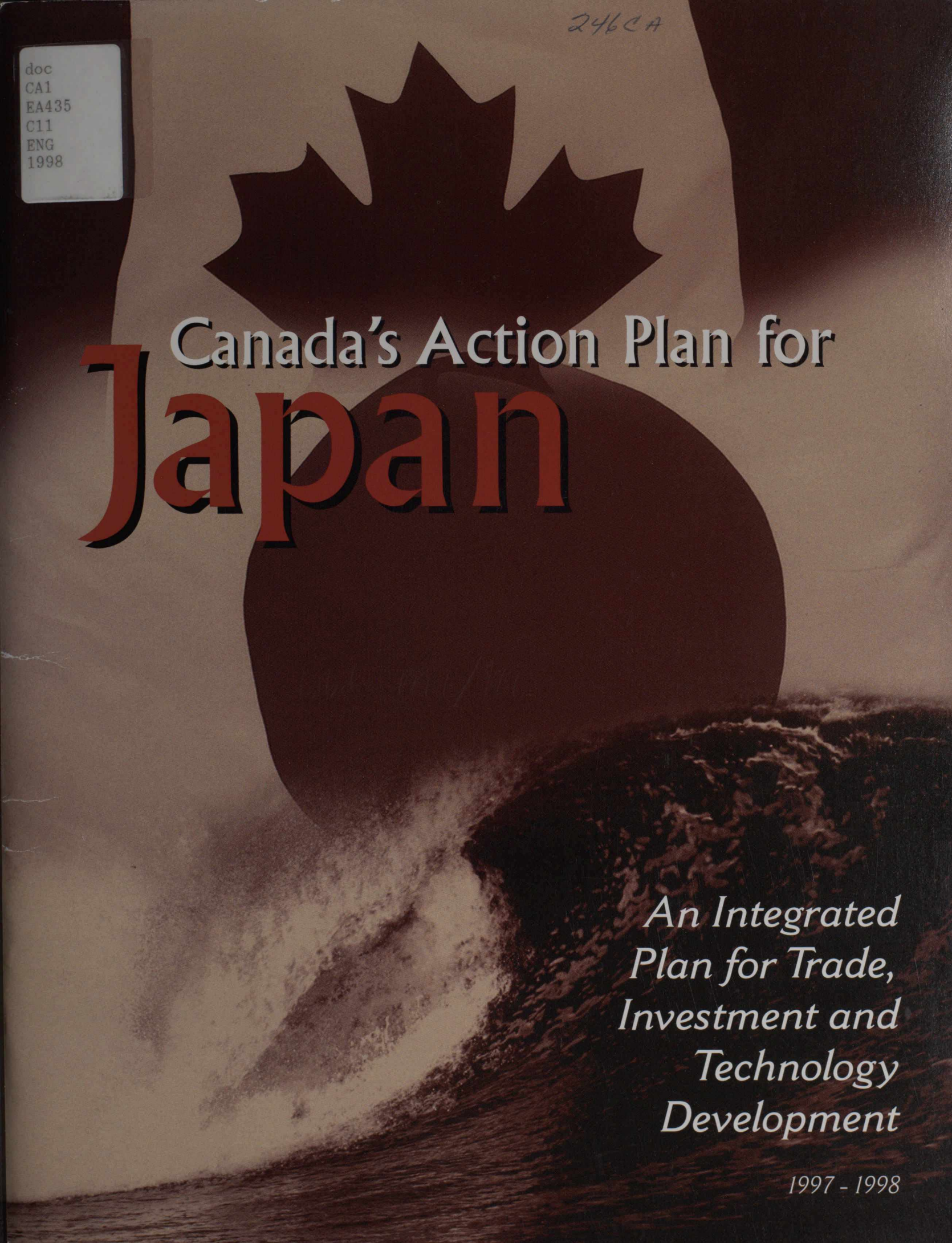


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# Canada's Action Plan for Japan

*An Integrated  
Plan for Trade,  
Investment and  
Technology  
Development*

1997 - 1998



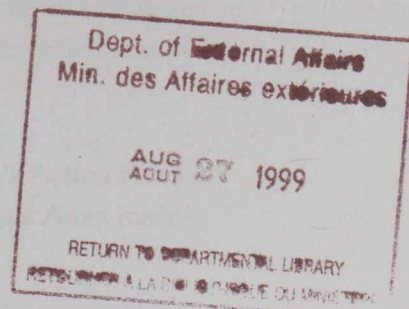




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# Foreword

This year marks the 100th anniversary of Canada's first trade mission to Japan. In an Order to Council dated May 4, 1897, Wilfrid Laurier sought permission for a Mr. George Anderson to travel to Japan to investigate "to what extent and in what manner an increase in trade between the Dominion of Canada and Japan can be brought about". When we look back on his report today, we can see that, in a sense, it was Canada's very first Action Plan for Japan.

Mr. Anderson's mission must have been particularly timely, as trade with Japan rose spectacularly in the next few years from a paltry \$8148 of goods shipped to Japan in 1896 to \$616,000 in 1910/11. Japan was and is Canada's most important trading partner in Asia, and as we focus on where we are going, it is both interesting and encouraging to look back at where we were.

In his directions from the Deputy Minister of the Department of Trade and Commerce, Mr. Anderson is reminded that his task is to "closely investigate with reference to what products either natural or manufactured of Canada would seem to be the most likely to suit the Japanese market", bearing in mind that he would "...find the Japanese are perhaps more inclined to be particular with reference to the foreign goods they purchase than almost any other nation. They look minutely into the characteristics of the goods and any slight variation either in quality or appearance from what they are led to expect in purchasing will cause the rejection of the goods upon their arrival in Japan." Recognizing Japan as a sophisticated, demanding market was an important first step 100 years ago. It is still important today, as the Action Plan demonstrates.

It is particularly appropriate to lead into the 1997-98 edition of Canada's Action Plan for Japan with these words from our trading history. Japan is our principal Asian market, and has been so for most of Canada's history.



# Foreword

The world's largest trade mission, the 1988 Canadian Trade Mission to Japan, is an Order in Council dated July 4, 1987. With 1700 members, the mission is the largest ever to visit Japan. It is a testament to the strength of the Canada-Japan relationship and the commitment of the Government of Canada to strengthen its ties with Japan. The mission is a key element of Canada's trade policy and is a major step in the implementation of the Canada-Japan Free Trade Agreement.

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# Introduction

## I. JAPAN AND CANADA: THE ECONOMIC BACKGROUND

### *The World's Number Two Economy*

Surpassed in importance only by that of the USA, Japan's economy accounts for about 18% of world GDP. Nominal GDP in 1996 was ¥501 trillion (C\$5.7 trillion) - eight times larger than Canada's. Japan is also the world's third largest trader (after the EU and USA), exporting 11.9% of world exports and absorbing 6.4% of world imports. Its wealthy and well educated population of 125 million represents a sophisticated and highly competitive market.

In autos, electronics, industrial technology and many other high tech fields, Japanese companies are world leaders. As in Canada, most companies are small or medium-sized, but the big trading corporations are enormous. The sales of Mitsubishi Corporation roughly equal Canada's total exports to the rest of the world.

In finance, Japan is the world's largest creditor, surpassing even the USA and EU. In 1994 Japan repatriated over US\$155 billion from bonds, securities and other forms of investment income - a sum that does not include the profits of Japanese affiliates re-invested abroad. Furthermore, the dollar amount of Japan's largely untied official development assistance is also ranked number one in the world.

Japanese per capita GDP in 1996 was C\$45,000. In purchasing power parity (ppp) terms it was US\$22,626, about US\$2,000 more than Canada's. Japan's consumers, both at home and as tourists abroad, represent an enormous marketing opportunity.

### *Japan's Economic Importance for Canada*

Japan is Canada's second-largest trading partner after the USA, absorbing more Canadian export value than the UK, Germany, France and Italy combined or nearly half of all Canadian exports to Asia. Two-way trade now amounts to \$22 billion with exports and imports roughly in balance. While currency fluctuation has played a role, the value of Canadian exports to Japan over the period from 1992-1996 grew by almost 50%.

A major manufacturing economy with few natural resources, Japan continues to require large resource-based inputs. Canada's advantage in this area has made it a natural trade partner. Indeed, the majority of Canada's exports to Japan consist of items such as forest products, canola seed, wheat and coal. These large-scale commodities will continue to be Canadian strengths but their proportion in the export mix is declining as Canadian manufacturers have taken advantage of increased opportunities in areas such as industrial components, processed food and consumer products, as well as high tech, knowledge-based items such as software.

The service industries also represent great opportunities for exporters. Japan has a large merchandise trade surplus, but in services it continues to show a deficit. These are in areas as diverse as intellectual property and tourism. In 1996, spending by Japanese tourists in Canada amounted to C\$690 million.



## *Trends Supporting Greater Imports*

Japan possesses a mature economy; its days of juggernaut growth have ended. GDP figures have been erratic since the bursting of the inflationary bubble of the late 1980s, registering as much as 3.6% in 1996 but having plunged into negative territory in three quarters since 1992. Growth is likely to remain modest over the near term.

Importantly, however, over this same period import growth has expanded faster than GDP, owing to structural changes to the economy. Factors behind this have included: overall appreciation of the yen since 1985, making imports cheaper; a shift towards off-shore production as domestic, lower value-added manufacturing became uncompetitive; a partial breakdown of inefficient, centralized distribution channels, spurring direct entry to regional markets for lower-priced, quality foreign goods; a shift in consumer tastes towards foreign lifestyles; and the needs of a rapidly aging population. Government efforts to deregulate the economy have also had a positive impact.

Statistically, one can measure the results of these changes. Import penetration increased 7.5% in 1996 and has nearly doubled over the last decade. While much of the growth has occurred through the sourcing of imports from Japanese-invested companies in Asia, the changing market has created abundant niche opportunities well suited to SMEs. For example, exporters who can accurately anticipate the needs of Japan's rapidly aging population by offering high quality products should do well. In an area of more traditional Canadian strength, Japan remains the world's largest net importer of agrifood, fish and beverage products.

About 70% of Canadian imports enter Japan duty-free. With full implementation of the Uruguay Round tariff reductions, Japan's simple average tariff will fall from 7% (applied) in 1994 to 4.6% (bound) in 2000 (excluding agricultural commodities subject to tariffication under the Uruguay Round Agreement on Agriculture). While the bulk of Canadian exports will or already benefit from duty-free access, high average tariffs will continue to be applied to some important Canadian exports, particularly certain agri-food products, SPF lumber, softwood plywood and non-ferrous metals.

While Japan's import market is large and expanding, it is also sophisticated, complex and highly competitive. The right combination of quality, price and persistence will be needed to succeed. For the Canadian companies that have readied themselves to enter this market, the long term benefits have been significant.

## *Japanese Direct Investment Favours North America*

Japanese foreign direct investment (FDI) flows have risen steadily since 1993, reaching almost US\$50 billion in FY 1995, with an increase of 9.1% in FY 1996, according to Japanese Ministry of Finance notification statistics. While the recent greater profitability of Asian markets pushed FY 1996 Japanese investments in the region to over 24% of total Japanese FDI, even surpassing flows to Europe (15.3%), the total flow of investment to North America continues to outpace that to Asia by a significant margin, reaching 47.9% in FY 1996.

Prospects for Canada (and North America) are encouraging due to the need for Japanese companies to avoid high domestic labour costs, protect foreign market share and pursue more fully-integrated production overseas, including R&D.



Canada's share of total Japanese FDI has averaged 1.7% since 1981. Japan is the third largest source of foreign direct investment (after the U.S. and U.K.), with a cumulative total of more than C\$12.0 billion (March 1997). There are now over 400 Japanese-affiliated companies in Canada, employing over 50,000 people in more than 700 locations.

Historically, investments have been concentrated in five sectors: forest products (lumber, pulp, paper), automotive products, mining, financial services and merchandising/distribution facilities. In the future, Japanese investment is expected to centre on manufacturing and resource intensive industries, but with an increasing emphasis on value-added wood products, pre-fab housing, processed food products, information technology, semiconductors, computer-related and telecommunications products and services, leisure/travel, and life sciences industries.

In light of the potential of these sectors, underscored in the Action Plan for Japan, Canadian investment promotion efforts have shifted to encouraging investment partnerships between Canadian and Japanese firms in these areas, especially in instances where Canadian supply capability can be enhanced. Leveraging Japan's enormous public and private sector R&D budgets in commercial partnerships with Canadian companies has been a special focus. Efforts will concentrate on information technologies, life sciences and processed food. Canada's challenge is to continue to demonstrate that it can offer a comparative advantage through better technology, a more productive labour force, good infrastructure and attractive incentives.

## **II. THE 1998 ACTION PLAN**

The Action Plan for Japan is directed towards existing, new and potential exporters. It has evolved over the last five years as a tool to focus on priority sectors in a rapidly changing Japanese market. The approaches it takes in each sector have been developed through the cooperation of government, industry associations and private sector companies.

Action Plan sectors have been identified after an analysis of both the trends in Japan and the supply side capability in Canada. Particular attention has been paid to the potential for small and medium sized enterprises (SMEs) in Canada to access the Japanese market. In every sector, sources of information, key contacts, and important activities are highlighted.

The priority sectors chosen for the Action Plan have evolved over the years. Some sectors that are now successful in Japan - automotive, aerospace, oilseeds, minerals - have not been included. These sectors can be considered "mature" in that Canadian sellers and Japanese buyers now have a good understanding of the market. Assistance to these sectors continues to be provided by the Embassy and Consulates in Japan.

In spite of changes to the Action Plan's sectoral focus, the methodology remains the same. The three elements - awareness, adaptation and assistance - are applied to both traditional and emerging sectors of opportunity.



### **III. AND ON THE HORIZON...**

Trend analysis and provision of market intelligence are among the most important services provided to Canadian business by the network of Canadian embassies, consulates and provincial trade offices abroad. Beyond the sectors covered in this edition of the Action Plan, others being tracked in Japan as meriting close attention include: environmental industries, biotechnology, educational products and services, distilled beverages, intellectual services, such as building design/renovation, and cultural products (visual arts, recorded music, film and television). Information on these sectors can be accessed through the Embassy or by searching Ni-Ka Online.

### **IV. A LAST NOTE: BEYOND TOKYO AND OSAKA**

The Consulate General in Osaka, serving the important Kansai area, is already well-known. However, Canada has extended its regional network to other major regional centres as well - a strategic response to Japan's ongoing decentralization. Recent deregulatory measures in Japan have had, as one of their objectives, the opening up of Japan's regional markets. Measures easing regulation in the transportation and distribution sectors, in particular, have been at least partially driven by official awareness of the need to facilitate increased international trade levels with the regions. To capitalize on the new commercial opportunities that were becoming available to Canadian business, consulates were established in Fukuoka (1991) and Nagoya (1992) and Honorary Consuls have been appointed in Sendai, Hiroshima and Sapporo.

Beyond the importance of decentralization for export sectors such as food products and housing, local economies represent highly valuable markets in and of themselves. For example, Kyushu (pop. 13m) has a GDP equal to that of Ontario, Quebec and BC combined.

Canada's regional program seeks to capitalize on the significant compatibilities that exist between Canadian exporter capabilities and the characteristics and needs of Japan's regional importers. Many Japanese firms in the regions are small to medium in size. They often present a good fit for Canadian firms whose productive capacities may better match the absorptive capabilities of the relatively smaller Japanese importers. Canadian exporters themselves often state that they are more comfortable working within the more manageable confines of one or more regional markets.

Notable success stories for Canadian firms in the regions during the past four years include a major expansion in Canadian beef exports to Japan as a result of the development of a business relationship with a Kyushu-based national wholesale and retail chain; the introduction of Canadian juices and beers in volume to Japan through Nagoya-based importers; and the proliferation of imported Canadian manufactured housing in Sendai as a result of a local construction company's introduction to Canadian housing.

The trade figures reflect the regionalization of import trade and Canada's promotional efforts in the regions. Canada has become Kyushu's eighth largest foreign supplier, rising four ranks from 1991, with total shipments worth over C\$800 million. Similarly, Canada has become the eighth largest foreign supplier in the Nagoya region, up from tenth place in 1992. Canadian direct exports to this area in 1996 reached C\$1.72 billion, up 30% in two years.

Even beyond the shores of Japan, good opportunities exist for Canadian companies to enter into cooperative relationships with Japanese companies in third markets. The benefits include sharing risk, financing and experience to develop new markets world-wide, particularly in the developing countries of Asia, Africa and Latin America.



# Agri-Food and Fisheries Products

## *Introduction*

In recognition of the complementarity between agri-food and seafood products in the area of trade promotion, these two sectors have been integrated into one chapter of the 1997 Action Plan for Japan. It is hoped that this approach will lead to a more synergistic and determined Canadian promotional program supported by Canadian agri-food and fisheries products exporters in order to capitalize on the outstanding potential of the Japanese food market to the benefit of job creation in Canada.

Japan is the world's largest net import market for agri-food and fisheries products, obtaining approximately 54% of its needs from abroad. Thus, in order to meet its shortfall in domestic food supply, the country imported approximately \$70 billion worth of these products in 1996. Fisheries products accounted for over \$23 billion of this figure.

Japan has relatively little arable land. Farms are small, averaging only 1.3 hectares, and both input and land costs are high. More than 60 per cent of Japanese farmers are over 55 years of age and only 12 per cent farm full-time. Their successors are neither obvious nor plentiful. Given these factors, it is unlikely that the market share of domestically produced agri-food products will increase in the foreseeable future. In the fisheries sector, total catches are only 60% of levels 10 years ago significantly reducing domestic supply.

Japan is Canada's second-largest export market for both agri-food and seafood products after the United States. While Canada's exports to Japan have grown significantly, this increase is scarcely keeping pace with the rate of growth in the import market. The seafood import market in Japan is growing at about 10% per year and Canada's share of this market is relatively stable at around 4-5%. Canada's share of Japanese agri-food imports remains in the 5-6% range.

In 1996, Canada exported \$2.09 billion of agri-food products to Japan. Commodity and semi-processed products, especially oilseeds, grains and meat, continue to form the largest portion of our exports. The factor most affecting yearly fluctuations in the value of agri-food exports is the price of grains and oilseeds. Although export volumes of these commodities, especially of wheat and canola, fluctuate within relatively narrow and predictable ranges, prices vary significantly from year to year due to the effects of weather and planting decisions in producer nations around the world.

Of key importance to Canada's agri-food trade with Japan are the growing exports of semi-processed and consumer-ready foods. Exports of these types of foods and beverages grew every year without interruption between 1991 and 1996 when the value reached \$466 million (a total expansion of 125% during the last five years).



In order to depict trade flows to Japan it is important to utilize the most accurate trade statistics available. Due to tighter national controls at the import level, import statistics are generally held to be more reliable. As a result of these discrepancies, this report uses Japanese import statistics where it would appear that they give the most accurate picture of Canadian food exports.

In June, 1997, the Federal-Provincial Market Development Council approved, in consultation with industry, a detailed action plan for the promotion of agri-food products to Japan. This chapter builds on the consensus achieved by government and the agri-food industry working together that is embodied in that plan. The summary of the detailed agri-food action plan for Japan is integrated in this chapter and further detail can be obtained from the plan itself. A similar exercise has not been undertaken in the fisheries products sector and it is one of the objectives of this plan to elicit an equal involvement from stakeholders in the fisheries products sector in order to establish a consensus on activities to be undertaken to promote all Canadian food products to Japan and effectively allocate resources to that end.

In contrast to the increasing focus on processed food products as the main export vehicle for job creation in the Canadian agri-food sector, fisheries products are most often exported to Japan close to their natural state and often consumed raw. Fish and seafood stocks are more finite than processed food products and detailed projections of dramatic increases in sales, customary for processed foods, are not feasible in an industry striving to maintain existing export supplies. Nevertheless, Canadian industry is working with the Japanese trade to undertake more processing in Canada and there are clear advantages to be obtained in pursuing this approach wherever feasible. In addition, fisheries products exporters continually seek new clients in order to ensure security of demand for their products, and this action plan focusses on activities that would facilitate these two goals.

## *Consumer Trends in Japan*

Rapid economic growth in Japan from 1970 to 1990 led to significant changes in traditional eating habits. These changes have been accelerated in recent years by additional socioeconomic changes: the increase in the number of working women (who now comprise over 40% of the workforce), the decrease in average family size and the increase in single-person households.

The overall trend to eating out continues to grow in Japan due to changing work habits and family structures. Per capita, the Japanese spend approximately \$2,000 a year in restaurants.

Much like their North American counterparts, Japanese consumers increasingly demand convenience, quality and value. Almost 90% of Japanese families now own microwave ovens. They are eating a wider variety of foods and more ready-to-serve items. They continue to demonstrate concern for the safety of food products and are showing a growing preference for "healthy" foods, notably lower fat and salt content.

Japan continues to be a dynamic market, with radical changes taking place in the way agri-food and seafood are distributed. The "price destruction" revolution, caused in part by the growing price sensitivity among Japanese consumers, and exacerbated in recent years by the weakened yen and a prolonged recession, is increasing pressure, particularly on retailers, to lower prices. Shrinking retail margins are pushing retailers to cut out middlemen and to negotiate directly with producers.



Large food retailers are promoting a commitment to lower food prices, reducing or eliminating the traditional multi-layered distribution channels, importing directly and developing private brands. The Japanese External Trade Organization (JETRO) estimated the 1994 retail market for private brand food and beverage products in Japanese chain stores to be approximately US\$5.1 billion. Although this figure was originally projected to expand considerably, the market for private brands (in competition with newly price sensitive national brands) has currently stabilized.

Importing more than one third of the world's exports of fisheries products, the Japanese consume over 72 kilograms of seafood per capita annually (more than five times the world average). Canada is a key supplier, providing 77,743 metric tonnes in 1995 and 90,189 metric tonnes in 1996, according to Japanese import statistics. Canadian statistics, which do not account for trans-shipments through the USA, showed an increase in volume in 1996 over 1995, but a decrease in value to \$753 million from \$873 million.

This market is currently undergoing significant changes as the result of numerous endogenous and exogenous events. Fluctuations in currency values (the weakening yen) have made Canadian seafood exports dearer to Japanese importers. A well-publicized E-coli scare in 1996 has had an effect on attitudes toward the consumption of raw fish and, in particular, (combined with the recently-introduced Product Liability Law) has resulted in increased vigilance on the part of companies involved in food preparation and greater concern about adhering to Japan's strict food hygiene standards. An increase from 3% to 5% in the Japanese Consumption Tax (similar to Canada's GST) has also had the effect of dampening short-term consumer demand in general.

## *Market Opportunities – Agri-Food*

Despite the aforementioned influences on consumption, the Japanese market for both agri-food and seafood products remains large and is continually increasing. While basic agricultural commodities dominated 1996 agri-food exports from Canada to Japan (for example; grains: \$367M, oilseeds: \$773M, pork: \$224M, and beef: \$63M), a significant potential for future growth lies in the virtually untapped markets for an almost limitless range of value-added food items. These include organic food products, cereal-based products, meats, fresh and processed fruits and vegetables, cheese products, and both non-alcoholic and alcoholic beverages. In the latter instance, the competitive position in the Japanese market of imported spirits such as Canadian whisky will be improved significantly as a result of the World Trade Organization determination in 1997 that Japan's liquor taxes favoured domestic shochu producers.

Key growth areas are expected to be oven-ready and convenience foods, health and organic foods, and food ingredients. In addition, the Japanese fish market has been on the road to recovery after the recent prolonged slowdown, providing an opportunity that can potentially benefit Canadian suppliers.

Japanese consumer spending on high-value, processed products has increased dramatically in the past 10 years. Sales of **frozen foods**, especially single-portion dishes and microwave-specific products, have grown. Enormous potential exists in this area as Japan's per capita consumption of frozen foods is only 9.7 kg per year (by comparison, Americans consume over 50 kg of frozen food products per year). It should be noted, however, that frozen foods must compete with retort pouch foods, which are a special product in the Japanese market. In addition, handling costs for frozen foods in Japan are very expensive.



One significant area of consumer growth that is relatively new for Japan is in the **cheese products** industry. The new health conscious Japanese consumer sees cheese as a nutritious, living, natural food. It wasn't very long ago that cheese was difficult to find on the supermarket shelves in Japan, but since 1992 the Japanese market for cheese has been growing steadily with consumption increasing by 75% over the past decade. In 1995 cheese production in Japan was 105,400 metric tonnes and cheese imports totalled 157,200 metric tonnes. Moreover, during 1996, Japanese milk production reached a new all-time record of 8,657,000 tonnes. The increasing Japanese production is of interest to Canadian exporters of high quality dairy genetic material who are already exporting high value embryos and superior genetic quality live animals.

In addition to consuming of natural cheeses (Camembert, blue cheeses, Roquefort, Edam, Gouda), the Italian food boom which continues unabated in Japan has led to growing consumption of cheese on pizzas, pasta, and in other dishes. Blue cheeses, gorgonzola and roquefort cheeses are also popular as flavourings, in salad dressings and sauces, and cheese has now become a standard ingredient in cooking.

Imported **ice cream** is regarded by the Japanese consumers to be much superior to domestically produced ice-cream. Since 1993, imports of ice-cream to Japan have been steadily growing. The present Japanese market for **frozen yogurt** is also growing steadily and yogurt is regarded by an increasing number of Japanese as a main part of their diet. For any type of dairy products, the main challenge for Canadian suppliers is to establish a consistent market presence in the face of an already existing brand name identification developed by other foreign suppliers.

Japanese imports of **processed cereal-based products** were valued at US\$715 million in 1996, an increase of 39% over the record US\$514 million registered only two years earlier. Propelled by a relentless "westernization" of the Japanese diet and an unabated propensity by Japanese food processors and retailers to seek business opportunities abroad, the potential for significant further growth in Japanese imports of processed cereal-based products remains strong.

However, when compared to the 14% share of Japanese imports accounted for by the United States and the 13% portion which is sourced from Australia, Canada's 1.5% import share suggests that there is a significant gap between Canada's current position and Canada's potential presence in this market

Significant trends in the processed grains sector of interest to Canadian producers include the growth of the **home baking market**, the increasing popularity of **frozen breads**, either fully baked or par-baked, an Italian foods boom which has spurred on brisk sales of **pizzas and pizza dough** and an expansion of the **pasta market**, which recorded a 10% increase in sales in 1996 to reach some 220,000 metric tons.

In the meat sector, **beef** offers dramatic export expansion opportunities over the long term that are being effectively exploited as does **pork**, particularly in light of the supply problems resulting from animal disease in Taiwan, Japan's major pork supplier. Of niche interest and as an example of changing consumer patterns, unusual meats like ostrich meat have recently begun to show up on selected menus in Japan, joining other "exotic" meats such as horse, turtle, bear, and whale meat. These types of meat are however generally only available in the food service industry, the home market being virtually non-existent.

Other trends in the beverage sector that give an indication of the dynamic, changing nature of the Japanese food consumption patterns include the fickle **soft drink** market where current demand appears to favour blended teas and drinks based on exotic fruits and vegetables. **Milk fortified with calcium and vitamin supplements** has recently seen output increase at double digit rates. While these products are indistinguishable



from regular milk, Japanese authorities categorize them as "milk-based soft drinks" because of the supplement. **Dark beers** are growing increasingly popular with Japanese drinkers looking for more original tastes. Eventually, industry sources expect that dark beers will maintain a 3-5% market share (1996 share of 1.5%). **Wine** and **coffee** are two other beverages that are also experiencing increased consumer interest in Japan.

Another relatively new development, are the Japanese Ministry of Health and Welfare's announced changes in its handling of **vitamin supplements**. Effective April 1, 1997, a wide variety of vitamins may be sold as food, rather than as pharmaceutical products, as long as the packaging is clearly marked "foodstuffs" and no specific medical claims are made. Sales of vitamins total some 300 million yen annually.

Only 30-40% of Japanese pets are now fed **pet foods** but this number is steadily increasing and may some day approach the approximately 80% rate that is prevalent in North America. While the market is in expansion, it is mostly for very low priced imports from other Asian countries, with which Canadian manufacturers will generally have great difficulty competing. Where Canadian pet foods may over time be able to compete is in the very high-end specialty products.

In general, changing consumer behaviour and the resulting modification in distribution patterns are fuelling food imports. Compared with only five years ago, Japan's affluent and aging consumers have become increasingly global in their tastes, value conscious in their purchasing, and health conscious in their selections. While maintaining their world-renowned high expectations for product quality, uniformity and presentation, they are increasingly patronizing retailers and food-service establishments that provide these attributes at lower prices.

## *Market Opportunities – Fisheries Products*

As total Japanese fish landings (7.3 million tonnes in 1996, down from 8.1 million tonnes in 1994) continue to decline, the importance of farmed fish consumption is increasing. In 1996, farmed fish increased to 18.4% (sea farming 17.4%, fresh-water farming 1.0%) of total landings. Some previously expensive species have become popular as a result of increased quantities and lower prices made possible through the development of aquaculture.

Farmed fish imports, as a percentage of total fish imports, have also increased. While imported farmed fish species are limited (major species being warm-water shrimp; Atlantic, coho and spring salmon; trout; and eel), their market share has been increasing.

After two years of virtual absence from Canadian waters, the strong return of capelin to Canadian exports to Japan in 1996 renewed what had traditionally been a major component of bilateral trade in the fish sector. By providing a market for a diverse range of non-groundfish species, Japan has represented a critical lifeline for many Canadian fishers in recent years. Without the huge increase in Japanese imports of snow crab in 1994, 1995 and 1996 and Japanese imports of underutilized species such as surf clam (hokkigai), the impact of the fishing moratoria in Canada would have been significantly more severe. Unlike many other markets, Japan represents potential for increasing exports of "new" or "underutilized" species such as Canadian Cockle, Geoduck Clam and seal meat.



**Salmon** is the most consumed fish among Japanese consumers. The market for imported farmed salmon has quadrupled since 1991, reaching 106,000 tonnes in 1996 or 46% of total imports. The Japanese consumer has traditionally favoured salmon with high fat content, characteristic of farmed salmon when compared to wild salmon, which may help explain why Chile and Norway have been successful in marketing their farmed salmon in Japan. Of more significance than fat content however is product form and changing tastes. Farmed imports go primarily to the "fresh" raw, unsalted market while sockeye and other Pacific species are used primarily for salted products. From 1992 to 1996, unsalted sales increased by 55% and salted sales shrunk by over 30%. Japanese imports of Sockeye have been on the decline, largely as a result of the huge increase in availability of farmed salmon.

Other, non-farmed, seafood products also have the potential of becoming relevant to the Japanese market. One such species is **seal**. While there is no tradition of consuming seal meat in Japan, Canadian seal industry missions to Japan resulted in some Japanese companies investing in product research and market development for seal meat and seal oil. At present, seal meat is still at the product development and market testing stage in Japan.

**Surf Clams** – Canada is the only major exporter of surf clams (Hokkigai) and Canadian producers face little in the way of direct competition, as domestically produced surf clams occupy a different market segment than the Canadian product. Traditionally exported for consumption in northern Japan as sushi or sashimi, there is potential for sales in other regional markets and for use in other dishes. To take advantage of this potential, a series of Hokkigai cooking demonstrations and seminars led by a Canadian chef were held in March of 1997 in three major markets (Osaka, Fukuoka and Nagoya), where this clam is not popular as in northern Japan. Several new dishes and preparation ideas were introduced to audiences of importers, chefs and consumers. With little competition and a broadening market, the outlook for surf clam exports to Japan looks good.

**Snow Crab** – The Japanese consumer market draws a clear distinction between the Gulf snow crab, including the Northshore one, and the Newfoundland snow crab. A substantial portion of the Gulf snow crab has been consumed historically at Japanese inns, hotels, and restaurants in such regions as Hokuriku (Japan Sea side including Ishikawa and Kyoto Prefectures) and Tohoku where Gulf snow crab is mixed with Japanese domestically caught product which is over ten times more expensive than the Canadian product. The Canadian product is very similar to the Japanese version in terms of quality, and commands the best price among imported snow crab. The market for Gulf snow crab has been firmly established and imports from other countries, such as the U.S. or Russia, could only conceivably take market share if current quality of the Canadian product is not maintained.

Newfoundland snow crab was introduced into Japan in 1995 as a substitute for snow crab from Alaska where the resources had deteriorated. The Newfoundland snow crab is considered by the Japanese market to be different in quality from the Gulf snow crab and as a result is sold only at special crab restaurants and supermarkets throughout Japan. A substantial portion has been directed toward processing into meats both in Japan and in other countries, for reexporting into Japan in meat form. In 1996 a delay in the fisheries in Canada resulted in lower quality product for the Japanese trade and a substantial inventory has been carried over to this year.

Efforts should be made to improve Newfoundland snow crab quality in order to keep a presence in the Japanese market. Increased imports of snow crab and king crab from Russia have been adversely affecting sales of Newfoundland snow crab in the Japanese market. In addition, the quota for Alaskan snow crab, which has returned this year, may well be increased to 234 million pounds next year, which would be more than



double the 1996 quota. In this context, the import price offered for Newfoundland snow crab this year has been much lower than that of last year.

**Lobster** – Although there exists significant positive market potential for Canadian lobster in Japan, Canadian firms have tended to ship large amounts of their harvests to the US market, due to the relative ease of access when compared to the Japanese market. The lower yen has also apparently encouraged some exporters to sell their product in North America rather than send it overseas. Canadian product competes favourably with the popular American lobster in Japan. Japanese imports of live lobster from the U.S. decreased from 870 metric tonnes (mt) in 1995 to 712 mt in 1996, whereas those from Canada increased from 985 mt in 1995 to 1,260 mt in 1996. Frozen lobster imports decreased for both the US (from 87 mt in 1995 to 70 mt in 1996) and Canada (from 1,624 mt to 1,003 mt), mainly due to poor landing of lobster at the time of production. The average import price of lobster from Canada increased from 1995 to 1996 both for live and frozen lobster. These increased yen import prices covered a substantial portion of the effects of the weakened yen as well as the increased export price from Canada. Shippers have worked hard to decrease dependence on the U.S. market and work should continue in expanding the market and product usage in Japan.

**Shrimp** – Japan is the second largest shrimp consumer in the world. The main supplier is Indonesia, followed by Thailand, Australia, India and the Philippines. Japan harvests and farms shrimp, but only a limited and decreasing amount (due to reductions in the number of domestic fishing vessels as well as reduced farming in Japan). There is currently an oversupply of shrimp which has contributed to the recent slump in shrimp prices. The E-coli scare also has had a negative impact on shrimp prices.

**Live Oyster Exports** – At present, 6 growing areas in South Australia and New Zealand as well as Oregon, Washington and Connecticut in the United States have received permission from the Japanese Ministry of Health and Welfare (MHW) to ship live oysters into Japan. To be able to export live oysters to Japan, provinces where they are harvested must accept MHW inspection of growing areas and of packing plants and provide technical information to the MHW. Those regions that have been allowed to export live oysters to Japan spent several years pursuing the application process before initial exports were allowed.

**Herring Roe** – The market in Japan for both salted and seasoned roe has more than levelled off, with a decline in prices paid by importers (compared to 1996). Higher import prices in 1996 led to significantly reduced purchases by Japanese consumers with the result being a return to lower import prices being offered in 1997.

**Urchin** – Sea urchin roe, or “uni” is popular in Japan as sushi on top of seaweed wrapped rice. The domestic catch is seasonal, and limited. Japan has been looking abroad for much of its uni for a few years, a trend that started with the appreciation of the yen. Canada competes mainly with Russia and the United States for a share of the uni market in Japan, which peaks around major holidays, such as year end and the New Year. Japanese consumers consider domestic uni as the most desirable, with product shipped from Los Angeles considered the best imported roe. Farming may be the wave of the future for this popular product and Chile is currently farming urchin smolt for export of the roe to Japan, with some success.



## *Japan's Regional Markets*

For those interested in developing new business in Japan, it is important to note that Japan is not an homogeneous consumer market. There are distinct regional differences, especially with regard to food preferences between consumers residing in the Kanto or eastern region (Tokyo and environs) and the Kansai or western region (Osaka, Kobe, Kyoto, Nara) of Japan.

In general, food preferences of consumers in the five major Japanese regions are largely related to the fisheries products available locally. For example, sockeye is preferred in Kansai, as opposed to chum salmon in Kanto. The estimated annual per capita consumption of tuna and salmon in the Kanto region (9.2 kg.) is 46 per cent more than that in Kansai (6.3 kg.) In contrast, it is estimated that the consumption per person for sea bream and flounder in the Kansai region (4.2 kg.) is 90 per cent more than what is consumed in the Kanto region (2.2 kg.)

There is also a notable difference in preference between two types of salmon roe — one is salmon roe in individual pieces, called "Ikura", and the other is "Sujiko", salmon roe still in their sack. In Kansai, "Ikura" is preferred, while it is "Sujiko" in Kanto. Kansai consumers also prefer thawed fresh crab meat for their traditional fish meal pot, while Kanto consumers use boiled crab for the same dish.

In the Kansai region, consumers are known to be more demanding, wanting the tastiest foods at the lowest price. Furthermore, traders of fisheries products in Kansai tend to be cautious about introducing new or unfamiliar species into the market but, after they are certain of consumer acceptance, become much more serious in promoting new products. It is essential to understand the differences in regional preferences and customs and take them into account in product development.

Transportation networks are vital for the efficient distribution of products. Imports of live and fresh fish have been increasing, and this is attributable to the advancement of air networks as well as to the market needs. The new Kansai International Airport, which opened in September 1994, has made the Kansai market much more attractive for overseas exporters, especially for handling perishable products such as fish, meat and fruits, and live products like lobster or flowers. Direct air links between Canada and Kansai are an advantage for the sale of live lobster, live crab, fresh salmon, hokkigai, sea urchin or other products from Canada.

## *Investment and Partnership Opportunities*

As a result of the structural limitations and competitive challenges outlined above, Japanese food processors are under increasing pressure to move away from a domestic situation characterized by limited raw materials supplies, high labour and other production costs and to invest in overseas production and processing facilities.

Movements up to now have focussed largely on South East Asian production of fresh agricultural and fisheries products for export to Japan. Investment in North America has focussed on processing facilities targeting the U.S. market. There has been limited investment in Canada in this sector.



Canada produces technologically advanced, safe, high-quality, agricultural commodities and processed food products. This is being increasingly noticed by Japanese consumers and food producers, particularly in the wake of the recent health scare in Japan (E-coli) and of the animal disease problems reported in Taiwan, Japan's most important supplier of pork meat.

Canada has many competitive advantages, including a large variety of agricultural products, an advanced food-processing industry, world-recognized research and innovation capabilities, a highly skilled labour force, world-class communications and transportation infrastructure and proximity to major markets. The 1996 document *The Case for Investing in Canada: The Food and Beverage Processing Sector* produced by the federal government of Canada, explores these advantages and features eight detailed profiles of sub-sectors such as red meat, food biotechnology and snack foods.

The agri-food sector was one of the two sectors reviewed by the Keidanran investment mission to Canada in September 1996 (the Keidanran is the preeminent business organization in Japan). The mission report, indeed, emphasized Canadian attributes and identified business opportunities for business investment and alliances in a number of sectors with a particular focus on wheat-based processed foods. As follow-up to the mission an agri-food specialist from the Nikkei Journal (the most influential national daily economic newspaper) visited Canada in the spring of 1997 and wrote a series of positive articles based on his observations. However, knowledge of the Canadian investment environment and opportunities is still very limited in the Japanese food industry. It is therefore important to continue to increase Japanese awareness of Canada in this sector.

At the time of Foodex '97, Minister Goodale launched a processed food investment initiative in Japan and announced that seminars would be held in Tokyo and Osaka to provide the Japanese industry with detailed information about business opportunities in Canada. These seminars are planned for early 1998.

Science and technology are integral to Canada's thriving state-of-the-art agri-food industry. The development and application of new technologies in Canada, and the global exchange of ideas and technologies, keep Canada's industry at the forefront and provide impressive opportunities for investment and collaboration. Major opportunities exist for cooperation between Canadian research and development institutions and Japanese organizations interested in ensuring food safety for Japanese consumers.

## *Market Demands and Domestic Challenges*

Competition for the attractive Japanese market is fierce. Canadian products consistently occupy 5-6% of the agri-food market and 4-5% of the fisheries product market. The top five agri-food import suppliers in 1996 were: the U.S. (37.8%); China (8.7%); Australia (8.3%); Canada (5.7%); and Taiwan (5.6%). By squeezing past Taiwan in 1996, Canada claimed the number four position as a supplier of agri-food products to the Japanese market. The prohibition in March, 1997 of Japanese pork imports from Taiwan (which had been accounting for 40% of the trade) should further solidify Canada's fourth place ranking during 1997 and 1998. With a market share of 4.6%, Canada ranked number eight in 1996 as a supplier of fish and seafood to the Japanese market, preceded by: China (12.9%), U.S.A. (12.3%), Thailand (7.4%), Russia (7.2%), Korea (7.2%), Indonesia (7.1%) and Taiwan (6.4%).



For Canada to gain market share, committed companies with carefully adapted products, crafted with the utmost quality, are essential. In addition, exports from more Canadian companies and a greater variety of products are required to boost consumer awareness of Canada as a food provider. While trade and consumer perceptions of Canada are generally positive, the Canadian industry is still not perceived as being sufficiently responsive to Japanese needs in the areas of product form, price, and customer relationships.

One of the main challenges to increasing exports of Canadian food products to Japan remains the domestic constraint on supply. From commodities to processed foods, there is a continuing need to augment the Canadian supply of competitively priced products, especially value-added products, that are attractively packaged, consumer sensitive, and adapted for the Japanese marketplace.

Resource constraints in certain species on both coasts constitute the greatest current challenge to Canadian seafood exporters. Changing relationships with importers, the weakened yen, increasing costs of production, and reductions in government assistance and support also influence domestic supply and export capabilities. In this context, it is advisable to focus on increasing the production of higher-end processed fish-based products to meet Japanese demand.

In addition, changes to management of the fisheries in Canada can affect location, volume and quality of harvests. In a competitive environment, large volumes of Canadian product may enter the marketplace in an already over-supplied situation. Canadian exporters must compete with aggressive in-roads in the Japanese market made by the Norwegians, Chileans and Russians while effectively managing the fisheries to ensure continued high-quality supply as a prerequisite for maintain or increasing market share.

## *Managing the Trade Relationship*

Canadian agri-food and seafood products destined for Japanese consumption must navigate Japan's complex, evolving regulatory environment.

The Japanese fish import quota system is perceived by some exporters as an obstacle to market entry and/or growth of some species. The confusion this system brings into commercial negotiations inhibits trade as some importers and exporters appear to be unclear on the exact application of quotas, how, in which instance and for which purpose. The quota system restrains trade by adding one more issue to be dealt with before a deal can be closed and provides leverage to the importer in the context of fast-moving commercial negotiations.

The Japanese fish import system restricts worldwide imports of certain species of fish. However, special arrangements have been put into place to facilitate the import of Canadian (and American) fish subject to quotas. Under these arrangements, quotas will be assigned to Japanese importers of fish and seafood if they can show that they are willing to purchase Canadian seafood products and have identified a Canadian company willing to export to them: a situation known as "willing buyer/willing seller". In those cases where there is an existing quota (including "basket") for underutilized or "new" species, the species would qualify for the automatic issuance of import licenses under the Canada-Japan understanding. If it is an underutilized or "new" species for which there is no existing quota, usually the only access consideration would be the import tariff. If Canadian exporters refer any interested Japanese buyers to the Canadian Embassy in Tokyo, the Embassy can assist the buyer to rapidly obtain the necessary quota.



The stringent Food Sanitation Law, which regulates food-safety attributes such as ingredients, processing techniques, contaminants and labelling, was revised in 1995 for the first time in 23 years. In the absence of a specific determination, the Food Sanitation Law has always specified a zero residue tolerance for many "foreign" substances (e.g., bacteria, chemical residues). The intent of one of the 1995 revisions was to make it easier for regulatory officials to take into account international norms when Japanese tolerances are being determined in the future. While this new law represents some improvement compared to the previous version, it would be preferable that a "default" level above zero be specified in the absence of a specific determination. The Ministry of Health and Welfare has moved forward on this new provision and is slowly, but consistently, increasing the number of chemicals for which non-zero tolerances exist. In response to an invitation from the Ministry of Health and Welfare Canada will identify chemicals of importance to Canadian exporters for inclusion in the changes.

Another provision in the law on "Best Before" dating was taken in response to concerns about the previous "Manufacturing Date" requirement. As consumers do pay attention to date stamps, the manufacturing date was a silent, but significant, disadvantage for foreign exporters who had longer delays from time of manufacture to time of sale than their domestic competitors. This change from "Manufacturing Date" to "Best Before" date also represents an improvement of potential benefit to Canadian exporters.

Under the 1976 Framework for Economic Co-operation, Canada and Japan continue to promote the development of trade and the expansion of economic co-operation, through mechanisms such as the annual meetings of the Joint Economic Committee (JEC). During the November 1996 visit of Prime Minister Chrétien to Tokyo, a new Canada-Japan Agenda for Co-operation was announced that reaffirmed a common commitment to facilitate the expansion of trade and investment through measures designed to improve transparency and market access.

To expand market opportunities for Canadian exporters, Canada has actively supported the Japanese government's efforts to stimulate the Japanese economy through deregulation, strengthened competition policy and further market liberalization. In this dynamic environment, Canada and Japan recently addressed a series of issues of long-standing concern to Canadian agri-business:

- Japanese procedures for procurement of wheat under grant aid have been revised to allow Canadian participation;
- Japan approved the importation of three varieties of Canadian transgenic canola, and lifted phytosanitary import prohibitions on seven varieties of Canadian tomatoes;
- Japan has agreed unilaterally to cut tariffs applied to Canadian low-malt beer.

Japan's tariff barriers have been steadily reduced through successive rounds of multilateral trade negotiations. In 1995, 71% of Canada's total exports entered Japan duty free. The elimination of Japanese tariffs on oilseed products, in the context of a broader zero-for-zero agreement on all oilseeds, as well as the elimination of Japanese tariffs on wood products, fish and red meats, remain Canadian priorities. At the same time, Canada is continuing to seek the elimination of specific technical and regulatory barriers in Japan to facilitate Canadian exports in priority sectors such as agri-food.



Canada is concerned about the administration of Japanese safeguard measures on pork (in the form of an increased minimum import price and higher tariffs). These measures are designed to restrain growth in chilled and frozen pork imports. Since they were first triggered in 1995, the safeguards have caused considerable market disruption and uncertainty for Canadian suppliers. Canada, along with other concerned exporting countries, continues to seek the appropriate mechanism to effect changes to these measures.

Japan maintains high specific duties on most cooking oils (except olive oil) to provide protection to its domestic crushing industry. These duties not only serve to limit imports of crude and refined cooking oils, but also confer a competitive advantage on Japanese crushers buying oilseeds in the global market. In the absence of agreement to eliminate processed oilseed tariffs in the Uruguay Round, Canada will continue to press Japan to reduce its specific duties on crude and refined canola oil in the context of an overall multilateral zero-for-zero negotiation on all oilseeds. By April 1, 2000, the tariffs on crude and refined canola oil will fall to ¥10.9 per kilogram and ¥13.2 per kilogram respectively.

Japanese tariffs do not differentiate between feed peas and peas for human consumption, preventing Canadian feed peas from competing with other animal feeds which have a zero tariff. As feed peas are easily distinguishable from peas destined for human consumption there is little likelihood of confusion in the marketplace and Canada is therefore preparing a formal request that Japan reduce the tariff on feed peas.

Japan imposes differential tariff rates on smoked and salted salmon that Canada would like to see eliminated in favour of a single, low rate. Japan also maintains high tariffs on several other processed food products of concern to Canada. These products include, mustard flour, frozen pizza and maple syrup. Canada continues to seek the elimination of tariffs on these products.

Japan requires that fruits and vegetables (such as tomatoes and apples) be approved for import on a variety-specific basis. The scientific basis for such an approach has been questioned as variety-specific testing is not only expensive but also delays the introduction of new varieties into the marketplace as they are developed. For example, of the seven Canadian tomato varieties that were the subject of greenhouse trials and subsequently approved for importation in September 1996, only one is currently still in commercial production. Canada has requested that Japan eliminate this requirement for new tomato varieties.

Japan's Food Sanitation Law and its related administrative guidelines do not clearly distinguish between sanitary and quality problems affecting food products. Quality factors do not constitute health and safety risks and should not, in Canada's view, be addressed in the same manner as sanitary factors. The Japanese approach led to the banning of 13 brands of Canadian bottled water in 1995 (subsequently rescinded for most brands in 1996), causing significant damage to Canadian trade interests. Canada expects Japan to refrain from its current practice of prohibiting the sale of agri-food products based solely on its assessment of undesirable "quality" factors unless justified under the provisions of the WTO Agreement on Sanitary and Phytosanitary Measures.

The Food Sanitation Law also maintains standards for frozen foods that are much more restrictive than standards for non-frozen products. This has led to problems at some ports for frozen food shipments from Canada. Canadian officials do not believe that this distinction is scientifically justified. Canada will continue to consult bilaterally with Japan to avoid any restrictive application of these measures on Canadian exports.



Since August 1992 and April 1993, respectively, Canada has been seeking to obtain Japanese agreement for the export of Wagyu (a distinctive Japanese breed of beef) bovine embryos and cattle. Japan has an export protocol only with the United States for live cattle, and has not acceded to any foreign requests for the export of bovine embryos. The only way Canadian producers can obtain Wagyu genetics (for cross-breeding or the production of Kobe-style beef) is thus through their U.S. competitors. Japanese authorities have indicated that they are prepared to negotiate a live cattle export protocol, but remain opposed to any discussion of bovine embryo exports. Canada has initiated bilateral consultations to resolve this matter.

In order to enter Japan, Canadian hay is rigorously inspected on arrival and certified as free of wheat and barley straw and other agropyron plants that may be host to the Hessian fly. Since 1987, Canada and Japan have been discussing a protocol to establish fumigation or heat treatment procedures in Canada for baled hay imports, eliminating the need for inspection on arrival. After a series of tests on fumigation and heat treatment over the years the Japan Ministry of Agriculture, Forestry and Fisheries has proposed conditions for the fumigation of double-compressed hay that, if acceptable to Canadian regulatory officials, may help improve the situation.

Yet another factor to be considered is the considerable political pressure Japan's domestic agricultural and seafood sectors can bring to bear in order to protect their market. As an example, the fishing industry, which accounts for only 0.3% of GDP and is in decline is still protected by tariffs in the 10-16% range. These tariffs act to protect the domestic processing industries.

The *E. coli* food poisoning epidemic in Sakai City in May 1996 resulted in 12 deaths in Japan and has occasioned an acutely heightened awareness of food-safety issues on the part of the food industry, media and public. The outbreak had the immediate effect of reducing demand for meat and seafood, especially raw fish (*sashimi* or *sushi*). The Japanese government has not succeeded in pinpointing the cause of the contamination, leaving consumers wary. In addition, the resurgence of concerns in Europe over human implications of BSE ("mad cow disease") have had some effect on the beef market in Japan, especially for imported beef.

Finally, more forbidding than any law is the intense scrutiny of the Japanese consumer. Public concern in Japan regarding the safety of food products is a major challenge for those seeking to export agri-food and seafood items to Japan. Imported foods generally provoke more scrutiny than do domestic products.

## *Promoting Products in the Marketplace*

In order to capitalize on Canada's advantageous image in Japan as a country perceived to possess natural beauty, abundance, and a pristine environment, Agriculture and Agri-Food Minister Ralph Goodale launched in March 1996 a three-year agri-food promotional campaign "**Canada: Blessed by Nature**". The objective of the campaign is to more closely associate Canada's pristine and natural oceans and countryside with the full range of value-added foods and beverages produced by Canadian farmers, fishers and high-technology food and beverage processing companies.



The campaign is expected to assist with a significant challenge facing Canada: to convince Japanese consumers that the diversity of Canadian agri-food, fish and beverage products extends beyond maple syrup, smoked salmon and rye whisky. Currently, only a limited number of Canadian food and beverage products are evident on Japanese restaurant menus or retail shelves. If Japanese consumers are to view Canada as a producer of a broad range of food and beverage products, they must begin to see a much wider array of Canadian goods at the retail counter and expressly identified through promotional events in Japanese restaurants.

Developing a brand image requires a substantial, long-term investment to build end-user awareness and create the market "pull" based on an image of excellence and safety for Canadian products which will enhance their market potential in Japan. Surveys have shown that the campaign logo and slogan are well accepted by Japanese chefs, retailers, consumers and media.

The Canadian Embassy and Consulates in Japan employ the "Blessed by Nature" slogan and promotional material in a variety of food market development activities each year, organizing international shows, solo shows, food fairs, chefs' activities, seminars, and missions. Established and new companies are always sought to participate in customized agri-food and seafood events.

In the context of the wide variety of targeted food promotions taking place in Japan two merit highlighting as they illustrate, on the one end of the spectrum, the large general event which showcases Canadian food excellence for the food trade at large, organized and supported by government and industry and at the other end of the spectrum, the targeted, behind the scenes promotional linkages that government sponsored programs are able to foster with the support and expertise of Canadian institutions.

The highest profile general event for Canadian exporters to Japan is Foodex, Asia's largest annual food and beverage exposition, which is held near Tokyo during the month of March. With over 1,600 exhibitors, almost 1,200 of them non-Japanese companies, Foodex attracts nearly 90,000 visitors and almost fifty national pavilions. A broad range of high quality, attractively-presented agri-food, fish and beverage products were displayed by the 23 companies exhibiting at the Canadian Pavilion during Foodex Japan '97. Given the growing success Canadian companies are having at this show, an expanded Canadian presence is planned for Foodex '98, which will take place in Tokyo March 10-13, 1998.

At the more "micro" level, an integrated, three-part chefs' relations program, designed to increase awareness in the Japanese hotel, restaurant and institutional trade of the range and quality of Canadian food products is currently ongoing. First, short-term training for Japanese chefs is undertaken at Canadian culinary institutions, with provision for visits to Canadian food and beverage production and processing facilities. A second element offers partial funding for Canadian chefs to participate in the planning and preparation of Canadian Food Fairs at leading Japanese hotels and restaurants. The third element is the annual Culinary Cup Competition, where experienced Japanese chefs compete against one another in order to demonstrate their abilities to develop, prepare and present dishes featuring Canadian food products.

Other government and industry sponsored events run the gamut of the general, high profile event, to the targeted building block approach represented by these two examples.

# Strategic Objective and Targets for Agri-Food Products

(source: Agri-food trade: an action plan for Japan, June 1997)

- To improve access to the Japanese market, with particular emphasis on addressing problems with the Japanese pork regime and reducing barriers to processed food products.
- To increase Japanese investment in the Canadian agri-food sector.
- To increase linkages with partners and allies in the Japanese agri-food market, particularly linking collaborative research efforts, product adaptation initiatives and investment opportunities.
- To focus on a select range of value-added food products and develop marketing plans for each as part of a sub-sector market penetration strategy.
- To position 15 export-interested firms per year for market testing.
- To increase the range and volume of Canadian value-added products available for the Japanese market.

## Strategic targets

Year	Total Agri-Food Exports	Value-Added Share	Total Market Share
1993-1996	\$1.8 billion	\$695M (38.6%)	5.3%
2000	\$2.6 billion	\$1.04B (40.0%)	6.0%
2005	\$3.0 billion	\$1.5B (50.0%)	8.0%

## Strategic activities for agri-food products

(source: Agri-food trade: an action plan for Japan, June 1997)

### Market Access

- Ongoing proactive negotiations, specifically on canola, beef, pork and mustard.
- Establish Quick Response Team to address ad hoc or commodity-specific technical or market access issues.
- Establish and advertise a Japan market access hot line.
- Update and prioritize inventory of technical market access issues.

### Market Readiness

- Target priority sub-sector for enhanced assistance.
- Inventory and analytical overview of Canadian trading houses and development of a strategy to better integrate service organizations in export preparation efforts.
- Explore possibility of providing office support services (office and meeting space, access to office machinery and telephones) to agri-food firms, either at the Embassy or off-site.



## ***Market Information and Intelligence***

- Market studies on Japanese processing sector, specifically opportunities for cereal-based products or ingredients.
- Benchmark study on export marketing skills development in the Canadian meat processing industry.
- Case studies on marketing success of Canadian and competitor agri-food firms.

## ***Investment***

- Investment seminars in the Tokyo and Osaka (Kansai) regions to promote Canada as an investment destination and to provide Japanese companies with business partnership opportunities available in Canada.
- Special emphasis on investment on the occasion of joint fora, such as the Canada-Japan Trade Council meetings and annual APEC meeting.
- Regular media visits to Canada to maintain a flow of relevant information to the Japanese business and consumers about opportunities in Canada.
- Identification of cases/opportunities in Canada which can be brought to the attention of potentially interested Japanese companies.
- Increased emphasis both in Canada and abroad in promoting the many advantages of establishing pork breeding and processing facilities in Canada.

## ***Promotion***

- A multi-layered survey on Canadian image recognition, product recognition and consumer expectations.
- Collaborate with the Japan Meat Traders Association (JMTA) on a more aggressive promotion of Canadian meat products, based on safety, quality health to consumers.
- Sponsor an in-Canada conference on innovation and product adaptation, in conjunction with an exhibition of top Japanese product lines for Canadian exporters.
- Team Canada pavilion at Foodex '98
- Chefs' relations program

## ***Available Market Services***

A variety of services, events and initiatives have been designed to build Canadian awareness of the Japanese market, its potential and its challenges. In addition, a wide range of information and services to Canadian exporters is available through the fully integrated Agri-Food Trade Service, comprising Agriculture and Agri-Food Canada (AAFC)'s headquarters and regional offices, the International Trade Centres (ITC) located in each province, DFAIT's Japan Division in Ottawa, and the Embassy and Consulates in Japan. The Federal Department of Fisheries and Oceans and the provincial departments of trade development, agriculture and fisheries also provide many services. Other sources of information and assistance include:

- A JETRO Senior Trade Advisor who is an import specialist with extensive knowledge of the market for agri-food and seafood products in Japan, arrived in early 1996 to begin a three-year posting at the ITC in Vancouver. He is available to advise Canadian agri-food companies considering the Japanese market.

- Rapid dissemination of market information and intelligence through automated services is provided. Market information is available in hard copy, either through the automated FaxLink, on the DFAIT Bulletin Board, or on the DFAIT Japan Division's Web site (<http://www.dfait-maeci.gc.ca/ni-ka>) and on (<http://atn-riae.agr.ca/public/menu-e.htm>).

Two of the key regular publications are:

*Trends*, a quarterly publication on the agri-food market from the Canadian Embassy in Tokyo, and *Japan Fisheries Market Report*, produced and distributed every four months.

- Daily market information, including prices from Tsukiji and other Japanese fish markets, is now available online from the Fish Information Service at the following address: <http://www.sea-world.com>.
- In co-operation with JETRO (Toronto), AAFC's Ontario office is publishing a quarterly newsletter, *Focus on Japan*, for national distribution.
- A variety of general and specific market intelligence and information reports are available to the Canadian industry through DFAIT's Japan Division.

In light of the market characteristics, trends and changes discussed in this document, Canadian agri-food and seafood exporters must respond to protect and strengthen Canadian market share in Japan. To meet this challenge, exporters require detailed, timely information on short term changes and long term trends that are affecting the Japanese market.

The need to adequately consult and inform Canadian exporters on the excellent market opportunities in Japan is eloquently demonstrated by the cancellation of major promotional events scheduled in 1996-97 (the Private Brand Solo Food Shows and the Solo Seafood Shows). While industry supports the concept of solo shows as a preferred market development tool, the timing and nature of shows must be carefully consulted and prepared in order to maximize private sector participation. The resource-intensive organization of promotional events can more effectively be justified with early private sector commitment (including prompt payment of participation fees) as an effective demonstration of "buy-in" to events in order to facilitate the planning and execution.

In an environment of increased demands on government resources, both human and financial, domestic interaction with individual companies must be facilitated by sector interests in order to create an awareness of the potential of the Japanese market within Canada and ensure the appropriate allocation of resources. Where necessary, industry-supported sector studies could be a prerequisite for planning and execution of successful events. Aggressive and analytical market intelligence is also a key component that must be included in the projects to be executed in partnership by government and industry in order to properly identify opportunities for targeted, timely action.

## ***Adapting Products for the Marketplace***

The adaptation of Canadian agri-food and seafood products to Japanese taste, and the integration of various Canadian agri-food and seafood ingredients into Japanese cuisine, are recognized as important elements of a Canadian strategy vis à vis the Japanese food market. There are many examples of close collaboration between Japanese technical experts and Canadian suppliers in order to ensure that Canadian products meet the exacting requirements of the marketplace. The ability to take full advantage of market opportunities in Japan in a very competitive environment requires even more service-oriented cooperation of this kind.



Product adaptation and new product development, especially in the value added context, is very much the purview of industry, however, advice and assistance is available from federal and provincial government institutions. Export preparedness programs and seminars targeted at this aspect of client service in the Japanese market will be a main component of the action plan for Japan.

A network of federal and provincial research and development centres across Canada assists industry to adapt and develop products for the Japanese market. These centres can be located by contacting your local federal or provincial government representative.

As well as specific trade development activities in Japan, a series of programs exist to assist Canadian exporters with the promotion of their products in the Japanese marketplace.

The Program for Export Market Development (PEMD) supports Canadian firms and associations in their international business development endeavours. The PEMD objective is to increase export sales of Canadian goods and services by sharing the costs of activities that companies normally would not undertake alone, thereby reducing the risks involved in entering foreign markets.

The Agri-food Industry Market Strategies (AIMS) of the federal government encourages and assists industry associations to develop strategic marketing and promotional plans for target countries. AIMS also co-ordinates the financial assistance needed to carry out the strategies.

Agriculture and Agri-food Canada's "Agri-Food Trade 2000" program is designed to help the Canadian agri-food industry increase sales of agriculture, food and beverage products in domestic and foreign markets. The program targets agriculture and food producers, processors and exporters who are working collectively through associations, marketing boards or alliances.

The provincial governments are also strongly committed to supporting Canadian companies in the Japanese market. In addition to the presence of some provincial government staff in Japan, provincial programs and initiatives contribute significantly to Canada's export success.

# Building Products

For several years, Japan has been Canada's leading overseas market for forest products. In 1996, Canadian exports of forest products to Japan (including lumber, pulp and paper) exceeded \$4.1 billion, with softwood lumber comprising \$2.6 billion. To understand the significance of these figures, one need only realize that Canada's total exports to Japan in 1996 were \$11.2 billion. It is estimated that Canada supplies some 80 per cent of the lumber imported for Japan's burgeoning 2X4 housing sector, and a significant amount of lumber for the traditional post and beam housing market (which is by far the largest market segment in terms of volume). The lumber exporting community have indeed been in a position of leadership, not only in export achievements, but has also taken the lead on many difficult market access issues.

Softwood lumber and plywood aside, Canadian manufactured building materials have only recently been introduced to Japan; the range of products exported remains quite limited, and Canada's market share is still well below full potential. The housing market continues to be the world's single largest, with some 1.5 million housing starts annually. Even with an expansion in exports in manufactured housing of 139 per cent in 1995, and yet another 37 percent increase in 1996, there remains a largely untapped market opportunity for Canadian exporters of doors, windows, flooring, staircases, system kitchens, prefabricated wall panels and house packages (pre-engineered and manufactured). It is noteworthy that Canada has been Japan's largest exporting supplier of prefabricated housing in both 1995 and 1996. This lead however, could be lost quite easily, as we witness an ever-increasing number of exporters from competitor nations entering the market.

Acute shortages of skilled tradesmen and high domestic labour costs, combined with recession-driven consumer demand for high quality, reasonably priced housing, continue to fuel the demand for imported building products (called "imported housing" in Japan).

1996 was indeed a banner year for Canadian exports of forestry products. There was, however, a definite run-up of new housing development over the last half year as Japanese consumers rushed to beat the increase in the nation's consumption tax from 3 percent to 5 percent - effective April 1st, 1997. Also, during calendar year 1996 and well into 1997, the depreciated value of the yen has made imported products of any kind less attractive to the Japanese consumer. These two external factors have led to an overall softening in demand for housing in the first half of the 1997 calendar year. Industry analysts believe that this trend in the gigantic housing market should not pose any longer term effect, but housing demand will most likely remain soft until the spring of 1998. Housing starts are expected to be around 1.3 million in 1997 and possibly level off between 1.1 and 1.3 million housing starts over the next couple of years.

A key area of Canadian effort in Japan therefore will be the transfer of building technology to promote three-storey wooden construction as a cost-effective alternative to steel/concrete structures for both housing and multi-use facilities.

The successful conclusion of the Uruguay Round in 1994 resulted in either a phased reduction or, for some products, full elimination by 1999 of Japan's tariffs on softwood lumber, plywood, particleboard, wood mouldings, doors, windows and other building products. These tariff changes will enhance further the price competitiveness of Canadian products compared with domestically manufactured components.



Furthermore, the Japanese government has developed a program to promote imports of manufactured housing through initiatives such as model home sites across Japan.

## *Bilateral negotiations have yielded results*

In November 1994, Canada and Japan initiated a series of bilateral discussions aimed at achieving mutual recognition of building product standards and acceptance of test data on materials and construction methods. These ongoing discussions were driven largely by Japan's need to reduce the overall cost of housing. The discussions also seek to gain recognition of Japanese or Canadian evaluations and certifications based on standards equivalent to those applied by the relevant authorities of the host country. The objective is to eliminate duplication of testing, evaluation or certification requirements, to facilitate the process of Japanese recognition of test facilities in Canada and to simplify the procedures involved. This will effectively increase the availability in Japan of high-quality building products at reasonable prices while also promoting more efficient construction methods.

The last two years of bilateral discussions in particular, have yielded impressive results, which are listed chronologically:

- In the Fall of 1995, the Japanese Government Housing Loan Corporation, a Crown Agency which finances over 50% of new housing starts in Japan, officially approved the COFI Roof/COFI Floor tongue and groove profile for plywood. As a result of this decision, Japanese home-builders seeking GHLC financing are now allowed to use the COFI tongue-in-groove product. This achievement has had a significant impact on Canada's exports of plywood to Japan.
- In December 1995, Underwriters Laboratories of Canada (ULC) became the first non-Japanese fire testing agency to be recognized by Japan's Ministry of Construction (MOC) to conduct fire tests on fireproof and semi-fireproof construction materials to determine conformance with Japanese standards. As a result, Canadian exporters seeking a Japanese fire-rating can get their products tested in Canada at a fraction of the cost for the same test conducted in Japan.
- In February 1996, fire tests of Canadian and American wooden windows were conducted by an agency established by the Ministry of Construction (MOC) and which is associated with the Japan 2x4 Home-Builders Association. The purpose of the test was to assist North American window manufacturers to determine how their windows can be made to pass the stringent fire-tests.
- On July 1, 1996, Japan's Ministry of Construction (MOC) announced its approval for Canadian structural lumber to be used in Japan's 2x4 housing without further grading to Japanese standards. That decision applied to lumber graded to the standards of National Lumber Grades Authority (NLGA) by the five COFI members:
- In September 1996, NLGA's special products standard for machine stress rated lumber was recognized as being equivalent to the comparable Japan Agricultural Standard (known as JAS 702).
- Recognizing the need for skilled carpenters in Japan, the Ministry of Justice created a new visa category for foreign construction workers, to address the need for skilled carpenters in Japan. This is most welcome news for our industry, as exporting manufacturers of homes and materials can send skilled trades to Japan to ensure proper installation on site.



- Following closely on the July 1996 acceptance by Ministry of Construction of five COFI-affiliated lumber grading agencies of NLGA construction grade lumber, an additional ten Canadian agencies, accredited by the CLSAB applied for, and received acceptance in January of 1997. Now virtually all lumber mills in Canada with export interests can ship construction grade lumber directly to Japan without further grading to the JAS standard.
- Also in January 1997, National Research Council's Canadian Construction Materials Centre (or CCMC) concluded two liaison agreements with Ministry of Construction agencies.
  - (i) Specifically, the National Research Council's Canadian Construction Materials Centre (CCMC) signed a Liaison Agreement with its counterpart agency - MOC's Building Centre of Japan (or BCJ). This particular agreement gives CCMC what is in effect Foreign Evaluation Body status, and commits both parties to respecting the evaluation results of products by the other party; and commences a process of mutual examination of evaluation criteria that might be used by both parties in the assessment of new products. In practical terms, the CCMC will be able to transmit to the BCJ the results of its evaluations of new Canadian products, as well as to advise the BCJ as to how it might best go about evaluating such products. This agreement should lower the cost of access to the Japanese market for Canadian building products manufacturers by permitting evaluations of Canadian products in Canada in place of the costly Japanese testing regime.
  - (ii) The second Liaison Agreement signed in January 1997 is between CCMC and Japan's Center for Better Living, committing both parties to make concrete efforts to reduce barriers in the trade of building products. This Agreement promises to further ease access to the Japanese market for Canadian building products manufacturers by permitting conformance testing of Canadian products in Canada by CCMC and allowing CCMC to participate in the development of new BL standards. In June 1997, CBL further agreed to rely on CCMC for all aspects of the technical assessment of Canadian building products. Canadian manufacturers will be able to conduct the entire assessment process in Canada, from initial application, through testing in Canadian laboratories, to assessment and submission for CBL approval.
- In September 1997, Japan approved the construction of wooden 3 storey apartment buildings in a semi-fire protection zone. This recent development is most welcome news, representing an incredible new field of opportunity for Canadian architects and construction industry.

## *Further deregulation expected*

- Japan is rewriting its building code to move it from a prescriptive to a performance-based code:
  - (i) there have been revisions to Japan's 2x4 standards, known as Notification 56, which were completed by the end of March 1997. This revision allows the use of non-JIS nails for some applications, and is regarded as a major breakthrough with the Japanese.
  - (ii) the rest of the building code, above and beyond the Notification 56 revision, is expected to be revised by March 1998. We can also expect:
    - (iii) By March 1998, the MOC's Fire-Safety SOPRO Committee will recommend adoption of performance-based fire safety requirements in the building code. This offers the promise of increased use of Canadian wood products in the Japanese construction market.
- the approval of finger-joined lumber; and
- approval of OSB-325.

Another example of Canada-Japan co-operation is a research initiative between the Canadian Forest Service/Forintek and the Japanese Ministry of Construction's Building Research Institute (or BRI), whereby collaborative research is underway on timber structures under seismic and wind loads. In March 1997, Forintek and BRI scientists successfully completed earthquake simulation tests on platform wood components. These activities will contribute to the competitiveness of Canadian wood products in Japan in two ways:

- by enhancing the performance of wood structures under seismic loads and
- by developing international test standards leading to harmonized codes.



## *Market Opportunities*

Japan is importing increasing volumes of finished building products, primarily because of their cost advantages but also to satisfy consumer demand for modern, Western-style housing and related components and fixtures.

With the number of construction workers projected to decline by 45 per cent by the year 2000, the Japanese housing industry is being forced to introduce additional finished and/or prefabricated components. Canadian suppliers of labour and cost saving building materials are finding a ready market in Japan, particularly when such products are custom designed to meet particular needs.

The need for proper training of the Japanese builder/partners' crews is taking on an even more vital role. Although Canadian exporters have historically trained their partners' people, the whole issue of expansion of 2x4 skills in Japan will greatly benefit our aggressive exporters in the longer term. Forward-looking colleges and training schools across Canada specializing in construction-related skills development, are promoting the availability of training courses to take full advantage of this increasingly important aspect of full service. As well, influential Japanese organizations like JETRO and International Housing Import Association (or IHIO) are working closely with our posts in Japan and Canadian exporters to ensure that training seminars in Japan are promoted extensively.

Market potential varies regionally in Japan. The greatest potential for Canadian building products in the 2x4 and prefabricated housing sectors is in the Hokkaido, Tohoku, Kanto, Kansai, Chubu and Kyushu areas. The Kobe/Osaka region witnessed a devastating earthquake in January 1995. The strong performance of the existing Canadian 2x4 housing during the earthquake assisted Canada's efforts to further promote prefabricated 2x4 housing throughout Japan, as well as helping to ensure a continuing strong market demand for Canadian dimension lumber, plywood and oriented strand board. Renovation in normal circumstances will account for approximately 25 per cent of annual expenditures for housing in Japan and is set to expand further over the next decade.

The traditional post-and-beam housing sector, by far the largest single component of the wooden housing market, will remain the principal user of Canadian lumber in Japan. In the apartment sector, reinforced concrete construction will continue to account for most of the activity and will offer a huge market potential for a wide range of Canadian building products.

There is a growing Japanese demand also for "specialized" housing for seniors and for the disabled, with features and equipment such as easier access, wider interior doorways, lowered countertops/cupboards and special bathroom amenities, all of which Canadian manufacturers can supply very competitively.

A three-storey wooden apartment project called "Maple Court" was completed in Osaka during 1994. Sponsored by the Osaka Prefectural Housing Supply Corporation, Maple Court contains 44 rental apartments and was constructed mostly with Canadian materials, framers and drywallers, supplemented by local labour. A Canadian architect also played a key role in the project. Maple Court is being utilized to show the benefits of multi-storey wooden apartment construction and has attracted a good deal of attention across Japan because of its cost-efficiency and ease of construction. There is every reason to believe that similar three-storey apartment projects will be undertaken in Osaka, as well as other areas of Japan.



The success of Maple Court Project in Osaka has led to two similar projects in Takarazuka City, Hyogo Prefecture. Built as part of Hyogo Prefecture's post-earthquake housing reconstruction plan, the Takarazuka Akura and Kirihata Projects are three-story 2x4 wooden rental apartments comprising 72 units (designed by Edmonton-based Junichi Hashimoto Architect Ltd.) and 180 units respectively. Canadian materials used in these projects include lumber, kitchen cabinets, windows, etc. Canadian framers and carpenters were also used in the construction of these projects.

The 2x4 (platform frame) construction industry, which Canada introduced to Japan about 20 years ago, accounted for close to 100,000 housing starts in 1996. The Japan 2x4 Home Builders Association consists of more than 800 leading builders that are receptive to new products and techniques, particularly if they represent cost savings. The Association is broken down into regional bodies that offer an opportunity to market value-added building products directly to end-users, thus bypassing the complex and costly distribution system.

In recent years, a number of Japanese buying missions have visited Canadian building product manufacturers and made direct purchases. However, there continues to be a pressing need to increase Japanese awareness of, and exposure to, Canadian building products. For the most part, Canadian companies have done very well against foreign competition, but as noted earlier, stiff competition now exists from exporting nations like Scandinavia, USA, and even countries like Chile and New Zealand. The need to promote Canada's strengths in advanced housing and wood-based product technology is more important than ever.

There are a number of specific opportunities for Canadian companies, stemming from:

- the need to reduce Japanese housing costs;
- the demand for Western-style housing technologies;
- the increasing shortage of Japanese construction workers;
- the desire to import building products directly, thus avoiding "middlemen";
- the potential matching of mid-sized Canadian manufacturers and exporters with suitable Japanese building consortia;
- possible investment as well as joint venture opportunities;
- approval of three-storey wooden apartment construction in semi-fire zones;
- a Japanese preference for "natural" wood and stone products;
- recent Japanese government initiatives to deregulate the housing sector as one way to reduce housing costs; and
- the Japanese government's goal to offer consumers additional freedom of choice by adopting new housing technologies, regardless of source.

## **THE ACTION PLAN**

Canadian industry needs to be made aware of the dynamic changes taking place in the Japanese housing market, so it can adapt its products to suit Japanese requirements and promote its products in Japan. Canadian industry must also be aware of the level of commitment necessary to satisfy the demands of the Japanese consumer.

A number of federal and provincial government agencies are ready to assist and support private-sector efforts to penetrate the Japanese market. The Canadian value-added building products industry comprises national, provincial and regional associations. For example, the Canadian Manufactured Housing Association (CMHA — an umbrella



organization whose members are from the pre-engineered, panelized, log-home and timber-frame housing sectors) and the Canadian Manufactured Housing Institute's Export Council, are aggressively pursuing marketing opportunities off-shore.

Regional associations that include both manufactured housing companies and firms producing building products have become a popular and effective way of jointly marketing product and regional know-how in Japan. These regional associations offer a variety of services to their clientele, including joint marketing promotion at trade shows, representation at product familiarization seminars, and as hosts to incoming buying missions. Some even offer the service of quoting larger projects using product from the group, and working on behalf of the association to negotiate better freight and financing rates.

Examples of regional associations include (and not in any particular order):

- Canada Comfort Direct (or CCD);
- Atlantic Canada Home Initiative;
- Quebec Wood Exporters Bureau (or QWEB);
- Ontario Building Products Export Association;
- Export Building Products Initiative of Manitoba (or EBPIM);
- British Columbia Wood Specialties Group (BCWSG).

Another illustration of innovative trade development is the initiative launched by the Export Council of Canadian Architecture (ECCA). ECCA is a co-operative effort involving leading Canadian architectural firms and the B.C. Trade and Investment Office. The objective is to promote in the Japanese market the professional services of Canadian companies in the design, planning and architectural fields, areas in which Canadian firms have a competitive edge in terms of experience, design capability and cost.

## *Building Awareness and Market Knowledge*

Activities will include:

- Presentations during annual meetings of industry associations to outline the potential of the Japanese building products market, featuring successful Canadian exporters who can provide advice on the market.
- One-on-one counselling of export-ready companies by trade officials, to develop marketing plans and to provide information; on government support programs; how to use the trade officers in Canada's Embassy and Consulate offices in Japan; and how to tap into other government information and personnel resources.
- A regular newsletter of market opportunities, produced by the Canadian trade officers in Japan, for distribution to Canadian manufacturers and exporters and to relevant associations across Canada.

## *Adapting Products for the Marketplace*

Companies will be encouraged to:

- Participate in trade shows in Japan to become familiar with the specific and particular requirements of the Japanese market. Companies will also have to be aware of, and incorporate into their products, Japanese consumers' tastes, needs and desires, particularly those of female home-buyers.
- Work with Japanese architects, designers and builders to adapt Canadian products for Japan.
- Make regular visits to Japan to assess changes in the market situation and to update their sales strategy or products.

## *Promoting Products in the Marketplace*

Companies and associations will be encouraged to:

- Participate actively in (and personally attend) trade shows in Japan.
- Utilize expertise available in federal/provincial trade offices in Japan.
- Transfer skills and technology as needed to facilitate use of Canadian products.
- Share information with other Canadian companies in "how-to" seminars during association meetings.
- Advertise in appropriate trade journals, giving the Japanese agent's name, address and telephone and fax numbers.

## *Trade Promotion Opportunities in 1997/98*

Companies, trade associations and specialized bodies, such as ECCA, are invited to participate in the following events with the organizational support of the Department of Foreign Affairs and International Trade (DFAIT), managing the resources of our Embassy and Consulates; and Industry Canada, with their network of resources across the country:

- Japan Home Show, Tokyo, November 1998;
- Kobe Interhome Show, Osaka, September 1998;
- a series of Imported Housing Seminars across Japan;
- technical Workshops in various regional markets; and
- solo building products shows in various targeted markets throughout the year.

As well, throughout the year several incoming buyers' missions will visit pre-selected Canadian companies and attend key trade shows.

New Directories of Canadian Manufactured Buildings are currently being prepared by CMHI and MHAC. Also, Industry Canada has produced the *Canadian Value Added Building Products Export Directory* for distribution in world markets. Associations such as the Structural Board Association have developed an extensive product information library in Japanese, which can be sourced through DFAIT's trade offices in Japan.



## *Business Partnering Opportunities*

Canadian companies are encouraged to investigate joint ventures, direct business investment and partnering with Japanese companies as possible ways to penetrate the Japanese housing market and to expand marketing initiatives in Japan. By entering into such arrangements, Canadian companies can access well-established marketing and distribution networks. At the same time, Canadian companies may be able to tap financial resources required for expansion of production facilities, for new product development and evaluation and for related marketing costs.

## *Research and Development*

There are many opportunities for Canadian companies and research agencies to carry out joint research projects related to the Japanese market for housing and building products.

Canadian building products must incorporate the latest technologies to meet the unique demands of the Japanese market. Often the key to adapting existing products or to developing new ones is to acquire technologies developed in Japan or to perform joint research and development (R&D) with a Japanese partner.

To facilitate the exchange of information on research activities in each country and to promote collaborative R&D, a series of three Canada-Japan Housing R&D workshops have been held, most recently in June 1996 in Ottawa. These workshops have been staged by the Canada Centre for Mineral and Energy Technology, NRC and the Canada Mortgage and Housing Corporation, in co-operation with the Building Research Institute of the Japanese Ministry of Construction and the Japanese 2x4 Home Builders Association, and have featured strong participation by industry. A fourth workshop is tentatively scheduled for fall 1997 in Japan.

# Information Technologies

In 1995, the latest year for comprehensive data, Canada's information technologies (IT) industry (telecommunications, software, hardware, processing and professional services) had revenues of over C\$54 billion. The sector conducts 35 per cent of Canada's total research and development (R&D) activity and directly employs more than 310 000 people. Total exports of IT products and services rose from C\$7.5 billion in 1988 to C\$19.5 billion in 1995 of which a modest \$182 million in telecommunications components were shipped to Japan. The Information Technologies (IT) industry has established an enviable reputation as a dynamic and creative source of leading edge technologies that with a proper mix of marketing skill and commitment could enjoy a much larger share of the Japanese market.

The telecommunications equipment and services sub-sector is one of Canada's fastest-growing sectors, with combined revenues of more than \$32 billion in 1995. The domestic market is relatively small, and Canadian telecommunications companies export about 40 per cent of their products. Sales abroad have increased substantially, especially in new technologies such as asynchronous transfer mode (ATM), computer telephony integration and personal communication networking equipment.

There are an estimated 14 000 software product companies in Canada, although more than half have annual sales of under C\$200,000. The majority of small to medium-sized companies have particular strengths in niche products. Approximately 80 per cent of the medium to large Canadian software companies are actively exporting, and the top 100 companies generated 62 per cent of their total revenues from export markets. The industry growth rate is estimated to be 16 per cent per annum (source: IDC) and generated C\$8.1 billion in revenues in 1995 of which C\$2.6 billion was non-custom packaged software.

## *Market Opportunities and Trends*

### **Software**

Japan is the world's second-largest software market, and computer usage is approaching that of North America. In 1995, the product processing and professional services market in Japan employed 530,000 people and posted sales in excess of 7 trillion yen. The continued rapid growth in the use of PCs both at home, and through networked office applications, as well as the dominance of Microsoft based, open-architecture operating systems continues to provide a ready market for foreign and Canadian software with the result that imports continued to perform very strongly. About US\$6.0 billion worth of software products were sold in Japan in 1996, with imports and licensing representing about 50 % of the market.

The emergence of Japanese language versions of Microsoft Windows, including the growing adaptation and use of Windows95 and Windows NT in Japan, is accelerating the entry of imported packaged software into a market already dominated by North American packaged software.



Canadian software capability is extremely advanced and competitive in certain niche areas such as Intranet/Internet applications, multimedia computer graphics and middleware. There are also many companies producing applications which can be marketed in Japan. Estimates of Canadian software imports by Japan for 1996 were 16 billion yen (approximately C\$170 million) supplied by over 80 Canadian firms who have representation or offices in Japan. With an overall year-over-year market growth rate of 30 per cent in 1996, Japan represents a major market opportunity for Canadian software developers. While many Canadian firms are already profitably active in Japan there is considerable room for many more products to enter the market.

### **Hardware**

The rapid growth in the personal computer (PC) market makes the outlook for information technologies extremely promising. The Japanese market for PC-related products is growing quickly, and this level of growth is providing tremendous opportunities to obtain significant market share in emerging areas of multimedia and networking.

From 1995 to 1996 PC sales in Japan grew by 33 per cent, to 7.6 million units, and in value terms by over 36 per cent, to 1.9 trillion yen. Notebook PC sales continue to be a dominant part of the market with sales of 2.46 million units comprising about 32 per cent of the domestic market. The continued popularity of notebook PCs is largely attributed to the small footprint of notebooks, which are often used in crowded office situations as well as the wide introduction of mobile wireless systems which include a facility for tele-computing. Home use of PCS has also gained in popularity (along with expanded use of Intranet/Internet) with a current but rising penetration rate of 17 %.

Estimates for total domestic PC sales in 1997 (home and office) call for a further increase of 27 per cent, to 9.6 million units. The growing number of home-use PCs will provide a strong market for the larger variety of specialized software utilized by home users. Domestic PC shipments are expected to exceed 10 million units in 1998 and provide a buoyant market for home use software as well as Internet products to service these users. (source: Computing Japan; April 1997)

Networking systems (including LAN, WAN, Intranet/Internet and server systems) penetration among Japanese firms is increasing rapidly with optimistic estimates currently placing such installations at 45 percent amongst commercial companies. Recent growth of LAN users has been registered at 180 per cent per year. Improved productivity, networking, office automation and shared information sources are major reasons for this trend. Japanese buyers are most interested in open architecture systems such as Windows 95 and Windows NT which has become the dominant server operating system (O/S) for new installations. Significant software sales should be seen in 1997 and beyond as a result of this trend.

### **Telecommunications**

The telecommunications market in Japan is very large, increasingly sophisticated, and undergoing massive changes brought about by 'de-regulation' and market opening. The most significant change is the break up of Nippon Telegraph and Telephone (NTT), the dominant domestic services provider, into two companies which will serve east and west Japan; authority for NTT to enter the international long distance market and concurrently authority for KDD, Japan's international services provider, to enter the domestic market. In addition some 130 new common carriers (NCC's) provide regional and speciality services and these firms are forming new alliances, including mergers, to compete with NTT in the local domestic market. NTT's revenue is approximately double that of AT & T, the next largest carrier, and while revenues will probably decline as lower telephone tariff rates become prevalent in Japan, NTT will continue as a major source of procurement opportunity.



Japan has embarked on a massive program to complete the digitization of their entire domestic network, including major investments in optical fibre, with the intention of allowing every household in Japan by 2010 to exchange high speed digitized audio and streaming video signals. Coupled with the market 'flux' created by the emergence of new competing carriers with innovative services the opportunity for selling or licensing leading edge technologies and products is enormous. For example 1996 investments in fibre-optic network infrastructure in 1996 exceeded US\$6.8 billion. The Japanese government has also established several well financed programs to develop and implement technologies for delivering enhanced services across the entire network. For example the Ministry of Posts & Telecommunications (MPT) provided US\$ 6.8 billion for such research in 1996 alone and other companies such as NEC have also developed multimedia research facilities. These initiatives provide an excellent opportunity for Canadian suppliers of both content but also enabling technologies and devices.

The Japanese telecommunications equipment market in 1996 was more than US\$43 billion. High growth rates in procurement have been fed by growth in demand for Internet and CATV services. After a relatively slow start Japan, after the USA, now has the largest number of Internet sites in the world ( 734,000 in May 1997) with a 48% growth in the six months to May 1997 alone. A total of 4.5 million subscribers are now 'on-line' including those who receive mobile digital service through PHS services. Canadian firms doubled their exports between 1995 and 1996 to C\$182 million but this impressive growth still represents a small portion of Japanese imports of telecoms equipment.

In March 1996, the Ministry of Posts and Telecommunications (MPT) announced that the number of CATV subscribers in Japan was up 800 000 from last year. Currently, 11.2 million households receive CATV in Japan — 26.9 per cent of total homes capable of receiving CATV. As of March 1996, there are 160 operators of 169 CATV provision stations. By March 1997, an additional 800 000 homes were expected to subscribe to CATV service.

The growing telecommunications services sector, such as systems integration support for Japanese products aimed at the North American market, gives Canadian companies an opportunity to develop strategic alliances that will in turn enhance their abilities to participate in major projects in Japan and in third countries.

There is a growing opportunity for Canadian products and services as the limited participation of foreign carriers in Japan increases and as NTT moves to complete the digitization of its switching facilities. A trend toward the provision of seamless international services between carriers provides another opportunity for Canadian equipment suppliers, systems integrators and service providers in the Japanese marketplace.

The mobile telecommunications market, defined as cellular phones and personal handy phone systems (PHS), continues to grow exponentially, with shipments estimated at more than 16 million units in 1996, a growth of more than 6 million units from the previous year and triple the totals for 1991.



# ***THE ACTION PLAN***

The wide diversity of products, end-use applications and potential customers in Japan dictates a strategy focussed on support and advice to individual firms that wish to be active in the marketplace. The primary strategy therefore continues to be to provide encouragement and market advice in Canada so that individual firms will evaluate their potential in Japan and initiate steps to penetrate the market. The individual activities in the 1998/99 Trade Promotion Plan are primarily focussed on this approach. A second strand of the basic strategy is to continue to encourage and support joint Japanese/Canadian R&D and to improve the transparency of Japan's testing and certification procedures. In addition several initiatives continue to publicize in Japan the leading edge that Canadian firms have in a wide range of informatics and telecommunications technologies. This effort has led to an increased focus on Canada by Japanese firms including placement of staff in Canada and an increased flow of visitors to Canadian companies as well as Canadian R & D facilities.

The Canadian government's services to the IT sector in Japan, are primarily delivered by Canada's Embassy in Tokyo and are designed to provide individual support to firms, including market advice, introductions to suggested contacts, and suggested strategies and follow up. Assistance through Canada's Consulate General in Osaka and the two regional Consulates in Fukuoka and Nagoya can also be provided where appropriate.

## ***Building Awareness and Market Knowledge***

More than half of the best-selling software packages in Japan are foreign developed. Custom-built software applications dominated the Japanese market in the 1980s, but as consumers become more comfortable with software packages, the proportion of custom-built applications should drop to levels more similar to those in North America and Europe (30 to 35 per cent from more than 75 per cent currently). This trend should benefit Canadian software companies.

Canadian companies need timely information and intelligence to take advantage of the rapidly changing situation, and Canadian companies should be open to a range of strategies for doing business in this market, including strategic alliances, joint product development and distribution, joint ventures and direct investment. Most (but not all) of the successful Canadian software exporters have formed linkages with Japanese firms.

It should be noted that information technologies was one of two sectors reviewed by the Keidanren Business Partnership Mission to Canada in September 1996. This mission of Keidanren, the Japanese Federation of Business Organizations, provided Japanese microelectronic firms with additional insight into Canada's strong technology base and showcased growing opportunities for partnering in areas such as multimedia, software design, informatics, telecommunications and high-tech manufacturing. The mission also visited two multimedia schools in Canada and drew attention to the very high standards of Canada's educational institutions and the prominent role which Canadian graduates provide internationally in graphics based media production. These visits have led to negotiations, which are ongoing, for the establishment of partnership based, multimedia schools in Japan. The Keidanren mission, and follow up activities, created greater awareness in Japan of Canadian company capabilities and has led to an increased focus on Canada by Japanese firms who continue to seek out partnerships in Canada.



Emerging dynamic markets for telecommunications products and services require that Canadian companies become more familiar both with regional opportunities in Japan but also the many new market entrants. Market size, market mix and business practices outside Tokyo are often more suited to the interests of smaller Canadian companies. Detailed market intelligence and close monitoring of changes to the regulatory environment in Japan are also required as past, trade barriers which were a major obstacle to foreign firms in the telecommunications sector are being taken down. Nevertheless government policy direction and a lack of transparency in standards, licensing and procurement, which are partly a result of culture and language, also contribute to the need for current information and continued assessment. These can be provided through a combination of regularly accessing the web sites noted in this document and by enquiry to the Embassy.

Deregulation in the pager market and cellular telephone market has also resulted in rapid growth in these two areas. Other more recent technologies, such as the PHS, have led to increased competition in the wireless market and created opportunity for selling new network features.

## *Adapting Products for the Marketplace*

Software marketed in Japan is most successful when it is localized (with notable exceptions such as scientific software) and of course fully supported in the marketplace. Localization of software normally requires double-byte enabling to support symbolic languages; provision of a Japanese language word processor, translation into the Japanese language and prior testing on local software platforms such as Win 95J. This localization process is made considerably easier if original source code for new programs is written from the beginning using double-byte or unicode standards. In addition, while the cost of 'internationalization' or 'localization' conversion can be considerable the incremental cost to then support Chinese and other symbolic languages is modest and opens an additional wide market. Localization can also include changes to the look and feel of the product; changes to package design and conventions such as date formats. Localization is often undertaken through cost sharing arrangements with a Japanese distributor; however, facilities and expertise also exist in Canada and can be used for reasons of economy and as a means to retain more marketing control over the product.

With the release of Windows 3.1J, Windows 95J and NT (J), the localization of software has become much simpler, since a single operating system can support multiple-language versions of a software package. The sale and use of Windows in Japan has been very strong with estimates for 1996 sales topping 7 million copies. Software written for the large installed base of Macintosh operating systems is also localized fairly easily.

In the telecommunications area, there continue to be difficulties in the area of wireless telecommunications equipment testing. Wired and wireless equipment is tested through two distinct agencies in Japan, and mutual recognition agreements between Canada and Japan cover only the testing of wired equipment.

The move toward international standards is a positive development that augers well for the entry of Canadian telecommunications companies since it will eliminate the need for costly adaptation of existing products. In Japan, regulatory frameworks for telecommunications and broadcasting have yet to reflect the growing convergence of these technologies. Transmission of information to a large number of recipients, e.g., LANs or CATV, is increasing rapidly as fibre optic networks advance the developments



of broadband and interactive multimedia (voice, data and video). Issues arising from this will centre on the sharing of network infrastructure and the separation of transmission and switching functions (unbundling). Per-unit costs will decline proportionally with the expansion of the fibre-optic networks and the increase in transmission capacity.

Canadian software companies interested in the Japanese market can look at a number of entry strategies, including direct representation, distribution agreements, licensing agreements, joint ventures, and mail order. Whatever the market entry strategy chosen a number of elements are essential and include:

- a commitment by Senior Management to the generally longer period which is common when initiating sales in Japan.
- development of a personal relationship with potential Japanese partners and often through a commitment to multiple visits to Japan to develop and sustain the relationship.
- Japanese language support within the Canadian office.
- a commitment to quality in all areas including delivery times, prompt technical support and efficient handling of problems that may emerge.
- prior research on the Japanese market including its size and (changing) structure to identify market niches and to select appropriate marketing channels. A wealth of information can be assembled from within Canada to develop a suitable marketing plan prior to visiting Japan. For example a list of useful and informative WEB sites is included at the end of this document and can be accessed to gather current information on the Japanese market.

## *Promoting Products in the Marketplace*

The Action Plan for Information Technologies recognizes that most of the opportunities for Canadian companies are in niche markets. Timely market intelligence/information will assist the Canadian industry in identifying opportunities. Activities to develop the relationships between Canadian and Japanese associations, companies and research institutions will benefit the industry and create the environment for substantive partnering opportunities.

A number of excellent software trade shows exist in Japan, and Canadian products are frequently exhibited, usually by Japanese agents. The facilities in the Canadian Embassy have also proven very useful for Canadian IT companies, which often launch or demonstrate products there. (The facilities, when available, are free of charge, but each company bears the incremental costs associated with these events.)

## *Investment and Partnership Opportunities*

Japan's major electronic companies make substantial sales to Canada of a wide range of products but, so far have only limited investments in Canada. On the investment front, emphasis over the next few years will be placed on showcasing Canada as a sophisticated, hi-tech country offering a wide range of compelling advantages. Consequently, a convincing "Case for Investment in Canada's High Technology manufacturing and R&D" with a strong IT focus needs to be developed and then put forward to a group of targeted Japanese companies. The "Case" will include general information about Canada's favourable investment climate. More importantly, it will focus on Canada's world-renowned telecommunications industries, centres of excellence, quality of science and research capability, and highly attractive R&D tax credit system. It will highlight the fact that Canada offers world class industrial infrastructure which can support highly sophisticated investment. This will be supported by credible testimonials.



Select business promotion activities enhanced by the participation of Canadian IT companies will be organised in order to convey/reinforce key messages to Japanese industry regarding Canadian capability. The use of Japanese specialised media visits will continue to be emphasised particularly in light of the successful tour of Canada by a journalist from the Nikkan Kogyo in early 1997.

## Research and Development Opportunities

Industry Canada has renewed a reciprocal agreement with NTT under which R & D activities are facilitated between Canadian institutions and NTT. Thirteen R&D organizations from Canada visited NTT research organizations in Japan early in 1996 and this visit was reciprocated in May of 1997. Further activities are being planned for the coming year, with NTT researchers again visiting Canada. Initiatives are also under way to develop a high band-width link with Japan to facilitate research in areas such as tele-medicine.

Canadian companies can also increase their linkages and deeper understanding of the Japanese market by participating in the Co-Op Japan Program, which functions to place employees of Canadian technology companies as in a Japanese work environment. The program is targeted at recent engineering graduates and provides for a maximum one year stay in Japan. Further information on this program can be obtained from the Science and Technology section of the Canadian Embassy or from the in-Canada coordinator:

Ms. Susan Huggett, Director  
Co-op Japan Program  
University of Victoria  
P.O.Box 3015  
Victoria, B.C. V8W 3P1  
Phone (604) 721-6077 Fax (604) 721-8996  
shuggett@sol.Uvic.Ca

### Internet Based Search Tools

JAPAN InterSEARCH:

<http://www.gronski.com/jis/index.htm>

WWW Navigators and Search Engines:

[http://www.jinjapan.org/navi/category\\_7.html](http://www.jinjapan.org/navi/category_7.html)

Japanese Open Text Index:

<http://japan.index.opentext.net/>

Japan Web Navigator:

<http://jin.jcic.or.jp/navi/>

### Japanese Associations

Japan Information Network

(one stop info source)

<http://jin.jcic.or.jp>

or its mirror in USA:

<http://www.jinjapan.org>

Communications Industry Association of Japan (CIAJ):

<http://www.ciaj.or.jp/>

Electronics Industry Association of Japan:

<http://www.eiaj.or.jp/>

Japan Information Services Association  
(with links to the Japan Personal  
Computer Software Association):

<http://www.jisa.or.jp/index-e.html>

Keidanren (Federation of Economic  
Organizations in Japan):

<http://www.keidanren.or.jp/index.html>  
including their "Access to Japan" page:

<http://www.keidanren.or.jp/A2J/>

SOFTIC (Software Information Centre:

<http://www.bekkoame.or.jp/~softic/SOFTIC0/SOFTIC02.HTM>

Multimedia Content Association of  
Japan (MMCA)

<http://www.jpo-miti.go.jp>

### Governments of Canada (Federal & Provincial)

Foreign Affairs and International Trade  
Canada's "Ni-ka Online":

<http://www.dfait-maeci.gc.ca/english/geo/japan/english/menu.htm>



Foreign Affairs and International Trade  
Canada's "CanadExport Online":

<http://www.dfait-maeci.gc.ca/english/news/newsletr/canex/>

Industry Canada:

<http://info.ic.gc.ca/>

Industry Canada's "Strategis" Site:

<http://strategis.ic.gc.ca/engdoc/main.html>

Telecommunications Research Institute  
of Ontario (TRIO):

<http://www.trio.ca/triohome.htm>

Gouvernement du Québec - MICST:

<http://www.micst.gouv.qc.ca/>

Canadian Commercial Corporation (CCC):

<http://www.ccc.ca/index-e.html>

Government of Saskatchewan:

<http://www.gov.sk.ca/econdev/>

### **Government of Japan**

Links to Japanese Government Ministries  
and Agencies:

[http://jin.jcic.or.jp/navi/category\\_1.html](http://jin.jcic.or.jp/navi/category_1.html)

Japan External Trade Organization  
(JETRO):

<http://www.jetro.go.jp/>

Ministry of Posts and Telecommunications:

<http://www.mpt.go.jp/index-e.html>

Ministry of International Trade and  
Industry (MITI):

<http://www.miti.go.jp/index-e.html>

### **Other Web sites:**

The Directory of Canadian  
Business in Japan:

<http://www.dcbj.com/>

The Nikkei Business Publications:

<http://www.nikkeibp.com/NEWS/tech.html>

The Nikkei Net:

<http://www.nikkei.co.jp/enews/GUIDE/navigate.html>

The Nikkei Net Business Browser:

<http://www.nikkei.co.jp/enews/BB/url/japan.html>

Japan Business and Technology Information:

<http://www.nikkeibp.com/cgi-bin/var/nikkeibp/indexs.html>

Computing Japan Magazine:

<http://www.cjmag.co.jp/>

Newsbytes Pacifica:

<http://www.nb-pacifica.com/>

Tokyo Kaleidoscoop:

<http://www.smn.co.jp/>

The Commercial Service Japan:

<http://www.csjapan.doc.gov/>

Japan Related Web Links:

<http://www.panix.com/~tn/japan.html>

Japan Information Network:

<http://www.jinjapan.org/>

Japan Information Resource Centre:

<http://icg.resnet.upenn.edu/~konrad/jp.html>

Japan Window:

[http://jw.nttam.com/HOME/index\\_t.html](http://jw.nttam.com/HOME/index_t.html)

Johogen Directory:

[http://jw.nttam.com:80/BEF/EUJ/JohogenInteractive/Johogen\\_Chapters/MasterTOC.html](http://jw.nttam.com:80/BEF/EUJ/JohogenInteractive/Johogen_Chapters/MasterTOC.html)

TechCalendar:

<http://www.techweb.com/calendar/calendar.html>

\* PCWEEK Online Japan:

<http://www.softbank.co.jp/softbank/publishing/pcweek/>

Asia Inc. Online:

<http://www.asia-inc.com/>

University of Arizona Japan Computer  
Science Page:

<http://www.cs.arizona.edu/japan/www/japan.html>

Japan Information Access Project:

<http://www.nmjc.org/jiap/>

JAPAN in Figures:

<http://www.stat.go.jp/1611.htm>

## ***Planned Government Promotion Initiatives***

- The Canada Japan Telecoms Exchange (CJTE) is held annually and provides an opportunity for companies to exchange information on the latest innovations in product development and to develop partnerships with Japanese companies. Planning is underway for the 1998 CJTE which would be held in Tokyo and again provide an opportunity for Canadian firms to meet with influential Japanese companies.
- As noted earlier, the Embassy facilities in Tokyo can be used for product launch/demonstration meetings for Canadian firms who decide to initiate sales in Japan. Typically 40 of these popular events are held annually. In Canada, a series of seminars will be held across the country to promote the merits of the Japanese market and to introduce companies to the concepts of 'internationalizing' their product for Japan.
- The Japan External Trade Organization (Jetro) has assisted Canadian firms to exhibit annually at Comdex Japan. In 1997 14 Canadian firms exhibited their products at Comdex and a similar number of places should be available for the April 1998 event. DFAIT has assisted Jetro in the recruiting for Comdex and participating companies are encouraged to use the Embassy services while in Japan.
- An officer from the Embassy in Tokyo will visit Canadian software companies at Softworld in St John's Newfoundland in September 1998. The officer will also visit other Canadian cities to describe the opportunities in the Japanese software market. Publicity will also be produced to encourage Japanese companies to attend the St John's event.

## ***The Industry Lead Group***

The Information Technology Association of Canada

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Canadian Advanced Technology Association

Ms Shirley-Ann George, Exec Director  
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Regional informatics associations exist across all of Canada and are key partners in the dispersion of information and advice on the Informatics market in Japan. For reference to one of these associations contact the local International Trade Centre contacts noted below.



# Health Care/ Medical Devices

## *Background*

Canadian companies in the medical devices, health care products and health services sector should note the enormous potential of the Japanese market. Supported by a gross national expenditure on medical treatment of ¥26.95 trillion yen /or **Cdn\$ 391 billion** (fiscal 1995), equivalent to ¥214,000 yen /or Cdn\$ 3,100 per capita, Japan is now the second largest single-country health industries market in the world. Due in part to a rapidly aging population and the heightened consciousness of the Japanese people towards their health, the market is expected to experience strong growth in the coming years. Canadian companies looking to remain competitive in the global health products and health services industry should seriously consider expanding their business into the lucrative market of Japan.

Consider, for example, some key factors regarding the impact of the aging population alone:

- The Japanese Ministry of Health and Welfare estimates that, by the year 2025, 25.8 per cent of the Japanese population will be over 65 years of age. This figure is expected to remain steady over the long - term. Changing demographics are the single greatest influence on the current and future state of the health care/medical devices sector in Japan.
- The Ministry of Health and Welfare projects a tenfold increase in health care expenditures for the elderly, rising from 7 trillion to 71 trillion yen over the next 30 years.
- As young people migrate to the cities, the percentage of elderly people in rural areas continues to grow, increasing the need for remote access to services; in some areas it already tops 40 per cent of the population.
- In general terms, the elderly in Japan have demonstrated somewhat conservative spending patterns coupled with relatively high savings rates over the lifetime, resulting in a disposable income factor that will positively affect the growth rate of this sector.
- There are 4.7 million people with disabilities in Japan, 80% of whom are over the age of fifty. Consequently, many of the products and services available to the elderly are being used by aging people with disabilities. Medical products and services designed for or used by the elderly will clearly be one of the most important markets in Japan over the coming years.

Imports of medical devices into Japan have been increasing at a compound growth rate of 14.8 per cent annually, with a correspondingly larger share of the market. Until 1992, Japan's domestic medical devices industry had a favourable balance of trade, since that year, fluctuations in the yen have caused a shift in the trade balance favouring imports.

# *The Canadian Industry*

Canada has a relatively robust health products and health services industry. The approximately 2500 firms in the health services industry has annual sales of \$3 billion and employs about 150 000 people. In addition, Canada's 800 medical device companies produced products worth \$2.8 billion (1993) and employs 18 000 people. A similar number is likely employed in the health care products sector, although figures are not currently available. Many Canadian companies in this sector are already active internationally; many other Canadian companies in the health care and rehabilitation products field are increasingly export-oriented. A number of them have developed leading technologies and unique innovative devices. Some Canadian companies are already present in the Japanese market, but the potential to increase the number of companies exporting to Japan is very large indeed.

## *Market Opportunities*

### ***Medical Devices:***

The entire market for Medical Devices and Dental Equipment was ¥1.64 trillion/ or **Cdn \$20.5 billion** in 1996, with imports capturing about one third of the market. This makes Japan the second-largest market in the world for imported medical devices, after the United States. Imports come from: the United States (62.3%), Germany (9.8%) and the United Kingdom (3.2%).

The leading types of imported medical devices by category in Japan are: operative instruments (22.8%), artificial internal organ apparatus and assistive devices (16.2%), surgical and plastic surgical-related products (13.3%) and diagnostic and imaging apparatus (11.9%). The Japanese market for medical devices is expected to grow further, and as such, the growth in imports is expected to continue at rate of 5-8% per annum.

Canadian products, while accounting for only about one percent of this large market, already do well in several niche areas such as dental instruments, surgical and orthopaedic supplies and radiology and imaging products categories.

### ***Health Care Products:***

As noted earlier, Japan has been greying since the 1970s. A Ministry of Health and Welfare report predicts that by the year 2010, people over 65 will make up 21.3% of Japan's population. This would represent the highest percentage of senior citizens in the world. Spurred on by this aging society and a supportive government environment, the market for health products and services is projected to grow at 8-10% per annum over the next 10-15 years, and to continue growing well into the 21st century.

As a result of Japanese efforts to deal with their aging population, the market for health care products and services is expected to broaden dramatically in the mid-term. The government of Japan realizes that institutional stays at hospitals are needlessly long and expensive and that the infrastructure currently in place will soon be inadequate. Through their "*New Gold Plan - a plan to diversify health care institutions*", the Japanese government hopes to promote the build up of in-home care knowledge, services and equipment. By shifting patients away from institutions and into the home, the government hopes to reduce not only the financial pressure on their insurance system but cut direct medical costs as well. This shift will create a larger market for health care products and services designed specifically for use in the Japanese home.



Health  
Medica

Japanese importers and distributors are always looking for high-quality, new, and innovative products that are not currently in use in Japan. Health care products currently in demand include mobility products (walkers and wheelchairs), sleeping aids (beds, mattresses and so on), toilet and disposable diaper products and specialized furniture products.

Canadian exporters, when considering the Japanese market, should bear in mind that features such as size and portability of products are very important because of different physical requirements, space restrictions, and climate conditions. Ease of use is also an issue since 78% of caregivers are over the age of 50, and 22.9% are over the age of 70. (Figures according to Japan's Ministry of Health and Welfare (MHW)).

### Projected Annual Growth Rate for Specific Health Care Goods

Annual Growth 1995/98	
Personal Goods (Diapers/Beds)	+19%
Mobility Equipment	+2%
Hearing Aids	+8%
Limb Prostheses and Body Braces	+11%
Shoes and Clothing	+23%
Average	+15%

Source: Survey by Japan Health and Welfare Equipment Industry Association.

To reduce challenges faced by the disabled, the Japanese government is in the process of upgrading infrastructure around the country. The "Barrier Free" concept, relatively new to Japan, is now being embraced; it is noteworthy that the budget for spending on projects to aid the physically challenged was increased 11% this year, with further expected increases in the future.

### Health Services Sector:

Opportunities also exist in the health services sector. For example, medical waste disposal is a significant problem currently facing Japanese health care officials. The Japanese are also keenly interested in improving their methods for health care management and improving efficiency in hospitals and nursing homes. This should provide market-entry opportunities for Canadian firms providing consulting services, architectural services or information-technology products, such as monitoring equipment for elderly and handicapped patients.

Telemedicine delivery to remote and rural areas is of growing importance in Japan. The Ministry of Health and Welfare (MHW) has undertaken to improve home care delivery systems by sponsoring a five year pilot program to be administered by the Tokai University. Canada already has a good system of this kind in place and may be able to identify themselves as service providers / cooperative developers of the Japanese system.

## THE ACTION PLAN

Canadian companies interested in penetrating the Japanese market for health care products, medical devices and health services will need current and comprehensive information about market potential, entry-requirements and necessary adaptations to the market. The following Action Plan addresses this need by focusing on "**The Three 'A's'**": **market awareness** through knowledge, **market adaptation** of products and improved **market access** through product promotion.

## ***Building Awareness and Market Knowledge***

Doing business in Japan can be difficult, frustrating, time-consuming, and expensive. With the right combination of knowledge and assistance, however, it can also be extremely rewarding.

Japan's distribution channels are complex and often confusing. The best method can be determined by considering both the time-lines and the product. For example, large-scale equipment needing technical support is usually sold directly to hospitals or clinics by the manufacturer's agent in Japan, while home health care products can be sold through agents or wholesalers. It may take time for imported products to develop a presence in the market; Canadian manufacturers are advised to establish realistic sales goals and to nurture their relationships with Japanese agents and / or distributors, particularly in light of the continued demand for quality after-sales service.

The Canadian Embassy in Japan produces excellent market information on medical devices and health care products in Japan which are available on request. For example:

- *A Directory of Japanese Medical Device Importers, Mar. '97* This directory provides Canadian exporters with basic information on 32 of the leading medical device importers in Japan, including how to contact them.
- *The Japanese Medical Industry; Health Care Products and Medical Devices, Apr. '96*
- *Trade Fairs in Japan; Health Industries, 1997; and*
- *International Conferences in Japan; Medical Science Sector, 1997*

Canada's Embassy in Tokyo develops and disseminates market reports and information as well as other types of business intelligence in concert with industry associations and the Health Industries National Sector Team (NST — the forum of industry associations and federal and provincial government representatives that concerns itself with medical devices, health services and pharmaceuticals — both name brand and generic.)

Other activities that are designed to stimulate awareness and increase knowledge include: seminars and presentations made at industry meetings featuring successful Canadian exporters; individual counselling of export-ready companies by trade officials in Canada as well as in Japan; and *Ni-Ka Online: Canada's Internet Window on Japan*.

In addition, the Japan Export Trade Organization (JETRO) produces market reports such as:

- *Health Care Market Trends, September 1996; and*
- *In-Home Health Care Goods & Services, September 1996*

## ***Adapting Products for the Marketplace – Japan's Legal Regulation***

### ***Medical devices:***

The Pharmaceutical Affairs Law in Japan (PAL) applies to all medical devices made by foreign or Japanese manufacturers. To manufacture, import or sell medical devices in Japan, all firms must abide by ordinances and notices contained in the PAL and must obtain a license or approval to operate in Japan from the Ministry of Health and Welfare



The application process for medical device licences and approvals in Japan is transparent and straightforward. The process is, in fact, no more complex than in most other countries, including the US. However, because the process is carried out in the Japanese language, it is recommended that Canadian firms seek assistance from experienced importers. Importers are familiar with the provisions of the PAL and have the know-how to work through the regulations.

### ***Health care products:***

Unlike medical devices, health care products are not subject to the approval of the Ministry of Health and Welfare under the Pharmaceutical Affairs Law in Japan. However, as with all consumer products, health care products are subject to the Product Liability Act.

Canadian companies that want to begin exporting to Japan are advised to work with a Japanese partner familiar with the regulatory approval process. Working with a Japanese partner is also a good way to increase your awareness of the specific requirements of the Japanese market. Participating in trade shows and seminars can also help exporters to adapt products and sales strategies in accordance with these requirements.

## ***Promoting Products in the Marketplace***

To promote Canada's capabilities in the medical/health care field in Japan, a number of projects are currently being planned and participation of industry members and the associations is heartily encouraged.

The importance of visiting a unique and exciting potential new market like Japan can not be overstated. Canadian companies interested in exporting their medical products or services to Japan are strongly encouraged to travel there to see the market first-hand.

**Trade shows and exhibitions** offer the perfect opportunity to meet possible partners while assessing market potential first-hand. Examples of important trade shows are:

- **The Home Care and Rehabilitation Show** (September 1998). This is an excellent opportunity for Canadian companies to display their health care products.
- **The biennial JETRO Health Care Show**. The next scheduled show is March 1999.
- **The 1998 International Trade Fair on Barrier Free Equipment & Rehabilitation for the Elderly & the Disabled**. The "Barrier Free" show will be held in Osaka in April of 1998. The Canadian Consulate General in Osaka will be coordinating a "Canada Pavilion" at this show.

Please be aware that some shows require that medical devices receive prior product approval and import licensing from the MHW.

Canadian companies should also consider the option of participating in collaborative research and development (R&D) with Japanese companies to develop or adapt products to the needs of the Japanese market. For example, the Agency of Industrial Science and Technology of the Ministry of International Trade and Industry (MITI) is promoting R&D projects for safe and convenient, yet low-cost welfare equipment that utilizes the most advanced industrial technology. Foreign companies and other organizations can apply to participate in these government-funded projects; a relationship with a Japanese partner interested in such a project is recommended.

The Japanese government is promoting the development of tele-medicine to improve the quality of care and to lower the cost of health care delivery. Home care delivery in particular will be an important market in the future as the aging population puts more pressure on the health budget. The Japanese private sector is preparing for the potentially sizable market for home care delivery services, while watching for changes in health care policy and research sector leadership in product directions. Canada is the world leader in developing telemedicine applications and equipment. Partnering with Japan in demonstration projects will ensure exposure and adoption of Canadian capabilities, services and products.

Japanese companies and universities are informed of Canadian research programs through an active promotional effort at the Embassy. They are encouraged to visit Canadian organizations to develop partnerships and collaborations.

The recently established Japan-Canada Neuroscience Partnership engages in joint research projects among top scientists in imaging, neural development, neural genetics, neural control and plasticity. This collaboration will strengthen Canadian research base in the medical pharmaceutical sector, showcase leading-edge Canadian imaging equipment, and directly support the development needs of industry. Furthermore, the involvement of well-recognized Japanese researchers and impressive project schemes, focuses the attention of Japanese industry on Canadian expertise and on working with Canada. The Medical Research Council of Canada provides the profile, leadership and coordination in guiding this strategic approach. Cooperation in other medical research areas is being explored. A number of visits, missions, exchanges, and workshops will establish a strong Canadian presence in Japan and will support the investment partnering effort being developed on a parallel track.

## IMPLEMENTATION

To capture a greater share of the enormous opportunities arising in the Japanese market in the Medical Devices, Health Care Products and Health Services industry, the Japan Division of the Department of Foreign Affairs and International Trade will establish the "Japan Country Action Team" in full collaboration with Canada's posts in Japan (principally the Embassy in Tokyo and the Consulate General in Osaka), and with the Health Industries National Sector Team (NST—Industry Canada, interested federal and provincial representatives and industry associations).

Trade promotion activities that will be pursued include:

- a **Seminar** on the health care industry in Canada designed to expand the knowledge of the Japanese government and service companies and introduce them to Canadian experts on nursing homes and rehabilitation centres (building, management and programs).
- a **Roundtable** Medical Products and Services/Health Care Investment in Japan, aimed at enhancing Canada's reputation for excellent care of the elderly and handicapped. This roundtable will focus on products and services for improving quality of life for the aged, with particular emphasis on the potential for collaboration and investment.
- a **media tour** by a Japanese medical journalist, invited to Canada for a series of visits to research labs, hospitals and clinics in which Canadian equipment is being used. Through such a visit and the subsequent reporting in the Japanese press, it is hoped that Canada's excellent reputation in the medical field will be furthered in Japan.



- **Buyer Missions** brought to Canada from Japan from time to time throughout each year. These have proven to be very successful in generating new business and in encouraging first time exporters. Canadian companies interested in meeting with Japanese buyers here in Canada should contact the Japan Division of the Department of Foreign Affairs and International Trade for further information.
- **Trade Shows**, including establishing a "Canada Pavilion", depending on the interest of Canadian companies. "Barrier Free, April 1998" is an example.

## *The Industry Lead Group*

### Medical Devices Canada (MEDEC)

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 Etobicoke, Ontario M9C 5J5  
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### Calgary Association of Medical Products

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 Fax: (403) 287-0012

### Health Care Products Association of Manitoba

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 Fax: (204) 269-7003

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# Consumer Products: Furniture

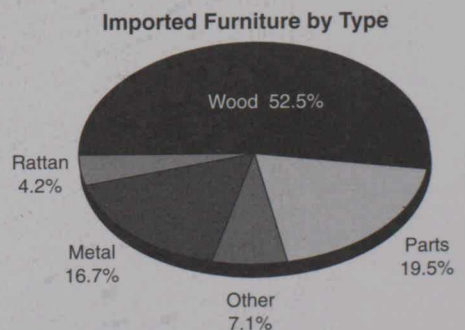
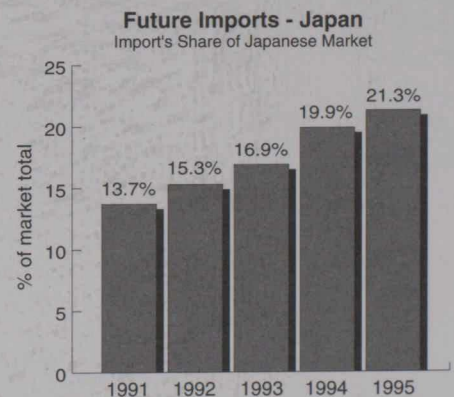
With the elimination of tariffs under the FTA and NAFTA, Canadian manufacturers have become more competitive both domestically and internationally. Companies interested in exploiting their competitive advantage are exporting to overseas markets with increasing frequency. Japan is a market of interest to a growing number of Canadian furniture manufacturers and, as such, merits the development of a focussed, long-term approach, supported by industry leaders, associations and the federal and provincial governments. It is the intent of this Action Plan to provide a background to the furniture market in Japan, highlight some of the opportunities for Canadian business in that market and position Canada as a significant supplier of quality furniture at competitive prices.

## Background

Over the past several years, as a result of high domestic manufacturing costs and difficulties in recruiting skilled workers, Japan has been a net importer of furniture. In fact, Japan is the 4th largest importer in the world, with imports claiming as much as 21.3% of the total furniture market. However, a significant portion of these imports are considered to be 'domestic' and come from Japanese furniture makers operating overseas, primarily in Southeast Asia. Despite the supply of 'domestic imports', demand for furniture cannot be fully met and there is a growing demand for imports from other countries in Asia, Europe and, in particular, North America. The United States represent the 3rd largest supplier of imported furniture to Japan. Imports from Canada rank 8th overall and make up only 1% of the total.

The import market for furniture in Japan in 1996 reached almost 300 billion Yen or nearly CAN\$ 4 billion. These imports can be broken down as follows:

\*It should be noted that 'furniture parts' is a classification that includes leather car seat covers amounting to nearly half of all furniture parts imports.



# Canadian Furniture Exports To Japan

The Canadian furniture industry has approximately 90% domestic ownership, and employs nearly 49,000 people in about 1350 companies. Total shipments in 1996 were valued at \$5.5 billion and Canadian furniture exports have tripled since 1988 to reach \$2.8 billion in 1996.

Canadian exports to Japan rose from \$4 million to almost \$13 million between 1992 and 1995. In 1996, however, a weaker Yen caused furniture exports to drop 7% to \$12.2 million. Despite these currency fluctuations and a resulting 20% decrease in office and institutional furniture exports, residential furniture exports continued to rise an impressive 12%. This is not insignificant given that 65-70% of the Japanese furniture market is residential and a large portion of this demand is for wooden furniture. This is important because the Japanese recognize Canada as a good supplier of quality wood products at reasonable prices. The chart below demonstrates the growth of furniture exports to Japan (Fluctuations in 1994 are being treated as a blip.)



## Market Opportunities and Trends

Canadian furniture products have only just begun to enter the market in Japan, and therefore Canada's market share is still far below full potential. Several companies — Canadian furniture manufacturers and export management companies— have shown a solid approach and commitment to exporting furniture to Japan; these companies have seen their exports grow or are about to make their first sales in Japan.

Some of the important developments that have stimulated the recent increase in demand for imported furniture:

- The Japanese government (MITI) announced as part of their 'vision' for the 90's an improved quality of life in Japan. Contained in this initiative was a commitment to improved quality of living and work space. With limited room for expansion, an effort to improve the quality of existing housing stock and office space creates tremendous opportunity for suppliers of home and office furnishings.
- Japanese consumer preferences continue to change in favour of more western style furnishings. For example, many now prefer to sit on chairs rather than the floor, and use hanging storage rather than folded. This has resulted in a continuing increase in the use of larger furniture pieces such as chairs, tables, dressers, and mirrors.
- Exposure and consequently demand for western style furnishings has also been greatly affected by tourism and mass media (television, magazines, movies).
- The Furniture Industry in Japan Development Association reports that young people prefer leather to fabric in upholstery (60% of upholstered products are leather—popular colours are soft black, brown, teal, and tan). Furniture, upholstered and wooden, should be lowered about one inch to tailor it to Japanese taste in seat height.



- A second baby-boom generation of spending is expected to start in 1997 as the 'echo-boom' reaches marriageable age. This age group shows the strongest preferences for western-style furnishings, and seems to favour two extremes: either a conservative classical antique look or an extremely modern look. There seems also to be a resurgence of traditional styles.
- Demand for furniture will be positively influenced by the 800,000 marriages and over one million new homes, as well as 10 million m<sup>2</sup> of new office space created annually.
- As the population of Japan over 65 approaches 25% of the total, the demand for health care and related furniture is expected to explode. This is a significant opportunity for suppliers of assistive furniture and hospital type beds designed for home; many senior citizens in Japan are cared for at home.
- The number of rooms in the average house has increased allowing for a corresponding increase in demand for study rooms and high quality wooden furnishings to match. Imports of wooden furniture for 1996 were 30% more than in 1995 peaking at more than 1 trillion Yen. Canada is viewed as an excellent source of wooden furniture offering a good balance of quality, style and price. However room size, normally around 100 square feet, is smaller than in North America. A market that remains relatively unexplored by Canadian manufacturers is space saving furnishings and smaller sized furniture.
- Office furniture is facing an increase in demand for automation related products, space savers, products adaptable to office layout changes, safety oriented products and those that are earthquake resistant (e.g. anti-tip, anti-slide and shatter-proof), as well as products that enhance comfort in the office.
- Institutional furniture manufacturers and exporters can benefit from associating themselves with architects and interior designers in order to offer a complete package when bidding for contracts.

## *Challenges in Exporting to Japan*

There are normally no tariffs to consider when exporting furniture to Japan. Exceptions are for leather covered furniture, subject to a tariff rate of either 3.8% or 4.3%, depending on the item in question. There is also a general consumption tax of 5%.

One of the greatest obstacles encountered by exporters of furniture to Japan has been the complex and sometimes costly distribution channels that can result in imported furniture prices three to four times higher than the retail price in Canada.

Although a recent survey of furniture importers in the Tokai region revealed that more than half still prefer to import through a wholesaler, modifications in the existing distribution channels in Japan are slowly evolving and retailers increasingly import directly for their stores.

Japanese companies will often try to import products on an exclusive basis to control not only their own market area, but also areas where they sell the same product to other distributors. Canadian companies must decide on the most appropriate channel for distribution of their product based on long term commitment, the type of product, and the volume of merchandise. In some cases, an exclusive agreement with an importer might limit the ability of exporters to penetrate other regional markets in Japan, but Japanese buyers maintain a keen interest in exclusive rights. If a supplier cannot commit to exclusivity, in order to build a long term relationship in the market, it will be necessary for the exporting Canadian company to allay fears that it has not sold similar products to the buyer's competitor.

## *Other challenges to the exporter*

- Japanese consumers have VERY high expectations and wood furniture showing knots and grains, metal furniture that is slightly tarnished or any furniture that is minutely scratched will be considered defective. (However, pine furniture with a nice grain and only a few tight knots is considered attractive). Therefore, wood products must be properly dried and treated in order to withstand the effects of high humidity, while metal products must be treated to resist rust and corrosion. Allowance should also be made for movement in the wood due to the difference between Canada's and Japan's climate. (One advantage of having a local representative is that repairs or adjustments can be made, when necessary).
- Lower prices are not an acceptable means of offering a lower quality product.
- Foreign-made furniture is often bulky, greatly increasing already high transportation and distribution costs in Japan.
- North American made furniture often must be adapted for the limited space in Japanese housing and the smaller physical stature of the Japanese.
- Imported furniture often does not fit in well with more traditional Japanese style rooms. Recent studies show however, that the number of traditional (e.g. tatami) rooms in the average household has declined. It is now common to find only one such room in each dwelling, with the kitchen remaining a mix of traditional and western styles.

## *THE ACTION PLAN*

There are a number of federal and Provincial agencies ready to assist and support private - sector efforts to penetrate the Japanese market. Canadian missions in Japan, in concert with the Department of Foreign Affairs and International Trade (DFAIT), Industry Canada, the furniture Industry Associations, Industry Canada's National Sector Teams and outside organizations such as the Japan External Trade Organization (JETRO), are able to provide market information / intelligence reports, advice and seminars on how to do business in Japan, in addition to lists of potential Japanese contacts interested in working with potential and existing Canadian furniture exporters.

Exporters of furniture to Japan must be flexible and willing to adapt to meet not only the demands of the Japanese market, but also such minimum legal requirements as the Consumer Products Safety Law, the Electrical Appliance Control Law, and the Household Goods Quality Labelling Law. Again, this information is available by contacting any of our missions, DFAIT in Ottawa, Industry Canada, the Associations, or any of the JETRO offices in Canada and abroad.



## *Building Awareness and Market Knowledge*

Activities to stimulate awareness and increase knowledge include:

- Presentations during industry association meetings featuring successful Canadian exporters who can provide advice on the market.
- Individual counselling of export-ready companies by trade officials, to develop marketing plans, and to provide information on government support programs, how to use the trade offices in Japan, and how to tap into other government and non-governmental information and resources.
- Dissemination of Market Study reports such as "A Furniture Study of the Tokai Region" recently produced by the Canadian Consulate in Nagoya, Japan. JETRO publications are also very useful.

## *Adapting Products for the Marketplace*

Companies will be encouraged to:

- Participate in trade shows and seminars in order to become familiar with the specific requirements of the Japanese market.
- Maintain contacts and make regular visits to Japan in order to monitor closely changes in the market. Adapt products and sales strategy in accordance with these changes.
- Consider lifestyle choices as for example, dishes used in Japanese homes, earthquake risk, room sizes, etc.

## *Promoting Products in the Marketplace*

Companies and Associations are encouraged to:

- Participate actively in trade shows in Japan as well as in Canada.
- Utilize expertise available in federal/provincial trade offices at home and abroad.
- Be prepared to receive incoming buyer missions from Japan.
- Share information with other Canadian Companies in "how to" seminars and during association meetings.
- Advertise in the appropriate trade journals, giving the Japanese agent's name, address and telephone and fax numbers.

## *Trade Promotion Activities*

Companies, Associations and other organizations are should participate in the following events with the organizational support of DFAIT and Industry Canada:

- Incoming buyer mission destined to visit Canada's Home Furnishing Mart, January, 1998.
- The highly successful International Furniture Fair in Tokyo (IFFT), November, 1998.
- The Canadian Furniture Seminar held in conjunction with the IFFT, November, 1998
- Canadian Furniture Fair held in Osaka, just prior to the IFFT, November, 1998.
- Seminars on Exporting Furniture to Japan to be held in each region from June - September, 1998.

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# *The National Sector Team*

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## ***Foreign Affairs and International Trade***

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## ***Associations***

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George Sinclair, Ontario Furniture Manufacturers Association  
Joe Malko, Furniture West Inc.  
Jean François Michaud, Quebec Furniture Manufacturers Association

## ***Provincial Governments***

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Mario Levesque, Ministère de l'Industrie, du Commerce,  
de la Science et de la Technologie, Quebec  
Peter Marshall, Department of Industry, Trade and Tourism, Manitoba  
Mary Palmer, Ontario International Trade Corporation

# Consumer Products: Sporting Goods

## *Background*

Since 1992, the Japanese sporting goods market (including sportswear) has been stable with sales valued at between 5.4 and 5.8 trillion yen (\$67-72 Billion) per year. The sporting goods sector is now poised to grow along with long-term consumer demand. Confidence in growth is based on the following:

- 1) Real growth in Japan which was 3.6% in 1996, dropped to 1.1% in 1997 but is now forecasted to double to 2% in 1998.
- 2) The Japanese government is currently deregulating the economy. The Japanese Ministry of International Trade and Industry (MITI) indicates that this process will continue to suppress prices, increase the GDP and increase disposable income for spending over the next few years. By 2001, net increases to disposable income will be in the area of 370,000 yen (\$4625) per household.
- 3) Growth in imports, which were valued at US\$349 billion in 1996, continues to be strong, about 4% annually, in Japan. In the first three months of 1997 there was a 28% increase in Canadian exports of all products to Japan, compared to the same period of 1996. This was the highest percentage growth of any of Japan's major trading partners and is evidence that the Japanese increasingly value Canadian products.
- 4) Between 1993 to 1996, time spent on leisure related activities has increased from 34% to 36%, and the time related to occupation has declined from 36% to 33%. This trend is continuing and can be expected to positively influence the market.

The impact of tourism, travelling, and the mass media has caused the Japanese to note that although they are a wealthy nation, their quality of life has not kept pace with the growth in their economy. The influence of the younger generation and changing demands of a middle-aged generation with more free time will positively impact on growth in the sporting goods industry.

Canadian companies should focus on Japan now to capture a share of the growing opportunities in an enormous market.

## *The Canadian Industry*

The Canadian sporting goods industry is composed of firms engaged in manufacturing a broad range of products for individual and group recreational and fitness activities. The industry employs over 10,000 people in 200 enterprises. It is characterized by a high level of technical expertise and strong Canadian ownership. Sales in 1996 were C\$1.2 billion, about half of which was exported (\$557 million). The domestic market is considered to be 'mature', indicating that the industry needs to rely on exports to fuel additional expansion.



Sales of Canadian sporting goods to Japan was C\$22.7 million, in 1996. Three factors may explain the low level of exports of sporting goods to Japan, Canada's second most important trading partner.

First, 76% of Canadian sporting goods are produced in Ontario and Quebec, which, due in part to their distance from Japan, first look to the U.S. and Europe as points of exports. The size of the Japanese market, and the increasing potential for success, suggests that some of these companies should look to Japan as part of a growth strategy.

Second, many companies in this industry are small-to-medium sized enterprises which have difficulty devoting resources and staff to the challenges of breaking into the very competitive Japanese market.

Third, many manufacturers simply do not know how to do business in Japan, or where to start, and the time required to do acquire this knowledge or develop these skills may seem overwhelming.

However, the Japanese sporting goods market is lucrative and well worth the effort that will be necessary to capture a greater share of it. The intent of the Action Plan is to help industry meet the aforementioned challenges, and thus to position Canadian companies to increase exports of sporting goods to Japan.

## *Market Opportunities and Trends*

The popular image of Canada in Japan is that of the rugged outdoors, where the quality of life is high, and where people enjoy sports, leisure and quality products. Businesses which can effectively exploit this perception should do well in Japan.

### *Winter Sports*

The 1998 Winter Olympics in Nagano are expected to increase the profile of winter sports in Japan over the longer term. When Sapporo hosted the 1972 Winter Olympics, the country saw a boom in winter sports that has persisted. Canadian sporting goods manufacturers, especially those with export experience, are well-positioned to benefit from new and renewed interest in winter sports.

#### *Winterwear*

Winter sportswear such as sweaters, ski-jackets and pullovers showed sharp growth in the period of January-March of 1997 over the same period in 1996. (It should be noted, however, that the winter of 96-97 was especially cold in Japan!) Canadian companies that have demonstrated strength in styles, quality, and value elsewhere in this niche market have the ability to penetrate the Japanese market.

#### *Skiing*

Skiing has dropped off significantly since 92-93. At that time, there were about 17.5 million skiers, whereas now there are about 16.5 million, with a corresponding drop in sales and imports of equipment. JETRO forecasts further decreases, although the Olympics may forestall this trend. European labels dominate the Japanese public's perception of quality ski gear, making a breakthrough in this market difficult.

It appears that ski-hill operators have recognized the trend away from downhill skiing and are looking for other activities for their clientele.

## **Alternatives to Skiing**

Cross-country skiing, which will be featured at the Olympics, may increase because the Japanese are becoming more health-conscious. It is also seen as a family activity. Supply of equipment has been kept relatively low, and prices have not dropped as have downhill and snowboard products.

Some sports, like snowmobiling, are limited to Japan's far-north island, Hokkaido, because of its vast wilderness. A strategy for manufacturers may be to sell to Hokkaido resort owners rather than directly to consumers in Japan's other islands.

There are a number of European, American and Japanese snowshoe manufacturers present in Japan. Canadian companies have not penetrated this market yet. Since this is an activity that may grow as consumers seek healthy and inexpensive alternatives to skiing, it presents a good opportunity.

Another trendy winter activity which may enjoy success is that of 'footski'. This ski-like attachment fits right on to the ski boot. The footski is only slightly longer than the boot itself and thus is much less expensive than skis and bindings (75% cheaper). In addition, footskis are adjustable and can be shared. This activity is only now being introduced to Japan and is thus a new market.

## **Snowboarding**

Snowboarding is the world's fastest growing winter sport and may be responsible for much of the decline in skiing. In 1988-89 there were only 50,000 active snowboarders in Japan. Now there are about 600,000 and projections suggest this will increase to about 3 million participants. There are a number of factors feeding this phenomenal growth.

- 1) The credibility of the sport has increased since its acceptance as an official game for the Olympics in Nagano.
- 2) Ski-hill operators had earlier resisted giving space to snowboarders, but much of this resistance has disappeared as the sport grew in popularity, and out of economic necessity as skiing continued its decline.
- 3) Snowboarding is seen to be more entertaining and have more 'youth appeal', as it is perceived as less conservative and traditional than skiing.

Whereas annual snowboard equipment sales are an impressive 30 billion yen (CDN\$375 million), total sales of ALL related products have reached over 200 billion yen (\$2.5 Billion) a year. This amount has been forecasted to reach 1 trillion yen (\$12.5 Billion).

There is intense competition in this market, with over 300 brands now competing. Japanese middlemen re-exporting snowboards to Australia at slashed prices may be an evidence of oversupply. However, with projections estimating 2.4 million new Japanese snowboarders, long-term growth is thought to be strong.

A strategy for Canadian companies could be to identify unique and attention-grabbing products which are not only useful but also fit the trendy lifestyle associated with the activity. Advertising targeted to this market niche is important.

Fashion trends in snowboarding are becoming more popular than ski fashions. The tight, aerodynamic clothing associated with alpine skiing is not popular with trendy snowboarders who favour loose clothing and stylish colouring. Apparel is considered a major aspect of the attraction to the activity and is popular even among the fashion-conscious, including those who do not snowboard.



## ***Hockey and Skating***

Hockey suffers from a lack of facilities throughout Japan; potential players have difficulty locating a place to play.

Canadian exports of hockey equipment (excluding gloves) to Japan showed no growth in 1996, and held at C\$2.6 million. Any post-Olympic interest may be short-lived in the absence of arenas.

There are more locations for pleasure skating throughout Japan, but ice skating does not represent a major winter activity. Exports of Canadian-made ice skates attached to boots grew 18% (to C\$948,000) in 1996. Perhaps due to the Olympics, growth should remain healthy in the short-term. There are, however, no forecasts of a major long-term rise in demand.

## ***Summer Sports and Activities***

### ***Golf***

The market for golf-related imports is dominated by American and Asian companies, which together represent over 95% of all foreign sales in Japan. Canada's exports to Japan of all golf products was about C\$300,000 in 1996, compared to total imports of golf products of almost C\$2.5 million.

From 1992-1995, expenditure on golf fell faster than the sporting goods industry average. Previously, golf had come to be associated with the working life of the salaryman. As corporations cut back on work-related golf, the market has suffered.

However, golf courses did report an increase in visits of 1.8% in 1996. Sixty-six new courses opened and 400 more courses are in the planning stages. Growth in golf products may occur as leisure activity outside of work increases.

### ***Bicycles and Parts***

The United States and Asian countries dominate this market, accounting for over 96% of exports to Japan.

Areas of possible growth are bicycle parts and accessories; 1996 saw exports of Canadian products increase 7.6% to \$326,000. (The bicycle market in Japan is valued at about \$305 million and is decreasing) Mountain bikes provide opportunities as trend-conscious Japanese seek new products. Canada's reputation as a nation of mountains and wilderness may aid exporters. High-end, niche marketing of exceptional quality products may be the only way to access the very competitive bicycle market.

Note that helmets are not required nor is there yet much awareness of the need to wear them.

### ***Spas and Pools***

Canadian exports of spa and pool products to all countries rose by an estimated 32% in 1996, totalling C\$167 million. The average Japanese home does not have space, unlike North American homes, for a large pool. Success in this area will require adapting to the differences in Japanese lifestyle and swimming habits. It may be more advantageous to target institutions rather than consumers directly.

## ***In-line Skating/Hockey***

In-line skating has arrived in Japan, as skaters are becoming fairly common in parks in Tokyo. Hockey manufacturers should also take note of the increasing presence of in-line hockey, which is just now gaining a foothold in Japan as a dry weather team activity. This may represent the sole opportunity for growth for Canadian manufacturers of hockey gear as ice-hockey lacks playing locations.

Women's teams are growing in popularity but it is not clear to what extent this will progress.

## ***Other areas of growth***

Although issues of personal safety are becoming increasingly important for the active, the Japanese do not yet place emphasis on protective gear used in recreational activities. For example, despite the prevalence of bicycles in Japan, protective headgear is uncommon. However, the Japanese are becoming much more safety-conscious, and as such, bicycle helmets are among the sectors forecasted to benefit in the longer term. Light helmets made of hard plastics and styrofoam would be preferred.

Currently protective padding for in-line skating, except for knee pads, are seldom used. Most other forms of personal protection for sports and leisure activities may see increased sales over the long term.

The world trend toward personal fitness is slowly catching on in Japan. There was an economy-led fitness centre boom in the late 1980s, but that faded when growth turned sharply downward. Despite early successes, exporters from the U.S. failed to adapt their fitness equipment to the Japanese physique. This allowed domestic producers an opportunity to overcome American market dominance by tailoring their products for Japanese buyers.

Japanese society is aging due to exceptional longevity and a low birth rate. Many older, healthy Japanese remain very active, and fitness clubs are no longer the sole domain of the 20-35 year-old set. In fact, fitness products designed to accommodate Japanese over 50 are the most likely to see gains.

Safe, low-impact personal training devices such as step-masters and treadmills would appear to suit the older but still fitness-conscious person much more than other expensive gym equipment such as weights.

Walking, swimming, and jogging continue to be extremely popular leisure and fitness activities for all ages.

## **THE ACTION PLAN**

The market for sporting goods is poised for long-term growth in Japan. Canadian companies are perceived as manufacturers of safe, high-quality outdoor and sports products. However, winning business in Japan will require more than manufacturing expertise. Products will need to be tailored for a consumer oriented society of changing tastes and demographics. To penetrate the Japanese market, Canadian industry will need to be prepared to commit to a long term strategy.

Canadian companies interested in gaining a foothold or in increasing their current share of the Japanese sporting goods market will need comprehensive information on market potential.



The ACTION PLAN will address this by focussing on **market awareness** activities and products, **market adaption** necessary to tap this potential, and improved **market access** through product promotion activities.

## *Building Awareness and Market Knowledge*

Doing business in Japan can be difficult, frustrating, time-consuming, and expensive. With the right combination of knowledge and assistance, it can also be extremely rewarding.

Japan's distribution channels are complex and often confusing. There are various models of business relationships/distribution systems operating in Japan however working through Japanese intermediaries each adding 15-40% to the final cost remains the norm. However methods of doing business are changing, albeit slowly. The emerging dominance of large retailers and a move to the outskirts of cities to enable affordable parking is of growing importance. Increasingly, retail sales of sporting goods have been made through a small number of large, international 'mega-store' chains. Discount stores and catalogue shopping are fairly new to Japan but their popularity is growing.

It will take time to develop presence in the market. Canadian manufacturers are advised to establish realistic sales goals and to nurture their relationships with Japanese agents and / or distributors, particularly in light of the continued demand for quality after-sales service.

Canada's Embassy in Tokyo develops and disseminates market reports and information as well as other types of business intelligence in concert with industry associations and the Sporting Goods National Sector Team (The NST is a the forum of industry associations and federal and provincial government representatives that concerns itself with sporting goods.)

Other activities stimulating awareness and increasing knowledge could include: seminars and presentations made at industry meetings featuring successful Canadian exporters; individual counselling of export-ready companies by trade officials in Canada as well as in Japan; and putting current information on Ni-Ka Online: Canada's Internet Window on Japan.

## *Adapting Products for the Japanese Market*

The participation of women, families and seniors in sporting activity is growing in Japan. Due to their free time and disposable income, the burgeoning 'over 60' market will be a source of growth.

Exporters of clothing and personal equipment should adapt to the differences in the Japanese physique compared to North Americans.

## *Market Access Barriers*

Developing partnerships with local distributors and using their expertise and experience may minimize the impact of non-tariff barriers, such as complex distribution channels, language, and culture. Japanese partners are able to provide both advice to the manufacturer and service to the client. Companies should be prepared to devote a lot of time and attention to the maintenance of good business relations. In addition, the Canadian missions in Japan have trade and locally-engaged commercial officers who will provide support and advice for companies. (Information on how to reach the missions and other contacts can be found in the appendix)

## *Promoting Products in the Market Place / Market Access*

Many Canadian exporters have excellent international reputations. In addition to the seven largest Canadian internationally competitive companies, there are a number of smaller but well-regarded Canadian companies making products for niche markets. Still, there remains a large number of small and medium sized enterprises whose unique products could see breakthroughs in Japan. The challenge is to identify methods of effectively promoting these SMEs and marketing their products.

## **IMPLEMENTATION**

To capture a greater share of the enormous opportunities arising in the Japanese market in the sporting goods sector, industry and government through the National Sector Team will develop a work plan to assist the Canadian sporting goods industry.

Trade promotion activities that will be pursued will include:

- Promoting and building on other-market successes of exporters: Products that have been successfully exported to the U.S. can be emphasized to potential Japanese importers. Of all Canadian exports of sporting goods, presently only 3-5% go to Asia. Success in Japan can also serve as a gateway to exports to other Asian markets.
- Promoting safety in sporting goods products: Consumers in Japan increasingly recognize and value the high level of North American safety standards, and may adopt them when they accept a new activity.
- Facilitating Canadian participation in Japanese trade shows, including establishing a "Canada Pavilion", depending on the interest of Canadian companies. The JETRO Leisure and Recreation show, held concurrently with Sports Japan in Tokyo in February 1998 (**L+R 98**) is an excellent entry point for new companies. Working with JETRO, the NST will promote participation in this biannual event.



The Canadian Embassy in Tokyo has private facilities which can be used for smaller scale solo shows. Companies can apply to use this space at no cost but direct expenses such as invitations, reception, and extra staff are borne by the companies. For information, contact PJP or the Canadian Embassy in Tokyo as indicated in the appendix.

Note that international trade shows such as ISPO in Germany and the Supershow in Atlanta are well attended by Japanese buyers.

- Sponsoring domestic seminars and shows: JETRO, Industry Canada, and the Canadian Sporting Goods Association sponsor seminars in various locations in Canada in order to provide market information to Canadian companies.

# Consumer Products: Giftware

## **BACKGROUND**

The Japanese giftware market, with sales of 10 trillion yen (CDN\$ 140 billion) offers enormous opportunities for Canadian companies. The potential for small and medium sized enterprises to penetrate the Japanese market is particularly interesting in this sector.

The Canadian presence in the market, while small, appears poised for sharp growth. Japanese deregulation, while expected to increase competition and generally lower prices, will give better access to Canadian companies ready to enter the market. It is estimated that, along with the large giftware manufacturers, there are close to 300 export-ready enterprises in this sector. Sales will be fuelled by increased demand for housewares and novelties, and a small but growing Japanese interest in Canadian arts and crafts.

Japanese gift-giving has traditionally centred upon two periods: Chugen (mid-year) and *Seibo* (year-end). Gifts presented at these periods are mostly food and beverage items (tea, seaweed products, candies, osembe etc.) and represent a market of over 1.7 trillion yen (CDN\$20 billion) (1995). In addition to these traditional gift-giving periods, Japanese consumers have increasingly adopted Western customs of gift-giving. These occasions, such as birthdays, Mother's Day, Valentine's Day and Christmas are generally commemorative in nature and are growth opportunities, in addition to traditional Japanese gift-giving. (Valentine's Day has its own Japanese twist: women buy chocolates and gifts for the special man in their lives and a month later on the 14th of March, WHITE DAY, the men reciprocate.)

In addition to these well-established customs of personal gift-giving, in 1995 Japanese corporations gave gifts valued at over 2.3 trillion yen (CDN\$40 billion).

Commemorative and seasonal gifts are popular; however, over half of corporate gifts are sales promotion items. Practical gifts (household linens, tissues, garbage bags, etc.), are often embossed with corporate names and used for company promotion.

In August, 1997, Japan's *Fair Trade Commission* eased regulations set forth earlier in the *Improper Premiums and Labelling Prevention Law*. This will serve to encourage corporate giveaways by raising value limits on promotional gifts.

## **Market Opportunities and Trends**

While much gift-giving in Japan is based on custom, demographic and lifestyle changes do provide excellent opportunities for new products. The following areas are expected to show rapid growth: products that recognize the Japanese desire for health, relaxation and cleanliness, especially in the context of an aging population, and products that are distinctly international.



In addition to knowing current trends, Canadian success in the Japanese market will be largely dependent on a strong understanding of the nature of gift-giving in Japan. Japanese society has deeply rooted customs of giving cash, goods and services, and there are a number of rules which apply to both the giver and receiver.

## *Gift-giving in Japan*

Receivers of gifts are often expected to reciprocate, with gifts of about half the value of the original, called 'o-kaeshi'. These reciprocal gifts have increasingly been food products.

The focus of much Japanese gift-giving is on presentation and packaging. Ostentatious wrapping for an otherwise humble gift is typical. Gifts are mostly given by women, who are often very likely to give items they themselves would like to receive. Packaging is therefore designed to recognize this trend.

Gift sets of various items are extremely popular and are recommended to exporters. However, it should be noted that the numbers 4 and 9 are considered unlucky in Japan and gift sets of those sizes MUST be avoided. (The number four has the same sound as the word for death; the number nine is similar to the word for suffering). Sets of 2 or 5 are common, although crystal in sets of 6 is acceptable.

Japan has a C\$25 billion annual liquor market. Alcoholic beverages represent a common gift item, with beer being especially common at mid-year.

While beer represents 70% of the alcohol consumed in Japan, imported wine has a stronger foothold now. Canadian exports of wine from fresh grapes quadrupled in value from the first three months of 1996 to the same period in 1997. This growth was partially at the expense of imported whiskies.

However, in July 1996 a panel established by the World Trade Organization (WTO) established that Japanese liquor taxes effectively discriminated against foreign products. Since then Japan has sought to modify its statutes to conform with the WTO ruling. It is believed that this will result in improved access for Canadian whiskey. Statistics from the first six months of 1997 show an increase in Canadian whiskey exports of 4.3% (to C\$6 million).

Canada is not currently a major player in the Japanese confections market. Name-brand European and American chocolates and biscuits tend to dominate. However, there have been recent signs of growth in sweet products like maple syrup, quarterly sales of which doubled in two years to reach 114 million yen in the first three months of 1997.

Japanese consumers are keen to try things unavailable to them locally, and products unique to Canada will likely lead export growth in giftware.

For example, there is great potential for growth in the export of uniquely Canadian arts and crafts. In 1996 exports of arts and crafts exceeded CDN\$60 million, with 90% going to the U.S.

Another example is Japanese fondness for blueberries. Blueberry products, such as blueberry cookies attractively packaged in a gift set, is a good example of a Canadian product that would appeal to the local market.

As Japanese consumers continue to abandon standard gifts and seek more individualized items, Canadian export opportunities should increase. This will be helped as Japanese tourism and awareness of Canada grows.

# THE ACTION PLAN

Japanese consumers are more likely to buy imported giftware now than over before. This trend, coupled with deregulation, means Canadian access to this highly lucrative Japanese giftware market is key for export growth.

Access, by itself, however, is not enough to guarantee success. Canadian exporters, with help from government, must be made aware of the unique nature of the market, and adapt and promote their products accordingly. The Action Plan is designed to provide information to domestic producers, in order to position them for long-term success.

## *Raising Awareness of Canadian Products*

Canada's profile at important trade shows must increase for Canada to gain access to the market.

Only six Canadian companies attended the 43rd Tokyo International Gift Show in February 1997. Note that this bi-annual show attracted over 170,000 visitors, half from outside Tokyo.

Two other major shows are the Osaka International Gift Show and the twice-annual All Japan Gift Festival Tokyo.

Solo shows in various locations around Japan and the Canadian Lifestyle Products Show at the Consulate General in Osaka have helped to raise product awareness among Japanese consumers. Future solo shows will be considered, dependent on the interest of Canadian companies in participating.

Selling to Japanese tourists in duty free stores at airports and at destinations throughout Canada that attract Japanese tourists (Banff is an example) provides an excellent opportunity to promote Canadian products and to test the market.

## *Adapting Products for the Japanese Market*

As stated above, it is important that Canadian producers understand the unique nature of the Japanese market for giftware. The pricing of gifts appropriately is of utmost importance.

It is common for the Japanese to recognize appropriate price levels for various gifts, depending on the occasion and the giver's relationship with the recipient. For example, *chugen* and *seibo* gifts are generally priced in three categories, products costing 3,500, 5,000 and 10,000 yen. Otherwise appropriate gifts priced outside these ranges can expect lower sales.

As noted above, gift sets of four items (very common in the West), will see much lower sales due to the belief that four is unlucky. Exporters should be prepared to alter both product and packaging to suit Japanese tastes.

Often, Japanese buyers are unaware of certain aspects of uniquely Canadian gifts and crafts that would stimulate their interest. A bilingual (Japanese / English) tag or other packaging that identifies the uniqueness of a product adds to its marketability.



## Overcoming Market Access Barriers

In addition to market access barriers stemming from a lack of awareness of Japanese market conditions, distribution channels continue to pose problems for export-ready companies. Success in Japan requires long-term relationships, and these are often difficult to develop for smaller companies.

It is usually helpful for Canadians to establish a rapport with a Japanese importer, who can provide the marketing expertise and understanding of cultural norms that Canadian-based companies have not had time to develop. Japanese contacts are frequently made at trade shows like the ones noted above.

# Tourism

## Overview

Japanese outbound travel has grown at an exceptional rate over the past 30 years, from 200,000 visits abroad in 1965 to 15.3 million in 1995. Incentives to travel include a substantial appreciation of the yen against foreign currencies, government programs that actually encourage outbound travel, changes in Japanese lifestyle, and extremely competitive promotional efforts by the travel industry. Since 1990, Japanese outbound travel has grown at an annual average rate of 6.8%, which, if maintained, will translate into 21.3 million Japanese outbound travellers in year 2000. The support by the Japanese Ministry of Transport for increased bidirectional tourism has been provided through its program "Two-Way Tourism 21," aimed at promoting broad-based international tourism now and into the 21st century.

Japan is a sophisticated market of growing importance that is undergoing considerable change in travel purchase behaviour. Japanese consumers are becoming wiser and more selective, seeking value over brand. Although tour group travel is still significant, there is an increase in independent travel and a tendency toward staying longer in one place and in "off-peak" seasons. The composition of Japanese overseas travellers is more varied than ever before, including new segments (e.g., "full-moon couples — 45 to 54 years") and new fast-growing regions, particularly Kansai and Tokai. All these changes require a long-term commitment to the market and bear a significant impact on the Canadian marketing program in Japan in order to adequately respond to these new consumer needs. In addition, the competition for a greater share of this shifting yet lucrative market is becoming increasingly intense. Australia and nearby Asian destinations remain key competitors, fuelled significantly by major marketing campaigns and Japanese investment in those regions. The United States also continues to receive a large number of Japanese visitors.

Japan ranks as Canada's most important overseas market in terms of tourism revenues, generating \$689.7 million in 1996 (excluding international airfares), an increase of 4.3% over 1995. Overnight Japanese travel to Canada increased by 9.9% in 1996, to reach 647,700 visits. The weakening yen exchange rate for the Canadian dollar in 1996 has had a negative impact on the amount of spending done by Japanese tourists when visiting Canada. The average spending per trip has decreased from \$1,122 in 1995 to \$1,065 in 1996. However, the Japanese tourist remains one of Canada's highest spender per trip of all overseas travel markets. Potential incremental revenue of the Japanese travel market is significant, each market point share representing incremental revenue of \$80 million for Canada.

Japan travel to Canada is a key contributor to the tourism sector, which has a significant impact in the Canadian economy, particularly with respect to employment where, in 1996, tourism activities provided close to half a million jobs for Canadians. Tourism is ranked fourth in terms of export earnings, and the tourism industry has important links to other sectors of the Canadian economy. Japanese businesses are investing in the Canadian tourism sector, particularly in hotel and resort properties throughout Canada, including Toronto, Banff, Vancouver, Whistler and Victoria. Major Japanese travel companies have established their own operations and liaison offices in Canada, creating employment and displaying their long-term commitment to promoting Canada as a travel destination.



## Background

In 1993, during the first Canada-Japan Tourism Conference held in Montréal, the head of the Japanese delegation challenged the Canadian and Japanese industries to increase the number of visitors travelling between the two countries to 2 million annually. For Canada, this meant tripling Japanese arrivals from 500 000 to 1.5 million. To meet and respond to the Canada-Japan Two Million Visitor Two-Way Tourism Challenge, the following six specific strategies were put forward:

- The Canadian tourism industry, led by the public and private-sector members of the Asia-Pacific Partnership Committee (APPC), have to increase its investment in the development and promotion of regional brand products, building and expanding upon regional anchor products identified by research as having potential for the Japanese market. Since the success of new tourism products is linked to demand, the industry will also work to mitigate the extremes in seasonality for Japanese travel to Canada by promoting a "Four Season Canada."
- Canada's national air carriers, Canadian Airlines International and Air Canada, have to aggressively promote tourism to Canada during the eight off-peak months (October to May). This promotion is required to fully utilize airport and aircraft seat capacity.
- Building upon the various intermodal and inter-company passes that currently exist in the marketplace, Canadian surface transportation carriers have to develop a series of regional intermodal passes specifically for use by Japanese visitors.
- To improve customer service and sensitivity to visitors from Asia, the Hotel Association of Canada (HAC), the Asia-Pacific Foundation of Canada (APFC) and the Retail Council of Canada have to develop a comprehensive cross-cultural skills and awareness training program for delivery in various sectors of the Canadian tourism industry.
- The APFC, in co-operation with public and private sector partners, have to establish a resource centre to make available consolidated information on cross-culture awareness and existing career training programs will be made available to the industry at large.
- Recognizing the rapidly growing incidence of independent travel among Japanese travellers, the Canadian Tourism Commission (CTC) and industry partners have to engage in research to more fully understand this trip type. In the short term, Canada's tourism industry has to develop an action plan to take steps to meet the special needs of the independent Japanese traveller.

## Canada's Action Plan

The economic benefits of reaching the target set by the Canada-Japan Two Million Visitor Two-Way Tourism Challenge are enormous. An additional \$1 billion would be pumped into the Canadian economy each year, creating more than 20 000 new jobs. To achieve this end, the Canadian tourism industry must commit itself to carrying out the strategy as outlined in Canada's Action Plan for Japan — with emphasis on awareness of Japan's changing market dynamics, product adaptation to these changes, and response to the marketing challenges.



All activities in the Action Plan flow from strategic directions outlined in the CTC's Asia-Pacific Marketing Program Medium-Term Business Plan, and they are summarized in the Asia-Pacific Marketing Program Operational Plan 1997/98. Both form an important component of Canada's Action Plan for Japan, under the aegis of the Asia-Pacific Marketing Committee, one of the CTC's eight program committees. Led by industry chair Terry Francis, this committee comprises public and private sector organizations that have indicated an intention to invest funds and/or in-kind services in support of the integrated marketing plan.

## *Market Opportunities for 1997/98*

To effectively capitalize upon the increasing potential of the Japanese market, Canada's tourism industry must become aware of, adapt to, and initiate programs that will further enhance Japanese interest in, and visits to, this country. A step in this direction is to understand more about the types of Japanese visitors that come to Canada.

Canada's target increases for 1997 and 1998 over the previous year for the Japanese market are set as follow: 10% for 1997 and 9.8% for 1998 in overnight visits (increasing by 135,000 in total from 1996 level), 14% for 1997 and 12.8% for 1998 in receipts (increasing by \$197 million in total from the 1996 level). While the major objective remains increased revenue, emphasis will be placed on spending per trip by targeting high-yield segments. Although "Office ladies" — single Japanese women aged 20 to 29 years — remain a priority segment, resources are also allocated to other growth markets, such as family travellers (baby-boomers and their children) and "full-moon" couples. Key niche segments, such as incentive (business and students), technical visits, and ski trips will also be targeted. Special attention will be given to the independent traveller in all of these customer segments. The marketing approach in Japan is tightly focussed, featuring product-specific messages aimed at these segments. Efforts focus upon influencing a shift of visits from peak season to shoulder and off-season. New products are being packaged and promoted in a highly targeted fashion.

## *Marketing Canada to Japanese travellers*

In recognition of the growing economic importance of tourism, the CTC, under the chairmanship of the Honourable J. Judd Buchanan, was established in 1995 with a yearly funding from the federal government of \$50 million, an increase of \$35 million over the previous federal government's marketing investment in tourism. In recognition of the important catalytic role of tourism in the Canadian economy, the federal government agreed to further increase its contribution to the tourism program in 1997/98 by \$15 million annually for the next three years, with the expectations that these funds will be matched by a joint partnership with the private sector. Already benefiting from a joint CTC/private sector marketing budget exceeding \$100 million, these additional funds will further reinforce Canada's marketing position in the global tourism industry. These important changes have had a significant impact on Canada's tourism marketing efforts with Japan, bringing the federal marketing budget from \$1.7 million in 1994/95 to \$8.3 million in 1997/98 and subsequent years. When partner funding is added, the 1997/98 budget totals over \$18.5 million.

Using an integrated approach with all stakeholders in the Japanese travel market, the core of the marketing investment in Japan in 1997/98 will be made up of a major advertising program, an elaborated public relations program with media that will result in an enhanced presence in Japanese television programming, a series of promotions featuring Canadian product clusters and a comprehensive trade development program.



## ***Building Awareness and Market Knowledge***

*The Asia-Pacific Marketing Program Medium-Term Business Plan.* This document outlines the CTC's medium-term goals and strategies for its key Asia-Pacific Markets.

*Asia-Pacific Marketing Program Operational Plans for 1997/98.* This document outlines the CTC-partnered activities on a yearly basis.

*Packaging for the Japanese Travel Market: A Handbook for Canadian Tourism Suppliers (April 1995).* This manual provides practical guidelines on defining products and services to sell to tour operators and wholesalers.

*Japan Pleasure Travel Market Study - Consumers and Trade Surveys.* Commissioned by the CTC, this 1996 study assesses Japanese consumer tastes and preferences, travel habits and travel trade market changes affecting the pleasure travel market.

## ***Adapting Products for the Marketplace***

*Japan Tourism Market Guide.* This guide was developed by the Canadian Embassy in Tokyo to help the tourism industry evaluate emerging opportunities in Japan and plan marketing strategies.

Rendez-Vous Canada. Japan fielded the largest number of representatives (more than 50 delegates) to Canada's internationally recognized travel trade marketplace in May 1996. In May 1997, host buyer organizations from Japan met in Vancouver to conduct business with more than 400 Canadian seller organizations. Rendez-vous Canada 1998 will be in Quebec City in May 1998, and a large contingent of Japanese buyers will be in attendance

The Canada Committee, chaired by the Canadian Tourism Commission. This committee was set up to provide an in-depth review of the issues linked to the Canada-Japan Two Million Visitor Two-Way Tourism Challenge.

The Fourth Canada-Japan Tourism Conference, held in Japan in October 1996, provided a forum for 80 top executives and public-sector officials from Canada and Japan to discuss issues and business opportunities of interest to both countries.

## ***Promoting Products in the Marketplace***

The Asia-Pacific Marketing Program Operational Plans for 1997/98 and 1998/99 (in preparation). These plans describe CTC's partnered activities for each fiscal year.

Japanese Advertising Campaigns. CTC and partners hardsell advertising and relationship marketing campaigns targeted at winter/spring and summer/fall travellers.

Multi-year co-operative marketing plans to develop products to new destinations and seasons with major Japanese tour wholesalers and JCB International, Japan's largest credit card company. JCB signed an agreement in August 1995 that involves marketing Canadian travel products to JCB card holders through advertising and promotional events.

# *The Industry Lead Group*

## *Asia-Pacific Marketing Executive Committee*

The Asia-Pacific Marketing Executive Committee, chaired by Terry Francis (President, T. and T.G. (S.A.) Consulting), includes:

- Jim Fraser, V.P. Planning and Marketing Brewster Transportation
- Tony Buckley, Regional Director, Japan and Asia, Canadian Airlines
- Rob McCloskey, Director Marketing, Tourism P.E.I.
- Danielle Poudrette, Senior Director, Product Management, Air Canada
- Brian Richardson, V.P. Marketing, CP Hotels
- Grahame Richards, ADM Tourism, Economic Development Trade & Tourism, Ontario
- Tak Onaga, Director, Purchasing and Marketing, JTB International (Canada)
- Keith de Bellefeuille-Percy, V.P. Overseas, Canadian Tourism Commission

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AAFC Agriculture and Agrifood Canada  
IC Industry Canada

CTC Canadian Tourism Commission  
ACOA Atlantic Canada Opportunities Agency  
DFO Fisheries and Oceans  
ProvGovt Provincial Trade Office



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