

favour the domestic Japanese industry. Industry estimates that the 6% tariff on plywood reduces Canadian exports by \$100 million per year. Reducing SPF and softwood plywood tariffs are a high priority for Canada and will be pursued in the WTO multilateral trade negotiations.

IMPROVING ACCESS FOR TRADE IN SERVICES

As the number of international firms doing business in Japan continues to rise, there is an increasing focus on regulatory and other non-tariff barriers that may be impeding the development of business in underdeveloped areas of the Japanese economy, particularly in services. There has been significant business development in those areas that have undergone regulatory reform, notably financial services and telecommunications. Canada continues to point out areas in which further regulatory reform would have similar stimulative effects. Canada hopes to continue to build on the Japan Market Resource Network's study of August 2002, which identified significant opportunities in business and professional services such as accounting, legal, and education and training. This market is of particular interest for Canada's newly created Language Industries Association.

Environmental Services

In addition to the normal challenges faced by services providers, companies in the environmental sector face other barriers particular to their field. The differences in standards and definitions of various services offered are particularly burdensome. Furthermore, the administrative qualification (bid) procedures for government-related projects are quite different from Canada's, creating more challenges for Canadian companies. It is also difficult for Canadian companies to gain access to environmental projects funded by overseas development assistance. Canada will continue to monitor the situation.

Telecommunications Services

The Japanese telecommunications services market has become quite accessible to foreign companies. All restrictions on foreign investment in the telecommunications sector, except in Nippon Telegraph and Telephone Corporation, have been lifted. Canada

particularly welcomes the new Telecommunications Business Law (which was amended in 2003 and came into force in the spring of 2004), especially its provisions removing the obligation to notify tariffs for certain services. This law is seen as a significant step toward Japanese competitiveness in the telecommunications sector.

Air Transport

Canadian officials held consultations with their Japanese counterparts in Tokyo in May 2004 concerning our long-standing and productive bilateral air transport relationship. The meeting resulted in some progress. Canadian carriers have gained increased access to Japan and enhanced capacity. Code-sharing rights were also significantly increased. Frequency limitations were lifted and additional rights beyond Japan were obtained, although restricted in both cases to cooperation with Japanese carriers. Canada will continue to push to gain code-sharing rights with third-country carriers.

The pending issue of additional slots at Tokyo-Narita was not solved, but Japanese authorities have assured the Canadian delegation that Canada will be given equal treatment when they are in a position to allocate future slots at Narita. New runways and resulting slots at Narita might not be available until 2009. This limits Canada's opportunity to expand air services to Tokyo, as well as constraining Canadians' travel plans and the possibilities for both sides to realize additional commercial benefits. Canada will continue to press Japan for increased capacity at Tokyo. The planned expansion of Haneda airport could indirectly free up spaces at Narita in advance of the 2009 deadline.

Financial Services

Positive Change in the Financial Sector Continues, but Risks Remain

It is clear that the positive changes we noted last year continue, and the pace of change and financial sector revitalization appears to be accelerating.

While issues remain that prevent Tokyo from realizing its full potential as a global financial capital, we are encouraged by recent developments in the sector and in regulatory approaches. We also recognize that,