

Report of the Joint Study on the Possibility of
a Canada-Japan Economic Partnership Agreement

March 2012

Contents

Introduction and Purpose of the Study	2
Executive Summary.....	3
Chapter 1: Overview of Bilateral Economic Relations.....	5
1.1 Overview.....	5
1.2 Trends in Bilateral Trade in Goods	7
1.3 Trends in Bilateral Trade in Services	9
1.4 Trends in Foreign Direct Investment	10
Chapter 2: Analysis of the Economic Effects from a Canada-Japan Economic Partnership Agreement.....	12
Chapter 3: Analysis of Major Areas of an Economic Partnership Agreement	14
3.1 Market Access (including Rules of Origin)	14
3.1.1 Market Access	14
3.1.2 Rules of Origin including Origin Procedures.....	14
3.2 Trade Facilitation and Customs Procedures.....	15
3.3 Trade in Services (including Telecommunication Services and Financial Services).....	16
3.4 Movement of Business Persons.....	17
3.5 Investment.....	17
3.6 Government Procurement.....	18
3.7 Trade Remedies and Bilateral Safeguards	19
3.8 Intellectual Property	19
3.9 Electronic Commerce	20
3.10 Competition Policy	20
3.11 Sanitary and Phytosanitary (SPS) Issues.....	21
3.12 Technical Barriers to Trade (TBT).....	22
3.13 Environment.....	22
3.14 Labour.....	23
3.15 Others (Energy, Minerals and Foods)	24
Chapter 4: Stakeholder Consultations	25
Chapter 5: Conclusion	27

Introduction and Purpose of the Study

In October 2007, Canada and Japan published the *Report of the Canada-Japan Joint Study on Benefits and Costs of Further Promotion of Bilateral Trade and Investment*. The Study covered the overall economic relationship between the two countries and included a positive qualitative and quantitative assessment of further economic integration, suggesting potential value in a bilateral free trade initiative. At the time, Canada and Japan agreed to revisit the idea of pursuing the possibility of a possible bilateral free trade agreement (FTA) at a future date.¹

Following Japan's November 2010 announcement of the "Basic Policy on Comprehensive Economic Partnerships," which includes Japan's commitment to promote high-level economic partnerships with major trading powers, the Prime Ministers of Canada and Japan met at the Asia-Pacific Economic Cooperation (APEC) Summit 2010 hosted in Yokohama, Japan, where the two leaders concurred to positively consider the promotion of an economic partnership. During the subsequent Canada-Japan Joint Economic Committee in February 2011, consensus was reached to launch the "Joint Study on the Possibility of a Canada-Japan Economic Partnership Agreement."

Government officials from both Canada and Japan attended four Joint Study meetings:

Joint Study Meeting 1	March 15, 2011	Toronto
Joint Study Meeting 2	April 14-15, 2011	Vancouver
Joint Study Meeting 3	July 11-14, 2011	Tokyo
Joint Study Meeting 4	January 23-24, 2012	Tokyo

During these meetings, officials engaged in substantive discussions on elements of a possible Canada-Japan EPA and welcomed the views of private sector stakeholders on a possible EPA. The findings of the Joint Study are presented in this report, which was jointly drafted by the Government of Canada and the Government of Japan.

During this period, the Great East Japan Earthquake hit Japan in March 2011, seriously affecting not only the residents of the affected areas but also the Japanese economy at large. While taking into consideration the recovery and reconstruction efforts from the Earthquake, the Prime Ministers of Canada and Japan reaffirmed their commitment to press forward with the Joint Study when they met in Deauville, France, in May 2011 and in New York, USA, in September 2011. As a result, the Governments of the two countries continued forward with the Joint Study exercise.

¹ For the purposes of this Canada-Japan Joint Study, without prejudice to the final results, the terms economic partnership agreement (EPA) and free trade agreement (FTA) are used interchangeably, reflecting normal terminology in Japan and Canada respectively, where both refer to a trade liberalisation agreement covering substantially all trade.

Executive Summary

Canada and Japan have long been important political and economic partners, with significant two-way trade in goods and services, investment, flows of technology and knowledge, and movement of people. In 2010, Japan was Canada's fifth largest trading partner while Canada was Japan's 18th largest trading partner. Total merchandise trade stood at approximately \$22.6 billion Canadian (JPY1,774.6 billion).

In recent years, Canada and Japan have enjoyed complementary economic relations. Canada is rich with natural resources, while Japan is a major importer of these resources and has developed cutting-edge technologies for energy conservation and clean energy, among others. Despite the substantially expanded bilateral ties between the two countries, the Joint Study found that there remains much untapped potential in the relationship.

Merchandise Trade: Trade in goods between Canada and Japan is largely complementary, with each specializing in products that the other does not intensively export.

Services Trade: Given Canada and Japan's well developed, knowledge-based economies, as well as sophisticated and competitive services industries, there is strong potential to further grow bilateral trade in services.

Investment Relationship: Japan is one of the largest foreign direct investors in Canada. The bilateral investment relationship is responsible not only for creating a significant number of jobs, but also for enabling the large amount of trade between the two countries.

Economic Effects: Simulations using the Global Trade Analysis Project (GTAP) model and database were carried out by both Canada and Japan. Though the simulations rely on a set of assumptions, estimates of gross domestic product (GDP) gains would be between US\$4.4 billion and US\$4.9 billion for Japan, and between US\$3.8 billion and US\$9.0 billion for Canada. The results also showed that gains from the bilateral trade between Canada and Japan would increase significantly as a result of a possible EPA.

Analysis of Major Areas: Canada and Japan analysed fifteen major economic areas of an EPA. Through these analyses, it became clear that a possible WTO-consistent EPA between Canada and Japan would bring significant benefits to both countries. Moreover, both countries reconfirmed their commitment to resist protectionism and to strengthen economic relations.

Stakeholder Consultations: Both Canada and Japan conducted stakeholder consultations. Representatives and experts from various sectors were invited to express their views on the existing measures in the two countries that may hinder the full potential of trade and investment, as well as to provide suggestions to enhance the existing economic relationship between the two countries.

Conclusion: This Joint Study found sufficient common ground to launch the negotiation of a comprehensive and high-level EPA, leading to additional trade flows and economic gains for both Canada and Japan. Such an EPA should not only be WTO-consistent but, wherever possible, should strive to reach WTO-plus provisions. In addition, a possible EPA should be negotiated as a ‘single undertaking’ to achieve a balanced outcome. The findings presented in the Joint Study are without prejudice to the final outcome of negotiations for any future comprehensive EPA.

Chapter 1: Overview of Bilateral Economic Relations

1.1 Overview²

Canada and Japan share fundamental values, including the rule of law, freedom, democracy, respect for human rights and the promotion of open market economies. The two countries have long been important partners, both politically and economically, with significant levels of two-way trade in goods and services, flows of direct and portfolio investment, flows of technology and knowledge, and movement of people. From a geographical perspective, both countries see each other as a strategically important partner, especially given the increased economic presence of Asia in the world economy, as well as the momentum toward regional economic integration in the Asia-Pacific.

In 2010, Japan was Canada's fifth largest merchandise trading partner while Canada was Japan's 18th largest trading partner. Total merchandise trade in 2010 stood at approximately \$22.6 billion (JPY1,774.6 billion). At the end of 2010, Japan was Canada's sixth-largest source of foreign direct investment, with a stock valued at \$16.0 billion (JPY858.6 billion), and the stock of Canadian direct investment in Japan stood at \$7.3 billion (JPY114.4 billion).³

In recent years, Canada and Japan have enjoyed mutually complementary relations. Canada is endowed with rich energy and other natural resources, whereas Japan is a major importer of these resources and has developed cutting-edge technologies for energy conservation and clean energy, among others.⁴

Today, Canada and Japan are partners in a number of international fora and organizations, including the World Trade Organization (WTO), the Asia-Pacific Economic Cooperation (APEC), the Group of Eight (G8) and Twenty (G20), the Organisation for Economic Co-operation and Development (OECD), the International Energy Agency (IEA), and the International Energy Forum (IEF). Canada and Japan share similar interests in upholding high standards in different economic policy areas, such as investment and protection of intellectual property rights, as well as cooperation in such fields as tourism and science and technology.

As longstanding members of the WTO, the two countries are both strongly committed to the multilateral trading framework and see free trade agreements (FTAs) and economic partnership agreements (EPAs) as complementary to the existing multilateral system. They are also committed

² Statistics presented in this section are taken from Statistics Canada, "Balance of International Payment: Canada with Japan," Ministry of Finance Japan, and The Bank of Japan.

³ Statistical discrepancies can be attributed to the different statistical methods used by Canada and Japan.

⁴ At the 11th bilateral meeting of the Canada-Japan Joint Committee on Science and Technology Cooperation in 2010, both countries decided to deepen collaborative relationships in the areas of stem cells and regenerative medicine; advanced materials; sustainable energy technologies; and science and technology in the developing world.

to taking concrete steps toward the realization of a Free Trade Area of the Asia-Pacific (FTAAP), envisioned as a comprehensive free trade agreement of the APEC region by developing and building on ongoing regional undertakings.

Canada's bilateral and regional trade policy agenda is guided by the 2007 Global Commerce Strategy (GCS), a sustained five-year action plan for helping Canadian companies meet the demands of an increasingly complex and competitive global economy. Canada is pursuing an ambitious free trade agenda to enhance its economic prosperity and help provide the foundation for sustainable economic and social development.

Canada has free trade agreements in force with the U.S. and Mexico (NAFTA, 1994), Israel (1997), Chile (1997), Costa Rica (2002), the European Free Trade Association (2009), Peru (2009), and Colombia (2011). Agreements with Panama and Jordan are in the process of being ratified while negotiations with Honduras have concluded. Canada is pursuing free trade negotiations with more than 50 countries. Canada also has negotiated numerous Foreign Investment Promotion and Protection Agreements (FIPAs) and bilateral Science and Technology (S&T) agreements and arrangements – all of which help to make Canada more attractive to investors.

Japan has also promoted its regional and bilateral trade policies as a means of complementing the multilateral trading system. Japan has concluded EPAs with Singapore (2002), Mexico (2005), Malaysia (2006), Chile (2007), Thailand (2007), Indonesia (2008), Brunei (2008), ASEAN (2008), Philippines (2008), Switzerland (2009), Vietnam (2009), India (2011), and Peru (2012).

In November 2010, Japan released the “Basic Policy on Comprehensive Economic Partnerships,” confirming Japan's commitment to promote high-level economic partnerships with major trading partners and to press ahead with fundamental domestic reforms. Japan has continued to maintain this policy, even after the Great East Japan Earthquake brought a serious shock to the Japanese economy in 2011.

1.2 Trends in Bilateral Trade in Goods

Trade in goods between Canada and Japan appears to be largely complementary, with each specializing in products that the other does not intensively export (see tables 1.1 - 1.2). In 2010, Canada was the 15th largest supplier of merchandise to Japan, with Japanese imports from Canada representing 1.6% of total imports. In the same year, Japan was Canada's fourth largest supplier of merchandise, contributing to 3.3% of all Canadian imports.

Japanese Trade with Canada

Japan remains one of the world's largest economies and one of Canada's most important economic and commercial partners. Japan's efficient manufacturing and exporting firms have leading-edge technologies, design and research, and development capacities. Advanced Japanese firms are at the centre of global value chains.

Japan is a net importer of primary goods. In 2010, agricultural, forestry and fisheries products accounted for about 46.6% of Japan's imports from Canada. However, these imports represented only 6.6% of Japan's total imports in these sectors. Japan's imports from Canada are slowly evolving toward higher value-added products. For example, the share of Japanese imports from Canada accounted for by products such as aerospace, machinery and equipment, and consumer goods has risen from 4.6% in 1990 to 9.6% in 2010. The pattern of Canada-Japan trade is likely to continue to evolve in this direction in the future.

The majority of Japan's exports to Canada are manufactured goods. Automobiles and automotive parts, machinery and machinery parts, and electrical machinery and electrical machinery parts accounted for 76.0% of the total value of Canadian imports from Japan in 2010.

Table 1.1: Japan's Top 10 Imports from Canada (2010)

HS		CAD* millions	JPY millions	Percentage of imports
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	1,996	169,801	17.7
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder	1,441	122,476	12.8
02	Meat and edible meat offal	1,236	105,138	11.0
44	Wood and articles of wood; wood charcoal	1,205	102,523	10.7
26	Ores, slag and ash	1,088	92,531	9.7
03	Fish and crustaceans, molluscs and other aquatic invertebrates	460	39,113	4.1
47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard	433	36,839	3.8
10	Cereals	426	36,224	3.8
88	Aircraft, spacecraft, and parts thereof	285	24,212	2.5
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	279	23,729	2.5
	Total, all sectors	11,266	958,015	100

Source: Ministry of Finance Japan, "Trade Statistics."

*CAD value is calculated by "Year Average of Exchange Rate" from Bank of Canada.

Note: According to Statistics Canada data, Canadian merchandise exports to Japan were \$9.2 billion in 2010.

Canadian Trade with Japan

Canada is one of the world's leading exporters of primary goods (e.g., agricultural, forestry and fisheries products) and natural resources, such as energy, metal and mineral products.

Canada has been a safe, reliable, and affordable source of food, animal feed and agricultural inputs at the farm and food processor levels. Canada's exports to Japan include mainly canola, soybeans, pork and beef.

Canada is a secure and stable supplier of key resources, including metals and minerals, as Canada produces more than sixty different types. Canada's largest export to Japan is mineral fuels, mainly coal. As the third-largest exporter of natural gas in the world, the potential exists for Canada to become one of Japan's major suppliers. Furthermore, Canada possesses the world's third-largest reserves of crude oil.

While manufactured goods dominate Canada's imports from Japan, in 2010, Japan's share of Canada's imports of Chapter 87 goods (motor vehicles for the transport of persons or goods, special purpose motor vehicles, parts and accessories of motor vehicles, work trucks, motorcycles, bicycles, trailers, etc.) comprised only 9.5% of Canada's total imports of Chapter 87 goods from around the world.

Table 1.2: Canada's Top 10 Imports from Japan (2010)

HS		CAD millions	JPY** millions	Percentage of imports
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof***	5,703	485,913	42.5
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	2,814	239,623	21.0
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	1,682	143,304	12.5
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	672	57,099	5.0
73	Articles of iron or steel	443	38,117	3.3
40	Rubber and articles thereof	435	36,953	3.2
88	Aircraft, spacecraft, and parts thereof	235	19,967	1.8
39	Plastics and articles thereof	133	11,360	1.0
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	123	10,518	0.9
72	Iron and steel	120	10,221	0.9
	Total, all sectors	13,432	1,143,969	100

Source: Statistics Canada.

**JPY value is calculated by "Year Average of Exchange Rate" from Bank of Canada.

*** This includes motor vehicles, trailers, bicycles, motorcycles and other similar vehicles.

Note: According to "Trade Statistics" of Ministry of Finance Japan, Japanese merchandise exports to Canada were JPY 817 billion in 2010.

1.3 Trends in Bilateral Trade in Services⁵

Services have become an important component of global trade due to fast-paced technological developments that have increasingly facilitated the supply of services on a cross-border basis. Both Canada and Japan are net importers of services. In 2010, Canada's overall services trade deficit was \$23.3 billion. For Japan, this overall deficit amounted to JPY1,414.3 billion in the same year. Given Japan and Canada's well developed knowledge-based economies, as well as sophisticated and competitive services industries, there is strong potential to expand bilateral trade in services.

Between 2000 and 2010, Canada's services exports to Japan represented on average 13% of overall goods and services exports to Japan. After reaching a peak of over \$1.9 billion in 2001, the level of services exports fluctuated between \$1.2 and \$1.7 billion, before declining yearly from \$1.6 billion in 2006 to just over \$1.0 billion in 2009. However, the situation improved in 2010 as Canada's services exports to Japan increased to \$1.2 billion.

A higher level of fluctuation can be observed with respect to Japan's services exports to Canada during the same period, which represented, on average, 21% of overall goods and services exports to Canada. Between 2000 and 2005, Japan's services exports to Canada rose steadily but dipped in 2006 and 2007. Services exports to Canada reached a peak of JPY356.4 billion in 2008. However, Japan's service exports dropped back down to JPY191.5 billion in 2009 and remained near the same level in 2010.

Between 2007 and 2010, the largest proportion of Canada's services exports to Japan were Transportation Services, averaging 41% of the overall services trade. Travel, Commercial⁶ and Government Services followed in that order.

During the same period, the largest proportion of Japan's services exports to Canada were Commercial Services, averaging 68% of overall services trade. Transportation, Travel and Government Services followed in that order.

In 2010, approximately 28% of Canada's services exports worldwide and 52% of Canada's services imports worldwide were Commercial Services. Canada's most active sectors of exports under the category of Commercial Services were management services, architectural, engineering and other technical services, and computer and information services. Royalties and license fees top Canada's services imports from Japan, followed by insurance services and management services.

⁵ Statistics presented in this section are taken from Statistics Canada, Balance of Payments statistics by Ministry of Finance Japan, the Bank of Japan, and the United Nations Services Trade Database.

⁶ Commercial Services in this report include all other services not covered under Transportation, Travel and Government Services.

Japan's most active sectors of exports to Canada under the category of Commercial Services were royalties and licence fees, financial services, communication services and insurance services. Royalties and licence fees top Japan's services imports from Canada, followed by personal, cultural, and recreational services and computer and information services under the category of Commercial Services.

1.4 Trends in Foreign Direct Investment⁷

Japan is a significant contributor of foreign direct investment (FDI) in Canada, and FDI stock from Japan to Canada has largely risen over the past fifteen years. According to Canadian Statistics, in 1996, FDI stock from Japan to Canada was \$7.9 billion, and despite fluctuations, this level has steadily risen, eventually reaching a record \$16 billion at the end of 2010. Despite this rise in absolute terms, on an aggregate basis Japan's share of total FDI stock into Canada declined from 4.3% in 1996 to 2.8% by the end of 2010. In terms of rank, Japan was the largest foreign direct investor in Canada from the Asia/Oceania region, and on a worldwide basis Japan ranked sixth, at the end of 2010. Conversely, FDI stock from Canada to Japan rose rapidly from \$2.7 billion in 1996 to a high of \$9.7 billion in 2002; fluctuating thereafter to reach \$7.3 billion in 2010. This downturn can be attributed in part to currency fluctuations and the sale of several Canadian companies with substantial Japanese investments.

Japanese statistics paint a similar picture, showing an overall rise of FDI from both countries into the other. According to Japanese statistics, in 1996 FDI stock from Japan to Canada was JPY411.2 billion, rising to a peak of JPY1,083.4 billion in 2007, and leveling off to JPY858.6 billion in 2010. FDI stock from Canada to Japan has also increased in absolute terms, increasing from JPY65.2 billion in 1996 to JPY114.4 billion in 2010, after declining from a peak of JPY524 billion in 2004. In terms of share, Canada's share of total FDI into Japan rose from 1.9% in 1996 to 5.2% in 2004, before declining to 0.7% at the end of 2010. In terms of rank, Canada was the 13th largest foreign investor in Japan at the end of 2010.

More Japanese companies are starting to focus on Canada as an investment destination in order to gain access to the North American market, taking advantage of factors such as lower operating costs in Canada compared to the United States. Similarly, Canadian companies often invest in Japan to gain access not only to Japan but to Asian global supply chains through the incorporation of their products into exported Japanese goods and services.

⁷ Statistics presented in this section are taken from Statistics Canada, the Bank of Japan, and the Japan External Trade Organization (JETRO). Discrepancy between Canadian and Japanese statistics can be attributed to the different statistical methods each country employs.

The automotive sector in Canada, including manufacturing, import, export, transportation, distribution, sales and service, is one with a particularly significant Japanese presence and currently employs about 65,000 Canadians.⁸ Japanese investment goes well beyond the automotive sector, with roughly 330 Japanese subsidiaries and affiliate companies present in Canada.⁹

In Japan, over 110 Canadian companies have established a commercial presence, representing a range of industries. For example, close to 50 firms operate in the information communication and technology (ICT) industry, over 20 are in retail, travel and other services, and 20 firms are in manufacturing.

This direct commercial presence demonstrates the crucial role that investment plays in the context of the economic relationship between Canada and Japan. Investment is responsible not only for creating a significant number of jobs, but also for enabling a large amount of trade between the two countries.

⁸ “The Japanese Auto Industry in Canada 2011,” Japan Automobile Manufacturers Association of Canada.

⁹ A company is considered “Japanese” if 10% or more of the total shares are held directly by a Japanese parent company.

Chapter 2: Analysis of the Economic Effects from a Canada-Japan Economic Partnership Agreement

A quantitative analysis of the economic effect which would be derived from a possible EPA between Canada and Japan was conducted using a computable general equilibrium (CGE) model of global trade. Japanese and Canadian modeling experts¹⁰ carried out a joint modeling exercise to study the economic effects of a possible EPA on the economies of Canada and Japan. This modeling exercise is based on a scenario which assumes full tariff elimination, removal of export subsidies and a reduction of non-tariff barriers, including barriers to trade in services between Canada and Japan.¹¹ The Global Trade Analysis Project (GTAP) Database Version 7.0 (2004 benchmark data) was used for this purpose.

The conclusion of the joint modeling exercise was that both countries would derive significant economic benefits from a possible EPA between the two countries.

According to the joint modeling exercise, both Canada and Japan would achieve substantial benefits from an EPA in terms of income and production gains. Japan's GDP is expected to increase between 0.08% and 0.09% and that of Canada is expected to increase between 0.24% and 0.57%¹². In absolute terms, estimates of GDP gains would be between US\$4.4 billion and US\$4.9 billion for Japan and between US\$3.8 billion and US\$9.0 billion for Canada (based on 2010 GDP data). The range in results is directly linked to differences in the simulation models used by each expert.

10 The Japanese expert is Kenichi Kawasaki, Consulting Fellow, Research Institute of Economy, Trade and Industry (RIETI). The Canadian expert is Shenjie Chen, Head of the Research Projects Unit, Office of the Chief Economist, Department of Foreign Affairs and International Trade (DFAIT) Canada.

11 While the economic modeling analysis is a useful estimating tool, all economic models, by definition, represent a simplification of reality and rely on numerous assumptions. Therefore, the results presented should be viewed as complementing the qualitative analysis of benefits from a possible EPA that are presented elsewhere in this study.

12 With regard to the effect of reductions in non-tariff barriers (NTBs), including barriers to trade in services, the simulations above did not take into account the positive impact of removing or reducing NTB costs on third countries (so-called spillover effects). When a modest spillover effect is considered, the estimated GDP gains range from 0.20% to 0.24% for Japan and from 0.79% to 0.92% for Canada. When the effect of reductions in non-tariff barriers is excluded from the analysis, i.e., only the liberalization of trade in goods is considered, as was the case in the modeling exercise conducted in "Canada-Japan Joint Study on Benefit and Costs of Further Promotion of Bilateral Trade and Investment" in 2007, the estimated GDP gains are between 0.06% and 0.07% for Japan and between 0.09% and 0.43% for Canada.

The estimated macroeconomic effects of a possible EPA between Canada and Japan are shown as follows:

Table 2.1 Summary of Simulation Results for Canada-Japan EPA

	<i>GDP gains in absolute value in 2010 prices (US\$ billion) *</i>		<i>GDP gains (%)</i>	
	Canada	Japan	Canada	Japan
Canada's simulation	3.8	4.4	0.24	0.08
Japan's simulation	9.0	4.9	0.57	0.09

	<i>Bilateral exports gains in 2010 prices (US\$ billion) **</i>		<i>Bilateral exports gains (%)</i>	
	Canada's exports to Japan	Japan's exports to Canada	Canada's exports to Japan	Japan's exports to Canada
Canada's simulation	7.1	4.1	66.7	37.1
Japan's simulation	10.9	3.5	100.0	38.1

Sources: Japanese simulation results from RIETI, Canadian simulations result from DFAIT.

* The GDP gains are obtained by applying the estimated GDP gains (%) to the 2010 GDP figures (IMF statistics) for both Canada and Japan.

** Bilateral export gains are obtained by applying the estimated bilateral export growth to the value of Canada's trade in goods and services (BOP adjusted) with Japan in 2010 based on the yearly average exchange rates of US\$ 87.78/Can\$ and JPY 87.8/US\$ (Bank of Japan data).

Chapter 3: Analysis of Major Areas of an Economic Partnership Agreement

Canada and Japan shared the view that a possible WTO-consistent and comprehensive EPA between Canada and Japan would bring significant benefit to both countries. In addition, both countries reconfirmed their commitment to resist protectionism and to strengthen economic relations.

3.1 Market Access (including Rules of Origin)

3.1.1 Market Access

Canada and Japan confirmed that a high-level EPA would deliver substantial benefit and provide meaningful market access improvements to both countries through the liberalization of trade in goods. Additional export opportunities through a possible EPA would lead to economic growth, trade, investment and employment that would benefit citizens in both countries.

The two countries shared the mutual understanding that tariffs imposed on all industrial products should be eliminated in principle. Both countries also took note of their respective sensitivities regarding several products.

Canada and Japan concurred that sufficient attention should be given to the importance of striking a balance between the facilitation of trade in agricultural, forestry and fishery products, and the sound development of domestic agriculture, forestry, fisheries and rural areas. In this regard, the two countries shared the mutual understanding that practical and flexible approaches should be taken with respect to sensitivities in agriculture, forestry and fishery products in the negotiations of a possible EPA between Canada and Japan.

3.1.2 Rules of Origin including Origin Procedures

Canada and Japan acknowledged the importance of the following points in considering the rules of origin: (i) preventing goods from third countries circumventing the rules; (ii) not creating unnecessary hindrance to trade; (iii) applying rules impartially, neutrally and consistently; (iv) ensuring transparency, clarity and predictability; and (v) creating rules that are easy to understand for users and simple to implement for governments. Canada and Japan also shared the view that, in determining the rules of origin, the characteristics of products, the structure of industries and the impact on bilateral trade and investment should be taken into account. In its existing EPAs with third countries, Japan basically adopts a third-party certification, while in the Japan-Swiss EPA, the Japan-Peru EPA, and amended Japan-Mexico EPA, it also adopts an approved exporter system. Canada adopts an exporter self-certification.

3.2 Trade Facilitation and Customs Procedures

Canada and Japan have been long-time advocates of trade facilitation in a multilateral context and continue to work together in the World Trade Organization's Negotiating Group on Trade Facilitation. Canada and Japan also have a record of customs cooperation, and in recent years signed an Arrangement Regarding Mutual Assistance in Customs Matters (2005)¹³, a Memorandum of Cooperation on Container Security (2008)¹⁴, and a Mutual Recognition Arrangement of Partners in Protection Program and Authorized Economic Operator Program (2010)¹⁵. In both multilateral and bilateral contexts, Canada and Japan share the view that the transaction costs associated with international trade can be reduced through the harmonization, modernization, simplification and standardization of trade procedures. Both Canada and Japan are the contracting parties to the World Customs Organization's Revised Kyoto Convention on simplification and harmonization of Customs procedures.

Canada's existing FTAs traditionally include a chapter on Trade Facilitation that includes provisions aimed at reducing transaction costs, encouraging the parties to strive to adopt trade facilitative policies and procedures, as well as cooperating on customs-related areas such as training and risk management.

Japan's Customs Procedures chapter shares many commonalities with the trade facilitation provisions that Canada seeks. In particular, both countries seek strict rules on confidentiality and restrictions on the use of confidential information in judicial proceedings. Unlike Canada, Japan's existing EPAs feature a two-tiered structure consisting of a Basic Agreement and an Implementing Agreement. The Customs Procedures Chapter of the Basic Agreement is quite broad, while detailed provisions are contained in a separate Implementing Agreement.

¹³ Arrangement between the Customs Administration of Japan and the Canada Border Services Agency Regarding Mutual Assistance in Customs Matters.

¹⁴ Memorandum of Cooperation Concerning Cooperation, on a Pilot Basis Including the Posting of Japan Customs Offices in Canada and the Posting of Canada Border Services Agency Officers in Japan, on the Basis of Reciprocity between the Customs and Tariff Bureau of the Ministry of Finance of Japan and the Canada Border Services Agency.

¹⁵ Arrangement between the Customs Administration of Japan and the Canada Border Services Agency Regarding Mutual Recognition of the Authorized Economic Operators Program in Japan and the Partners in Protection Program in Canada.

3.3 Trade in Services (including Telecommunication Services and Financial Services)¹⁶

Canada and Japan have highly developed, knowledge-based economies with sophisticated and competitive services industries accounting for a large part of their respective GDPs. In 2009, the services sector constituted 73% of Canada's GDP and accounted for 78% of Canadian employment. For Japan, in 2008, the services sector represented 73% of GDP and provided for 63% of jobs. In 2009, Japan ranked as the world's 6th largest exporter of services, while Canada ranked 19th. The further opening of bilateral services trade has the potential to contribute to economic growth and enhanced welfare in both countries. Although both Canada and Japan have already taken substantive commitments under the WTO General Agreement on Trade in Services (GATS) (Japan has commitments in 112 services sectors, and Canada in 105 sectors), there is scope to further promote bilateral trade in services in a mutually beneficial manner by seeking enhanced commitments in a possible EPA.

In bilateral trade negotiations, Canada and Japan share a similar ambitious approach aimed at further opening up services markets. In order to achieve this, Canada and Japan seek ambitious GATS-plus commitments to ensure higher-levels of market access and enhanced transparency for their services providers, namely through the use of a negative list approach for non-conforming measures. Both countries also seek substantive provisions governing cross-border trade in services, such as national treatment and most-favoured nation treatment, as well as obligations related to domestic regulations and recognition of qualifications. Canada and Japan also share the same objective of ensuring a fair, transparent and competitive regulatory framework in the telecommunications and financial services sectors. Both Canada and Japan have addressed these sectors in distinct chapters or annexes in many of their FTAs/EPAs.

Considering the importance of services trade for both Canada and Japan, as well as the high degree of similarity in the approach taken by both countries in bilateral services market access negotiations, both Canada and Japan share the view that there is a strong basis for achieving a highly ambitious outcome for services market access in a possible EPA.

¹⁶ Statistics presented in this section are taken from Statistics Canada, Statistics of Cabinet Office of Government of Japan, WTO Services Profile 2008, WTO Services Profile 2009 and IMF Balance of Payments Statistics Yearbook 2010.

3.4 Movement of Business Persons

Canada and Japan consider the movement of business persons as an important means of facilitating not only trade in services, but also investment and trade in goods. Both countries also shared the view that in this field, a bilateral framework in a possible EPA that suits the needs and situation of the two countries would facilitate business relations and bring benefits to both sides.

Canada and Japan have included substantive commitments on the movement of business persons in their FTAs/EPAs with other countries, covering similar categories of business persons (e.g., intra-company transferees, professionals, and investors). Although Canada and Japan have different approaches in undertaking commitments for “professionals” (a “negative list” for Canada and a “positive list” of commitments for Japan), both share the same objective of facilitating the movement of business persons.

3.5 Investment

International investment is a key driving force for economic growth and competitiveness. While Canada and Japan are important investors in foreign markets, ample scope remains for further expanding bilateral cross-border investment.

In order to reinforce bilateral relations, investment chapters in FTAs/EPAs are designed to assist investors in obtaining the optimal level of investment abroad by helping to lower the barriers and risks that they may face. International agreements that include substantive investment provisions are an effective way to increase overall investment (including investment in services) as well as the flow of capital, technologies and know-how between the parties. By granting rights of establishment and by strengthening investment protection, such agreements enhance investment opportunities and reduce risks. Complementing the existing multilateral investment instruments of the OECD and the WTO, FTAs/EPAs containing comprehensive investment provisions would enhance the framework conditions favourable to private investment, thereby contributing to economic growth and job creation.

Both Canada and Japan have concluded or are negotiating a number of international agreements which contain substantive provisions on investment. Canada, which bases its approach to investment agreements on the experience it has gained through the implementation and operation of the NAFTA, has recently been very active negotiating bilateral investment agreements as well as high-standard investment chapters in its FTAs. Similarly, Japan has been negotiating investment treaties and EPAs with a number of countries.

Canada's and Japan's international investment agreements often show a high degree of commonality, including: a broad, asset-based definition of investment linked to the activities of an enterprise; non-discrimination in both the pre- and post-establishment phases of investment; high standards of investment protection, such as protection against expropriation; prohibition of certain performance requirements; free transfers of capital; negative listing of non-conforming measures; and effective investor-state dispute settlement procedures.

Both countries recognized that a transparent, rules-based system is of paramount importance for the promotion and protection of investment. Canada and Japan shared the view that the similarities in the approach listed above form a strong common ground between both countries, which would provide an improved framework for the bilateral flow of investment between Canada and Japan in a possible EPA.

3.6 Government Procurement

Canada and Japan confirmed that there is broad common ground between the two countries with regard to government procurement. Both countries are members of the WTO Agreement on Government Procurement (GPA) and both countries participated in the December 2011 decision to conclude negotiations for an amended GPA. Canada and Japan will work expeditiously to seek the prompt acceptance and implementation of the amended GPA. The recognition of the importance of the basic principles of the GPA, such as non-discrimination and transparency, is shared by both countries.

Japan has been making procedural improvements, such as the lowering of specific thresholds in the goods and services sectors and the extension of the time period for tendering, as voluntary measures which exceed its commitments under the GPA. In addition, Canada and Japan shared the view that the December 2011 amended text of the GPA could also be considered as a reference on procedural commitments in the area of government procurement in a possible EPA.

Canada's and Japan's commitments under the current GPA vis-à-vis each other are currently limited to Central Government Entities and a part of Other Entities. However, under the amended GPA, both Canada and Japan have improved their existing market access coverage towards each other, particularly at the sub-central level. Both countries shared the view to further discuss government procurement in a possible EPA.

3.7 Trade Remedies and Bilateral Safeguards

Canada and Japan confirmed that anti-dumping and countervailing measures can be a legitimate response to unfair trade but that it is important to avoid the abuse of such actions. Both countries recognized that the Doha Round of multilateral trade negotiations remains the appropriate fora in which to seek improvements to rules governing the application of trade remedies and will continue to work cooperatively in these talks.

Canada and Japan recognized that WTO safeguard measures can be applied globally on a non-discriminatory basis, in accordance with the WTO Agreement on Safeguards (SG Agreement) and that the SG Agreement shall exclusively govern their rights and obligations regarding the application of global safeguard measures, including the settlement of related disputes.

In addition to WTO safeguard measures, Japan recognized the necessity of bilateral safeguards under a possible EPA in order to prevent or remedy serious injury to domestic industries caused through the elimination or reduction of a duty in accordance with the provisions of the EPA.

3.8 Intellectual Property

Canada and Japan recognized that a modern and balanced intellectual property regime is instrumental in fostering a competitive, knowledge-based economy and plays a fundamental role in promoting sustainable economic growth by encouraging an environment conducive to innovation, creativity, investment and competition.

Canada and Japan both recognized their commitments under international agreements related to the protection and enforcement of intellectual property rights, to which they are parties, particularly those under the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights.

Canada and Japan both share a commitment towards combating the growing illicit trade in counterfeit and pirated goods. To this end, both Canada and Japan worked together to conclude negotiations on the Anti-Counterfeiting Trade Agreement, which establishes an international legal framework to effectively combat intellectual property rights infringements, particularly counterfeiting and piracy.

Canada and Japan take the protection and enforcement of intellectual property rights seriously. Both countries also recognized the importance of promoting efficiency and transparency in the administration of their intellectual property system. As such, both countries shared the view that intellectual property issues of mutual interest could be addressed within the context of a possible EPA that would provide clear benefits to both countries.

3.9 Electronic Commerce

Canada and Japan shared the view that it is important for the two Governments to promote electronic commerce between the two countries given the rapid growth of the market and trade in this area, not only in business-to-business transactions but also in direct transactions with consumers, due to the widespread use of the Internet. The two countries have a common intention to lead and complement discussions at the WTO and make permanent a provisional moratorium decision on not imposing customs duties on electronic transmissions, most recently renewed under the WTO Ministerial Conference on December 2, 2011.

In some of their existing EPAs, both Canada and Japan have included an “electronic commerce” chapter. Canada has included provisions on a permanent moratorium on customs duties applied to digital products delivered electronically, as well as on transparency, protection of consumers and personal information, and cooperation in the electronic commerce chapters of its previous agreements. Japan included an electronic commerce chapter in its EPA with Switzerland, which contains provisions on non-discriminatory treatment of digital products and services transmitted electronically as well as on customs duties on electronic transmissions, domestic regulations, protection of online consumers and cooperation.

3.10 Competition Policy

Recognizing that sound and effective enforcement of competition policy is a matter of importance to the efficient functioning of markets in each country, and to trade and investment between the two countries, Canada and Japan concluded the “Agreement between the Government of Canada and the Government of Japan concerning Cooperation on Anticompetitive Activities” (referred to in this report as “the Enforcement Agreement”) in 2005. Based on the Enforcement Agreement, the two countries have strengthened cooperative relations between their competition authorities.

Canada and Japan shared the view that what is provided for in the Enforcement Agreement namely, cooperation between the two Governments to proscribe anticompetitive business conduct, usually forms a core part of the competition policy chapter of an FTA/EPA. They also recognized that introducing general framework obligations for competition policy in a possible EPA would be useful to ensure that the gains from an FTA/EPA are fully realized and to show both countries’ commitment to combating anticompetitive activities to promote investors’ confidence.

Canada and Japan noted that Canada’s approach to the competition policy chapter in its FTAs is to include, in addition to the element of cooperation between the governments, at a minimum, standard commitments: (i) to adopt and maintain measures to proscribe anti-competitive business conduct particularly in four key areas: cartels, misuse of market power, marketplace information and merger reviews for competition effects; (ii) to require that these measures are consistent with

the principles of non-discrimination, transparency and procedural fairness; and (iii) to exclude the provisions on competition policy from all FTA/EPA dispute settlement procedures, including state-to-state and investor-state dispute settlement.

Canada and Japan also noted that the competition chapters in EPAs concluded by Japan have previously pursued a two- tiered approach: (i) a basic agreement that includes general provisions on the basic principles of competition policy, the enforcement of competition laws and the cooperation between competition authorities, and (ii) an implementing agreement that includes the provisions on the details and procedures of the cooperation between competition authorities. Both countries further noted that what is provided for in an implementing agreement is already stipulated in the Enforcement Agreement.

3.11 Sanitary and Phytosanitary (SPS) Issues

SPS measures are applied by governments to protect human, animal or plant life or health. As WTO members, Canada's and Japan's SPS measures are subject to the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (the WTO SPS Agreement). Canada and Japan are of the view that the WTO SPS Agreement establishes an appropriate balance of rights and obligations based on science.

Accordingly, it is Canada's view that a possible EPA should include provisions that: affirm that SPS trade-related measures shall be governed by the WTO SPS Agreement; and establish an effective bilateral mechanism to provide a forum for ongoing collaboration, information exchange, and to facilitate discussions of bilateral SPS issues.

Japan confirms that strengthening of cooperation and exchange of information on SPS issues is important. Japan is committed to considering the most appropriate approach to work together to find solutions for issues of mutual interest between Canada and Japan.

3.12 Technical Barriers to Trade (TBT)

Canada and Japan shared the view that provisions addressing non-tariff measures (NTM) and technical barriers to trade (TBT) would have merit in a possible EPA by complementing and giving effect to commitments relating to liberalisation of trade in goods between the two countries. These provisions could facilitate trade by committing both governments to regimes that are transparent, provide certainty and minimise transaction costs, and to pursue arrangements that contribute to closer cooperation in the regulatory field, where appropriate.

In helping to address TBT issues, Canada's FTA approach is to include provisions that affirm and build upon the WTO Agreement on Technical Barriers to Trade, add transparency, and to establish a mechanism to address specific TBT issues that may arise.

3.13 Environment

Canada and Japan are committed to pursuing policies that promote sustainable development and sound environmental management. Both countries work closely together in a number of multilateral fora where key environmental issues, such as biodiversity, climate change and environmental protection, are discussed.

Both countries share the view that trade liberalization should be undertaken with due consideration for the environment, and that trade and environment policies should be mutually supportive, as reaffirmed in the WTO Marrakesh Agreement, the Rio Declaration of 1992, and the Johannesburg Declaration of 2002.

In this regard, Canada and Japan are considering ways to reflect their mutual commitments to high levels of environmental protection in a possible EPA, including through potential commitments to: the effective enforcement of domestic environmental laws; non-derogation from domestic environmental laws to encourage trade or investment; accountability, transparency, and civil society engagement; and appropriate consultative and review processes as a means to resolve outstanding issues.

Canada and Japan also confirmed that developing a framework for cooperation on environmental topics of mutual interest could provide a useful mechanism to build on the positive relationship between the two countries.

3.14 Labour

As founding Member States of the International Labour Organization (ILO) and members of the ILO Governing Body, Canada and Japan have played an active and constructive role since the formation of the ILO, working consistently in support of the Organization's aims, values, and tripartite structure.

Canada has taken an international leadership role in addressing the social and, in particular, the labour dimensions of globalisation. This leadership role is integral to Canada's overall foreign and trade policy. Canadians expect their federal government to credibly address labour practices, human rights and other social issues in the context of trade liberalisation initiatives. Canada's trade-related Labour Cooperation Agreements (LCAs) pursue these aims by promoting respect for fundamental labour principles and rights, and by supporting equitable economic growth. The LCAs provide for an open and robust dispute resolution mechanism that may result in financial penalties in case of non-compliance with the obligations listed in the LCAs.

Japan has not included a "Labour" chapter in its existing EPAs, but its EPAs with the Philippines and Switzerland have provisions which stipulate that each Party should not waive or derogate from labour standards for the sake of encouraging investment activities.

While Canada and Japan have different approaches in regard to the labour provisions of FTAs/EPAs, they shared a similar objective of addressing the labour dimension of trade through meaningful labour-related provisions in their FTAs/EPAs.

3.15 Others (Energy, Minerals and Foods)

Trade and investment in the energy, minerals and food sectors are key aspects of the economic and strategic relationship between Canada and Japan. Canada is a secure and reliable producer of resources such as energy, minerals and food products. With respect to these sectors, Canada exports uranium, coal, copper, nickel, cobalt, titanium, lumber, pork, beef, wheat, barley, soybeans, canola and other commodities to Japan. Japan is one of the principal investors in Canada in the areas of mineral production and exploration.

Given Canada's role as a predictable and reliable supplier of raw and processed energy, mineral and food products to the Japanese market, as well as Japan's role for offering important export opportunities to Canada, both countries stand to benefit from closer economic ties in these areas.

Noting that global demands for energy, minerals and foods continue to increase, Canada and Japan recognized that 'energy security' and 'food security' remain a priority issue globally.

The two countries reaffirmed their obligation to comply with the relevant provisions of the WTO Agreement, including the GATT 1994, with respect to prohibitions or restrictions on the exportation of energy, mineral resources and food goods. In this regard, Canada noted that some of Japan's previous EPAs have provisions on notification or providing information by their Parties concerning the introduction of new prohibitions on exportation of energy or mineral resources goods.

Against this background, Canada and Japan shared the view that a possible EPA should give particular attention to their commercial relationship in these areas. It could foster closer trade and investment links in these sectors and thereby contribute to consolidating the current stable supply and demand of energy, minerals and foods for the respective countries.

Chapter 4: Stakeholder Consultations

In order to gather the views of the Canadian and Japanese private sector stakeholders on issues that might impact trade and investment between the two countries, in the context of the Joint Study, the Government of Canada and the Government of Japan launched consultation processes with members of the private sector and civil society in each country. Representatives and experts of key sectors were invited to express their views on existing measures of the two countries that may hinder the full development of potential trade and investment, and any other views on how to enhance the existing economic relationship.

Canada began its domestic consultation process in February 2011 with the publication of a Canada Gazette notice. In particular, the Government of Canada sought views from provincial and territorial representatives and key stakeholders, including members of the business community, to help identify opportunities and challenges in the Japanese market as well as barriers that limit the expansion of bilateral trade and investment.

The responses received by the Government of Canada were generally positive in nature and urged the Government of Canada to pursue possible EPA negotiations with Japan. A majority of responses naturally tended to be from businesses and parties that take an interest in trans-pacific trade and investment that reflect a wide range of business interests and sectors. A high proportion of respondents expressed the view that, despite the robustness of the existing trade and investment relationship between Canada and Japan, there were still many obstacles and much potential to improve the bilateral economic relationship.

Japan conducted hearings in March and July 2011 as well as in January 2012 to obtain the views of various private sector stakeholders and experts on a possible EPA between Canada and Japan.

A summary of Japanese stakeholder views is as follows:

- Canada is a major exporter of sensitive products of Japan's agricultural, forestry and fishery sectors, and tariff elimination of sensitive products under a possible EPA would seriously affect Japanese domestic production in these sectors; therefore, a possible EPA negotiation should take into consideration sensitivities in both countries including those in agriculture, forestry and fishery products.
- Japan should promote a trade strategy of creating smooth global supply chains. Japan should immediately take on EPA negotiations with Canada, which is an advanced economy with shared values and one that is endowed with rich natural resources. An EPA between the two countries will not only expand the bilateral trade relationship and facilitate business

and investment, but also contribute to the stable supply of energy, food and other natural resources.

- A possible EPA between the two countries should be of a high-standard and comprehensive, with minimum exceptional measures, if any. It should create momentum for regional economic integration in the Asia-Pacific region.
- A possible EPA should not prevent the sustainable utilization of both countries' fishery resources. It should contribute to the co-prosperity of the fishery sectors in both countries and take into account Japan's restoration and reconstruction efforts from the great damage caused by the Great East Japan Earthquake and subsequent tsunami.

Chapter 5: Conclusion

This Joint Study shows that a comprehensive and high-level EPA between Canada and Japan would significantly contribute to further strengthening economic relations between the two countries. An EPA would not only foster trade in goods and services but also enhance investment opportunities; thereby, improving the competitiveness of both Japanese and Canadian companies in the other's market and vis-à-vis competitors from other countries already benefiting from preferential conditions.

The Joint Study recognizes that a comprehensive and WTO-consistent EPA would bring about significant benefits to Canada and Japan. Notwithstanding the significant benefits of an EPA, Canada and Japan note that there are sensitivities on both sides that will be considered in a balanced and mutually beneficial manner.

An EPA would: (i) offer a platform for further deepening the already well-established strategic partnership between Canada and Japan; (ii) be an important step into the two countries' shared aspiration to foster further regional economic integration based on market principles toward the realization a Free Trade Area of the Asia-Pacific (FTAAP); (iii) deliver substantial economic gains for both countries including increased economic growth, production, national wealth and consumer welfare; and (iv) offer stable access to reliable supplies and demand of resources such as energy and other natural resources as well as food products.

Therefore, the participants of the Joint Study found sufficient common ground to launch the negotiation of a comprehensive and high-level EPA covering substantially all trade in goods and services; investment; government procurement; trade facilitation and custom procedures; electronic commerce; intellectual property; and other areas as appropriate, as a 'single undertaking' leading to additional trade flows and economic gains for both Canada and Japan. Such an EPA should not only be WTO-consistent but, wherever possible, should strive to reach WTO-plus provisions.