift from carbon to hydrogen. The Canada-Japan tax treaty should support and promote these important policy goals. The CCCJ after consultation with its members and

Canadian finance officials, believes that the Canada-Japan withholding tax system is out of date and must be amended.

3. Current CCCJ Priorities:

We also wish to confirm that the current trade priorities for the CCCJ can be summarized as follows. We seek your understanding and support of these issues.

Priority 1: *An early conclusion to a Canada-Japan Social Security Agreement.*

Priority 2: *Amendment of the Canada-Japan Income Tax Treaty*

Priority 3: *Non-Application of Safeguard Measures on 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. Imports of pork from Canada have increased since the outbreak of BSE and are expected to trigger the safeguard. This will impact consumers who are already facing limited choices due to restrictions of North American beef imports.

Priority 4. *Principles for Instituting Food Safety Standards 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:

- Should be based on sound scientific analysis.
- Should be consistent with international standards.
- Should be fully transparent.
- Representatives of all parties whether domestic or foreign, should have an opportunity to fully participate in the development of the proposed rules.

- Should treat both imported and domestically produced foods in an equal manner.

Canada-Japan Trade Framework Agreement

In the context of recent informal discussions regarding the possibility of a framework agreement, **the CCCJ would support a Trade and Economy Framework Agreement between Canada and Japan with the following characteristics:**

1. The Committee or Forum: The Agreement should provide for an executive-level committee or forum (including private business representatives) charged with responsibility to report to the respective governments of Canada and Japan at regular intervals. This committee must promote a coherent and strategic bilateral economic agenda. Both countries need to assign a higher political priority to the relationship. The fact that the Canada-Japan relationship has been generally free of major problems is the very reason why Japan should build on a solid foundation with Canada. As the official voice of Canadian business in Japan, the CCCJ* should be involved in the selection process of forum members.
2. Coordination of the Relationship: In order for the Canada-Japan relationship to grow, this new framework needs to ensure there is a clear mechanism for Canadian (and Japanese) business concerns to be discussed in a timely manner with a strong obligation on the part of the respective Governments to respond to these concerns and act on the recommendations.
3. Sub-committees to be established as part of the Framework Agreement:
 - (a) Regulatory Reform
 - (b) Investment: Pension reciprocity and tax treaty reform are important elements of this area. In addition, greater efforts can be made to overcome linguistic barriers to trade and commerce between Canada and Japan. It may be helpful to have a special group or committee

* The CCCJ currently has 288 corporate, small-business & professional and individual members, and is the second largest Canadian Chamber of Commerce outside of Ottawa, after Hong Kong.

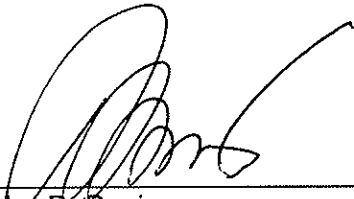
dedicated to English and Japanese translations of key statutes and regulations.

- (c) Sectoral Initiatives: Energy, environmental, tourism, telecommunications, education, youth exchange.

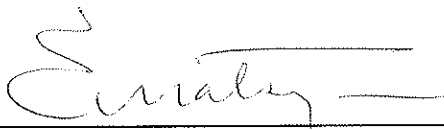
More broadly, we see a Canada-Japan Framework Agreement being a means of:

1. facilitating the movement of people between the two countries;
2. communicating social and economic priorities in each country, and seeking to have such priorities reflected in laws and regulations which benefit citizens of both countries (e.g., tax policy harmonization, promotion of FDI); and
3. discussing 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.

Respectfully submitted.



John D. Davis
President



Edward T. Matsuyama
Chair, Trade Policy Committee

Copy to:

H.E. Robert G. Wright, Ambassador of Canada to Japan

Mr. Thomas D'Aquino, President & CEO, Canadian Conference of Chief Executives

Toronto Japanese Association of Commerce and Industry (Toronto Shokokai)

Board of Governors and Trade Policy Committee, The Canadian Chamber of Commerce in Japan