
concerns could be addressed by ensuring fair access (including rights of way) to land and facilities owned or controlled by utilities and by facilitating construction and expansion of infrastructure over public land and facilities. Canada is also concerned about the independence of the regulator, and is monitoring any changes in its role as a result of the former Ministry of Posts and Telecommunications becoming part of the larger general affairs ministry with the implementation of administrative reform on January 6, 2001.

Air Transport

In the context of our longstanding and productive bilateral air relationship, Canadian officials have tried over the past two years to obtain for Canada enhanced capacity, access to some of the new slots available at Narita Airport on the second runway (which opened in the spring of 2002) and code-sharing rights for services beyond Japan. Air Canada and All Nippon Airways have been working very closely to develop their commercial plans, especially for code-sharing beyond Japan—which Japanese negotiators have declined to permit. It is nevertheless clear that the intensified commercial cooperation will benefit both airlines.

Canada remains concerned that, following a number of discussions between our respective air transport negotiators, as well as through diplomatic channels, Japanese officials have refused to grant Canada any new capacity or slots at Narita. These exclusions will compromise Canada's opportunity to expand air services to Tokyo for years to come. Canada will continue to press Japan to reconsider its position on these issues, which would result in enhanced services for the travelling public and commercial benefits for the airlines of both countries.

Financial Services

Japan has made significant progress in deregulating the financial services sector in recent years. The financial services landscape has changed significantly since the financial "Big Bang" reforms were launched in 1995. With the entry of many foreign financial services providers, even though they still do not hold major market shares, Japan's financial sector is well on the path to a major transformation. Clearly, this has led to more competition, more consumer choice and a more resilient financial system. But Japan can do more to foster a dynamic and efficient financial sector.

Genuine and transparent regulatory reform will best be achieved with a regulatory system that focuses on macro-level financial supervision. Despite improvements, Japan's financial supervisors still apply a micro-level regulatory and supervisory approach, for example, on product approval. The cultural shift away from the "administrative guidance approach" has not been completed. Applying an *ex post* supervisory approach that promotes efficiency and competition, rather than the current a priori regulatory and supervisory approach, would enhance the efficiency of Japan's financial system without harming its safety or soundness.

Canada continues to have a general concern that, to a large extent, services provided by most government financial institutions in Japan can be efficiently provided by private sector institutions. The involvement of government enterprises in the financial sector, some of which (such as the Postal Savings system or *yucho* and the Postal Life Insurance system or *kampo*) have very sizable market shares, distorts competition significantly. Public institutions should be made to compete in a manner that does not discriminate against the private sector. Canada supports the efforts of Prime Minister Koizumi's government to streamline and privatize government financial institutions. The package of economic and financial reforms released on October 30, 2002, however, puts a significant emphasis on providing fiscal loan and loan guarantee programs through existing government financial institutions. Canada hopes that this does not indicate a reduced effort to reform government financial institutions. As much as possible, Japan should seek to use private institutions to promote increased financing and corporate rehabilitation. Foreign financial institutions and companies can play a useful role in achieving the Japanese government's reform efforts.

A final general issue is the weak state of Japan's financial system. Further deregulation is being held up due to concerns about the fragility of the financial system, especially the major banks. Canada is encouraging Japan to continue to promote an aggressive and early resolution of the banking system's problems, including disposing of non-performing loans and restoring bank capital.