

Canada and Japan have also entered negotiations to conclude a social security agreement. The first round of formal negotiations was held between Canadian and Japanese authorities in October 2004. Such an agreement would improve the business environment for the businesses of one country operating in the other's jurisdiction by encouraging labour mobility, and it would also bring significant costs savings for their workers.

Regulatory reform has been a priority for the Japanese government for a number of years. Canada has made regular annual submissions to the Japanese regulatory reform authorities, as have Australia, the United States, the European Union and domestic organizations such as Keidanren. On March 19, 2003, a new three-year program to promote regulatory reform replaced an earlier program instituted under the Council for Regulatory Reform. This body has been renewed as the Council for the Promotion of Regulatory Reform, and a new component, a ministerial-level headquarters for regulatory reform, has been added. This step will help ensure that recommendations from the Council make their way directly to the relevant cabinet ministers. Canada's 2004 submission to the Council for the Promotion of Regulatory Reform included not only areas of particular concern to Canada, such as financial services, telecommunications and building standards, but also more cross-cutting structural issues related to the overall investment environment in Japan.

Many of these issues have serious implications for the overall recovery of the Japanese economy and for the ability of Japan to attract foreign, including Canadian, investment. We have seen some progress in deregulation—including on issues included in the Canadian submission—with improvements in the areas of foreign lawyers, customs procedures, competition policy, reviews of medical devices and pharmaceuticals, judicial reform and corporate governance. Canada will continue to promote further reform, as well as the efficient and transparent application of those measures already adopted.

In 2003, the Japanese government began implementing a program for the "promotion of special zones for structural reform," and hundreds of special zones have already been created. A zone may be a region, city or business that has requested and received approval for a modification to or exemption from

specific rules, with the goal of promoting innovative thinking in the zone. Many of the proposed modifications have now been expanded on a national level. It is hoped that examples of successful deregulation in these limited areas will have a demonstration effect and promote further bottom-up reform initiatives. They will make it easier for new entrants with novel concepts to enter the Japanese market.

Market Access Results in 2004

- Canada worked with the Japanese government to reduce the impact on Canadian exporters of new regulations to control the use of formaldehyde in building products. The regulations, introduced in 2003, impose stringent requirements for certification and have the potential to limit market access for Canadian exporters. Japan has agreed to exempt hardwood flooring, a major Canadian export to Japan, and to accept foreign test data for certifying products. However, Canada has not yet succeeded in having a Canadian evaluation body accredited by Japan.
- In May 2004, Japanese authorities granted approval for fire-resistant construction using the 2x4 construction method. Canada has worked closely with the Japan 2x4 Association to undertake supervised fire tests since Japan introduced a performance-based system for fireproof buildings under the revised Building Standards Law (BSL).
- Canada, in collaboration with embassies from other countries, worked with Japan's Ministry of Health, Labour and Welfare to facilitate the approval of food additives in regular use internationally and to help bring Japanese legislation into line with international practice. This work is ongoing with respect to a large number of food additives.
- Canada made substantial efforts to engage Japan's cooperation on living modified organisms. Although the bilateral discussions did not lead to a memorandum of understanding, the exchanges served to increase mutual understanding of the respective agricultural commodity handling systems and regulations on agricultural products of biotechnology.