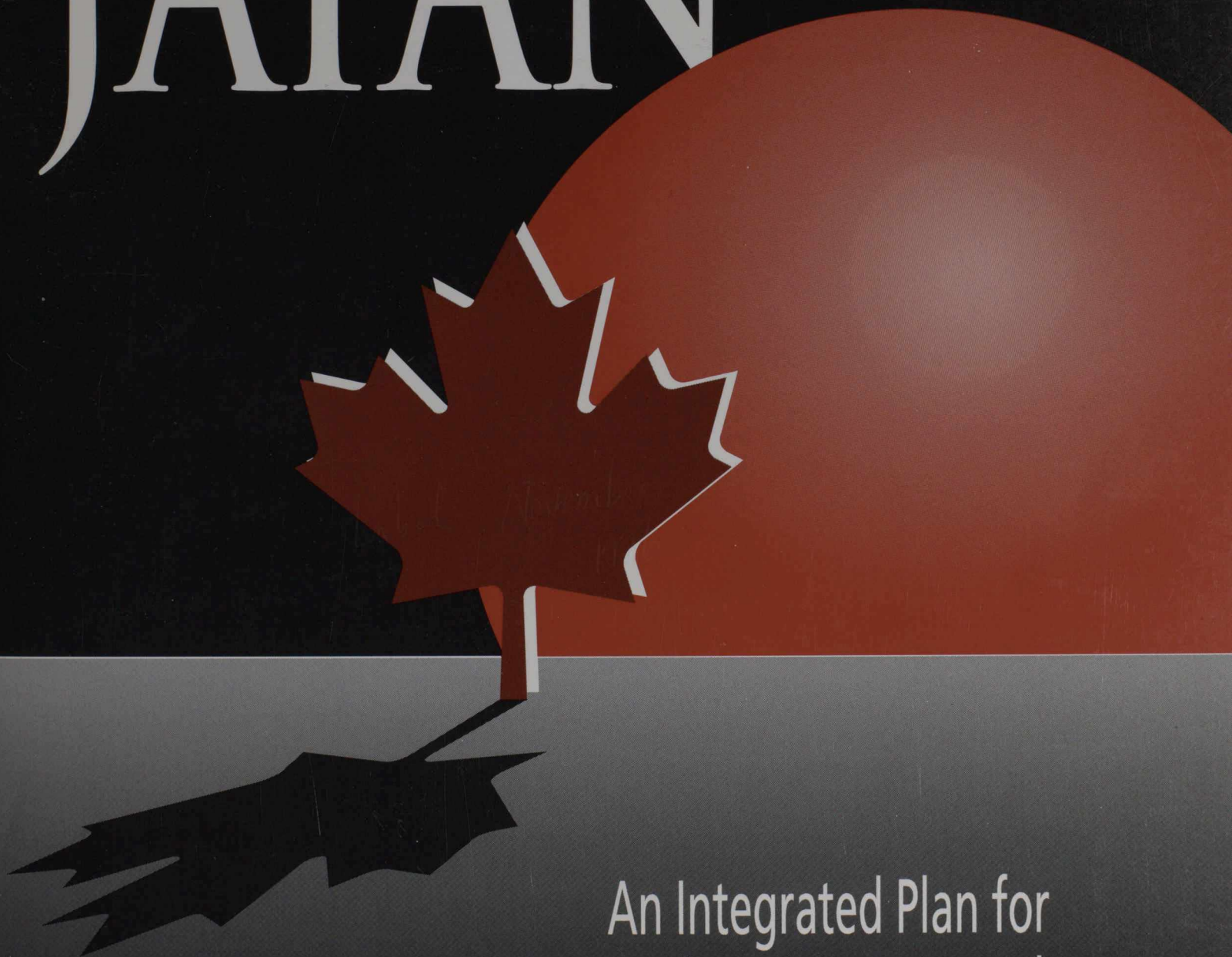


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Canada's Action Plan for

JAPAN

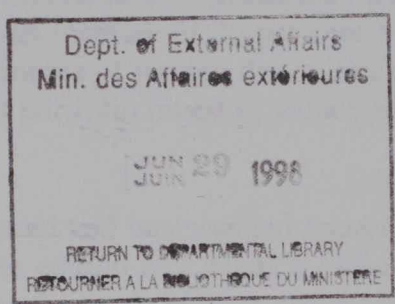


An Integrated Plan for
Trade, Investment and
Technology Development

November 1996

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CANADA'S ACTION PLAN FOR JAPAN



Foreword

Japan is a global economic powerhouse, rivalling the European Union and the United States. Japan's \$5-trillion economy accounts for 20 per cent of world gross national product, compared with 30 per cent for the European Union and 28 per cent for the United States. It is the world's third largest import market after the United States and Germany, one of the world's primary sources of foreign investment and industrial technologies, and the largest source of official development assistance. Japan accounts for 70 per cent of economic output and 30 per cent of trade in the Asia-Pacific region.

To secure the country's long-term prosperity, the Japanese government has committed 17 trillion yen in spending on science and technology over the next five years — an average 13 per cent budget increase per year, bringing this investment to the same level as the United States by the year 2000. Continuing economic restructuring and deregulation could establish the under-utilized Japanese domestic market as a primary engine of growth before the turn of the century and open up countless new and diverse business opportunities in Japan and in other markets.

Japanese investment strategies are increasingly oriented toward reducing costs by shifting operations overseas, by emphasizing international procurement, and through more active intra-company trade in materials, finished products and services. While short-term investment plans have focussed on dynamic Asian markets, the prospects for further investment in Canada remain promising since Japanese companies will need to retain market share and pursue fully integrated production abroad, including research and development and the manufacture of component parts.

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Overview

Japan is Canada's second-largest trading partner and largest source of overseas tourism revenue. In 1995, two-way trade surpassed \$24 billion, and exports alone increased by 24 per cent to \$12 billion. Tourism generated a record \$661 million, an increase of 20 per cent over the previous year. Japan is also Canada's third most important source of foreign direct investment, valued at \$12.5 billion in March 1996, and the second-largest portfolio investor, valued at \$43.5 billion in March 1996.

Canada's Action Plan for Japan defines a co-ordinated and business-led approach to expanding the Canada-Japan business relationship. This fourth edition of Canada's Action Plan for Japan outlines a strategy to realize opportunities in seven of Japan's highest-growth sectors: building products, fish and seafood products, processed food products, furniture, health care and medical devices, tourism, and information technologies. The strategy emphasizes the importance of increased knowledge and awareness of the Japanese market and adapting products and services to meet Japanese requirements. It outlines specific activities to help expand trade, investment and technology ties between Canada and Japan.

Several factors favour expanding and diversifying business between Canada and Japan, including the still relatively high-valued yen, continued economic restructuring and deregulation, increasingly value-conscious customers, a large pool of available capital and technologies, and a strong willingness on the part of the Japanese business community to develop partnerships with Canadian firms. Canada also has a lot to offer Japanese investors: a productive labour force, a highly developed and efficient infrastructure, a sound and open economy, and access to the entire North American market.

Canada's Action Plan for Japan will promote investment in sectors in which Canada has demonstrated particular strengths of interest to potential investors, such as building products, fish and seafood products, processed foods, furniture, health care products, tourism and information technologies. The Keidanren Business Partnerships Mission, which visited Canada in September 1996, should serve as a catalyst for further investment in Canada.

Promoting the development of technology-based partnerships is another vital component of Canada's Action Plan for Japan. Successfully adopting and adapting innovative technologies and processes can be key to success. Canada has leading technologies in a broad spectrum of sectors, including telecommunications and medicine, and Japan has world-class technologies in areas such as advanced materials and manufacturing. Technology-based partnerships in all sectors have played a key role in developing Canada-Japan trade.

Opportunities for increased business linkages are not confined to the seven sectors of the Action Plan. For instance, given the global reach of Japanese companies and the fact that Japan is the world's largest source of official development assistance, many diverse opportunities exist for Canadian involvement in Japanese projects in third countries. Targeting government support for business development in the seven sectors of the Action Plan reflects the need to focus limited resources where they will be most effective — in areas that offer significant opportunity and that parallel areas of demonstrated Canadian expertise.

Visit *Ni-Ka Online*: *Canada's Internet Window on Japan*, where Canadians can find a wealth of practical information on Japan provided by the Department of Foreign Affairs and International Trade (DFAIT), and Canada's offices in Japan; plus links to dozens of other useful sites in Japan and elsewhere. *Ni-Ka Online* is located within the DFAIT web site. You can reach it through DFAIT's home page (<http://www.dfait-maeci.gc.ca>), or simply enter "Ni-Ka Online" in most search engines to reach it directly.

The first thing I noticed when I stepped out
of the plane was the fresh air. It felt like I
had been in a bubble for the last few days.
The sun was shining brightly, and the birds
were chirping happily. I took a deep breath
and smiled. This was my chance to start
over. I had a new job, a new house, and
a new life. I was finally free.

CANADA'S ACTION PLAN FOR JAPAN

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BUILDING PRODUCTS

For several years, Japan has been Canada's leading overseas market for forest products. In 1995, Canadian exports of forest products to Japan (including lumber, pulp and paper) exceeded \$4.8 billion, with softwood lumber comprising \$2.6 billion and supplying some 80 per cent of the lumber imported for Japan's burgeoning housing sector, the world's largest, with some 1.5 million starts annually.

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. Even with an expansion in exports in manufactured housing of 139 per cent in 1995, 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 became Japan's leading supplier of prefabricated housing in 1995 and is likely to retain this position for the foreseeable future as a result of its ability to supply advanced housing suited to Japan's needs, and despite aggressive foreign competition.

Acute shortages of skilled tradesmen and high domestic labour costs, combined with recession-driven consumer demand for lower-cost housing, continue to fuel the demand for imported building products (called "imported housing" in Japan). Canadian products are highly competitive in both price and quality and can be tailored to local requirements, including sizing, pre-finishing and packaging. A key area of Canadian effort in Japan is 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.

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. 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. Evaluation bodies and testing laboratories in both countries are collaborating closely, as in the recently completed full-scale fire test conducted on wood-frame houses at Tsukuba City. In addition, Japan appears to be moving in the

direction of performance-based standards. Negotiations are proceeding between the National Research Council (NRC)'s Canadian Construction Materials Centre and the Japanese Ministry of Construction to facilitate market access for innovative Canadian products.

At present, Canadian companies wishing to export finished building products to Japan, particularly those requiring a fire rating, face expensive testing procedures, but if such testing can be done in Canada instead of in Japan, these costs can be lowered. An initial breakthrough occurred on December 19, 1995, when ULC, Toronto, was granted Foreign Testing Organization status, thus permitting ULC to conduct fire-testing of certain Canadian products to Japanese standards.

Another example of Canada-Japan cooperation is a research initiative between the Canadian Forest Service/Forintek and the Japanese Ministry of Construction's Building Research Centre, whereby collaborative research is underway on timber structures under seismic and wind loads. This activity 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 harmonized codes and standards.

Another recent Canadian initiative is a combined government/industry partnership aimed at achieving Japanese Ministry of Construction acceptance of closed prefabricated wall/floor/roof panels. The use of such panels, incorporating insulation, interior/exterior coverings and other value-

added components, would increase the efficiency, and therefore desirability, of imported housing in Japan, while permitting additional finished building products to be exported from Canada.

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.

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 Great Hanshin Earthquake that devastated Kobe on January 17, 1995, resulted in the provision of temporary housing by several Canadian companies as part of immediate relief efforts. In addition, the earthquake disaster provided an opportunity to introduce Canadian manufactured housing and a range of value-added building products for the rebuilding of permanent housing in the Kobe/Osaka region. The strong performance of Canadian 2x4 housing during the earthquake is assisting Canada's efforts to promote prefabricated 2x4 housing throughout Japan, as well as helping ensure a continuing strong market demand for Canadian dimension lumber, plywood and oriented strand board,

both for new construction and for the renovation and rehabilitation of existing housing. Such renovation accounts for about 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 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 and 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 2x4 (platform frame) construction industry, which Canada introduced to Japan about 20 years ago, now accounts for some 75 000 housing starts annually. 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 greater promotional effort is still required to effectively convey the strengths of the Canadian industry.

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 and related amenities;
- 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;
- the recent approval of three-storey wooden apartment construction in non-fire zones;

- a Japanese preference for "natural" wood and stone products;
- the Japanese ability and willingness to pay higher prices for high-quality products;
- recent Japanese government initiatives (review of JAS standards, revision of fire codes for three-storey buildings, etc.) 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 that they can adapt their products to suit Japanese requirements and promote their products in Japan.

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, such as 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, which recently established an Export Council to pursue marketing opportunities off-shore.

As an example of federal-provincial activity and co-operation in the area of trade development, building product manufacturers

from the four Atlantic Provinces have come together under an Atlantic Canada Opportunities Agency project entitled "Atlantic Canada Home Program," which involves having their products promoted across Japan by means of a series of trade shows and through the building of several model homes in Japan, incorporating design features, furniture and decor items from each of the four Atlantic provinces.

The Export Building Products Initiative of Manitoba is a consortium of building product manufacturers who have co-operated to build a demonstration "Export House," which showcases a number of finished building products of local manufacture. The "Export House" has created a good deal of interest from potential Japanese buyers. The Manitoba group of companies will also be participating in trade development activities in Japan, such as Kobe Interhome 96, to build awareness of Manitoba's building products and to establish business linkages.

Another example 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 Canadian trade 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 offices 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 encouraged to participate in the following events with the organizational support of the Department of Foreign Affairs and International Trade (DFAIT) and Industry Canada:

- Japan Home Show, Tokyo, October 1997;
- Kobe Interhome Show, Osaka, September 1997;
- a series of Imported Housing Seminars across Japan;
- technical Workshops in Tokyo, Nagoya and Fukuoka, from June 1997 through March 1998; and

- solo building products shows in Osaka, Fukuoka and Kagoshima at various times in the year.

There will be several incoming buyers' missions to visit pre-selected Canadian companies and attend key trade shows this year. As well, there will be an incoming mission that focuses on training needs, and another that will combine housing and furniture buyers.

The B.C. Trade and Investment Office and B.C. Wood Specialties Group have organized a Canadian Building Products "Showcase" Exhibit for display at a number of major trade shows in Japan. Some 30 companies from B.C., as well as other provinces, will participate in this unique travelling exhibit. In addition, the B.C. Trade and Investment Office publishes the Canadian Building Products and Services Directory in Japanese, with a distribution of 13 000 copies annually. Listing in this directory is open to any Canadian company. These activities complement the B.C. Trade and Investment Office's "Canada Comfort Direct" (CCD) concept, aimed at establishing product demand and facilitating distribution in Japan. The CCD concept calls for buying missions to Canada, a manufacturers' directory and electronic hotline in Japan, and the travelling "Showcase" exhibit, which will be part of the leading building product trade show events held throughout Japan during 1997/98.

In 1995, CMHA prepared a revised Directory of Canadian Manufactured Buildings in Japanese. This directory is a useful tool to acquaint potential Japanese buyers with the range of manufactured housing products available from Canada. 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.

The Ontario Building Products for Export Association, comprised of leading suppliers of a wide range of building products places the highest priority on meeting the requirements of the Japanese housing industry and developing its business partnerships in Japan. In 1997, a new directory of capabilities will be published in Japanese.

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.

The Keidanren, or Federation of Business Organizations, is an association of Japan's most influential business leaders. In September 1996, the Keidanren was scheduled to bring a team to Canada as part of their Business Partnership Mission to Canada to study opportunities in manufactured housing, information technologies and processed food. Although the manufactured housing group was eventually cancelled, the visiting Keidanren officials invited Canadian industry to send a team to Japan to promote trade and investment opportunities in the manufactured housing sector. This mission from Canada is planned for the spring of 1997.

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.

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FISH AND SEAFOOD PRODUCTS

Japan is the world's largest import market for agricultural, fishery and food products. In order to supplement domestic food supply, the country imported US\$51.5 billion in food products in 1995, with seafood the most significant food import, at US\$17.5 billion. As the world's largest consumer market for fish products — importing more than one third of the world's exports — the Japanese consume an average of more than 72 kilograms per capita annually (more than five times the world average).

Imports of fish and fisheries products into Japan in the first half of 1996 amounted to 1.689 million tonnes, valued at 881 billion yen (US\$8.3 billion or C\$11.9 billion), down from US\$8.6 billion in the same period in 1995. The volume decreased by 2.2 per cent from 1.727 million tonnes for the same period in 1995, but the value in yen terms increased by 7.8 per cent from 816 billion yen.

Japan is Canada's second most important market overall and, in some cases, the only market for many of Canada's seafood exports. Imports from Canada in the period of January-June 1996 decreased by 13 per cent in volume, from 21.7 tonnes in the same period in 1995 to 18.9 tonnes in 1996, and by 7.4 per cent in yen value, from 22 million yen in 1995 to 20.4 million yen in 1996. However, in Canadian dollars, this decrease was 26.7 per cent (from \$350.3 million in 1995 to \$259 million in 1996), reflecting this year's strengthened Canadian dollar against the yen.

This decline in volume and value was caused mainly by the drop in imports of salmon (both frozen and fresh salmon) and the delay in the import of snow crab, compared with last year. The resumption of the capelin

fishery in Newfoundland is expected to add more than 12 000 tonnes of capelin to the total import volume of fish in the latter half of this year. Moreover, the B.C. salmon catch (which was better than was expected before the season opened) is expected to contribute to increasing both volume and value of imports from Canada for the rest of 1996.

Market Opportunities

While there is only one area in which Canada is the only exporter supplying a product (surfclams), there are many areas in which Canada is considered the top exporter — because of quality, consistency of supply, value, taste, or marketing efforts. Salted and frozen herring roe, snow crab, and live and frozen lobster (identified as "homard lobster" in Japan) are good examples of this, and Canada is the number two supplier of northern shrimp. In addition, there is the realization in Japan that Canada is a country that has high production standards, an attribute taken seriously by the Japanese since it matches their vision of their own country. Canada is also associated with images of beauty, nature, good health, abundance, and a pristine marine environment. Canada has managed to maintain this positive image despite the vigorous efforts of other countries to promote their own products on these same strengths.

Japan continues to be a dynamic market, with radical changes in the way seafood is distributed offering significant opportunities for buyers and sellers to come closer together. At the same time, the "price destruction" revolution instigated by consumers is increasing pressure, particularly on retailers, to lower prices. Since most of

Japan's seafood is imported, these changes are having a dramatic effect on exporters. The growing price sensitivity among Japanese consumers has been exacerbated in recent months by the weakened yen and a prolonged recession.

The nature of Canada's seafood exports to Japan has changed over the past five years from an emphasis on salmon to an emphasis on shellfish. However, given the cyclical nature of seafood supplies, it is likely that a shift back to salmon will occur as west-coast resources rebound and east-coast crab enters a period of declining abundance. The Japanese seafood trade paper *Daily Sea Foods Trade and Market News* originally estimated that imports of frozen sockeye salmon from Canada would decrease by 23 per cent, from 3000 tonnes in 1995 to 2300 tonnes in 1996. However, other estimates indicate that the improved situation in the Fraser River will increase the import of frozen sockeye from Canada to 4-5000 tonnes this year. There is also a renewed interest in Canadian mackerel as a result of the reduced supply and the higher prices from the Norwegian producers.

Established products in the market include black cod, herring roes (cured and frozen), crab, shrimp and hokkigai clams. Frozen processed lobster exports remain secure because the U.S. cannot harvest canner sizes, but live exports are under heavy competition from Maine. The re-entry of Newfoundland capelin exporters into the Japanese market in the latter half of 1996 is a positive move, and no analysis should ignore the variety of shellfish entering Japan in small volumes but at high prices.

Shifting Patterns of Distribution and Retail Trends

Shrinking retail margins are pushing retailers

to cut out middlemen and to negotiate directly with producers. In April 1995, the Hokkaido Federation of Fish Cooperatives announced that their members would work to expand direct sales of seafood to retailers. By 1997, the Federation hopes to sell 6 per cent of its annual fish sales directly to retailers; it now sells only 2 per cent directly. If this trend continues, it could signal an emerging change in the power of importers compared with retailers and reprocessors.

With the drop in total Japanese fish landings, especially in distant water fisheries, the importance of farmed fish consumption has been increasing. In 1985, farmed fish as a percentage of total landings (12.2 million tonnes) by Japan was 9.7 per cent (8.9 per cent sea farming and 0.8 per cent freshwater). By 1994, this percentage had increased to 17.5 per cent (sea farming 16.6 per cent; fresh-water farming 0.9 per cent) of the 8.1 million tonnes of total landings. Expensive species that consumers could not in the past often afford to buy 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 been increasing in the Japanese market. 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. In particular, the market for imported Atlantic and coho salmon has developed rapidly. In 1995, the total import of farmed salmon amounted to 90 000 tonnes (an increase of 16 per cent from 1994), while the total import of wild salmon decreased by 32 per cent from 167 000 tonnes in 1994 to 113 000 tonnes. Increased availability, consistently high quality, and a higher fat content than wild

salmon have contributed to the increasing popularity of farmed salmon among Japanese consumers. Although Canada's share in this field is very limited, the importance of Canadian farmed salmon exports is expected to continue to increase.

Rapid economic growth in Japan from 1970 to 1990 has also 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 women in the workforce (women now comprise more than 41 per cent of the total), the decrease in average family size and increase in single-person households, the aging of society, and the increasing internationalization of the Japanese population.

Changes occurring in the food-services sector in Japan present opportunities to Canadian exporters. While the expense-account fine-dining days may be over (or at least in decline), the overall trend to eat out continues to grow in Japan because of changing work habits and the breakdown of the traditional Japanese family. Per capita, the Japanese spend approximately \$2,000 a year in restaurants.

Much in line with North American consumers, Japanese consumers are now looking for convenience, quality and value. Two-thirds of Japanese families now own microwaves. They are eating a wider variety of foods and more ready-to-serve prepared items. They continue to demonstrate concern for the safety of food products and are showing a growing preference for "healthy" foods (lower fat and salt content).

Japanese consumer spending on high-value, processed products has increased dramatically in the past 10 years. Sales of frozen foods, especially single-portion

dishes, have grown. There may be enormous potential for suppliers to the processed "convenience" foods market should Japan's per capita consumption of frozen foods (9.7 kg per year) grow to U.S. levels (more than 50 kg per year). In addition, more frozen and chilled products are being introduced specifically for microwave preparation.

Canadian Seafood Exports and Market Constraints

Canadian seafood exporters are facing their own set of problems. The overriding concern continues to be resource constraints in certain species on both coasts. These problems are compounded by changing relationships with importers, the weakened yen, increasing costs of production, and reductions in government assistance and support. Some sources have suggested that the Japanese import quota system can be an obstacle to market entry and/or growth of some species in the market; however, the Canadian Embassy has not received any documented complaints of sales lost to import quotas. Nevertheless, the quota system remains an irritant for Canadian producers.

While trade (and consumer) perceptions of Canada are generally positive, the Canadian industry is still not considered sufficiently responsive to Japanese needs in the areas of product form, price, and customer relationships. Where once Japanese seafood buyers used to make purchases on the basis of quality, they now make them on the basis of price.

Other Considerations

The Japanese fish market has been on the road to recovery after the long-lasting slowdown. However, while the depreciated

yen, in comparison with other currencies (especially the U.S. dollar), has not been a great factor in impeding the recovery of the fish market, the massive outbreak of food poisoning by the *E. coli* bacteria has been exerting negative effects on certain items of fish that are consumed in raw form (*sashimi* or *sushi*). Since the outbreak of the massive infection in Okayama Prefecture in May 1996 and in Sakai City, Osaka, the Japanese government has been trying without success to identify the actual route of infection, the source of which, fortunately, appears not to be from fish and seafood products.

Investment Opportunities

Although Japan does not have a tradition of consuming seal meats, previous missions have resulted in decisions by a small number of Japanese companies to invest in product research and market development for seal meat and seal oil. By visiting potential Japanese processors and end-users, a mission comprising Canadian seal-meat and seal-oil processors and exporters will further expand the interest of Japanese companies in researching uses and developing markets for seal products. Japanese-language literature and product samples will support these investment development efforts.

THE ACTION PLAN

The Action Plan has evolved as a collaborative strategy between industry and governments to develop the market for Canadian seafood in Japan. Increasingly, the industry is asking government to provide enhanced market intelligence and information and to assist in the development of an environment conducive to long-term growth.

In terms of the maintenance and development of the Japanese market for

Canadian fish exporters, Canadian producers will be under increasing pressure to provide products developed to suit the demands of the Japanese consumer. Market development and trade promotion efforts on the part of governments must reflect this concern.

A significant challenge facing Canadians in this market is convincing Japanese chefs and consumers that the diversity of Canadian agri-food, fish and beverage products extends beyond maple syrup, smoked salmon and rye whisky. One of the factors making this objective difficult to achieve is the limited number of Canadian agri-food, fish and beverage products 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.

The Canadian Embassy meets regularly with Japanese food services operators and retailers to discuss Canada food fairs. To maximize the level of interest among their clientele and amortize their advertising costs over as many products as possible, Japanese importers are generally interested in the greatest possible number of Canadian goods. It is simply not cost-effective for them to undertake promotions based on only a narrow product range. In addition to the broadest possible range of agri-food, fish and beverage products, some food services operators and retailers wish to extend the envelope even further to include Canadian consumer and tourism offerings in their Canada promotions.

The interest of Japanese food service and retail clients in promoting the broadest possible "Canadian package" matches very well with the Canadian strategy to obtain the maximum benefit and synergy from rapidly

diminishing promotional project funds. By combining elements of the agri-food, fish, consumer and tourism programs, the Embassy is able to obtain a much larger return for all sectors than would each sector functioning in isolation. For example, in addition to Canadian tourism, the fish and agri-food sectors were major beneficiaries (e.g., 24 tonnes of lobster; 1 tonne of smoked salmon; 3 tonnes of beef; 3000 bottles of wine, and so on) of the Tourism Program's investment in the May 1996 Canadian food and tourism promotion at the Prince Hotels and Resorts chain.

In addition to the agri-food, tourism and consumer products sectors, the fish sector is a major beneficiary of the Menu Development Program at Japanese hotels and restaurants and at the annual Canadian Culinary Cup Competition for Japanese chefs. The fish and agri-food sectors also benefit from the Consumer Products Program investment in certain of Japan's regional fairs.

Building Awareness and Market Knowledge

The Canadian Embassy provides general and specific market intelligence and information to the Canadian industry through the *Japan Fisheries Market Report*, produced and distributed bi-monthly by the Embassy. Some specific market reports will also be prepared.

Japan is a critical market for many under-utilized species and exporters frequently seek ad hoc information on current and longer-term market trends. Tracking market shifts and anticipating demand are extremely important to the Canadian industry, and a renewed emphasis on market intelligence is expected to benefit the Canadian producers and to assist them in the long-term planning necessary for competitiveness.

Adapting Products for the Marketplace

The adaptation of Canadian seafood to Japanese cuisine is an important element of the Action Plan. Bringing Japanese chefs to Canada to assist in the development of new products and to advise processors is a priority with segments of the industry. Also highly rated by the industry are activities that feature Canadian chefs in Japan demonstrating the versatility and suitability of Canadian fish and seafood in a variety of preparations.

The Japanese market for fish and fisheries products suitable for use as materials for *sushi* is enormous. Although Canadian exports to Japan include many fish species that could be used for *sushi* (bluefin tuna, surfclam, northern shrimp, spot prawn, sea urchin roe, salmon, herring roe, Greenland halibut, and so on), these species are not well known to the wholesalers at the central markets, the *sushi* chefs and the take-out *sushi* trade. Canadian exporters will incorporate information on the quality and availability of Canadian fish species suitable for making *sushi* in presentations at seminars on the margins of the solo shows.

Promoting Products in the Marketplace

Canadian fish exporters have expressed a strong interest in the benefits of a promotional image for Canadian fish and seafood.

The primary target of a promotional image is the end-user, who, it is hoped, will "pull" products through the distribution system. In the case of Japan, the end-users would include chefs, retailers and, ultimately, 125-million individual consumers. Developing a brand image requires a substantial investment over a long period of time and is most justified in cases where there is a significant

volume of trade.

Sales of all Canadian consumer products, including agri-food and fish, already benefit from the longstanding and widespread recognition of the maple leaf symbol on packaging. In addition, for the past seven months, the Embassy has been working aggressively at implementing the *Canada Daishizen No Megumi* (Canada: Blessed By Nature) logo and slogan as signifying the safe, high-quality and natural image of Canadian agri-food, fish and beverage products. To date, surveys have shown that this logo and slogan are well accepted by Japanese chefs, retailers, consumers and media.

Since the demise of the Tokyo Seafood Show in 1995, there has been no trade show dedicated specifically to the interests of the seafood sector. To promote Canadian seafood products in the Japanese market, the Embassy, the Consulate General in Osaka and the consulates in Nagoya and Fukuoka will host a series of two-day events at which exporters and Japanese agents of Canadian products can present the full range of Canadian seafood to local importers, wholesalers, processors, retailers, food-services operators and journalists. The consensus of Canadian industry is that multi-species solo shows, in conjunction with seminars or private meetings as appropriate, are the most effective approach to promoting fish and seafood in the Japanese market.

Although approximately 13 per cent of Japanese fish consumption takes place in Kyushu, there is a limited local awareness of Canadian species and Canadian supply characteristics. The Canadian Consulate in Fukuoka will co-operate with local supermarket chains and culinary schools in organizing demonstrations by a Canadian chef on the diversity and uses of Canadian

seafood. The event will be repeated in each of the three main prefectures of Kyushu. A local competition and media event will take place on the final day in each location.

Coinciding with the fifth anniversary of the Canadian Consulate in Nagoya, a Canadian seafood and tourism promotion will be organized at a major hotel. A Canadian chef will work with the host hotel in the preparation of the promotion and will demonstrate the versatility and uses of such key Canadian seafood products as lobster, salmon, spot prawn, northern shrimp and surfclams.

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PROCESSED FOOD PRODUCTS

Japan is the world's largest net importer of agriculture and food products. Food imports (excluding fish and marine products) reached US\$33.9 billion in 1995. Not only was this a significant 9 per cent increase over the US\$31.1 billion registered in 1994, it was the fourth consecutive annual record.

In 1995, Canadian agri-food exports to Japan exceeded \$2 billion for the first time, surging 26 per cent above 1994 levels. Commodity and semi-processed products continue to dominate our exports: oilseed exports reached \$864 million, grains \$433 million, and meat \$310 million (with greatest gains in fresh, chilled exports). However, the growing Japanese demand for semi-processed and consumer-ready foods and beverages of all kinds is fueling value-added exports.

Although Japan is Canada's second-largest export market after the United States, Canada's share of Japanese agri-food imports is small. While Canada's exports to Japan have increased significantly, the increase has not kept pace with the rate of growth in the import market. Canada's 5.6 per cent market share makes Canada Japan's fifth-largest supplier of agriculture and processed food products, but is below the 5.8 per cent share held in 1993.

Market Opportunities

Market potential is immense. From the 1995 reference point, each 1 per cent increase in future Japanese purchases of agri-food products from abroad will result in a US\$339 million incremental growth of imports. While basic agricultural commodities such as grains, oilseeds, genetic material and livestock feed will remain in demand, the future growth lies in the

untapped potential for an almost limitless range of value-added food items, including cereal-based products, meats, fresh and processed fruits and vegetables, and both alcoholic and non-alcoholic beverages. Key growth areas are expected to be oven-ready and convenience foods, health foods, private-label products, and food ingredients.

The Japanese agri-food market is evolving rapidly. Fully 54 per cent of food requirements are met by imports, since domestic food production is severely hampered by structural challenges. Japanese farms are small, averaging only 1.3 hectares. High input costs and land costs are hurdles to land amalgamation. Only 12 per cent of Japanese farmers are full-time farmers. In addition, more than 60 per cent of Japanese farmers are over 55 years of age. Their successors are neither obvious nor plentiful.

In addition to the internal structural difficulties, the Japanese agri-food sector must cope with the competitive disadvantage of a domestic currency that has risen in value by 240 per cent during the last decade, while also preparing for the implementation of trade agreement obligations that will further erode border protection during the next five years.

Other factors fueling agri-food imports are changing consumer behaviour and the resulting modification in distribution patterns. 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.

To take advantage of this new reality, Japan's largest food retailer is promoting a commitment to lower food prices. Its policy of reducing or eliminating the traditional multi-layered distribution channels by importing directly and developing private brands is being adopted throughout the retail sector. 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. This figure is projected to quadruple to US\$20.3 billion as private brands approach the 15-20 per cent market share typical in many industrialized countries.

Japan's rapidly growing regional markets also offer significant potential. These markets, many of which have the purchasing power equal to some national economies, are establishing direct business linkages with overseas suppliers. Canada, well served by regional Consulates, and with direct flights to Japan's major airports, is in an excellent position to capture regional market share.

Investment and Partnership Opportunities

In light of the structural limitations and competitive challenges outlined above, Japanese food processors are increasingly escaping limited raw material supplies and high labour costs at home by investing heavily in overseas processing facilities.

Canada's image as a technologically advanced producer of safe, high-quality, agricultural commodities is attracting greater Japanese investment in food and beverage processing facilities. Canada has many competitive advantages, including an inexhaustible bounty of agricultural products,

an advanced food-processing industry, world-recognized research and innovation capabilities, a highly skilled labour force, world-class infrastructure, including telecommunications, and proximity to major markets.

The newly released Department of Foreign Affairs and International Trade (DFAIT) document *The Case for Investing in Canada: The Food and Beverage Processing Sector* 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 Keidanren investment mission to Canada in September 1996, in anticipation of enhanced investment partnering between Japanese and Canadian companies. (The private, non-profit Keidanren is the most influential business organization in Japan.)

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.

Market Demands and Domestic Challenges

Competition for the attractive Japanese market is fierce. The market is dominated by imports from the U.S., which accounted for 36.7 per cent of imported agri-food products in 1995. China, Australia and Taiwan followed, with 8.3 per cent, 8.3 per cent and 6.4 per cent, respectively, of the market. For Canada to hold and gain market share, committed companies with carefully adapted products, crafted with the utmost quality, are essential. In addition, a greater

core of Canadian companies and products is required to boost consumer awareness of Canada as a food provider.

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

These products must navigate Japan's complex regulatory environment, which is evolving in response to many factors, including the increasing sensitivity of Japanese consumers to the safety of the foods they consume — especially those that have been imported.

Japan's 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. Now updated to international standards, the law includes new guidelines for use of natural additives, preservatives and agricultural chemicals; generally establishes zero tolerance for "foreign" substances (e.g., bacteria, chemical residues); and includes labelling requirements for "country of origin" and "best before" dating. The recent *E. coli* food poisoning epidemic in Japan, which killed 11 people, has resulted in an acutely heightened awareness of food-safety issues on the part of the food industry, media and public. Imported foods will not be exempt from the resulting scrutiny.

The recently introduced **Product Liability Law** requires that consumers be given clear information on the characteristics and safe use of products, and it assigns manufacturers, processors and importers

liability for damages or injuries caused by defective products. Importers, now held accountable for product safety for the goods they import, may decide to contractually bind foreign exporters to pay any damages that arise. Companies in the food sector are preparing by establishing consumer information units and considering liability insurance.

The **Package Waste Bill**, also approved in 1995, obliges vendors (including importers) who manufacture or use containers and packaging materials to recycle those packaging wastes that are classified and collected by the government and to incur related costs. Glass containers, cans and PET bottles will be subject to recycling beginning April 1, 1997, while plastic and paper package recycling will begin March 31, 2000. Some postponements and exemptions exist for small and medium-sized enterprises. Canadian exporters must be aware of this evolving issue.

THE ACTION PLAN - Long Term Commitment, Product Adaption and Excellence

To optimize Canadian participation in this growth market, Canada must develop a supply capability that meets the needs of the market. To do this, Canadians need to be **aware** of what is going on in the market, to **adapt** products to Japanese tastes and lifestyle, and to **promote** their products effectively in Japan.

The various trade and industrial development agencies of the federal and provincial governments support the private sector in carrying out comprehensive, integrated plans to improve supply capability and performance in the Japanese market.

Building Awareness and Market Knowledge

A variety of services, events and initiatives have been designed to build awareness of the Japanese market and its potential.

- A wide range of information and services to Canadian exporters is available through the fully integrated Agri-Food Trade Service (ATS), 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 provincial departments of trade development and agriculture also provide many services.
- AAFC and various partners held an Asian Marketing Seminar in conjunction with Calgary's Grocery Showcase West '96, which included a feature presentation on the Japanese market and opportunities for one-on-one discussions with a Japanese import specialist.
- A number of Canada-Japan organizations meet regularly to discuss the business climate and opportunities in Japan. Seminars on aspects of the Japanese market have been sponsored by various groups, including JETRO.
- A JETRO Senior Trade Advisor, who is an import specialist with extensive knowledge of the market for food 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.

- In co-operation with JETRO (Toronto), AAFC's Ontario office is publishing a quarterly newsletter, *Focus on Japan*. This regional publication may become national.
- Rapid dissemination of market information and intelligence through automated services is being provided. DFAIT's *Trends*, a quarterly publication on the agri-food and fisheries market, is available in hard copy, either through the automated FaxLink, on the DFAIT Bulletin Board, or on the DFAIT Japan Division's Web site. The Agri-Food Trade Network (ATN) is accessible through AAFC's regional offices.

In addition, several new market reports are available:

- *Report on the Tokai Food, Seafood and Beverage Market*
- *Exploring New Business Opportunities: Perspectives on One of Japan's Largest Superstore Retailers*
- *The Japanese Market for Fresh Vegetables* (JETRO)
- *The Market for Private Brand Processed Food in Japan*
- *Trends in Food Processing Technologies*

Adapting Products for the Marketplace

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 include the Alberta Agriculture Food Processing Development Centre in Leduc, Alberta; the POS Plant in Saskatoon, Saskatchewan; the National Agri-food Technology Centre in Portage la Prairie, Manitoba; the Agriculture Canada Research Station in Morden, Manitoba; the Food Technology Service, co-located with the Food Research and Development Centre in Saint Hyacinthe, Quebec; and others across the country.

A number of established programs are also available to assist food exporters to adapt product and promotion to the demanding Japanese marketplace.

Promoting Products in the Marketplace

In March 1996, Agriculture and Agri-Food Minister Ralph Goodale launched Canada's new three-year agri-food promotional campaign at the Canadian Embassy in Tokyo. Following one of the Embassy's most successful media events ever, the "Canada: Blessed by Nature" campaign, with its colourful logo, was the subject of extensive press coverage. The objective of the new 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 slogan and logo were integral to Canada's presence at Foodex '96 and the Canadian Food Show in Osaka, which took place immediately after the launch. Foodex is the largest show of its kind in Asia, with more than 1000 exhibitors from 36 countries and more than 85 000 professional visitors. At Foodex '96, 29 countries had national pavilions. Canadian companies participated

in both the Canadian Pavilion and the JETRO New Products Showcase. Canada Pavilion exhibitors achieved on-site sales of over \$1.1 million, with projected sales of almost \$11 million. The highly successful Canadian Food Show in Osaka attracted more than 400 select food buyers. A Canadian pavilion is planned for Foodex '97, March 11-14, 1997. The annual Osaka solo show will take place March 17-18, 1997.

A series of complementary and targeted events will take the "Blessed by Nature" campaign across Japan, with a program of solo shows, product samplings and industry seminars for Canadian companies wishing to participate in more customized events. To capitalize on the rapidly expanding Japanese market for private-brand products, Canadian Private Brand Solo Shows will take place at the Embassy and Consulates in January 1997.

To increase awareness in the Japanese hotel, restaurant and institutional trade of the range and quality of Canadian food and beverage products, an integrated, three-part chefs' relations program is underway. 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 demonstrating their abilities to develop, prepare and present dishes featuring Canadian food products.

The chefs' program strengthens linkages between Canadian food and fish products, other consumer products and tourism —

maximizing the benefit of promotional expenditures. Commodity association and company sponsorship are important in determining which Canadian products are highlighted in this successful program.

In addition to 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.

DFAIT's 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) 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 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.

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The Federal-Provincial Market Development Council served as the lead group in the review and fine-tuning of this chapter of the Action Plan for Japan. The addresses and telephone numbers of most members are included under "Government Contacts".

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CONSUMER PRODUCTS: FURNITURE

The soaring yen has greatly increased the cost of manufacturing in Japan, and manufacturers are finding it frequently difficult to recruit well trained workers. These factors, combined with the increasing price-consciousness of Japanese consumers, have prompted many Japanese furniture makers to shift at least some of their production offshore and to increase imports from Southeast Asia, Europe and North America.

Canadian furniture exports to Japan rose from \$4 million to \$6.9 million between 1992 and 1994. In 1995, exports of furniture and fixtures to Japan totalled \$13 million, an increase of 95.2 per cent over the previous year. The increase is credited to increased Japanese interest in North American products, the low value of the Canadian dollar, and the high cost of manufacturing in Japan.

The Canadian furniture industry, with its approximately 90 per cent domestic ownership, has developed strong export capabilities in the past few years. Statistics for 1995 show the residential furniture industry to consist of about 575 companies employing 19 550 people and producing goods valued at \$1.8 billion, \$728 million of which was exported. (Wooden furniture dominates the export market, with approximately 75 per cent of shipments.)

In office furniture, sales for 1995 were \$1.2 billion, with employment of up to 10 500 people in 150 establishments. Exports rose to \$529 million. On the institutional side, there were 225 establishments employing approximately 8600 people, with shipments of \$920 million. Exports of hotel, restaurant and institutional furniture totalled \$594 million in 1995.

With the elimination of tariffs under the Canada-U.S. Free Trade Agreement (continued under the North America Free Trade Agreement), Canadian manufacturers have become more competitive domestically and internationally. Companies interested in exploiting their competitive advantage are exporting to off-shore markets with increasing frequency.

Market Opportunities and Trends

Japan has an ambitious goal of improving housing and the quality of life for its citizens. Given the shortage of space to devote to extensive new housing, improvements in the existing stock and its contents are being emphasized. This bodes well for the long-term growth of the residential furniture market in Japan. However, consumers have turned away from the highest-priced items in favour of products one price range lower, but still of good quality.

The total market for residential furniture in Japan is estimated at 2 trillion yen (based on actual figures from large manufacturers and estimates of production from small and custom manufacturers). Imports currently represent a 10 per cent share (230.3 billion yen) of the residential furniture market in Japan (1995 figures). The residential furniture market increased 10.3 per cent over 1994 (source: IDAFIJ).

Wooden furniture represents the largest share of the import market at 122.5 billion yen (an increase of 15.9 per cent over 1994 figures). Lower-cost rattan furniture (total sales 13.4 billion yen, a decrease of 8.8 per cent from 1994 figures) and metal furniture (42.2 billion yen, a 17.6 per cent increase over 1994) generally are sourced from Taiwan,

Thailand and Indonesia (71 per cent), with the remainder split almost equally between Europe and North America. In upholstered furniture, which is a small but growing part of the import mix, imports increased 5.6 per cent last year (for a total of 6.3 billion yen). Furniture components remain stable at 45.7 billion yen, less than a 1 per cent increase over 1994 figures.

With the exception of China (whose exports to Japan grew by 41.3 per cent to 19.6 billion yen last year), imports from Southeast Asia have lost some ground. Compared with the previous year, Taiwan, for example, increased exports by only 7.15 per cent, Thailand by 1.5 per cent and Indonesia by 5.3 per cent. The slower growth of imports from Southeast Asia underlines the shift in consumer fashion that was identified by industry analysts last year.

The size of the retail market for wooden furniture in Japan is estimated at more than 4 trillion yen, and Japanese consumers favour products offering a good balance of quality, style and price. Canada is viewed as an excellent source of wooden furniture, but price, quality and, to some degree, size will determine the long-term success of Canadian companies in this market.

While the office furniture market continues to be stagnant as flat growth affects business bottom lines, institutional and contract furniture sales prospects are buoyant. At least partly because of the high yen, not only have imports increased in this sector of the market, but architects and designers are often insisting that foreign companies be invited to bid for furniture contracts, especially as trends in the contract furniture market move toward less expensive furniture. Japan is still committed to increasing its hospital and residential care facilities. Although development is lagging behind earlier

predictions, analysts agree that this will be an important growth sector.

Modifications in the existing distribution channels in Japan are being made as retailers increasingly import directly for their own stores. This new trend is resulting in significant benefits for the retailer and the consumer. Usually, the price of imported furniture distributed through the conventional channels is almost three to four times the retail price in the exporting country. Direct importing can keep prices low, and retailers can minimize their risk by selling unsold inventory to distributors outside their market area. Consumers benefit from the lower prices, larger style ranges and innovative designs.

Japanese companies will generally import products on an exclusive basis to control not only their own market area, but also areas where they sell that same product to other distributors. In these cases, Japanese retailers/importers may prefer to deal with companies without local agents, since the extra percentage of commission can adversely affect the profit margin. In selecting a Japanese import agent, Canadian manufacturers have to decide whether they are in the market for the short or long term. In some cases, an exclusive agreement with an importer might limit the ability of exporters to penetrate regional markets in Japan.

THE ACTION PLAN

Japan is an increasingly important destination for Canadian furniture exports and, as a market, merits the development of a focused, long-term approach supported by industry leaders, associations, and the federal and provincial governments. It is the intent of the Action Plan to position Canada over time in Japan as a significant supplier of quality

furniture at competitive prices.

Building Awareness and Market Knowledge

Canadian companies need to receive timely information on the Japanese market for furniture (residential, contract and office). The Canadian Embassy will provide market information/intelligence for dissemination to interested Canadian exporters, working through the industry associations and Industry Canada's National Sector Team.

Adapting Products for the Marketplace

The conventional wisdom is that imported furniture has to be sized for Japan before entering the market. This is not always the case, nor is it the sole criteria for successful exporting to Japan. Recent shifts in purchasing patterns demonstrate that consumers increasingly favour comfort, innovative design, quality and lifestyle-related factors when choosing products. However, manufacturers should be prepared to discuss design changes with Japanese buyers, since a willingness to recognize the differences and the development of products suitable for the market can result in a lucrative long-term relationship with the importer.

Promoting Products in the Marketplace

Recent efforts to encourage Canadian exports have focussed on bringing buyers, architects, specifiers and other decision makers to Canada to attend trade shows and to meet with manufacturers on site. This strategy, which has resulted in several million dollars in direct and follow-on sales in past years, will be continued. In Japan, the annual Tokyo Furniture Fair is the prime showcase for both residential and contract furniture. This venue provides a marketing opportunity for the well established exporter, who must

meet with his clients on a regular basis, and serves as an introduction to the market for new exporters. In 1997/98, several new-to-the-market companies will participate in the show under the auspices of the Canadian Embassy.

From time to time, the Embassy's facilities have been used for solo shows with good results, and plans are underway for one or two shows during this fiscal year.

Japanese agents of Canadian furniture manufacturers continue to participate in solo lifestyle shows in Tokyo, Osaka, Nagoya and Fukuoka, resulting in increased exposure for some products.

Companies with Japanese agents may take advantage of Tokyo Gas Co.'s showroom in Shinjuku. This space, called Ozone, displays imported furniture. It is rented to Japanese importers and is open to visitors who are interested in imported furniture that suits their lifestyle and that provides comfort, quality and original design.

Activities

- Invite an incoming mission of buyers to the Canada Home Furnishing Mart in January 1998. (For self-funded buying trips to Canada, assistance in developing appointment schedules will be offered whenever possible.)
- Support an industry initiative for a significant Canadian presence at the annual Tokyo Furniture Fair, including repeat exhibitors from the 1996 pavilion.
- Arrange for Canadian furniture manufacturers or representatives of the associations to give a seminar to

retailers, importers and home builders on the capability of the Canadian furniture industry, either before or after the Tokyo International Furniture Show.

- Commission a market study on Okawa City's furniture sector. The Okawa region has more than 600 furniture manufacturers, which provide as much as 12 per cent of the domestic production. The city is now emerging as a major import and distribution centre for the whole country. The study will focus on identifying the main wholesalers and importers in Okawa, the types of furniture imported through Okawa, and the prices and origin of these imports, as well as suggest strategies for Canadian furniture manufacturers to tap into this distribution channel. The study will also look at the research and development opportunities in this sector and will examine the possibilities of joint ventures between Canadian and Japanese companies, since many companies in the Okawa region have been moving some of their production facilities off-shore.
- Provide timely market information and intelligence to Canadian companies by profiling major Japanese importers, buyers, and manufacturers. This information will be disseminated through the industry associations.

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HEALTH CARE/MEDICAL DEVICES

In Japan, the aging and disabled represent an important market for health care and medical devices. 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, compared with 13 per cent at the present time. It is estimated that some 2.8 million disabled persons currently reside in Japan. Many of the products and services for aging individuals are used by disabled persons, approximately 80 per cent of whom are over 50 years of age.

As a result, the demand in Japan for medical and health care products and services has grown rapidly over the past five years. Trends vary at the product level, and while in a few cases growth has declined or been stagnant, these are more than balanced by areas where growth is faster than average. This growth should continue on well into the next century, with conservative estimates of an 8-10 per cent annual increase in the demand for health care products.

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; in some areas it already tops 40 per cent of the population. 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. Furthermore, the elderly, generally, have been conservative in their spending patterns and have a high savings rate, which will also positively affect the

growth of this sector.

Japan is a significant consumer of modern medical products and services from around the world and is the second-largest international market for imported medical devices, with imports rising from 289 billion yen in 1990 to over 500 billion yen in 1994. 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. In 1994, imports of medical instruments and equipment rose to 32 per cent of the total market, a rise from 22.8 per cent of the market just four years earlier. Until 1992, Japan's domestic medical devices industry had a favourable balance of trade, but the rise in the yen caused a shift in the trade balance.

With more than 60 per cent of the market, imports from the United States dominate. The European Union follows, with just over 23 per cent. Canada is not yet a major player in the medical devices sector in Japan. Canada's share of the import market hovers at about 1 per cent; however, Canada is one of the top four suppliers in the subsectors of general operating, surgical and orthopaedic supplies and dental instruments. Another area of strength for Canada is artificial joints. In a related area, Canada's exports of in-vitro testing reagents (not officially classified as a medical device) were valued at \$43 million in 1994.

Imports of health care products and services have also increased, but on the whole their position in the market remains weak against the domestic product. Notwithstanding, significant opportunities do exist for companies that find a market niche.

The weak position of Canadian companies in Japan is not a result of the lack of a medical industry in Canada. In fact, this industry is a significant employer of Canadians. The approximately 2500 firms in the health service industry (with annual sales of \$3 billion) employ some 150 000 people. In addition, Canada's 800 medical device companies (with production of \$2.8 billion in 1993) employ 18 000 people. A similar number is likely employed in the health care products sector. Many of these Canadian companies are already active internationally. A number of them have developed leading technologies and unique innovative devices. Some are already present in the Japanese market.

Market Opportunities

Health care in Japan is moving away from the expensive care provided in hospitals to less expensive health delivery systems, resulting in changes to the types of products in demand. Features such as size and portability, for example, are becoming important. (Canadian manufacturers should be aware that certain product modifications may be necessary for the Japanese market because of different physical requirements, aesthetic tastes and the semi-tropical climate.)

Products in demand include mobility products, sleeping aids (beds, mattresses, and so on), toilet and disposable diaper products, monitoring equipment and new procedures for home health care. Other opportunities exist in the services sector. Medical waste disposal is one of the more significant problems currently facing Japanese health care officials, and the ongoing decentralization of the health care sector in Japan will increase the demand for safe disposal of medical waste. Japanese interest in Canadian methodology for health care

management and improved efficiency in hospitals and nursing homes should provide market-entry opportunities for firms providing consultancy services, architectural services and information-technology products, including monitoring equipment for elderly and handicapped patients.

The private home health care service concept is relatively new to Japan and is not readily accepted, since there are more than 1700 public social welfare organizations that are funded through the government. However, changes in the Japanese society have made it more difficult for the elderly to depend on the traditional extended family for support. The country's high life expectancy has also created a situation in which caregivers are themselves senior citizens. Therefore, it is reasonable to expect that the publicly funded organizations will not be able to meet the needs of the population in the next while.

Japanese government initiatives include plans to increase expenditures for improved services for the elderly and handicapped (but it is expected that these expenditures will remain conservative, since the government is also committed to good management of health care costs). The programs include subsidies for the purchase and rental of equipment and the upgrading of the infrastructure to allow better access for disabled people.

THE ACTION PLAN

Canada has an excellent reputation in Japan as a provider of health care products and services. While the size of the market for services is not known, Japanese interest in Canadian methodology for health care management and improved efficiency in hospitals and nursing homes indicates an opportunity for consultancy services and information-technology products.

In the medical/health sector, science and technology is an important element in developing relationships and markets. For example, the Medical Research Council identified neuroscience as an area of common interest with Japan, and the Canadian Neuroscience Network (a mix of private-sector and academic interests) is planning to visit key research facilities in Japan to discuss possible collaborative or co-operative projects.

Although a few Canadian health care and rehabilitation product manufacturers are exporting to Japan, and several others have visited the market, knowledge about Japan's potential and market-entry requirements is sparse. There is a need not only to increase awareness about this market, but also to encourage Canadian companies to adapt their products to better suit Japanese requirements. The Action Plan is a strategy for increasing Canadian exports to Japan.

Building Awareness and Market Knowledge

Japan's distribution modes are determined by product. For example, large-scale equipment needing technical support is usually sold directly to the hospital or clinic 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, and Canadian manufacturers are advised to establish realistic sales goals and to nurture the relationship with their importers/distributors, especially since after-sales service remains a priority.

The Canadian Embassy produces a quarterly report entitled *Trends in the Health Care Market*, which is available on request. The Embassy will also develop and disseminate market reports, market information and other business intelligence through industry

associations and the Health Industries National Sector Team. (The team, organized by Industry Canada in conjunction with industry, associations and provincial governments, covers medical devices, health services and pharmaceuticals — both name brand and generic.)

In addition, there are a number of excellent health care/medical device trade shows in Japan, which offer an opportunity to understand the market and to develop successful marketing strategies. (Note: at some shows, medical devices may not be displayed unless they have received product approval and import licensing from the Ministry of Health and Welfare. Show literature will specify.)

Adapting Products for the Marketplace

Although many consumer health care and rehabilitation products do not currently require official approval by the Ministry of Health and Welfare, the new Product Liability Law is likely to result in future demands for greater assurances about product safety.

Medical devices are regulated in Japan under the Pharmaceuticals Affairs Law (PAL) of 1948. In 1990, the Medical Devices Division was established under the Ministry's Pharmaceutical Affairs Bureau for regulation and promotion of medical device development, and for approval and licensing services.

Eighty-four categories of medical devices were established under the PAL, plus six categories of medical supplies, nine categories of dental materials and four categories of sanitary goods. There is a specific procedure for approval and licensing of manufactured or imported products (which also includes modifications of already

approved or licensed products). The process, once it is in the hands of the Ministry of Health and Welfare, can take several months (on average 12-24 months for approvals of new devices and 3-5 months for conventional devices).

Promoting Products in the Marketplace

The Home Care and Rehabilitation Show (September 1997) is an excellent opportunity for Canadian companies to exhibit their health care products, and there will be an information booth staffed by Canadian Embassy and provincial government officials to support participating companies. Another highly recommended venue for exhibiting Canadian products in Japan is the biennial Japanese External Trade Organization (JETRO) Health Care Show (next scheduled for March 1997).

Identification of appropriate opportunities for investment or equity participation by Japanese interests in Canadian health care and medical device companies is of ongoing interest. A proposed seminar on the health care industry in Canada and the development of new health care products will expand the knowledge of the Japanese government and services companies and introduce them to Canadian expertise in nursing homes and rehabilitation centres (building, management and programs). In addition, the seminar will serve to increase the awareness of Japanese companies of the close relationship between the end-users of health care and rehabilitation products, the medical specialists involved in the design stage, and the companies manufacturing the products, to facilitate partnering between Canadian manufacturers and service providers and their Japanese counterparts.

Enhancing Canada's reputation for excellent care of the elderly and handicapped, a

Medical Products and Services/Health Care Investment Roundtable in Japan will focus on products and services designed to improve the quality of life for the aged, with particular emphasis on the potential for collaboration and investment.

Canadian companies should 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 is promoting R&D projects for safe and convenient, yet low-cost welfare equipment that utilizes the most advanced industrial technology. Funding associated with these projects is available to approved foreign applicants.

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TOURISM

Japanese outbound travel has grown at an exceptional rate over the past 30 years, from 130 000 visits abroad in 1964 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. Despite the slowing of economic growth, industry observers predict that by the end of this century, more than 20 million Japanese will travel overseas annually. 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 \$661.4 million in 1995 (excluding international airfares), an increase of 20.5 per cent over 1994. Overnight Japanese visits increased by 22.4 per cent in 1995, to reach 589 300. With a spending per trip of \$1,122 and a spending per day of \$189 (the highest yield per day of any of our major 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. In 1995, tourism activities provided close to half a million jobs for Canadians and contributed \$41.8 billion to our gross domestic production. 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.

In recognition of the growing economic importance of tourism, the Canadian Tourism Commission (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. A joint partnership with the private sector, CTC aims to create a \$100-million marketing budget that will re-establish Canada as a force 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 \$5.8 million in 1995/96 and subsequent years. When partner funding is added, the 1995/96 budget totals over \$8 million. For the first time ever, a television advertising campaign aimed at increasing the awareness of consumers will be launched in 1996 in Japan. These changes marked a new era of industry-led private/public sector joint decision-making, with the key operating principle being the integration of expertise and resources to achieve results that no one organization or company could achieve on its own.

Market Opportunities

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 1996 over 1995 for the Japanese market are set at three levels: 11 per cent in overnight visits (increasing by 65 000), 15 per cent in tourism receipts (increasing by \$99.2 million) and 3 per cent in spending per trip

(increasing from \$1,122 to \$1,156). 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 the priority, resources are shifting 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.

At the successful September 1993 high-level Japanese Ministry of Transport Tourism Mission to Eastern Canada, 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 means tripling Japanese arrivals from 500 000 to 1.5 million. To meet this challenge, and to formally respond to the Canada-Japan Two Million Visitor Two-Way Tourism Challenge, the Canada Committee was formed. Chaired by the CTC, this Committee prepared the "Canada Report," which Industry Minister John Manley submitted on behalf of Canada's tourism industry at the Second Canada-Japan Tourism Conference in November 1994 in Minabe, Japan. The Executive Summary of this action-oriented report outlines the following six strategies to meet this target by

the year 2005:

- The Canadian tourism industry, led by the public and private-sector members of the Asia-Pacific Partnership Committee (APPC), will 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, will 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 will 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 developed 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, has also committed to establishing 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 CTC and industry partners have engaged in research to more fully understand this trip type. In the short term, Canada's tourism industry has developed an action plan to take steps to meet the special needs of the independent Japanese traveller.

THE 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. In particular, the Canadian tourism industry must commit itself to implementing the recommendations tabled at the Second Canada-Japan Tourism Conference. Companies that do so will position themselves to reap impressive benefits into the new millennium.

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 1996/97. 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.

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 1996/97 and 1997/98. These two documents outline 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 how to define products and services and sell them to tour operators and wholesalers.

Japan Pleasure Travel Market Study. Commissioned by the CTC, this 1995 study assesses Japanese consumer tastes and preferences, travel habits and travel trade market changes affecting the pleasure travel market.

The HAC and the APFC, in partnership, have agreed to provide material, including a **Japanese-language training cassette** and a **Japanese-language glossary** for signage and print material.

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; plans are to update sections of this manual in 1996/97.

Development of **Regional Clusters** across Canada. Three regions of Canada (Atlantic Canada, Ontario and Quebec, and Alberta and British Columbia) are piloting a regional cluster approach in marketing to Japan.

Rendez-Vous Canada 1997. 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 will meet in Vancouver to conduct business with more than 400 Canadian seller organizations.

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 1996/97 and 1997/98. 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. & T.G. (S.A.) Consulting), includes:

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INFORMATION TECHNOLOGIES

In 1995, Canada's information technologies (IT) industry (including telecommunications, software, hardware, processing and professional services) had revenues of over \$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 \$7.5 billion in 1988 to \$19.5 billion in 1995. Since Canadian exports to Japan are a modest 1 per cent of total IT exports, the opportunity for growth is substantial.

The telecommunications equipment and services subsector is one of Canada's fastest-growing sectors, with combined revenues of more than \$32 billion in 1995. The domestic market is 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 devices.

There are an estimated 13 000 software product companies in Canada, with more than half showing annual sales of under \$200,000. The majority of small to medium-sized companies have particular strength 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 13 per cent per annum (source: IDC).

Market Opportunities and Trends

Software

The business environment in Japan for informatics is very strong. Japan is the world's second-largest software market, and computer usage is approaching that of North America. In 1994, the product processing and professional services market in Japan employed 490 000 people and posted sales of 6 trillion yen. Although growth in Japanese software sales in general slowed from 1992 until early 1994 as a result of the economic downturn and the introduction of open systems, imports continued to perform strongly. About US\$4.8 billion worth of software products were sold in Japan in 1994, with imports and licensing representing just under US\$2.3 billion or 45 per cent of the market.

The emergence of Windows 3.1J (Japanese) and now Windows 95 in the Japanese language is accelerating the entry of imported packaged software into this market, which is currently dominated by U.S. packaged software (which in 1994 accounted for almost 90 per cent of the total import market of 250 billion yen).

Japanese domestic software shipments jumped 34.6 per cent year-over-year, to 547.4 billion yen in 1995. Packaged software shipments jumped to 342.1 billion yen (35.7 per cent) and bundled software to 30.7 billion yen (45 per cent). Custom software moved up 28.7 per cent to 143.4 billion yen, putting to question the theory that growth in custom software sales in Japan is flat. Sales and support services jumped 42.1 per cent to 31.2 billion yen. (source: Japan Personal Computer Software Association).

Canadian software capability is extremely advanced and competitive in certain niche areas such as computer graphics and middleware. Estimates of Canadian software imports by Japan for 1995 were 12 billion yen (approximately \$150 million). However, with an overall year-over-year growth rate of 50 per cent in 1995, Japan represents a major market opportunity for Canadian software developers. With Canadian sales of software to Japan representing only about 5 per cent of the import market, there is room for much further growth.

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 1994 to 1995, PC sales in Japan grew by 70.3 per cent, to 5.7 million units, and in value terms by over 50 per cent, to 1391.6 billion yen. Notebook PC sales have jumped 45 per cent, to 1 685 000 units, and comprised about 30 per cent of the domestic market. This increase is largely attributed to the small footprint of notebooks, which are often used in office situations where they can be taken off the desk when not being used. Home use of PCs has also seen a year-over-year advance of 89.9 per cent, to 2.2 million units in 1995 (about 38 per cent of total domestic PC sales). Estimates for total domestic PC sales in 1996 (home and office) call for an increase of 30 per cent, to 7.5 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 reach 9.3 million units in 1997, up from 7.5 million units this fiscal year. In value the market will grow from 1,391.6 billion yen in 1995 to 1,605 billion yen in 1996 and 1,835 billion yen in 1997 (source: Japan Electronics Industry Development Association).

Local area network (LAN) penetration among Japanese firms is low (optimistic estimates currently place it at 40 per cent), but the market is expanding quickly. 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. Significant software sales should be seen in 1996 and beyond as a result of this trend.

Telecommunications

The telecommunications market in Japan is very large and sophisticated. The telecommunications equipment market in 1994 was more than \$31 billion. Planned investments in infrastructure in 1996 to allow for fibre-optic networks to be installed will top \$6.8 billion according to government estimates, while 1994 revenues by the domestic carrier, the national telephone company Nippon Telephone and Telegraph (NTT), were more than \$93 billion. In contrast, 1994 revenues for all seven of the regional holding companies (or "baby Bells") in the U.S. totalled \$110 billion, and Bell Canada's revenues for 1994 were \$8.3 billion. The Japanese market is the largest and most sophisticated telecommunications market outside of the U.S., and the potential for Canadian companies is enormous, particularly as deregulation and competition among new

communications providers increase. Overall, increased domestic and international pressure for deregulation can only add to the growth of this market.

To add to this, relatively underdeveloped markets in Japan for the Internet and CATV services are experiencing solid growth. 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 were 160 operators of 169 CATV provision stations. By March 1997, an additional 800 000 homes are 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 handyphone systems (PHS) continues to grow exponentially, with shipments estimated to be 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 strategy is, therefore, to provide encouragement and market advice in Canada so that individual firms will evaluate their potential in Japan. The individual activities in the 1997/98 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.

The Canadian government's services in Japan at Canada's Tokyo Embassy, and through the Consulate General in Osaka and the two regional Consulates in Fukuoka and Nagoya, are designed to provide individual support to firms, including market advice, introductions to suggested contacts, and suggested strategies and follow up.

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. As well, as part of an ongoing campaign to attract a semiconductor fabrication facility to Canada, a symposium was held at the Canadian Embassy in Tokyo on September 13, 1996. This symposium served to highlight strengths in Canada's microelectronics industry, and follow-up activities are planned.

Emerging markets for telecommunications products and services require that Canadian companies become more familiar with regional opportunities in Japan. Market size, market mix and business practices outside Tokyo are often more suited to the interests of smaller Canadian companies. Again, detailed market intelligence and close monitoring of changes to the regulatory environment in Japan are required. In the past, trade barriers have been a major obstacle to foreign firms in the telecommunications sector (as illustrated by NTT's control of the Japanese market

through a combination of regulatory controls). Uncertainty over government policy direction and a lack of transparency in standards, licensing and procurement have also contributed to the need for continued assessment and information provision.

However, the telecommunications market continues to be extremely lucrative, for both services and equipment. The growth in the PC market has led to growth in network-related products, from bridges and routers to ATM switching equipment and bandwidth management equipment. There has also been an increased development of infrastructure as a result of the rebuilding of telecommunications equipment following the Hanshin earthquake in 1995, as well as the continued expansion of the digitization of Japan's existing telephone network.

Deregulation in the pager market and cellular market have resulted in rapid growth in these two areas. Other new technologies such as the PHS have led to increased competition in the wireless market.

Adapting Products for the Marketplace

Software marketed in Japan is most successful when it is localized (with notable exceptions such as scientific software). Localization of software normally means both translation into Japanese and moving to local software platforms. With the release of Windows 3.1J and Windows 95, the localization of software has become much simpler, since a single operating system can support multiple-language versions of a software package. Sales of Windows 95 in Japan have been very strong, with more than 3.8 million copies sold in the four months from its launch in November 1995 through to the end of the fiscal year. Estimates for 1996 sales top 8 million copies. Software written for the Macintosh operating system 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.

Additionally, the Japanese government has received recommendations from the Telecommunications Council (an advisory group for the Ministry of Posts and Telecommunications) calling for the breakup of NTT into two separate local-service carriers and a domestic long-distance carrier. The government has delayed acting on these recommendations. To some extent the uncertain situation has constrained expansion in the telecommunications sector.

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. Adaptation to the market is not the problem it once was: software manufacturers no longer need to consider conversion to the NEC PC9800 standard to be successful in Japan. The trend toward open operating systems is continuing. Software packages that function with open operating systems need only consider providing manual translation, Japanese-language support and repackaging for 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 are put on in Japan, and many Canadian products are exhibited, usually by Japanese agents. The facilities in the Canadian Embassy have proven 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.)

Research and Development Opportunities

Thirteen R&D organizations from Canada visited NTT research organizations in Japan

early in 1996. This mission obtained an overview of NTT research programs and identified areas of co-operation under the Memorandum of Understanding signed by Industry Canada and NTT in 1995. Further activities are being planned for the coming year, with NTT researchers again visiting Canada.

The possibility exists for Canadian companies to participate in the Co-op Japan Program, which functions to place employees of foreign technology companies as students in a Japanese work environment for a maximum of one year. Further information on this program can be obtained from the Science and Technology section of the Canadian Embassy.

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