

The promise of an EPA with Japan

Speaking Notes for Perrin Beatty

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I am happy to be here today with you – the leaders of the Canada-Japan business relationship – to talk about the real potential I see for an Economic Partnership Agreement between our two countries.

And I don't say this lightly.

Canada is in various stages of trade talks with dozens of different countries, and, while the Chamber supports many of them, we must focus our energies on those that offer real economic opportunities and that are most likely to result in ambitious agreements that cover the array of issues important to Canadian businesses.

This agreement is one of them.

Let me start by outlining the long-standing relationship between Canada and Japan, which lays a strong foundation for deeper cooperation.

I am struck by the contrasts between Canada's introduction to Japan and that of other nations.

We all know the story of the "black ships" of Commodore Perry – the kurofune – arriving in Tokyo Bay, demanding access, and threatening with their cannons.

Few people know about a Canadian who also arrived by ship, and helped to introduce Canada to Japan.

In 1923 Commander Samuel Robinson brought his Canadian Pacific ship to Japan just in time for the worst natural disaster in Japan's history – the Great Kanto Earthquake and tsunami.

Captain Robinson kept his ship in the port at Yokohama to serve as a rescue vessel. For twelve days he and his crew provided support to a stricken population. Then he transported several thousand people out of the devastated area to Kobe.

Only three living civilians have ever been awarded Japan's highest honour, the Grand Cordon of the Order of the Chrysanthemum.

Two of them were members of the royal family. The third was Sam Robinson.

Even before diplomatic relations existed, Captain Robinson showed Canada's instinct to be a positive force in the world. We continue to value that approach.

When Japan applied to enter the General Agreement on Tariffs and Trade, Canada endorsed it.

Later, we were one of only a few countries to extend most-favored-nation status. Similarly, Japan was nominated by Canada to join the United Nations in 1956, and supported by Canada when it sought to enter the OECD in 1963.

In 2011, in the general hysteria after the accident at Fukushima, more than 40 countries including the United States and Europe, imposed bans or strict conditions on Japanese food products. After three months, Canada reviewed the facts and dropped restrictions – the first nation to do so.

In short, Canada has been – and continues to be – a friend of Japan.

But as I look over the last decade of relations between Japan and Canada it seems to me we have been like old friends sitting comfortably on a park bench. We haven't fought about anything. But we haven't accomplished very much either.

This is a pleasant image, but unfortunately, while we have been sitting together, others have been running.

In 2005, Japan was Canada's 3rd largest merchandise trade partner. Today it's fifth.

Total two way trade declined from \$ 31 billion in 2001 to \$24 billion in 2011.

Japan is the third largest economy in the world, yet it represents less than 3 percent of Canada's merchandise trade.

This stagnation is even more striking when you consider that our economies are so complementary.

As a resource-poor island with a small land mass, Japan needs a reliable, politically stable source of energy, raw materials and food. No country is in a better position to respond these needs than Canada.

Japanese firms are active foreign investors, and Canada needs more capital to feed the development of our enterprises and to help get our resource wealth out of the ground.

Consider the services sector. Canada's world-leading life insurance companies, for instance, have the expertise to help Japan's aging society manage their retirement.

Both countries have strong labour and environmental standards, so there is no concern of undercutting each in these domains.

Moreover, Canada and Japan are partners in the G20, G8 and other important groups. We are actually working with the G20's leading business associations in the preparation for this year's B20 Summit in Russia and it is striking to see that our priorities are very similar to Japan's: infrastructure, international trade and a return to balanced growth.

I could go on.

But despite these complementarities, skeptics point to Japan's low growth rates over the past 20 years to justify the lack of enthusiasm with which Canada has pursued this relationship. They say we should instead focus on newer markets in Asia: China, India, Indonesia, the Philippines. My visit to Japan last November has reminded me again how distorting such commentary can be.

Far from a distraction, Japan is a window into emerging Asia. In 2011, Japanese companies invested nearly \$40 billion into China, ASEAN and India. Canadian businesses could gain much by partnering and learning from the Japanese.

And the story of Japan's so-called stagnation is more nuanced than commonly portrayed. In fact, some economists – most notably Paul Krugman – have taken to calling it a myth.

Once you've adjusted for the country's unique demographics, economic output per person of working age has risen nearly on par with the US and Europe.

When I arrived in Tokyo, I was impressed by all that has been done since my last visit. The city's infrastructure in excellent shape, and I am told that through those "lost decades", the city still managed to erect 81 high-rise buildings.

Japan has also grown much wealthier, with their net foreign assets rising by nearly \$3 trillion. Putting this in perspective, the US saw their foreign liabilities grow by over \$8 trillion over the same period.

And the future looks even brighter. Upon arriving in office, the new government announced new fiscal and monetary policies and structural reforms aimed at fighting deflation and stimulating growth. The stock market has climbed in response.

But accessing the opportunities presented by the Japanese market is not always easy for Canadian companies, and can sometimes be downright impossible.

An Economic Partnership Agreement should lower these barriers and put us at a competitive advantage over companies from countries without agreements in place.

Last year, the Canadian Chamber of Commerce asked our members to tell us their priorities for these negotiations.

They told us that it should be an ambitious agreement, covering not only market access for Canadian goods and services, and equal treatment for our firms, but also covering the so-called “next generation” issues, such as investment protection, intellectual property rights, regulatory coordination, movement of professionals, government procurement and trade facilitation.

More specifically, this means lowering tariffs and increasing quotas for Canadian beef, pork, grain, vegetable oil and seafood, as well as certain woods, processed metals and industrial goods.

It also means ensuring that our products are not subject to onerous regulations or standards that differ from common international practices and stack the playing field against Canadian companies.

Japan’s recent move to allow beef imports from cattle aged over 21 months – which is expected to double the value of Canada’s exports – is a clear step in the right direction.

But other farmers, not to mention manufacturers and service providers, continue to face restrictions and requirements that make it difficult to penetrate the market. Japan will need to show that it is serious about opening its market and creating real opportunities for foreign companies.

Beyond the basic economic benefits, an agreement with Japan would be a boost to our overall global trade strategy.

Although we have entered the Trans Pacific Partnership talks, we cannot estimate how long that process will take. An interim agreement with Japan – becoming the only G8 country to have done so – would significantly strengthen our situation, while sending a clear signal to all our trade partners about Canada’s ambitions.

And from Japan’s perspective, there is a lot to gain from an agreement as well.

Although many Japanese cars sold in Canada are now locally-produced, those that are not are subject to relatively high duties. Reducing these is a key interest, especially if Europe improves its access to the Canadian market through the CETA agreement.

Japan would also want assurances that their investments in the resource sector will be properly protected from arbitrary regulation and drastic tax increases.

Certain groups in Japan have traditionally objected to more open trade relationships, especially those negotiated at the bilateral level. But the failure of the WTO system to deliver new market

access has helped build a consensus that the country needs to pursue regional deals such as the one with Canada.

And an agreement with Canada – which has its own share of sensitive industries – is more politically friendly than an agreement with the broader, diverse group currently negotiating the Trans-Pacific partnership.

The great thing about a bilateral negotiation is its flexibility. We envisage a negotiation that meets the needs of the two nations. We see flexibility as especially necessary as Japan and Canada both confront some domestic challenges in the pursuit of freer trade.

I think the critical thing is to make a deal. If it takes time to implement, that may be the price of an ambitious effort.

When I served in the Cabinet during the negotiation of the landmark Canada/US Trade Agreement, we encountered issues on which resolution was simply not possible. Rather than letting them stop the agreement, we put them into side processes that would continue after the deal was in place.

As Prime Minister Mulroney was fond of saying; “you can’t let perfection be the enemy of the good.”

That pragmatic attitude produced one of the world’s most successful trade agreements and it can bring a positive result between our countries, too.

With the negotiations underway, it’s up to the business community to guide the way forward.

The Chamber of Commerce is working with its members and industry partners to voice their specific needs and expectations to the Canadian government and demonstrate the importance of an EPA.

We are also fostering a bilateral, cross-sector business dialogue to explore the potential makeup and implications of an agreement, as well as ways of smoothing over concerns and compromising on sensitive issues.

On April 25th, the Canadian Chamber of Commerce will host Canadian Trade Minister Ed Fast and a senior business and government delegation from Japan in downtown Toronto. This trade symposium will include a set of panel discussions covering the key sectors. It follows a similar event held in Tokyo during my trip there in November.

As a key priority for the Chamber, we will be following these negotiations closely and encourage to you be in touch with our team.

With the right amount of support and guidance, we expect the governments to move towards an ambitious and balanced agreement that provides promising opportunities for both countries.