

The Japanese Government has taken a supportive approach to the trade liberalization philosophy underlying the FTA. During his meeting with Prime Minister Mulroney in January 1988, Prime Minister Takeshita expressed the "hope and expectation" that positive results would flow from the Agreement. Japanese support for the Agreement is predicated on the understanding that the FTA would be compatible to the GATT and not adversely affect third countries. Prime Minister Mulroney assured Prime Minister Takeshita that this is the case and that the Agreement represented an important first step towards reducing trade barriers worldwide.

Impact on Japan regarding FTA Tariff Elimination:

The removal of tariffs on items in which Japanese and American suppliers are in direct competition, such as on consumer electronics, telecommunications and machinery, will increase the need for Japanese exporters to become more competitive.

Impact on Japan regarding FTA Financial Services:

The concessions granted to American financial institutions, particularly with respect to exempting the U.S. banks from the 16% asset ceiling on the size of the foreign bank sector in Canada, have not been extended to Japanese financial institutions. The question of the extension of certain FTA provisions to third countries will be reviewed by the Government of Canada at an appropriate time.

Impact on Japan regarding FTA Investment Provisions:

The FTA does not change the ground rules regarding Japanese or other third country investment but it does extend certain benefits to U.S. investors not at present offered to investors from other countries. Japanese and American investors receive different treatment in that the review threshold is raised solely with respect to direct U.S. acquisitions, and phased out altogether with respect to indirect U.S. acquisitions. The pre-FTA Canadian investment regulations apply to the Japanese except where a Japanese company acquires a U.S.-controlled Canadian company (directly or indirectly), in which case the FTA threshold limit for review would apply. On the other hand, the FTA should make Canada a more attractive location for Japanese investment seeking to take advantage of the cost benefits of locating in Canada while enjoying secure access to the U.S. market.

Impact on Japan Regarding the FTA Automotive Provisions:

The FTA automotive provisions can be described as "Auto Pact Plus". Not only have the fundamentals of the Auto Pact been retained, but new opportunities for production and employment in Canada have been added. New rules of national origin will determine if a car is eligible for duty-free treatment. If companies want to export duty-free to the United States, or if United States transplants want to ship to Canada, their labour and North American parts must equal at least half the value of each vehicle's production cost. The FTA creates incentives for parts producers located in Canada to procure higher levels of domestic parts.