

JAPAN STRATEGY

2009-2010



Introduction and Overview

Japan is the second largest economy in the world. It accounts for around 10% of economic activity worldwide, and one third of economic activity in Asia. Japan is the world's largest net importer of food and the second largest market for biotechnology and information and communications technology (ICT). Its population is 30 times that of New Zealand and its GDP forty times bigger. Japan accounts for approximately 9% of New Zealand exports but New Zealand accounts for just 0.4% of Japanese imports.

Japan's economy is not fast growing but it continues to offer New Zealand important opportunities for trade because of its considerable wealth, industrial power and limited natural resources. However, the Japanese market is also sophisticated and competitive and usually requires large marketing budgets and economies of scale. Older industries present particular challenges because of tariffs, quotas, regulations, and a multi-layer distribution system. For those that succeed, Japan can provide a stable, long-term source of revenue, above average margins, and confidence that the business is capable of meeting some of the world's most stringent quality and service standards.

The Japanese market rewards a diligent approach. It is a market for long distance runners and not suited to speculators and companies that take short-cuts at the market entry stage. To succeed, New Zealand exporters need patience, planning, good information and to avoid becoming too dependent on traders. Market research can be time consuming and expensive because of the foreign language and complex non-western business environment. Nonetheless, it is essential to understand the demands of end users, the distribution chain, and the various commercial options, before committing to a Japanese partner or distributor.

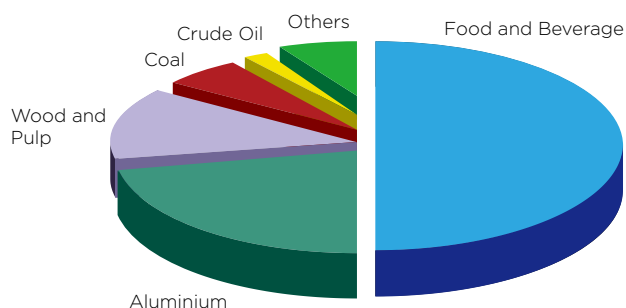
New Zealand companies with the best success rate in Japan are well-established, medium to large food and beverage businesses and smaller high tech companies with good intellectual property and the ability to scale up quickly.

Agricultural commodities dominate New Zealand's trade with Japan. This includes dairy products, wood and pulp, meat, seafood, fruit and vegetables. Much of the agricultural produce is destined for further processing in Japan, or in third countries with low labour costs. Other important exports include unwrought aluminium, coal, and crude oil. Around 12 large New Zealand companies, many with Japanese investment or ownership, account for a majority of exports.

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New Zealand Exports (by category)

The following chart shows New Zealand exports to Japan by category in 2008. The total value of exports increased 7.4% to NZ\$3.61billion F.O.B. (Source: Statistics New Zealand).



New Zealand Trade and Enterprise (NZTE), in association with other Government agencies including the Ministry of Foreign Affairs and Trade (MFAT) is working to increase the value of exports to Japan. A number of factors need to be met to achieve growth including more capital, a better understanding of national and international supply chains and the needs of Japanese end users, lower tariffs on processed foods, and more technology-based exports such as electronics, machinery, medical devices, pharmaceuticals and software. These currently account for less than 2% of exports by value.

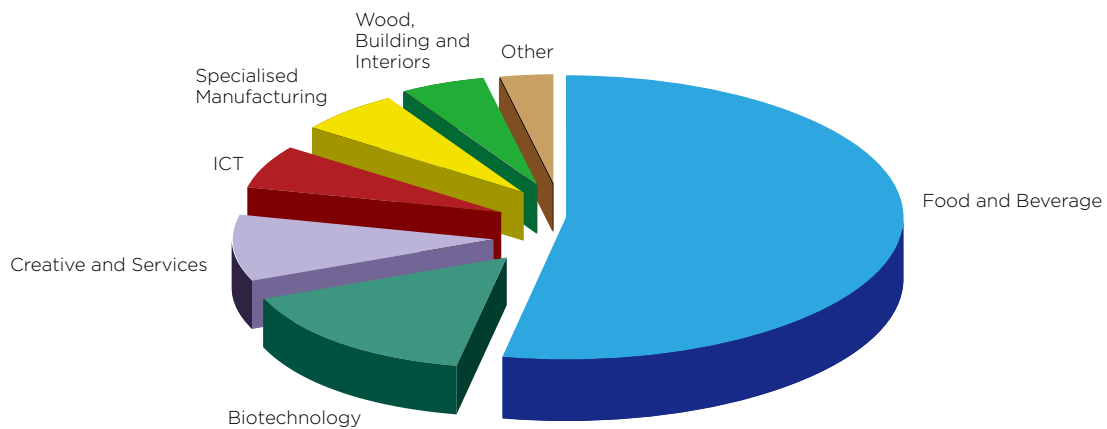
NZTE Presence in Japan

At a glance:

- Total operating budget NZ\$4.2m per annum (approx)
- 11.5 full-time equivalent staff
 - 2 seconded New Zealanders
 - 9 FTE locally employed
 - 0.5 employed onshore
- 1 office housed within the New Zealand Embassy
- New Zealand Business Centre (shared office facility) in Tokyo

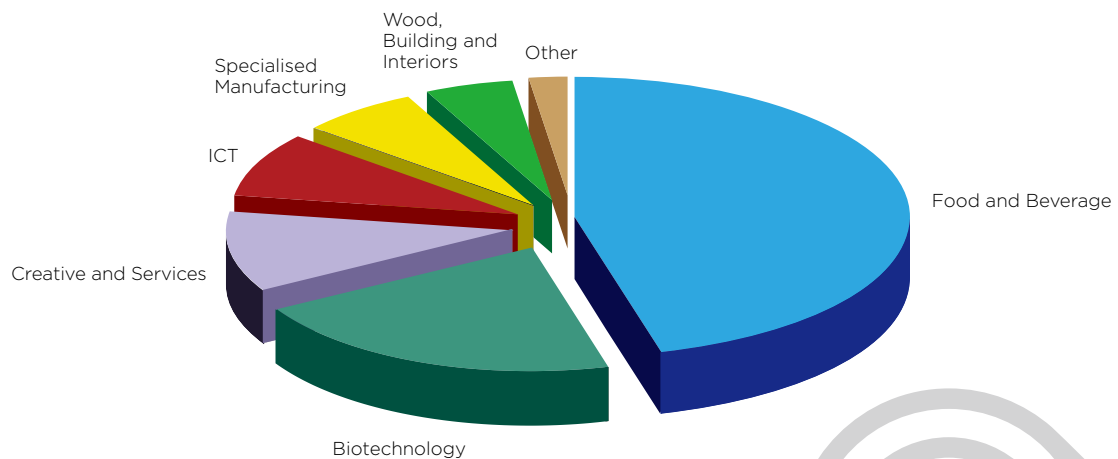
NZTE Client Presence in Japan (by sector)

NZTE has 94 clients exporting to Japan in the following sectors:



Total Companies and Organisations Interested in Japan (by sector)

A total of 130 companies and organisations are already exporting to Japan or have formally expressed interest in doing business there. Not all are NZTE clients. They are in the following sectors:



NZTE Japan Strategy: July 2009 - December 2010

NZTE's strategic approach to Japan is underpinned by a focus on sectors where New Zealand has a competitive advantage and on companies that have the commitment and capability to succeed in Japan.

The approach is based on maximising Net Economic Benefit (NEB) for New Zealand. NEB is the Government's measure for return on its investment and the criteria NZTE uses to select priority industry sectors and determine which companies it will assist in Japan.

The following is an overview of primary activities in Japan from July 2009 to December 2010.

Sector concentration

While NZTE undertakes customised client work across all the main industry sectors in Japan, its resources are concentrated in four areas as listed below. NZTE has bilingual specialists with experience, contacts and knowledge in these priority sectors.

- **Food and Beverage**

Food and beverage, which accounts for 50% of New Zealand's exports to Japan, continues to be a priority, with the emphasis on identifying new trading opportunities in Tokyo and selected regions of Japan in the foodservice and retail sector, as well as in the private brand and menu development programmes.

- **Biotechnology**

Japan's rapidly ageing population requires healthcare, creating opportunities in the fast growing biotechnology and medtech sectors. NZTE is looking at marketing biologically-active natural products to Japanese nutraceutical and cosmetics industries and commercialising New Zealand pharmaceutical and medical device technology.

- **ICT**

Japan's ICT market, worth NZ\$150 billion per annum, is the second largest after the United States (US). The fastest growth is expected in the small and medium sized enterprises (SMEs) segment where New Zealand software, often developed to be run cost effectively on a small scale, will be most competitive. NZTE is identifying opportunities in software and electronics and also providing market entry and business development support to selected auto and marine engineering companies.

- **Services**

NZTE is active in the services industry where it has identified demand in areas such as professional training and consulting, and will also facilitate the sale of intangibles through mechanisms such as licensing, airline pilot training, franchising New Zealand tourist ventures and carbon trading, as well as traded goods.



Market Intelligence - Research and Analysis

NZTE staff regularly undertake market research and analysis in areas of interest to New Zealand exporters. Reports are posted on the NZTE website.

NZTE also commissions market research from third party providers to provide a more detailed examination of market issues and opportunities. The studies completed in early 2009 include:

Japan food distribution map: This reference work maps the supplier/customer relationships and capital links between 78 groups in the Japanese food distribution system. The maps are arranged by region, product, and type of company (general trading companies, food manufacturers, wholesalers, general merchandise stores, supermarkets, department stores, convenience stores, restaurant chains and buying collectives).

Saizeriya's merchandising system - a case study:

A study of the most efficient operation in Japan's NZ\$200billion family restaurant market. The report also shows how to become a long term, profitable supplier of ingredients to the food service industry in Japan.

Guide to medical device registration in Japan: A comprehensive guide to regulatory affairs in Japan including relevant laws, government agencies, manufacturers, importer and product approvals, the reimbursement system and likely times and costs.

Research already commissioned or planned for 2009/2010 includes:

- Outlook for the SaaS/cloud computing market
- Benchmark research on the health and functional food ingredient market
- Overview of the frozen dough market
- Survey of opportunities for New Zealand consulting firms from Japanese Government aid projects in the Pacific and Middle East, agricultural aid and the relocation of US marines to the Mariana Islands

Client consulting

In line with the broader objective of maximising NEB, NZTE's Japan team will provide customised services to New Zealand companies that have both sales potential and capability to succeed in the Japanese market. Consulting activity during 2009/2010 will include:

- Market entry proposals including initial market research and regulatory checks, screening potential customers and partner candidates, accompanying clients to meetings and interpreting services.
- Collaborative market activity for groups of companies targeting the same sector in Japan.
- Customised reports or projects for companies with previous experience in Japan to provide additional market intelligence, solve distribution problems, or accelerate time to revenue.

In general, NZTE will not meet ad hoc requests for appointments or provide buyer contact details due to the complexity and risk profile of the Japanese market.

Client education, training and programmes

NZTE's Beachheads Programme has been expanded to include an advisory board in Japan. While in its early stages, the board will give New Zealand companies access to strategic advice from current or former presidents and directors of major Japanese and multinational corporations. NZTE is recruiting New Zealand businesses for the programme, targeting companies that are trading in Japan or have significant market potential.

NZTE also runs the New Zealand Business Centre, a shared office facility for New Zealand business in central Tokyo.

Investment promotion

Investment promotion in Japan will concentrate on biotechnology and ICT. NZTE has identified animal-based therapeutics as a biotechnology sub-sector where New Zealand has a competitive advantage. Within the ICT sector, NZTE is matching New Zealand's health IT cluster with strong potential demand for medical networking software as Japan puts its reimbursement system online and begins to integrate its health system at a regional level.

Marketing and brand development

NZTE's marketing programme in Japan will focus on media relations and publicity around trade events. NZTE maintains relationships with journalists covering the food and beverage, biotechnology, and ICT sectors, to raise the profile of New Zealand activity in these industries in Japan and to attract visitors to New Zealand pavilions at major trade shows such as Health Ingredients Japan and FOODEX.

Trade shows and other events

NZTE will again have a major presence at Health Ingredients Japan (exhibition of biologically active natural products) in October 2009 and FOODEX (largest food and beverage trade show in Asia) in March 2010, both to be held in Tokyo. Packages on offer include a tailored programme of activities before and after the events.

NZTE has also introduced New Zealand Food Connection, a private food and beverage trade show designed to promote New Zealand food and beverage products to professional buyers in the regional cities of Japan and surrounding areas. In 2009, the show will travel to Fukuoka, Osaka and Sapporo.

Visits to Japan by New Zealand Government ministers and other representatives are also expected. These will present opportunities for accompanying business missions and delegations.



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Websites:

www.nzte.govt.nz - market intelligence, sector reports, and general information on exporting.