

Auto Parts

(Your Market in Japan-1996)

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I. Outline of the Market for Auto Parts in Japan

1) Outline of Japan's Auto Parts Industry

The scope of auto parts covered in this study is in principle as described below. However, motorcycle parts are included in some cases.

- a. Engine parts
- b. Electrical and electronic parts, instruments
- c. Lamps and instrumentation
- d. Drive trains, transmissions, steering parts
- e. Suspensions, brake parts
- f. Body parts
- g. Accessories (audio, air conditioning equipment, others)

The Japanese auto parts industry has a shorter history than that of the parts industries in Europe and the United States. After World War II, permission was given in 1945 to produce trucks with certain restrictions on unit volume, followed by permission in 1947 to produce small-sized passenger cars, again with restrictions on volume. The volume restrictions on passenger cars were subsequently lifted in 1949, when full-fledged production of automobiles commenced. At the time, however, there were almost no major manufacturers of parts. Most of today's major parts manufacturers were spun off from the parts units of pre-war auto makers. When automobile production recommenced after the war, the auto makers took special care to foster the growth of these parts manufacturers in the interest of nurturing peripheral support industries. In addition, a number of governmental measures were designed to foster the parts industry, including legislation in 1956 to promote the machine industry, legislation in 1971 to promote designated electronic and machine industry sectors, and legislation in 1978 to promote designated machine and information industry sectors.

In 1950, immediately following the lifting of production restrictions on passenger cars, Japan's production of automobiles amounted only to 32,000 units. Ten years later, in 1960, production already exceeded 482,000 units, and by 1963, production topped one million units.

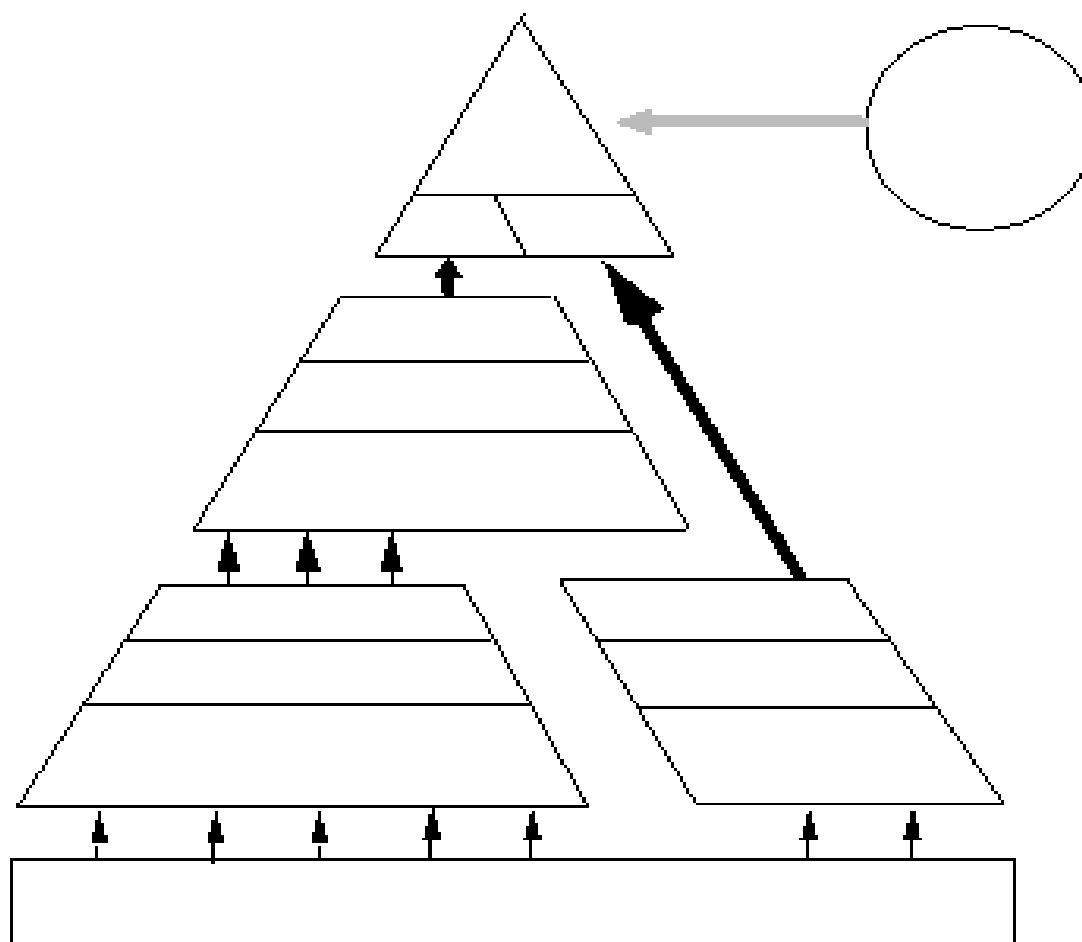
Subsequently, Japan's domestic automobile production kept rising, hitting 7,038,000 units in 1980 to exceed U.S. production of 6,375,000 units. From that year through 1993, Japan held first place in automobile production worldwide.

Today, the Japanese auto parts industry shows the following key characteristics:

- The rate of in-house parts production of Japanese auto makers is low, running at approximately 30%. The auto makers themselves manufacture only major critical parts, body parts, and cast parts; the remaining 70% is farmed out to parts manufacturers.
- Japan's auto parts industry is composed of an extremely large number of groups of companies, ranging from first-tier parts manufacturers that receive orders directly from automakers and get involved in operations from parts design and development (design-in) to parts assembly, all the way to fourth- and fifth-tier manufacturers. The first-tier of parts manufacturers consists of approximately 400 firms whereas the second and lower tiers number in total more than 10,000 firms.
- Japan's first-tier of parts manufacturers is composed in general of large companies. However, even though they may be large in size, they tend to be highly dependent on automobile-related business, and few engage in other business sectors compared to major European and U.S. parts suppliers.

As indicated above, the Japanese automobile industry is structured in the shape of a pyramid with the automakers at its apex. As such, the ties between Japanese parts manufacturers and auto makers are considerably tighter than is the case in Europe and the U.S..

Figure 1: Structure of the Japanese automobile industry



Source: "Distribution of Auto Parts and Accessories: 1996" published by Jidosha Shimbunsha

With trade friction taking center stage from the beginning of the 1980s, 1981 saw the beginning of Japan's voluntary export restraints on passenger cars to the United States. In 1986, the Ministry of International Trade and Industry (MITI) called for voluntary restraints on automobile exports to the EC. In response to growing trade friction, Japanese automakers began to move into full-scale production abroad, and eight U.S. plants of Japanese automakers were operational by 1989.

Against this backdrop of trade issues, discussions at the 1985 U.S.-Japan summit resulted in a decision to commence MOSS (Market Oriented Sector Selective) talks, which in turn brought the topic of auto parts into the discussions. The 1986 MOSS report on auto parts contained a great deal of information on what Japan was doing to assist foreign suppliers, including Japanese automakers' identification of contact points, their efforts to expand business with and purchases from foreign suppliers, and the government's review of the motor vehicle inspection system.

Talks held in 1990 resulted in the MOCP (Market Oriented Cooperation Plan), which was intended to expand the parts business.

The U.S.-Japan Framework Talks on the Automobile and Auto Parts Sectors, which commenced

in 1993, were concluded in August 1995 after approximately two years of negotiations. The final document stemming from the talks, while side-stepping the U.S. demand for numerical targets for Japanese purchases of U.S.-made parts, resulted in the implementation of the following measures, which were designed to broaden opportunities for foreign access to the replacement parts market:

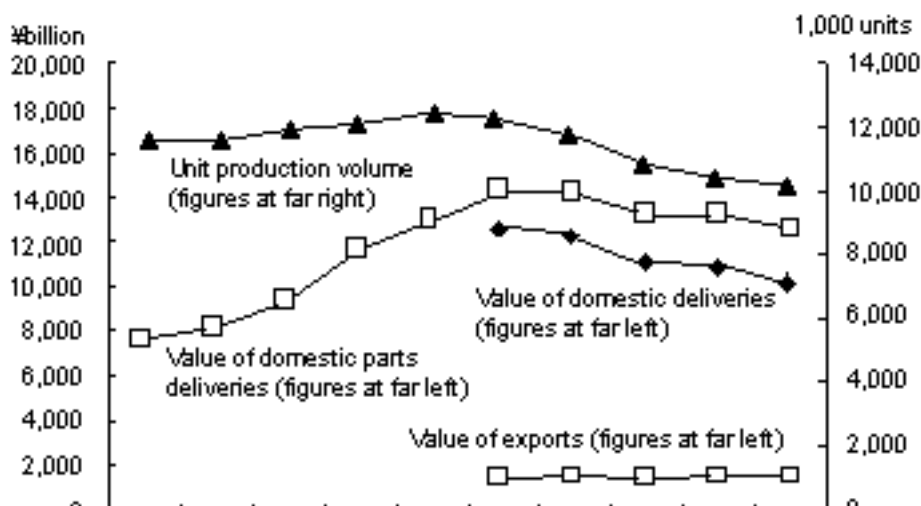
- Deregulations
- Establishment of contact points for processing requests and complaints
- Campaign to publicize changes in regulations and adherence to principles of non-discrimination concerning foreign-made parts
- Import promotion (program to improve foreign access to the replacement parts market)


2) Trends in Production and Deliveries

After peaking in fiscal 1991 (April 1991 through March 1992), domestic deliveries of auto parts have been on a downtrend. According to a survey entitled "Survey of Trends in Deliveries of Auto Parts" conducted by the Japan Auto Parts Industries Association (JAPIA), the value of Japan's deliveries of auto parts (hereinafter including accessories) totaled ¥12.59 trillion in fiscal 1995 (April 1995 through March 1996), marking a year-on-year decline of 4.7%. With domestic car production volume and deliveries on the decline, Japanese parts manufacturers themselves are developing overseas production, following the path set by Japanese automakers that are stepping up their overseas production.

Note: This survey, which excluded JAPIA associate members that engage in sales, trade, or materials production, elicited responses from 487 companies in fiscal 1995, for a response rate of 96.8%. Note also that this survey had low coverage of accessories and it did not include tires, batteries, and glass.

Figure 2: Trends in domestic auto production and the value of deliveries of auto parts and accessories





 86 87 88 89 90 91 92 93 94 95 FY

Source: Japan Auto Parts Industries Association (JAPIA) "Survey of Trends in Deliveries of Auto Parts"

Note 1: The Japanese fiscal year usually runs from April through March of the next year.

Note 2: The value of auto parts deliveries does not include in-house parts production by automakers.

Note 3: Does not include tires, batteries, and glass.

Figure 3: Trends in the value of deliveries of auto parts and accessories

Unit: ¥million on

FY	Assembly parts			To parts manufacturers	Replacement parts			Four-wheeled vehicles	R	
	(see notes)	Domestic	Exports	Total	(note 4)	Domestic	Exports	Total		Total
86	-	-	-	6,349,036	-	-	-	1,325,702	7,674,738	7,94
87	-	-	-	6,635,231	158,693	-	-	1,431,421	8,225,345	8,45
88	-	-	-	7,450,821	482,624	-	-	1,428,347	9,361,792	9,62
89	-	-	-	9,244,025	755,808	-	-	1,595,302	11,595,135	11,8
90	-	-	-	10,195,319	1,137,743	-	-	1,603,313	12,936,375	13,2
91	11,054,449	439,619	-	11,494,068	1,246,691	1,029,763	553,533	1,583,296	14,324,055	14,6
92	10,892,629	488,502	-	11,381,131	1,296,343	967,803	579,031	1,546,834	14,224,308	14,5
93	9,975,821	453,316	-	10,429,137	1,335,023	938,290	549,452	1,487,742	13,251,902	13,6
94	9,777,452	519,245	-	10,296,697	1,399,796	961,506	556,517	1,518,023	13,214,516	13,5
95	9,130,957	538,286	-	9,669,243	1,398,987 (144,204)	986,028	542,220	1,528,248	12,596,478	12,9

Source: Japan Auto Parts Industries Association (JAPIA) "Survey of Trends in Deliveries of Auto Parts"

Note 1: The Japanese fiscal year usually runs from April through March of the next year.

Note 2: The value of auto parts deliveries does not include in-house parts production by automakers.

Note 3: Does not include tires, batteries, and glass.

Note 4: The figure in parentheses () covers exports.

Figure 4: Trends in the value of deliveries of auto parts and accessories by category

Unit: ¥million

FY (see note)	1991	1992	1993	1994	1995	Ave. change %
Parts total	12,607,976	12,527,648	11,678,620	11,745,853	11,170,660	-1.76
Engine parts	2,253,048	2,327,969	2,287,246	2,311,626	2,030,989	0.64
Electrical and electronic parts	929,916	911,074	938,119	975,004	1,025,433	1.19
Lamps and instrumentation	1,821,502	1,854,327	1,694,122	1,725,262	1,645,336	-1.35
Drive trains, transmissions, steering parts	2,318,355	2,292,396	2,178,946	2,201,770	2,209,213	-1.28
Suspensions, brake parts	1,080,530	1,078,333	980,531	1,010,887	972,695	-1.65
Body parts	4,204,625	4,063,549	3,599,656	3,521,304	3,286,994	-4.34
Accessories total	1,716,079	1,696,660	1,573,282	1,468,663	1,425,818	-3.82
Radios, stereos	525,894	503,342	478,864	497,547	468,375	-1.38
Air conditioning equipment	809,416	813,981	746,474	733,304	743,206	-2.44
Others	380,769	379,337	347,944	237,812	214,237	-11.10
Parts and accessories	14,324,055	14,224,308	13,251,902	13,214,516	12,596,478	-2.00

total						
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Source: Japan Auto Parts Industries Association (JAPIA) "Survey of Trends in Deliveries of Auto Parts"

Note 1: The Japanese fiscal year usually runs from April through March of the next year.

Note 2: The value of auto parts deliveries does not include in-house parts production by automakers.

Note 3: Does not include tires, batteries, and glass.

Figure 5: Trends in the value of deliveries of auto parts and accessories (1)

Unit: ¥million

Part item	FY 93	FY 94	FY 95	Ave. annual change	Part item	FY 93	FY 94	FY 95
Pistons & piston pins	61,433	58,239	57,757	-2.0	Spark plugs	34,666	33,839	35,354
Piston rings	41,856	45,019	43,993	1.7	Glow plugs	9,072	9,429	9,636
Cylinder liner	19,212	17,542	17,231	-3.6	Engine control devices	41,341	121,519	190,807
Engine gaskets and packings	59,125	57,750	62,837	2.1	Drive and transmission-related electronic devices	64,942	68,174	68,811
Engine valves	38,175	38,916	44,311	5.1	Brake-related electronic devices	83,244	88,048	73,122
Valve rocker arms and shaft	22,234	19,203	20,026	-3.4	Sensors for electronic devices	224,594	150,018	126,856
Other valve driving parts	44,517	49,093	40,610	-3.0	Remote-control key and entrance system	-	-	35,397
Bearings	34,627	45,007	31,187	-3.4	Other electrical parts	163,596	185,817	179,110

Fuel pumps	29,960	32,490	46,954	16.2	Electric and electronic parts subtotal	938,119	975,004	1,025,433
Carburetors	41,639	37,220	42,838	1.0	Headlamp	113,028	107,866	104,071
Fuel injection equipment for diesel engines	124,271	140,603	147,504	5.9	Signal and indicator lamps	141,931	123,976	111,915
Nozzles	46,506	41,514	34,255	-9.7	Other lamps	35,271	35,701	33,991
Electronically-controlled fuel injection equipment	282,421	289,353	192,737	-12.0	Speedometers	145,623	142,465	139,197
Fuel filters	34,815	33,748	31,527	-3.3	Wiper motor and other linkage parts	160,712	158,919	141,787
Air cleaners	79,852	77,715	67,789	-5.3	Wiper arms and blades	49,618	48,934	46,627
Air cleaner elements	17,208	12,463	13,015	-8.9	Windshield washers	19,469	20,150	32,039
Manifolds	48,923	52,876	44,699	-3.0	Horns and buzzers	16,417	15,774	14,277
Turbocharger and supercharger	-	-	16,162	-	Steering locks	22,371	28,245	19,309
Oil pumps	27,585	30,281	41,266	14.4	Switches	134,237	124,172	129,956
Oil filters	48,581	56,723	49,983	1.0	Flashers	74,635	72,177	60,097
Water pumps	41,179	46,488	40,186	-0.8	High-tension electric wiring	21,191	19,494	17,771
Radiators	131,671	130,495	122,598	-2.4	Low-tension electric wiring	18,164	18,898	17,639
Thermostats	6,903	4,119	9,655	11.8	Wiring harnesses	486,433	471,262	453,095
Oil coolers	19,853	20,205	18,291	-2.7	Other electrical parts	255,022	337,229	323,565
Fan and clutches	22,406	25,534	24,316	2.8	Subtotal of lamp and instrumentation	1,694,122	1,725,262	1,645,336
Catalytic converters	97,401	59,351	65,203	-12.5	Clutch covers	46,520	46,439	37,800
Other parts for emission control devices	64,382	69,798	67,670	1.7	Clutch discs	56,008	52,311	49,747
Rubber hoses	75,029	71,366	66,089	-4.1	Clutch facings	11,354	16,094	9,837
Exhaust pipe and muffler	176,662	206,321	196,339	3.6	Transmissions	38,943	58,716	28,547
Other engine parts	548,820	542,194	373,961	-12.0	Transmission parts	182,037	182,641	211,354
Engine part subtotal	2,287,246	2,311,626	2,030,989	-3.9	Automatic transmission	453,506	503,077	554,653

Starting motors	97,936	100,835	96,699	-0.4	Steering shafts, columns, and gears	137,418	135,363	143,927
Generators	119,010	122,768	117,124	-0.5	Steering wheels	57,742	59,355	59,542
Magnetos	-	102	445	-	Power steering devices	209,147	202,397	179,128
Distributors	71,205	65,155	62,158	-4.4	Tie rod ends	55,153	54,345	46,991
Ignition coils	28,513	29,300	29,914	1.6	Front axles	23,105	20,612	24,042

Figure 5: Trends in the value of deliveries of auto parts and accessories (2)

Unit: ¥million

Part item	FY 93	FY 94	FY 95	Ave. annual change	Part item	FY 93	FY 94	FY 95	a
CV joint	92,065	91,643	80,383	-4.4	Panels for passenger car bodies	495,768	493,507	449,211	c
Propeller shafts	30,841	26,056	34,413	3.7	Panels for truck and bus chassis	67,738	58,079	55,695	
Universal joints	17,245	17,450	15,946	-2.6	Chassis frames	86,032	84,779	94,861	
Differential gears	29,649	32,029	30,204	0.6	Dashboards and panels	97,166	92,644	89,867	
Rear axles	12,154	12,019	17,487	12.9	Bumpers	35,794	33,882	30,408	
Wheels (steel)	91,144	113,271	89,297	-0.7	Fuel tanks	54,016	56,103	53,856	
Wheels (light alloy)	41,074	30,150	37,047	-3.4	Upholstery and molding	121,094	124,417	109,376	
Hub bolts and nuts	78,619	70,613	69,394	-4.1	Window frames	69,015	71,891	64,367	
Bushings	16,869	17,154	15,346	-3.1	Weather-strips	56,199	56,211	53,992	
Oil seals	59,118	60,853	53,084	-3.5	Window regulators	96,685	92,293	79,312	
Shift lever	24,162	25,003	25,487	1.8	Door handles and locks	126,114	119,478	119,052	

Pedals	14,137	12,545	12,032	-5.2	Door hinges and checker	37,001	32,653	30,648
Control cables	53,329	51,141	55,558	1.4	Seats and seat springs	673,413	583,797	539,790
Other drive, transmission, and steering parts	347,607	310,493	327,967	-1.9	Seat-related parts	128,956	112,961	138,589
Drive, transmission, steering parts subtotal	2,178,946	2,201,770	2,209,213	0.5	Seat belts	129,402	126,322	104,930
Leaf springs	41,934	44,948	40,815	-0.9	Airbag modules and peripheral parts	-	-	100,237
Coil springs	23,112	22,307	22,539	-0.8	Interior furnishings	477,159	483,535	420,294
Shock absorbers	71,583	77,960	68,177	-1.6	Mirror	89,015	83,536	76,259
Suspension struts	65,625	85,041	81,149	7.3	Anti-vibration rubber parts	168,739	175,035	157,919
Torsion bars and stabilizers	21,284	21,310	20,146	-1.8	Other body parts	590,350	640,181	518,331
Other suspension parts	49,591	28,256	26,410	-18.9	Body parts subtotal	3,599,656	3,521,304	3,286,994
Brake drum ass'y	95,924	109,980	101,129	1.8	Car clocks	10,146	8,289	7,936
Disk brake ass'y	160,104	166,248	158,148	-0.4	Car radios	62,809	55,233	45,071
Air brake ass'y	7,941	10,055	8,955	4.1	Car stereos	416,053	442,314	423,304
Power brakes	65,092	67,613	59,979	-2.7	Cooler / air conditioning	563,374	556,827	579,423
Brake cylinders	63,767	55,708	50,705	-7.4	Heater / air conditioning	183,100	176,477	163,783
Piston rubber caps	11,392	12,904	10,646	-2.2	Baby car seats	-	-	6,325
Brake linings	38,489	15,085	15,042	-26.9	Roof carriers	-	-	7,708
Brake shoes	13,712	11,021	11,420	-5.9	Wheel caps	14,957	15,301	15,978
Disk pads	46,572	76,595	71,238	15.2	Paint and painting equipment	128,282	66,685	33,081
Brake hoses	19,125	18,194	17,078	-3.7	Other	194,561	147,537	143,209

					accessories				
Brake pipes	28,605	28,567	26,541	-2.5	Accessories subtotal	1,573,282	1,468,663	1,425,818	-
Brake valves	27,914	13,930	34,916	7.7	Total	13,251,902	13,214,516	12,596,478	-
Other brake parts	36,569	44,464	61,230	18.7					
Other suspension and brake parts	92,196	100,701	86,432	-2.1					
Suspension and brake parts subtotal	980,531	1,010,887	972,695	-0.3					

Source: Japan Auto Parts Industries Association (JAPIA) "Survey of Trends in Deliveries of Auto Parts."

Note 1: The Japanese fiscal year usually runs from April through March of the next year.

Note 2: The value of auto parts deliveries does not include in-house parts production by automakers.

Note 3: Does not include tires, batteries, and glass.

An examination of the 487 companies that responded to the "Survey of Trends in Deliveries of Auto Parts" conducted by JAPIA reveals that 88 companies with paid-in capital of ¥5 billion or more accounted for 55.9% of the value of such deliveries. The firms covered by the survey are largely first-tier parts manufacturers that participate in design-in activities; however, the survey also covered firms that ship only to the replacement parts market.

Figure 6: Net Sales by size of paid-in capital (FY 95)

Capital	No. of firms	Proportion (%)	Net Sales (¥million)	Proportion (%)	Net Sales per firm (¥million)
¥10 billion +	53	10.9	5,104,460	39.3	96,310.6
¥5 - ¥10 billion	35	7.2	2,158,765	16.6	61,679.0
¥2 - ¥5 billion	48	9.9	1,928,379	14.8	40,174.6

¥1 - ¥2 billion	39	8.0	861,474	6.6	22,089.1
¥500 million - ¥1 billion	26	5.3	530,564	4.1	20,406.3
¥100 - ¥500 million	103	21.1	1,417,706	10.9	13,764.1
Less than ¥100 million	183	37.6	993,462	7.6	5,428.8
Total	487	100.0	12,994,810	100.0	26,683.4

Source: Japan Auto Parts Industries Association (JAPIA) "Survey of Trends in Deliveries of Auto Parts"

Note: Net Sales include parts for motorcycles.

3) Trends in Imports

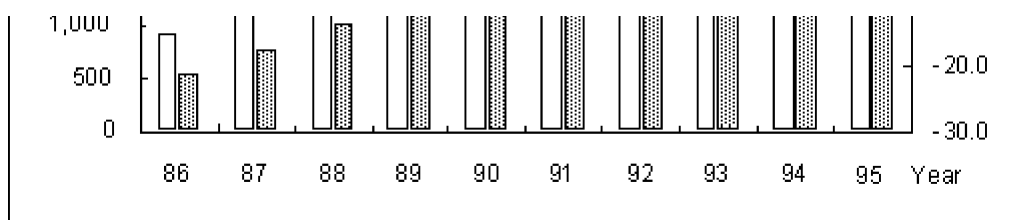
The value of parts imports has been rising and reached ¥242.5 billion in 1995, a year-on-year increase of 8.6%. The value of imports, however, remains relatively low in comparison to exports, which amounted to ¥3.50 trillion.

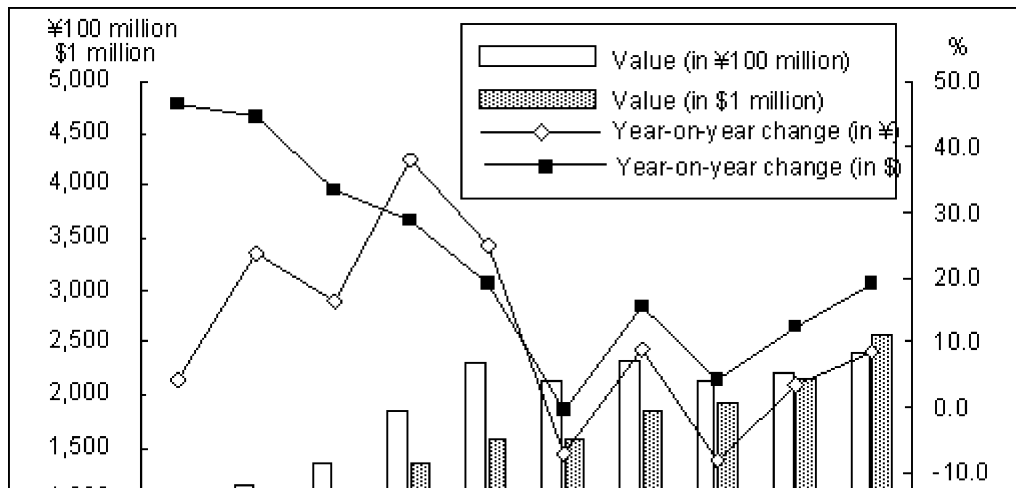
An examination by country / region indicates that, as in the case of exports, the

U.S. claimed the largest share, accounting for 37.6% of the total for 1995.

Nonetheless, a comparison with 1994 indicates that the U.S. and Canada are on a downtrend, with the shares held by Taiwan, Germany, Italy, France, and the United Kingdom increasing.

Figure 7: Trends in the value of parts imports





Source: Ministry of Finance "Japan Exports & Imports"

Note: Figures include tires and parts for motorcycles.

Figure 8: Trends in parts imports by region / country of origin

Unit: ¥million

Calendar Year	1994		1995		Year-on-year change (%)
	Value	Percent	Value	Percent	
U.S.	91,896	41.2	91,133	37.6	-0.8
Germany	25,817	11.6	30,316	12.5	17.4
Taiwan	14,142	6.3	17,967	7.4	27.0
Italy	10,948	4.9	12,439	5.1	13.6
Oceania	11,805	5.3	11,716	4.8	-0.8
R.O. Korea	9,361	4.2	9,459	3.9	1.0
France	7,477	3.4	8,941	3.7	19.6
U.K.	5,586	2.5	6,438	2.7	15.3
Canada	4,821	2.2	2,626	1.1	-45.5
Others	41,338	18.5	51,445	21.2	24.4
Total	223,191	100.0	242,480	100.0	8.6

Source: Ministry of Finance "Japan Exports & Imports"

Note: Figures include tires and parts for motorcycles.

Figure 9: Trends in imports of auto parts and accessories (1)

Unit: ¥million

Category	Item name	93	94	95	Ave. change (%)
6813	Brake / clutch friction materials	1,063	1,422	1,625	15.2
7320	Steel springs and leaf springs	839	715	865	1.0
8407-09	Piston and parts	35,985	30,696	30,204	-5.7
8407.31-000	Piston-type ignition internal combustion engine (50 cc and less cylinder capacity)	19	16	7	-27.6
8407.32-000	Piston-type ignition internal combustion engine (50-250 cc and less cylinder capacity)	264	196	328	7.5
8407.33-000	Piston-type ignition internal combustion engine (250-1000 cc and less cylinder capacity)	40	81	68	19.7
8407.34-000	Piston-type ignition internal combustion engine (1000 cc and over cylinder capacity)	12,623	9,139	6,479	-19.9
8407.90-011	Piston-type ignition internal combustion engine (30 HP and less rotary, reciprocal engine)	498	328	312	-14.5
8407.90-019	Piston-type ignition internal combustion engine (30-500 HP rotary, reciprocal engine)	75	132	128	19.6
8408.20-000	Piston-type pressure ignition internal combustion engine	851	292	919	2.6
8408.91-010	Piston-type ignition internal combustion	18,767	17,450	17,843	-1.7

	engine parts				
8408.99-010	Piston-type pressure ignition internal combustion engine parts	2,913	3,073	4,142	12.4
8415	Air conditioner	2,783	3,337	2,634	-1.8
8415.83-010	Air conditioner (not equipped with cooling unit or switching valve for cooling-heating cycle)	45	27	22	-21.1
8415.90-010	Component parts	2,742	3,314	2,612	-1.6
8511	Electric parts for internal combustion engine	5,415	5,995	6,207	4.7
8511.10-010	Ignition plug (for cars)	584	827	1,175	26.3
8511.20-000	Ignition magneto, dynamo, flywheel	101	79	29	-34.1
8511.30-000	Distributor, ignition coil	932	1,034	760	-6.6
8511.40-000	Starter, alternator	1,625	1,857	1,428	-4.2
8511.80-000	Electrical equipment for internal combustion engine, relays	1,149	996	1,333	5.1
8511.90-010	Parts (alternator, starter)	770	798	1,090	12.3
8511.90-090	Parts (electric parts for internal combustion engine, relays)	312	404	394	8.1

Figure 9: Trends in imports of auto parts and accessories (2)

Unit: ¥million

Category	Item name	93	94	95	Ave. change (%)
8512	Auto lamps, etc.	6,548	7,111	8,987	11.1
8512.20-000	Equipment for illumination or visible signaling	3,759	4,326	5,931	16.4
8512.30-000	Audio signaling equipment	954	917	925	-1.0

8512.40-000	Windshield wiper and dirt removal equipment	85	184	168	25.4
8512.90-000	Parts	1,750	1,684	1,959	3.8
8527	Radio, car-stereo	9,807	18,758	22,372	31.6
8527.21-000	Radio receiver (with combination tape recording / reproduction equipment)	9,504	16,961	20,405	29.0
8527.29-000	Radio receiver (other type)	305	1,762	1,957	85.8
8539	Light bulbs	387	332	227	-16.3
8708	Auto parts / attachments	89,157	91,909	108,154	6.7
8708.10-000	Bumper and parts	3,035	2,965	3,859	8.3
8708.21-000	Seat belts	1,455	2,624	2,499	19.8
8708.31-000	Brake linings (installed)	1,642	1,271	1,151	-11.2
8708.39-000	Brakes, multiplied brakes, and parts (excluding brake lining)	5,493	6,315	8,987	17.8
8708.40-000	Gear box	8,828	7,464	8,107	-2.8
8708.50-000	Drive shaft (with differential)	1,142	933	1,399	7.0
8708.60-000	Non-drive axle and parts	555	325	616	3.5
8708.70-090	Wheels, parts, attachments	31,078	30,471	35,937	5.0
8708.80-000	Shock absorber for suspension	1,797	1,875	1,958	2.9
8708.91-000	Radiators	1,084	979	1,698	16.1
8708.92-000	Sound absorber and piping	1,109	1,363	1,702	15.3
8708.93-000	Clutch and parts	1,722	1,956	2,238	9.1
8708.94-000	Steering wheel, column, box	6,518	6,567	7,379	4.2
8708.99-090	Parts and attachments	23,675	26,781	30,623	9.0
Total parts / accessories for 4-wheeled vehicles		151,984	160,275	181,275	6.1

8714	Motorcycle parts	4,810	4,818	5,939	7.3
4011-13	Rubber tires	58,236	57,534	54,457	-2.2
8707	Body	615	567	809	9.6
Total		215,645	223,194	242,480	4.0

Source: Ministry of Finance "Japan Exports & Imports"

Note: Totals of subtotals may not coincide entirely with the figures given as totals due to minor deviations in value.

II. Trends in Consumption

1) Trends in Parts Consumption

According to surveys conducted by JAPIA concerning trends in deliveries of auto parts, the value of parts sales for 1995 amounted to ¥12.59 trillion. Within this figure, domestic parts deliveries amounted to ¥11.37 trillion, of which 80.3% consisted of assembly parts delivered to automakers, 8.7% consisted of replacement parts, and 11.0% was delivered to parts manufacturers. In addition to that portion of the Japanese market covered by the survey, the Japanese market also consists of the portion of parts manufactured in-house by the automakers themselves, parts manufactured by firms that are not members of JAPIA, and imports.

Replacement parts totaled ¥1.52 trillion in value, of which ¥986 billion was delivered domestically. In contrast to assembly parts, replacement parts account for a low proportion of only 8.7%. There are a number of reasons why this proportion is so low. In addition to the fact that automakers outsource assembly parts on a large scale because their rate of in-house parts production is low, the following reasons apply.

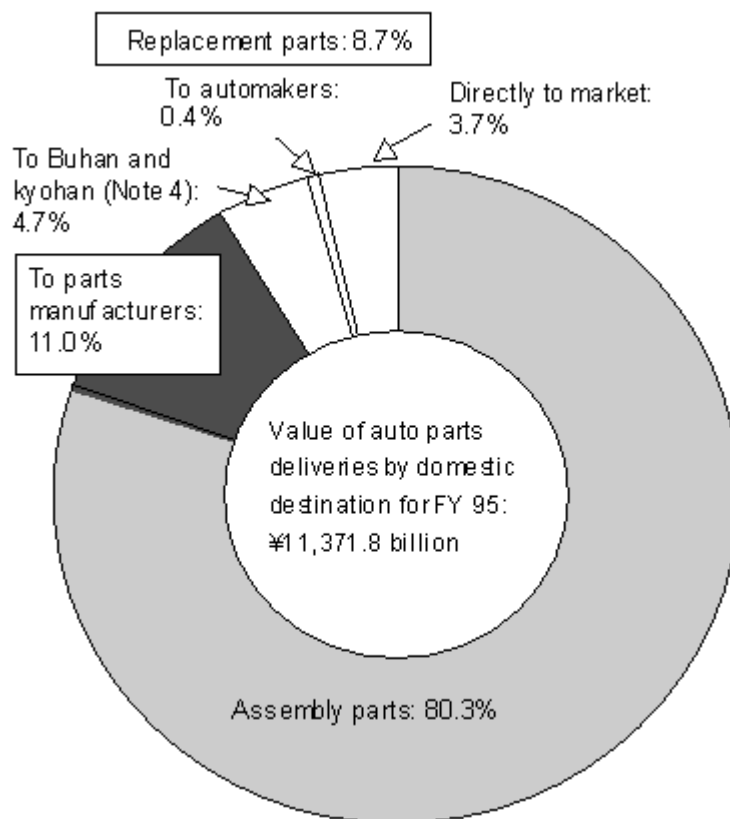
First of all, Japanese automobile production volume is large in relation to the number of cars owned in Japan, which determines the size of the replacement parts market. A comparison of Japan with the U.S. in terms of car production reveals that production volume in Japan, which consists heavily of complete vehicles for export, amounted in 1995 to 10.2 million units against U.S. production of 11.97 million units. However, in terms of vehicle ownership, Japan in 1995 had 70.07 million vehicles in use against 198.05 million vehicles in use in the U.S. in 1994. In addition, the average age of cars on the road in Japan is low, at about 5 years (refer to note 1), their frequency of use is low as their average driving distance per year is only about 10,000 km (refer to note 2). It is likely because of these factors that their incidence of repair is low.

Note 1: Calculated on the basis of statistics from Japan Automobile Inspection and

Note 1: Calculated on the basis of statistics from Japan Automobile Inspection and Registration Association. Average car age for the U.S. is about 8 years (AAMA "Motor Vehicle Facts & Figures") and for Germany is about 6 years ("Distribution of Auto Parts and Accessories: 1996" published by Jidosha Shimbunsha).

Note 2: Annual Statistics on Automobile Transportation

Figure 10: Breakdown of auto parts deliveries by domestic destination



Source: Japan Auto Parts Industries Association (JAPIA) "Survey of Trends in Deliveries of Auto Parts"

Note 1: The value of auto parts deliveries does not include in-house parts production by automakers.

Note 2: Does not include tires, batteries, and glass.

Note 3: The value of auto parts (refer to Fig. 3) = assembly parts for domestic + parts manufacturers for domestic + replacement parts for domestic.

Note 4: Genuine parts sales company. Buhan and kyohan wholesalers are companies established with the joint investment of automakers and dealers to handle mainly genuine parts.

Replacement parts are subdivided into two categories: "genuine parts" and non-genuine parts, which are defined as follows.

Genuine parts: parts manufactured from the automaker's designs or from certified drawings (refer to note 1), inspected or authorized by the automaker, and sold under the automaker's brand names. Such parts may either be manufactured in-house by the automaker or by the parts manufacturer.

Non-genuine parts: parts sold by the parts manufacturer via non-automaker channels. Most such parts are "preferred parts" recommended for quality and performance by JAPA (Japan Automotive Products Association). (Refer to note 2)

Note 1: Made by parts manufacturers in accordance with the automaker's basic performance demands and specs following design drawings provided by the automaker and authorized by the automaker.

Note 2: According to JAPA, recognition as "preferred parts" is conferred only on products "certified by JAPA in addition to authorization issued by the government, public organizations, leading private organizations, and the automakers that the products meet regulations / standards." As of 1995, JAPA recommendation covered 166 companies, parts in 110 categories, and accessories in 30 categories.

There are some parts manufacturers that specialize in producing non-genuine parts as well as manufacturers that make both genuine and non-genuine parts. Genuine parts only are sold in a number of categories in the replacement parts market, such as body parts; however, both genuine and non-genuine parts are sold in a limited number of categories, including non-durable parts with a high frequency of replacement, parts that are periodically replaced, and parts with high generality. For this reason, genuine parts hold 70-80% of the total market (on a value basis), with the remainder held by preferred parts. The distinction between genuine and non-genuine does not exist in replacement tires and batteries, where the replacement parts market is not supplied by brands from the automakers but entirely by parts supplied directly from the parts manufacturer.

2) The Position of Foreign-made Products

The value of imported auto parts has tended to increase year by year, amounting in 1995 to ¥242.5 billion. The total share of the domestic market held by foreign-made parts is unclear as it is difficult to evaluate statistically the in-house production by the automakers. Imports of replacement parts are on an uptrend estimated at about 2.6% (refer to note).

Note: This figure is from a letter dated May 9, 1995 sent by USTR M. Kantor to WTO Secretary General Renato Ruggiero and a study by SEMA (Specialty Equipment Manufacturers Association, U.S.A.). A figure of 4.1% was found in a March 1995 Ministry of Transport (MOT, Japan) study of service garages.

Automakers are purchasing foreign-made parts both in direct business arrangements with the foreign parts supplier and indirectly via agents and trading companies. According to a 1993 study by Japan's Fair Trade Commission, each automaker has business dealings with an average of 392.4 companies. Of this figure, 16.7% (65.6 companies) are with foreign parts manufacturers. The main parts categories procured from foreign parts suppliers are listed in the table below.

Figure 11: Main parts categories procured by automakers from foreign parts suppliers

Engine parts	Mufflers, belts, air cleaners, oil filters, catalyts
Electric and electronic parts	Airbag sensors, lamps, horns, antennas, radios, spark plugs, speakers, batteries, starters
Undercar parts	ABS, brakes, shock absorbers, stabilizers, accelerators, tires, aluminum wheels, transmissions, steering wheels
Body parts	Glass, carpets, mirrors, window regulators, molding

Source: The Fair Trade Commission "Survey of Transactions in Automotive Parts" June 1993

The same study cited the following evaluation of foreign-made parts by the automakers:

- The automakers have more concerns about parts procured from foreign parts suppliers (compared to parts from domestic parts manufacturers) in the areas of quality, delivery, and stability of supply.
- In regard to quality, the automakers gave high evaluations to products made by leading

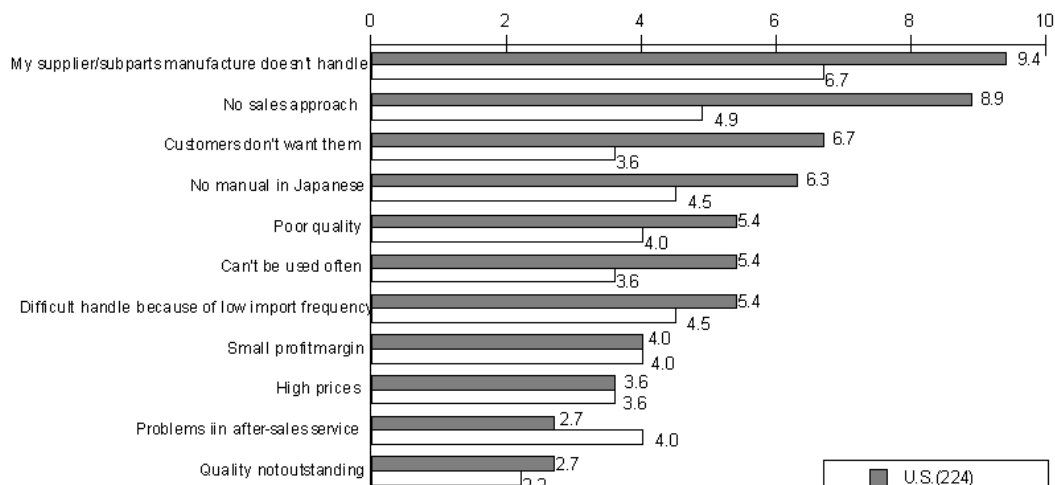
- In regard to quality, the automakers gave high evaluations to products made by leading foreign parts suppliers that have development and production technology for airbags and ABS which domestic parts manufacturers lack; however, in other areas, the automakers considered foreign parts suppliers' quality inferior, with many defects.
- In regard to delivery, many automakers pointed out problems with deliveries of foreign-made parts, including the need to set definite delivery deadlines earlier than with domestic manufacturers and the need to keep a larger amount of inventory at hand. Moreover, domestic parts manufacturers received higher evaluations in regard to their flexibility when design changes occur. In addition, parts procured from domestic manufacturers could be delivered right to the automaker's plants, whereas imports, in many cases, had to be received at ports designated by the country of supply. The automaker had to make arrangements itself for delivery, particularly in the case of the U.S., where transfer often took place at the production plants of the suppliers.
- In regard to stability of supply, the automakers had certain concerns, including reports of cases in which production of certain parts could not be increased once the originally set production volume had been completed. In addition, the automakers cited cases in which contract discussions had to start from scratch when the management of the foreign parts supplier changed.

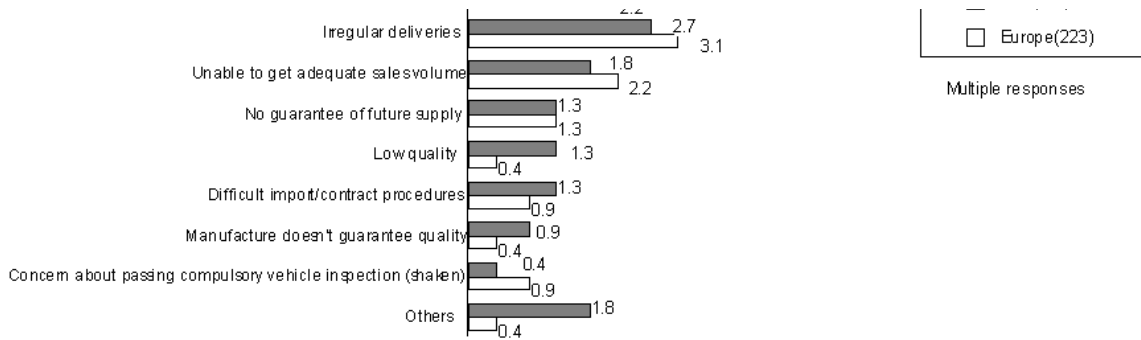
On the other hand, distributors had the following evaluation of foreign-made parts.

According to a study conducted by the Japan Federation of Auto Parts Sales Association entitled "Study of Improving Access to the Replacement Parts Market," distributors of replacement parts and accessories cited the following reasons (proportions in parentheses) for handling U.S.-made parts: "My supplier / the automaker handles them" (40.3%), "Customers want them" (24.4%), and "No quality problems" (22.4%). The same general trends but in higher proportion were present in their responses concerning European-made parts: "My supplier / the automaker handles them" (43.6%), "No quality problems" (26.5%), and "Customers want them" (25.5%), as well as "They have big profit margins" (21.6%).

Turning to their reasons for not handling U.S.-made parts, the responses were in order: "My supplier / auto parts manufacturer doesn't handle them" (9.4%), "No sales approaches" (8.9%), "Customers don't want them" (6.7%), and "No manual in Japanese" (6.3%). In the case of European-made parts, the responses were: "My supplier / auto parts manufacturer doesn't handle them" (6.7%) and "No sales approaches" (4.9%), followed by "No manual in Japanese" (4.5%) and "They're hard to handle because their import frequency is low" (4.5%).

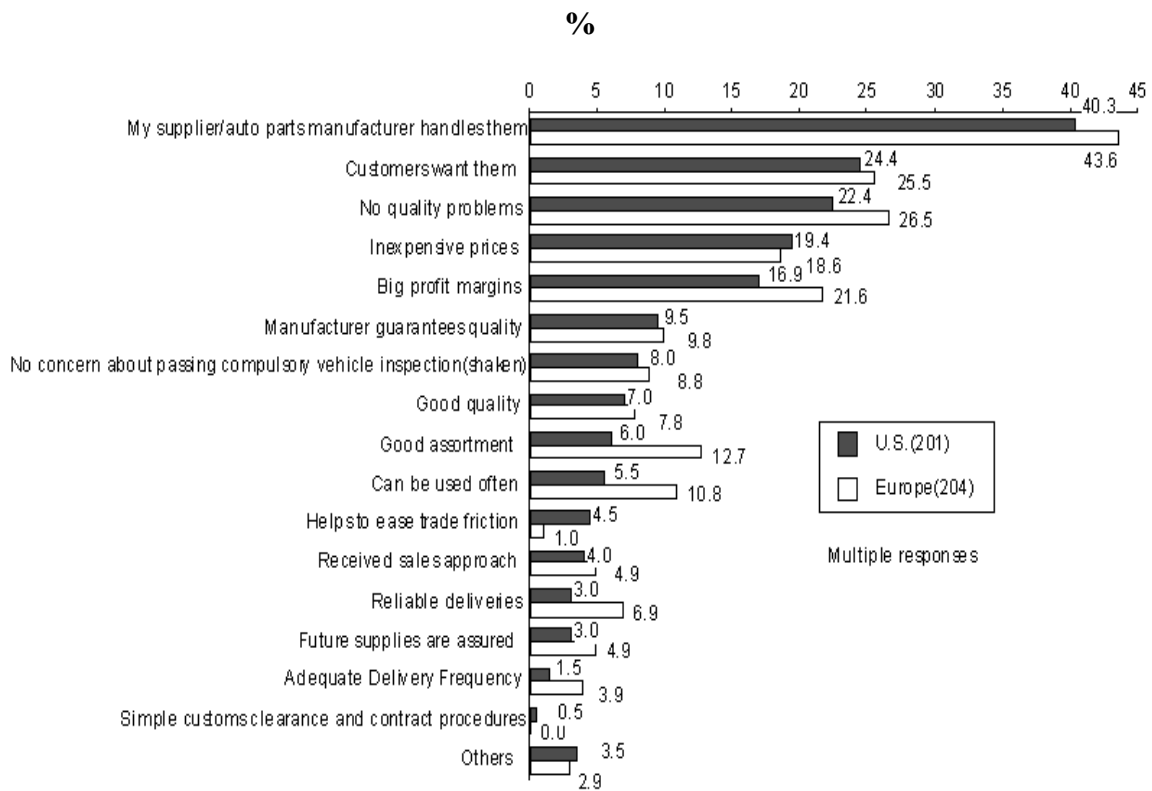
Figure 12: Reasons for handling foreign-made aftermarket parts %





Source: Japan Federation of Auto Parts Sales Association "Study of Improving Access to the Replacement Parts Market"

Figure 13: Reasons for not handling foreign-made aftermarket parts



Source: Japan Federation of Auto Parts Sales Association "Study of Improving Access to the Replacement Parts Market"

3) User Attitudes

The rate of users that responded saying they replace auto parts themselves, although relatively high among the segment of those who are interested in cars (persons who visit import car shows), was low at only 34.6% in total, suggesting an even lower rate among general users.

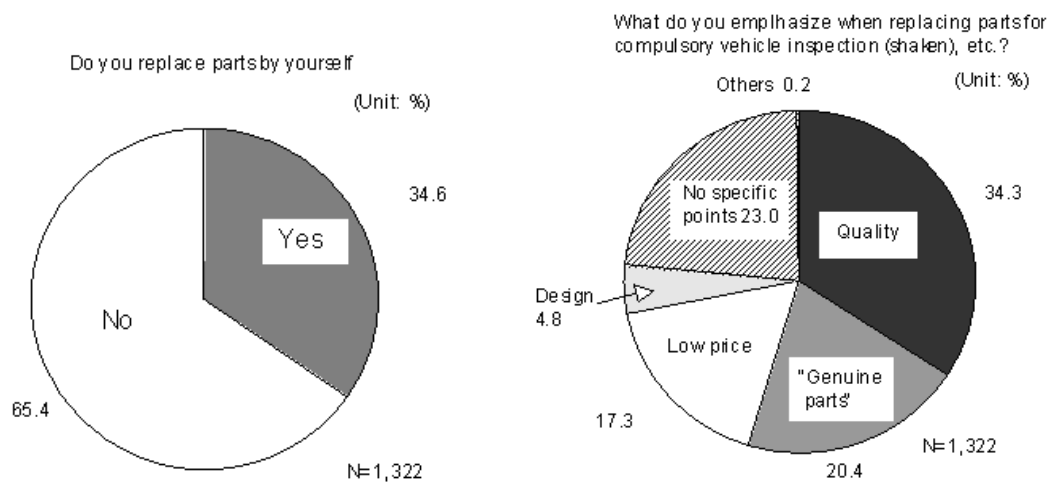
According to a survey conducted by a leading car shop chain in 1996 (587 responses), 41% of the subjects responded saying "I almost never conduct regular checks" or "I never do."

It is generally thought that the level of knowledge and skill concerning car maintenance among Japanese users is lower than among Europeans and Americans. This is attributable to a variety of factors, including differences in the size of the countries and attitudes toward service, as well as national differences in the history of motorization. For example, the vast size of the U.S. requires a certain level of technical skill in order to be able to cope with car problems that could arise on long-distance trips. Most users in Japan who should happen to be faced with similar car problem would certainly be able to get service in one way or another.

For these reasons, most parts in Japan's replacement parts market, apart from car wax, cleaner, and certain other general items, are sold in conjunction with inspection, repair and replacement, and installation services. Moreover, car shops always feature a pit where minor repairs are possible.

In contrast to the U.S., where a variety of sales channels, products, and price brackets exist for a variety of buying segments, not only for auto parts but in general, Japanese users tend to be more uniform and have a tendency to emphasize quality over price. According to responses to the questionnaire, when replacing parts, Japanese users emphasize in order "quality," "genuine parts," and "price."

Figure 14: Car users' attitudes toward parts replacement

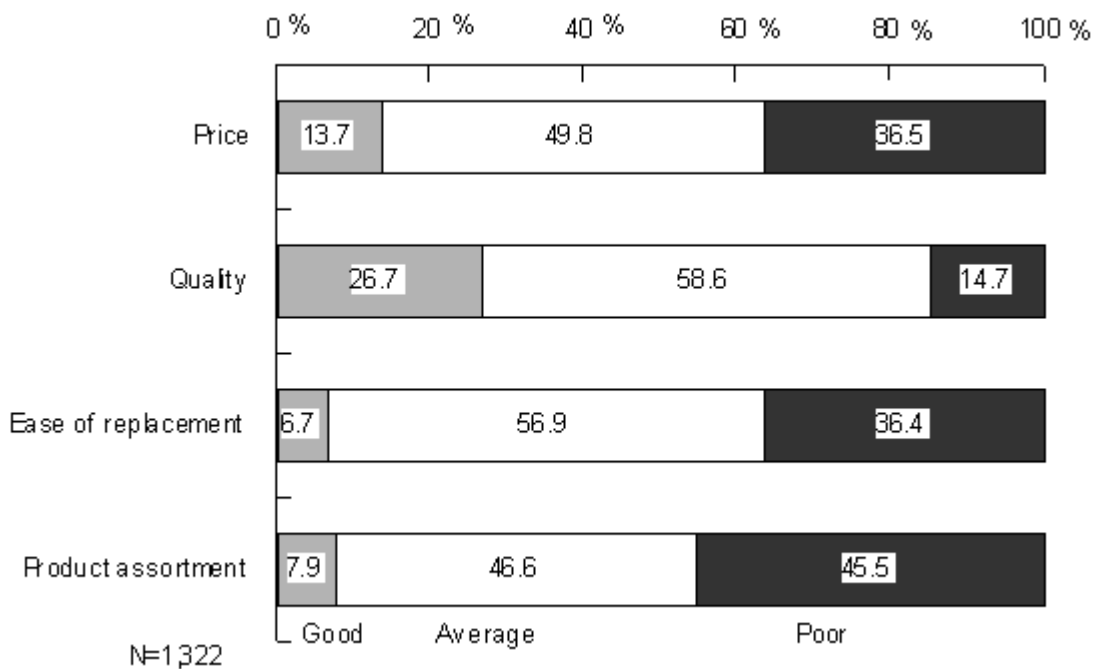


Source: Japan Federation of Auto Parts Sales Association "Study of Improving Access to the Replacement Parts Market"

Note: Survey subjects were persons who attended import car shows.

Users tended to give foreign-made parts relatively high evaluations in terms of quality but relatively low evaluations in terms of product assortment, price, and ease of replacement.

Figure 15: Evaluations of foreign-made parts by car users



Source: Japan Federation of Auto Parts Sales Association "Study of Improving Access to the Replacement Parts Market"

Note: Survey subjects were persons who attended import car shows.

III. Distribution

1) Characteristics of Distribution Transactions

Japanese parts manufacturers participate in the development of new cars from the beginning stage (design-in) and engage in severe competition to meet the rigorous demands of automakers concerning quality, price, and delivery. Automakers particularly emphasize QCDD (quality, cost, development capabilities, and delivery) in their selection of parts manufacturers.

Business dealings between automakers and parts manufacturers have the following characteristics.

(1) Competition within a small circle of contestants

- There are many parts manufacturers; however, only a limited number can respond in the case of individual parts. As a result, automakers procure from 2-5 parts manufacturers.
- The volume of orders sent to parts manufacturers is adjusted as needed, and parts manufacturers are evaluated by automakers on the basis of the results.
-

Note: It is rare for an order to be given to only one parts manufacturer. The main reasons for procuring from multiple parts manufacturers are to ensure a substitute if trouble with one parts manufacturer should occur and to cut costs through competition between parts manufacturers.

(2) Long-term business dealings

Business dealings between automaker and parts manufacturer continue for at least 4-5 years and tend to lead to long-term business dealings through the development of next-generation models during the term of the business. Once the parts manufacturer has secured a long-term business relationship, it engages in fierce competition with other manufacturers to keep the relationship.

(3) Automakers keep tabs on parts manufacturers' business situation

In order to build an intimate business relationship with parts manufacturers, automakers try to stay informed about the parts manufacturer's cost structure, trouble spots in its business, and technological levels, and may provide management

advice and assistance as needed. Similarly, first-tier parts manufacturers may keep watch on second-tier manufacturers and provide advice as needed.

This particular characteristic — the intimate relationship between automaker and parts manufacturer — has become both a target of criticism for "the closed nature of the Japanese market due to industrial grouping (*keiretsu*) relationships," and an object of praise as "an outstanding system that supports competitiveness."

Trade associations are organizations that illustrate the intimate relationships between automakers and parts manufacturers. Many first-tier parts manufacturers participate in trade associations oriented by automaker as well as in trade associations including multiple automakers. Foreign parts suppliers and their Japanese subsidiaries also participate in these trade organizations.

Figure 16: Trade associations established by automakers

Automaker	Name of cooperative association	No. of members (as of March 1996)
Toyota Motor Corporation	Tokai Kyohokai	150
	Kanto Kyohokai	66
	Kansai Kyohokai	29
Nissan Motor Co., Ltd.	Nissho-kai	191
Mazda Motor Corporation	Nishi Nihon Yoko-kai	65
	Kanto Yoko-kai	70
	Kansai Yoko-kai	55
Mitsubishi Motors Corporation	Mitsubishi Motors Kashiwa-kai	381
Suzuki Motor Corporation	Suzuki Kyoryoku-kyodokumiai	87
Fuji Heavy Industries Ltd.	Subaru Yuhi-kai	179
Isuzu Motors Limited	Isuzu Kyowa-kai	303
Daihatsu Motor Co., Ltd.	Daihatsu Kyoyu-kai	189
Hino Motors, Ltd.	Hino Kyoryoku-kai	256
Nissan Diesel Motor Co., Ltd.	Nissan Diesel Yayoi-kai	59

Source: JAPIA "The Motor Parts Industry of Japan 1996"

Note: Honda Motor Co., Ltd. does not have a trade association.

2) Distribution Channels

The following chart shows Japan's distribution channels for parts. Some assembly parts (components) are made in-house by automakers and some are made by outside parts manufacturers.

In regard to replacement parts, genuine parts are made either by the automaker or the parts manufacturer and supplied via the genuine parts sales company (*buhan and kyohan* wholesaler) or via certain dealers with wholesale capabilities in regions where there is no genuine parts sales company. Non-genuine parts are distributed via sales channels outside the genuine parts sales companies. The main channels are parts manufacturer channels, wholesale channels, oil / gasoline distributors, tire manufacturers, and mass merchandiser channels. In the U.S., one other channel has a relatively large role — the channel for used and rebuilt parts; however, this channel is still small in Japan.

The main channels are outlined below.

(1) Genuine parts sales company (*buhan and kyohan* wholesaler)

Buhan and kyohan wholesalers are companies established with the joint investment of automakers and dealers to mainly handle genuine parts. *Buhan and kyohan* wholesalers purchase genuine parts from automakers and sell them to dealers' repair operators, regional parts wholesalers, or general repair service operators.

Toyota established the first *buhan and kyohan* wholesalers in 1966; at present there are 111 *buhan and kyohan* wholesalers in six groupings.

Toyota, Nissan, Mazda, Honda, Mitsubishi, and Isuzu have set up *buhan and kyohan* wholesalers; specially designated dealers with *buhan and kyohan* capabilities carry out that role for automakers that do not have *buhan and kyohan* wholesalers and in regions that do not have *buhan and kyohan* wholesalers.

Before the establishment of *buhan and kyohan* wholesalers, dealers were in charge of parts supply to the aftermarket. However, parts supply operations under the system at that time were inefficient and returned only low profits. *Buhan and kyohan* wholesalers were established in order to provide parts distribution channels to cope with the increasing ownership of motor vehicles and the increasing number of parts. *Buhan and kyohan* wholesalers operate in a sales territory that is determined by its contract with the automaker and

is often defined by the local governmental unit (prefecture, etc.). Their role is to function as a regional supply depot for local dealers and the aftermarket.

The parts handled by *buhan and kyohan* wholesalers consist basically of genuine parts; however, about 2%-3% of their business consists of tires, batteries, and accessories, according to the report by the Fair Trade Commission (refer to note).

The total number of *buhan and kyohan* wholesalers and dealers with wholesale capabilities nationwide is 565 companies. About 400 of these are affiliated with a national trade organization known as Japan Genuine Parts Dealers Association.

Note: The automakers do not have any clause in their buhan and kyohan sales company contracts that mandates handling only genuine parts.

Figure 18: Automakers' parts supply system

Automaker	Parts supply system	No. of parts controlled (as of)
Toyota Motor Corporation	Toyota Buhin Kyohan: 33 companies	817,000 (12/94)
Nissan Motor Co., Ltd.	Nissan Buhin Kyohan: 36 companies	879,000 (3/95)
Mitsubishi Motors Corporation	Mitsubishi Buhin Hanbai: 10 companies	920,000 (3/95)
Honda Motor Co., Ltd.	Honda Buhin Hanbai: 9 companies	750,000 (3/95)
Mazda Motor Corporation	Mazda Buhin Hanbai: 22 companies	700,000 (12/94)
Fuji Heavy Industries Ltd.	Dealers: 62	113,000 (3/95)
Daihatsu Motor Co., Ltd.	Dealers: 75	201,000 (2/95)
Suzuki Motor Corporation	Dealers: 79	200,000 (3/95)
Isuzu Motors Limited	Isuzu Buhin Hanbai: 1 company	-

Source: Japan Automobile Yearbook 1996

(2) Parts Wholesalers

Parts wholesalers buy mainly preferred parts from parts manufacturers and resell them to local wholesalers and retailers, including mass sales outlets, car shops, and gas stations. Their sales territory is usually nationwide. Parts wholesalers generally handle parts from multiple parts manufacturers; however, some have exclusive agent contracts with certain parts manufacturers. Their business dealings are mainly with parts manufacturers, which accounts for most of the inventory they carry. However, they also deal with other parts wholesalers and the sales companies of parts manufacturers in order to stock preferred parts, and with *buhan and kyohan*

wholesalers for genuine parts.

According to the report by the Fair Trade Commission, parts wholesalers fall into two categories in a 6:4 ratio: those that mainly deal in preferred parts and those that deal both in genuine parts and preferred parts. However, even when a parts wholesaler deals in genuine parts, the ratio is only a small percentage, with preferred parts accounting for 90% or more of sales. The main reasons cited by parts wholesalers for handling preferred parts are: "company policy" and "preferred parts offer bigger profit because they are cheaper to buy."

Parts wholesalers have two nationwide trade associations. The association for parts is JAPA (Japan Automotive Products Association), which has 28 members (four of which are companies that do not handle passenger car parts). The association for accessories (Japan Automobile Accessories Wholesalers' Union) has 29 members. About 10 parts wholesalers are not affiliated with JAPA.

(3) Local Parts Wholesalers

Local parts wholesalers buy genuine parts from *buhan and kyohan* wholesalers and preferred parts from the above-mentioned parts wholesalers and resell to general repair service garages. Their sales territories are usually at the city or township level. The distinguishing characteristic of such local parts wholesalers is that they handle a wide range of parts and have a busy delivery system that makes rounds 2-7 times per day in order to cope with demand from general repair service garages, which can not keep many parts in stock, and demand for parts for car models not handled by dealers.

Most local parts wholesalers handle both genuine and preferred parts, with more than 60% of their business in genuine parts, according to the report by the Fair Trade Commission. Nonetheless, more than half (59%) give priority to sales of preferred parts, whereas only 17.9% give priority to sales of genuine parts. The reason cited for giving priority to preferred parts is: "preferred parts offer bigger profits because they are cheaper to buy" (95.7%).

The national trade association of local parts wholesalers is Japan Federation of Auto Parts Sales Association, which had 1,060 members as of December 1996. Approximately 200 local parts wholesalers are not members.

(4) Repair Service Garages

Repair service garages, which carry out car maintenance, disassembly, and repair, mainly buy the necessary parts from local parts wholesalers and *buhan and kyohan* wholesalers. There are about 82,000 repair service garages nationwide. Their national trade association is Japan Automobile Service Promotion Association. Repair service garages are subdivided into the following categories.

Dealer-affiliated repair service garages: dealers with repair service capabilities (about 16,000 locations).

In-house repair service operations: repair facilities owned by a company or related company; example: repair facility owned by a taxi firm (about 5,000 locations).

Full-time specialized repair service garages: repair service garages that are independent of dealer-affiliated repair service facilities and in-house repair service operations; auto service operations account for 50% or more of their total sales (about 45,000 locations).

Non-specialized repair service garages: repair service garages that are independent of dealer-affiliated repair service facilities and in-house repair service operations; auto service operations account for less than 50% of their total sales (about 17,000 locations).

Dealer-affiliated repair service garages generally use genuine parts. However, they also stock non-genuine, second-brand parts. Dealer-affiliated repair service garages generally stock genuine parts made by the dealer's automaker and bought from *buhan and kyohan* wholesalers or directly from the automaker. They buy genuine parts for other cars from local parts wholesalers or other dealer-affiliated repair service garages and preferred parts from local parts wholesalers.

Independent garages (specialized and non-specialized repair service garages) stock both genuine and preferred parts, mainly buying from local parts wholesalers. Apart from that, they buy parts from other repair service garages and the sales companies of parts manufacturers. They also buy genuine parts from *buhan and kyohan* wholesalers in some cases. Almost all independent garages use both genuine and preferred parts.

(5) Service Stations (gas stations)

Service stations mainly sell gasoline but also sell a simple assortment of replacement parts known as TBASP (tires, batteries, accessories, specialties, and parts) and provide car wash and pit services as well.

Most parts handled by service stations are procured from specialized trading companies affiliated with the service station's oil company, which also supplies other products to the service stations under its umbrella. Products are also purchased from parts wholesalers, local parts wholesalers, and *buhan and kyohan* wholesalers.

According to a survey by National Petroleum Dealers Association, sales of parts and accessories accounted for 4.7% of service stations' total sales in 1994.

Their trade association, which is known as National Federation of Petroleum Commercial Associations, has about 4,097 members. There are about 60,000 service stations, including non-members.

Figure 19: Trading companies affiliated with petroleum companies

Petroleum company	Trading company
Nippon Oil	Nisseki Shoji
Idemitsu Kosan	Apollo Service
Cosmo Oil	Cosmo Trade and Service
Kygnus Sekiyu	Kygnus Shoji
Japan Energy	JOMO Support System
Showa Shell Sekiyu	Rising Sun
General Sekiyu	General Sekiyu
Mitsubishi Oil	Mitsubishi Corp.
Taiyo Oil	Taiyo Shoji

Source: Japan Automobile Yearbook 1996.

(6) Tire Shops

Tire shops, which developed from shops that originally made repairs to flat tires, recently began handling accessories other than tires and hub caps. Some tire shops are affiliated with tire manufacturers, such as Bridgestone's *Cockpit* and Yokohama Rubber's *Grand Slam* shops. Others, like Bridgestone's *Tire Kan* shop and Toyo Rubber's *Landmark*, are mass merchandisers aimed at the family segment.

Their trade association is the National Federation of Japan Tire Dealers and Retreaders Associations, in which every local business union participates. There are about 2,000 tire shops nationwide.

(7) Car Shops

The two main nationwide chains of car shops have more than 700 outlets; including shops limited to certain regions and localities, there are about 2,600 car shops nationwide.

Today's leading car shop chain, Autobacs, grew rapidly after opening in 1974 as an American-type car shop handling all car products. There were car shops in Japan before it; however, their product assortment was not as broad as their counterparts in the U.S., as specialized shops handled tires, batteries, and oil products.

Today's car shops have generally adopted an outlet configuration featuring a pit for installing and replacing minor parts and accessories bought there. Car shops are expanding their pit facilities to encourage installation and minor repair work.

There is no trade association for car shops; however, the headquarters of major chains such as Autobacs Seven and Yellow Hat (company name: Royal) are members of wholesale organizations because they have wholesale functions. In addition, local chains and independent car shops buy stock from parts wholesalers and local parts wholesalers.

(8) Home Centers

Home centers are mass merchandisers that mainly sell do-it-yourself tools and garden accessories but also handle car accessories. Their national trade organization, which is known as Japan DIY Industry Association, counts about 2,700 outlets nationwide that sell car accessories (as of 1995).

3) Price-setting and Distribution Margins

The price of assembly parts is determined in general by the following steps.

- (1) Automakers set a market-acceptable preliminary sales price at the stage when the basic concept of the new car is developed and then indicate the target production costs set per part to the parts manufacturers.
- (2) After the automaker determines the parts manufacturer it will deal with for the part, both sides make efforts to reduce costs through changes in design and improvements in manufacturing methods and conduct VE (Value Engineering) activities to attain the target cost for the part, which determines the cost prior to mass production.
- (3) After the beginning of mass production, the automaker requests the parts manufacturer to conduct a price review, usually at the time of the six-month or one-year settlement periods, taking into account VA (Value Analysis) activities and economic trends.

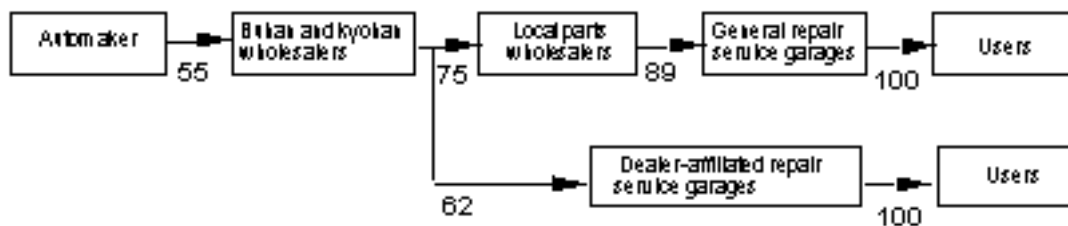
In contrast, the price of replacement parts tends to be higher than the price of the same assembly parts, which is in general determined by the process described above. This is because replacement parts need to be individually wrapped, which adds to their price, whereas assembly parts are simply delivered on shipping pallets directly to the plant. Replacement parts manufactured after the end of mass production may also be subject to increased costs because

production efficiency has declined. The resulting rate of increase may be determined by talks between the automaker and parts manufacturer, but there is no general rule. According to the survey by the Fair Trade Commission of five parts categories, the price of replacement parts, if the price of the comparable assembly part is indexed at 100 (the price for unpackaged delivery), will run 100-200 during mass production but will run in the 100-250 range after the end of mass production.

As for the distribution price, the automaker sets a suggested retail price in the case of genuine parts and the parts manufacturer sets the suggested retail price in the case of preferred parts. In general, the price of preferred parts is set at the same price as the suggested retail price for genuine parts. The price at the distribution stage is set at a certain percentage of the suggested retail price.

According to the survey by the Fair Trade Commission, different markup ratios are applied for each parts category when the automaker sells genuine parts *buhan and kyohan* wholesalers; moreover, the markup ratio tends to be lower in parts that compete with preferred parts. The situation is the same when parts are sold from *buhan and kyohan* wholesalers to local parts wholesalers and repair service garage operators. In addition, the markup ratio tends to be set lower when *buhan and kyohan* wholesalers sell to dealer-affiliated repair service facilities than to local parts wholesalers.

Figure 20: Pricing framework of genuine parts



Source: The Fair Trade Commission "Survey of Transactions in Automotive Parts" June 1993

The markup ratio on preferred parts set at the distribution stage is relatively lower than that for genuine parts. Assuming that they are sold at the suggested retail price, the margin on preferred parts at the distribution stage is larger than that of genuine parts. As mentioned above, these margin differentials are the reason why parts wholesalers and local parts wholesalers give priority to handling preferred parts.

Figure 21: Pricing framework of preferred parts



Source: The Fair Trade Commission "Survey of Transactions in Automotive Parts" June 1993

IV. The Import System and Related Laws and Regulations

1) The Import System

Japan levies no customs duties at all on the import of auto parts and places no tax-related regulation on such parts.

2) Related Laws and Regulations

(1) JIS Standards

JIS (Japanese Industrial Standards) are domestic standards that apply to auto parts. Under the jurisdiction of MITI's Agency of Industrial Science and Technology, they are proposed by the Japanese Standard Association, which is also involved in information dissemination, training, publication of drawings, and cooperates in the international standardization activities.

JIS are non-mandatory standards that nonetheless serve as guidelines for quality levels and the consistency of technical terms. Demands for more detailed quality levels are common in actual business. According to a report by the Fair Trade Commission, Japanese automakers can in very few cases purchase and use in assembly parts that are made simply to JIS standards.

JIS standards are undergoing the process of internationalization at present, centered on MITI's Agency of Industrial Science and Technology, leading to their conformity with ISO automotive parts standards (TC22).

(2) Product liability law

Japan's product liability law took effect from 1995, defining the manufacturer's responsibility for compensation for injuries to life or property caused by defective products. Japan Auto Parts Industries Association (JAPIA) occasionally holds briefings on this law and arranges group insurance for its members.

3) Content of Final Document at the U.S.-Japan Framework Talks on the Automobile and Auto Parts Sectors

The content of the final document of the U.S.-Japan framework talks on the automobile and auto parts sector is as shown in the Figure 22 below. In MITI-related matters concerning the final document, MITI is verifying the implementation of measures to support the import of foreign-made parts and to notify trade organizations of non-discrimination between domestic and foreign-made parts.

Figure 22: Content of final document at the U.S.-Japan Framework Talks on the Automobile and Auto Parts Sectors (MITI-related) (August 23, 1995)

1. Initiatives
 - 1) Dealerships (omitted)
 - 2) Parts purchases
 - (1) Regarding parts purchase initiatives, MITI is formulating import promotion policies to support the healthy globalization of Japanese automakers. The U.S. government is likewise formulating policies to expand exports to Japan.
 - (2) The Japanese government supports the following constructive activities of Japanese automakers.
 - a. Their expansion of R&D centers and design-in activities overseas.
 - b. The expansion of parts-selling opportunities for all suppliers regardless of capital affiliation.
 - c. The continuation of open parts purchase systems.
 - (3) Import promotion policies
 - a. The Japanese government provides financial support via JETRO for exhibitions of imported parts and design-in training.
 - b. The Japanese government provides financial support via the Japan Development Bank and Export-Import Bank for initiatives by foreign companies to encourage imports to Japan.
 - (4) Measures to promote imports to Japan
 - a. The U.S. government supports activities by U.S. parts suppliers to help parts sales promotions aimed at Japanese automakers and Japanese-affiliated U.S. plants.
 - b. The U.S. government supports efforts by U.S. parts suppliers to continually improve their competitiveness.

- 111) Changes in the value of U.S.-made parts by Japanese-affiliated plants in the U.S.

Source: MITI Public Relations

The content of the final document of the U.S.-Japan framework talks on the aftermarket parts sector is as shown in Figure 23. The MOT's attitude toward foreign-made aftermarket parts is as follows: "In Japan, the replacement of aftermarket parts is in principle entirely free. Aftermarket parts which are subject to regulation are only 3.6% of parts in the market. Moreover, parts that are subject to regulation are treated without discrimination regardless of whether they are domestic or foreign-made. Therefore, MOT believes that regulations are not barriers to the access of foreign-made aftermarket parts. MOT has made great efforts to reach to the decisions at the U.S.-Japan Framework Talks on the Automobile and Auto Parts Sectors, seeking to establish the minimum set of regulations necessary to ensure automobile safety and protect the environment." (Excerpted from press materials dated August 23, 1995.)

Figure 23: Content of final document at the U.S.-Japan Framework Talks on the Automobile and Auto Parts Sectors (MOT-related) (August 23, 1995)

1. Measures concerning aftermarket parts
 - 1) The review of the definition of the disassembling repair
 - A general review of the definition of the disassembling repair will be carried out in view of recent progress in automotive technology and so on (implemented within one year).
 - Four items— shock absorbers, trailer hitches, stabilizers, and power steering — will be removed from the definition of the disassembling repair (implemented within two months).
 - 2) Deregulations on certified garages (measure to increase the number of independent garages)
 - (1) Relaxation of requirements on the floor space of certified garages (implemented by July 1995)
 - Required floor space standards for certified garages were relaxed from 82 square meters to 72 square meters so that certified garages that previously handled only small-sized motor vehicles were allowed to handle standard-sized motor vehicles.
 - (2) Relaxation of requirements on tools and equipment at repair service garages (implemented by July 1995)

- The minimum number of tools and equipment categories required at certified garages was reduced from 41 to 30.
- The minimum number of tools and equipment categories required at designated garages was reduced from 61 to 44.

MOT continues to consider the possibility of further reductions in tool and equipment requirements.

- (3) Relaxation of personnel requirements at repair service garages (implemented within one year)
 - Reduction in the number of mechanics at certified garages from two to one.
 - Reduction in the number of mechanics at designated garages from three to two.
 - (4) Relaxation of inspection facilities requirements at designated garages (implemented within 18 months)
 - Designated garages will be allowed to share the use of all inspection facilities with other garages and securing designation was made easier.
 - (5) Certification for specialized certified garages will be established (implemented within 18 months)
 - Floor space and equipment requirements will be established for the replacement / repair of specialized parts for the certification of repair service facilities (specialized certified garages) to specialize in handling certain parts such as brakes and transmissions.
- 3) Review of the scope of the modification inspection (implemented within 3 months)
- In regard to accessories installed later, the requirement for modification inspection for minor structural changes will be eliminated with the exception of cases when the modification involves welding or riveting for permanent installation.
- 4) The establishment of contact points for requests and complaints
- A response will be provided within 30 days, in principle, if there is an inquiry concerning whether the individual parts replacement is considered as a disassembling repair or not. In addition, the repair service garage and parts wholesaler will be notified of the content of the response.
 - A contact point will be established by MOT for processing requests and complaints concerning the definition of disassembling repair and the modification inspection regarding minor structural changes. The contact point will in principle respond within 30 days. If the response is not

satisfactory, it is possible to request a review, and the review will in principle be completed within one month following the request. Materials related to requests and complaints may, with the permission of the applicant, be made public.

- 5) Campaign to publicize changes in regulations and adherence to the principle of non-discrimination in regard to foreign-made parts
 - A campaign will be carried out to inform relevant persons of changes in regulations due to the present set of measures.
 - A campaign will be carried out to thoroughly inform car dealers, repair service garages, mechanics, and the consuming public that there should be no discrimination against either foreign-made automotive parts or non-genuine parts in regard to automobile inspections (implemented by August 1995).
- 6) Import promotion (program to improve access to the replacement parts aftermarket)
 - (1) Thorough notification of non-discrimination between domestic and foreign products and customer option (implemented by June 1995)
 - MOT notified Japan Automobile Service Promotion Association (JASPA) that a) There is to be no distinction between foreign-made and Japanese-made parts when replacement parts are selected, and b) customers are to be informed when possible that foreign-made parts may be used and customers are to be given opportunities to select such parts. Upon receipt of this notification, JASPA informed repair service operators of the content concerning non-discrimination and customer options.
 - (2) Establishment of network system to provide information on foreign-made replacement parts
 - Assistance is being provided to repair service businesses to establish a database on information and technical data on car models on which foreign-made replacement parts can be installed and an information network. Support for the dissemination of information on foreign-made replacement parts through publication in the newsletters of relevant organizations and the holding of seminars will also be provided until the completion of the information network.
2. Measures Concerning Automobile Standards and Certification (omitted)
- 3.. Objective Standards (for aftermarket parts)
 - 1) Qualitative standards

- (1) Status of other regulation-easing measures within the scope of the initiative to reduce the number of critical parts, address standards for specialized certified garages and the replacement parts market
 - (2) The Japanese government's response to complaints and requests from relevant persons concerning the clarification of critical parts and the modification inspection for modifications to vehicle structure or easing of regulations
- 2) Quantitative standards
- (1) Sales of foreign-made parts purchased for use in Japan's replacement parts market and changes in shares
 - (2) Changes in the number of specialized certified and designated repair service garages
4. Talks

The Japanese and U.S. governments will hold follow-up discussions by the year 2000 to evaluate objectively the progress in implementing and reaching measures.

Source: Compiled from materials made public by MOT Road Transport Bureau

The following measures have already been implemented in keeping with the agreed-upon final document:

- The establishment of an information supply network system for foreign-made auto parts (implemented by May 1995).
- The establishment of a contact point to deal with requests and complaints concerning the definition of the disassembling repair and modification inspection (September 20, 1995).
- Review of the definition of disassembling repair — reduction of (four items) critical parts (took effect October 20, 1995).
- Relaxation of requirements covering the modification inspection for minor structural changes (took effect November 22, 1995).
- Broad and full review covering the definition of disassembling repair (took effect August 20, 1996).
- Relaxation of requirements covering the mechanics at repair service garages (took effect August 20, 1996).

Also in keeping with the final document, measures will be taken by February 1997 to relax requirements concerning the special designated garages and to institute a specialized certified garages specializing in designated parts.

V. Outlook

1) Forecast of Market Size

According to a study entitled "Study on Improving Access to the Japanese Replacement Parts Market" conducted by the Japan Federation of Auto Parts Sales Association (JFAPSA), domestic demand for assembly parts is expected to show negative growth from ¥9.67 trillion (refer to note 1) in FY 94 to ¥8.84 trillion in FY 2000 but will shift to positive growth of ¥8.98 trillion in FY 2005 due to a modest recovery in domestic auto production. Demand for replacement parts is forecast to remain largely unchanged at the level of FY 94 but imports are expected to grow annually around 10%.

Demand for assembly parts is expected to move in step, reflecting the declining trend in domestic car production. Demand for repairs is expected to remain at current levels in view of two factors that may cancel each other out. The positive factors are the increase in ownership and the rising average age of cars on the road; the negative factor is the declining incidence of repairs due to the increasing durability of cars.

Demand for imported parts is expected to increase due to the progress of the automakers' "Global Best" program (refer to Note 2), an increase in imports from the overseas production units of domestic parts manufacturers, and the implementation of government programs to support foreign-made parts.

Note 1: This figure is different from Figure 3: Trends in the value of deliveries of auto parts and accessories, because is estimated based on "Survey of Trends in Deliveries of Auto Parts" by JAPIA. The main differences are:

- 1. The figure includes the in-house production of automakers.*
- 2. The portion counted as destined for automakers in the delivery statistics excludes exports via automakers.*

Note 2: To strengthen their international competitiveness, Japanese automakers conduct purchasing from suppliers worldwide "based on total evaluations of the supplier's quality, pricing, delivery, development capabilities, and management, regardless of the supplier's nationality or country of origin."

Figure 24: Outlook for auto parts demand and imports

Unit: %

	1994-2000	2000-2005
Parts production for domestic demand	-1.6	-0.1
Demand for domestically produced assembly parts	-1.5	0.3
Demand from domestic replacement parts market	0.0	0.0
Imported parts	9.5	10.2

imported parts	8.5	10.5
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Source: Japan Federation of Auto Parts Sales Association "Study of Improving Access to the Replacement Parts Market"

2) Government Administrative Moves

Those initiatives agreed to at the U.S.-Japan Framework Talks on the Automobile and Auto Parts Sectors which are expected to be implemented within 18 months:

- Relaxation of facility inspection requirements for designated garages (designated garages will be allowed to share the use of all inspection facilities with other garage facilities and securing designation will be made easier).
- Institution of a certification system for specialized certified garages. The certification of repair service garages (specialized certified garages) which specialize in handling certain parts such as brakes and transmissions is to be conducted, and floor space and equipment requirements are to be established for replacement and repair operations for certain parts. The measure of the above two items is to be taken by February 1997.

Agreement was also reached on meeting every year through the year 2000, based on objective criteria such as changes in the shares of foreign-made parts and the number of repair service garages and to evaluate the progress of the initiatives implemented under the agreement.

3) Changes in the Distribution System and Consumer Attitudes

The replacement parts distribution industry is making efforts to cut delivery costs and undertake consumer-oriented PR activities to cope with declines in parts demand due to recent deregulation of the compulsory vehicle inspection (*shaken*)

system, to ease burdens on vehicle users, as well as longer service lives due to improved parts durability and higher quality.

In the past, *buhan and kyohan* channels to supply genuine parts developed an order reception-placement system to enable delivery as soon as possible after placement of the order., and most parts were assumed to be available with immediate delivery. Recently, *buhan and kyohan* wholesalers have been stocking parts in high demand at their sales offices for next-day delivery. Moreover, automakers have been shifting to a system of keeping body panels, bumpers, mufflers,

and other traffic accident-related replacement parts in stock at *buhan and kyohan* warehouses. In addition, *buhan and kyohan* wholesalers and the automakers are increasingly making use of joint deliveries.

It is expected that not only *buhan and kyohan* wholesalers but also parts wholesalers, local parts wholesalers, and trading companies will set up joint supply depots and information networks in an effort to rationalize distribution. In addition, *buhan and kyohan* wholesalers are producing guidebooks aimed at end-users concerning the replacement of parts, and car shops are expanding their pits to enable light maintenance.

In the past, only a few people replaced parts themselves; however, changes in regulatory systems and distribution are expected to lead to changes in user attitudes. It is also possible that the rebuilt market may get some attention in response to the growing interest in recycling. Used auto parts dealers have been using networks since the 1980s and some groups have tie-ups with parts wholesale channels.

VI. Advice for Approaching the Japanese Market

1) Examples of Foreign-made Products Gaining Access to the Japanese Market

Recent examples of foreign-made parts and accessories that have gained access to the Japanese market are given below.

(1) Tenneco-Toyota

Toyota has always made use of foreign-made replacement parts such as light bulbs and timing belts, accessories such as floor mats and license plate frames, and chemical products, and has been handling Tenneco's shock absorbers since December 1995. They are sold as the Toyota-affiliated TRD brand, targeted at the RV segment. In addition, TRD is vigorously expanding its handling of sheet metal consumable items.

(2) Goodyear, AC-Delco-Toyota Parts *Kyohan* Outlets

All Toyota-affiliated parts *Kyohan* outlets have been handling Goodyear tires and AC-Delco batteries since the end of 1994. At present, all *Kyohan* outlets are procuring non-Toyota replacement tires and batteries, and the handling of Goodyear and AC-Delco products offering

excellent quality and prices is growing favorably.

(3) Delphi-Nissan

Nissan has since October 1995 been importing automobile replacement batteries made by Delphi, which is GM's parts division, and has begun marketing the batteries under the Nissan brand. Delphi has battery plants in the U.S., Canada, and three other countries. The batteries supplied by Delphi to Nissan are procured from Delphi's plant in South Korea, which has the shortest lead time in plant-to-Nissan shipping time.

(4) Delphi-Honda

Honda has since April 1993 been importing Delphi-made replacement batteries and marketing them under the Honda brand.

(5) Gates-Nissan

V-belts made by U.S.-based Gates have been sold under the Nissan brand in the domestic market since May 1995.

(6) Osram-Honda

Honda has since March 1995 been importing Osram-made headlight bulbs from Germany and marketing them under the Honda brand.

(7) O.Z.-Suzuki

Suzuki has since February 1996 been importing O.Z. aluminum wheels from Italy and marketing them under the Suzuki brand.

(8) Fuji-Semperit

Fuji has since July 1994 been marketing tires from Semperit Reifen AG of Austria under the Subaru brand on the domestic market.

According to an announcement by JAMA concerning the procurement of foreign-made parts, imports of European-made products amounted to \$783 million in FY 95, about one-quarter of the level of imports of U.S.-made products, which amounted to \$3.37 billion. Examples of procurement from Europe are also scarce in the list of examples above. Nonetheless, recent reports indicate that European manufacturers are quite active in making approaches to the

Japanese accessory market. Following are some examples of procurements of parts and accessories from Europe.

Noguchi, a supplier of automotive tools, is selling child seats imported from Germany in the accessory market. Noguchi decided to market the imported child seats in view of the growth potential of the area, as child safety seats have not yet widely penetrated the Japanese market. Noting that the seats have passed rigorous European quality standards, Noguchi intends to differentiate them from domestic products by adding a reclining function.

Arexons, an Italian manufacturer of car care products in the Fiat Group, began marketing its Ferrari brand wax, cleaner, and other car care chemicals in the Japanese market from March 1997. Following its decision to enter the market, the company spent approximately one year to determine the best market entry method. After studying various possibilities — setting up a subsidiary in Japan, using the sales channels of mass merchandisers, tie-ups with chemical manufacturers, and the use of trading companies — the company decided to use wholesaler channels, concluding in October 1996 a contract with the parts and accessories wholesaler SPK to be its agent in Japan. Arexons has plants in Spain and Brazil in addition to its two plants in Italy and also manufactures in India in a joint venture with a local firm. The products imported to Japan will be manufactured in its plants in Italy.

Sparco S.N.C., an Italian supplier of motor sports accessories, established its Japanese subsidiary SPJ in March 1996. Its subsidiary then signed an agent contract with Easy Riders, a Japanese manufacturer of car accessory brands, to begin selling its accessories. Sparco is a world leader in motor racing seats and its equipment is used in the F1 and other motor sports. Its primary target segment is thus young drivers who are interested in motor sports. Easy Riders, which began selling Sparco's sports seats and steering wheels, has already sold more than 3,000 sets of the steering wheels as of the end of 1996. Next Easy Riders will undertake sales of racing suits.

The two partners had no previous business relationship. Their present business dealings were the result of a friendly relationship that commenced when Easy Riders visited Sparco as part of a trip to Italy.

Firemaster, the U.K.'s top manufacturer of fire extinguishers, having decided on how to enter the Japanese market, started exports as of February 1996.

Tacty Ltd., a sales company established by Toyota in April 1996 to market parts and accessories, has since July been supplying *buhan and kyohan* wholesalers. The company's plan is to procure a wide range of replacement parts and accessories. Of some 10,000 items it handles, approximately 20% will be foreign-made. More specifically, the company will handle more than ten types of foreign-made chemical products, such as Delphi batteries. The plan is to introduce user-popular brands regardless of country of origin, including Italian brand accessories and other European brands. Foreign-made parts and accessories will be sold under new brand names different from the company's own brand names.

2) Advice on Accessing the Japanese Market

Edward Phillips, director of the Japanese office of MEMA (Motor & Equipment Manufacturers Association), offered the following assessment of the activities of U.S. parts suppliers in Japan in an article published in *JAMAGAZINE*, a magazine published by JAMA.

"It is common for the first business transaction of a U.S. supplier with a Japanese to commence with an order for a simple part. As business dealings continue, the supplier will be expected to produce drawings with its own items incorporated into the plans for the next model change, which has already begun, and at the time of the second model change, it will be expected to deliver more sophisticated parts that it has been involved in developing through the design-in process. By the time of the third model change, the supplier's parts that have been used by the North American and European Japanese-affiliated plants will have been changed to conform to Japanese specifications, and these parts will be imported into Japan, thereby expanding the supplier's business. I think that the process described above is the most common format for business in Japan experienced by members of the Japan Automotive Advisory Group (JAAG)."

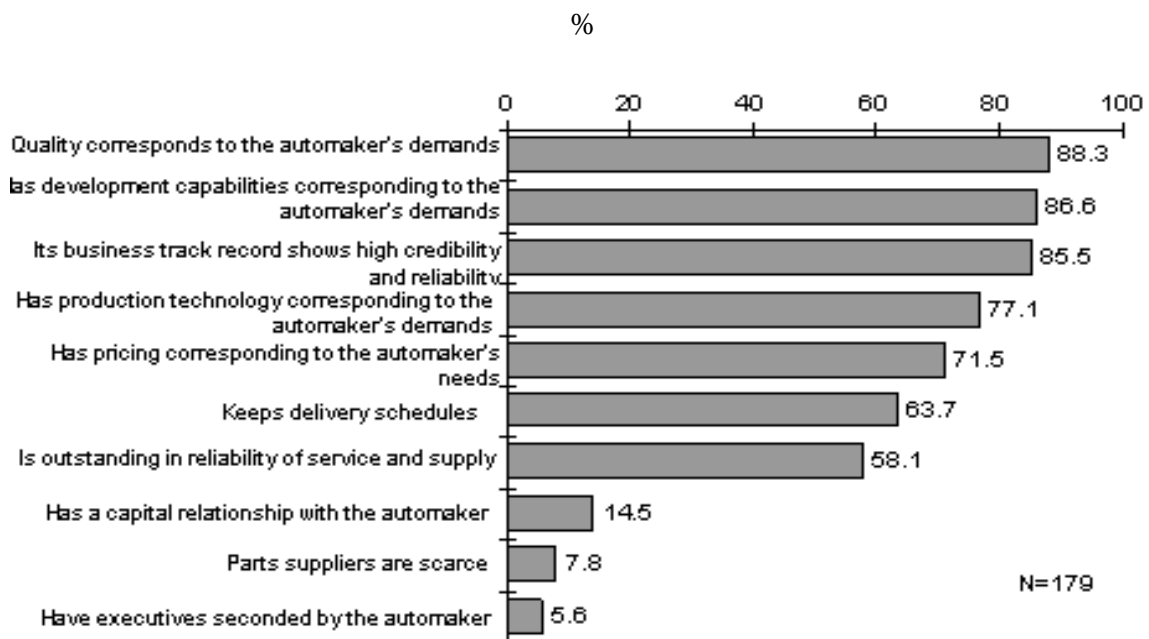
Mr. Phillips also pointed out that the average length of time that JAAG members have been active in Japan exceeds ten years, and many members conduct activities with Japanese automakers on equal terms. Almost 20% of JAAG member have established research and test facilities in Japan, and more than 30% have distribution systems.

From Mr. Phillips' comments it would appear that he is calling on U.S. parts suppliers to use the same or comparable business methods in the Japanese market that Japanese automakers use.

According to a report by the Fair Trade Commission, the reasons cited by Japanese automakers for selecting parts manufacturers are: "Quality corresponds to the automaker's demands" (88.3%), "Has development capabilities corresponding to the automaker's demands" (86.6%), and "Its business track record shows high credibility and reliability" (85.5%).

Figure 25: Reasons for selection by automaker as business associate

(multiple responses)



Source: The Fair Trade Commission "Survey of Transactions in Automotive Parts" June 1993

Nonetheless, the automobile industry in every country has its own unique history and business practices. To do successful business in regions that are distant from the home country, a company must make corresponding extra effort.

Following are some pointers on the special characteristics of the Japanese market that foreign parts suppliers would be well advised to study.

First of all, the primary issue for Japanese companies is to improve the competitiveness of their company's products. Japanese automakers are pursuing a "Global Best" policy. This means that they purchase parts from suppliers throughout the world, regardless of the supplier's country of origin or nationality, after conducting a total evaluation of a potential supplier based on QCDDM criteria (Q = Quality: the best quality in terms of performance, functions, and delivery, C = Cost: the production system with the best prices and lowest costs, D = Delivery: the fastest delivery and most flexible production response, D = Development: the most advanced development capabilities and speed, and M = Management: a management focused on building long-term cooperative relationships). Purchasers other than automakers also rely heavily on QCDDM criteria.

(1)-1 Quality and technology levels (Q)

The report by the Fair Trade Commission pointed out that automakers have varying evaluations of foreign-made assembly parts; where foreign parts suppliers have development and production technology that domestic manufacturers lack, as in airbags and ABS, some offer outstanding quality; however, many have inferior quality and high defect rates.

Japanese automakers conduct evaluations of quality during the design-in process, which determines the placing of orders. Evaluations of quality continue, however, even after the start of mass production. These evaluations are used in connection with the next-generation models. Automakers' dealings with new business associates tend to start with low volume orders, and evaluations of quality and other criteria will be carried out as dealings continue. The business associate should always work to improve quality over its competitors because that could lead to receiving large-volume orders, even though the current level of orders may be low.

As mentioned before, parts distributors and general consumers tend to have relatively favorable evaluations of the foreign-made replacement parts that currently are in the distribution pipeline. For new products to gain market entry, parts suppliers will need to accurately understand the needs and the preferences of Japanese users and to set product specifications accordingly.

(2)-2 Costs (C)

Once business dealings have commenced in assembly parts, they tend to continue, and it is common for costs to decline in the course of continued business. The results of previous surveys confirm that the rate of attainment of target costs set at the development stage is higher in business dealings in Japan than in the U.S. (costs at the mass production stage are lower than target costs), and the rate of change in costs after the start of mass production is higher (costs go down) (see Note). Japanese automakers assume, in keeping with Japanese business practices, that costs will decline. Foreign suppliers, who are exposed to currency exchange risks, should note that this could be disadvantageous.

The automakers' calls for cost reductions play key roles in subsequent increases in order volume and the continuation of business dealings. Ultimately, the parts suppliers' competitiveness determines whether it succeeds in gaining increases in order volume and continued business.

In regard to replacement parts, not many users replace parts themselves. Many users expect most parts to include the cost of service. As a result, general users tend to emphasize quality and are not very sensitive to prices. In contrast, distributors and repair service businesses welcome products with high margins. Parts wholesalers and local parts wholesalers cite "inexpensive prices" and "high margins" as their primary reasons for handling foreign-made products. The evaluations of foreign products currently in distribution is thought to be relatively high.

Note: M. Cusumano and A. Takeishi, "Supplier Relations and Management: A Survey of Japanese, Japanese-Transplant, and U.S. Auto Parts" Management Journal, Vol. 12, 563-588 (1991).

(2)-3 Delivery (D)

Foreign parts suppliers that have production facilities outside of Japan face disadvantages in the delivery area. Japanese automakers are very critical of foreign products in regard to delivery and the ability to respond to emergencies. To gain access to the Japanese market, foreign manufacturers need to have a system that can supply the Japanese market from the optimal production facility within a global production framework and to have a distribution network in Japan that is comparable to that of domestic parts manufacturers.

Although there are differences depending on the replacement part, foreign parts suppliers should know that Japanese buyers are extremely demanding in regard to delivery schedules. It is therefore necessary to have a distribution system that includes tie-ups with domestic distributors.

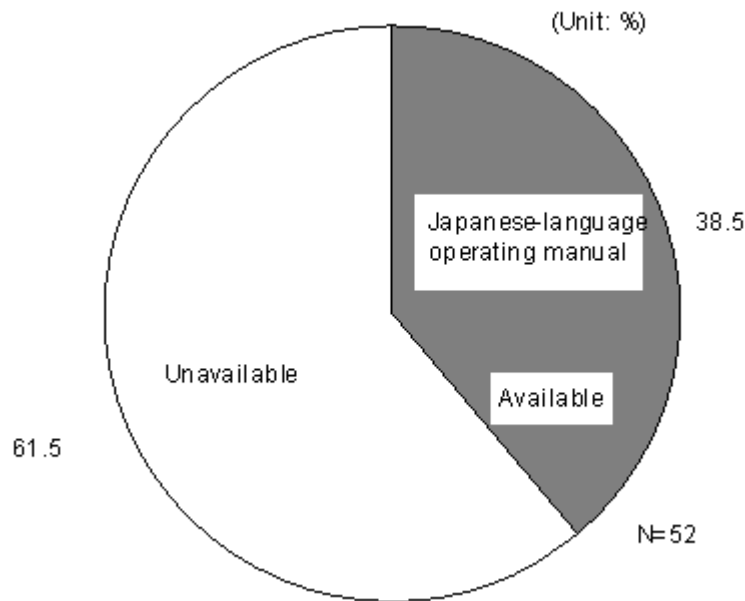
(2)-4 Service

Meeting QCDD criteria is the only way for a foreign parts supplier to become and remain a business associate of a Japanese automaker. In the case of general replacement parts, it is necessary to provide information and after-sales service to repair-service businesses and general users.

For example, only 38.5% of foreign firms that have established sales records in Japan have instruction manuals in Japanese, which means that they are lacking in the service area. In some cases, foreign suppliers take advantage of a partnership with a Japanese firm to enter the Japanese market.

To supply OEM radios to Daihatsu, U.S.-based Delco Electronics concluded a repair contract with Earth Electric Machinery in order to ensure complete after-sales service and has developed a system in which products are delivered within 48 hours in cases of defect. Delco has 34 remanufacturing (a system of remanufacturing defective products and products with other problems to the same level as new products) centers in North America. Earth Electric Machinery is its first remanufacturing center in Japan.

Figure 26: Presence of Japanese-language manuals (only companies with established sales records in Japan)



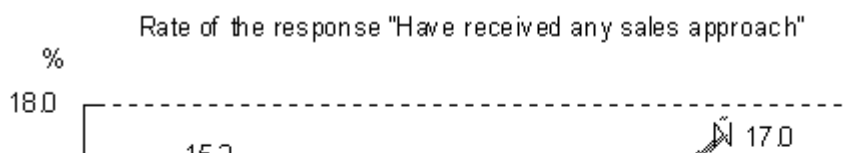
Source: Japan Federation of Auto Parts Sales Association "Study of Improving Access to the Replacement Parts Market"

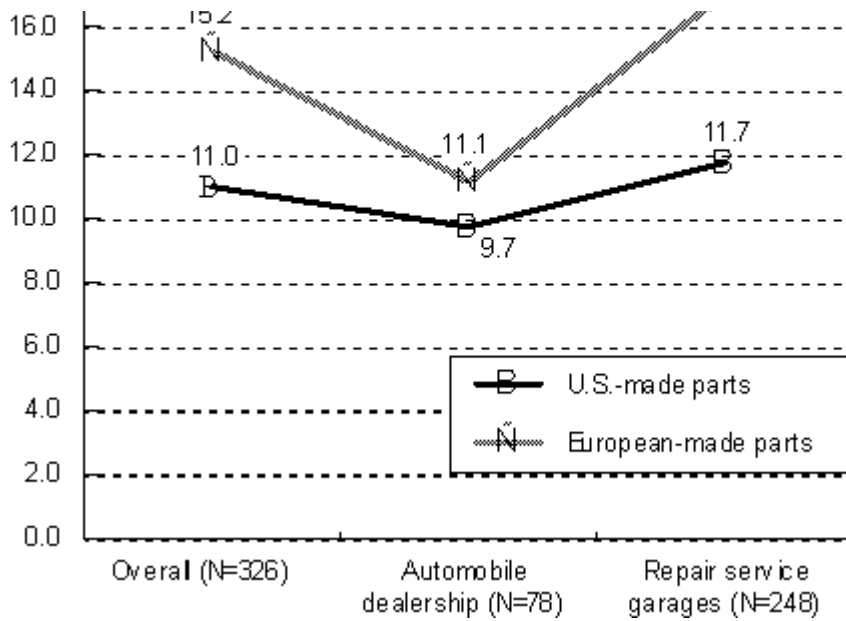
(2)-5 Strengthening of approaches/communication with repair service businesses and distributors

According to questionnaire surveys have been made of Japanese firms that have been contacted by foreign parts suppliers, only around 10% of repair service businesses and a few percent of (including *buhan and kyohan* and three distribution trade

organization members wholesalers and Japan Federation of Auto Parts Sales Association) had been approached within one year of the time of the survey. Nonetheless, in those cases where there were approaches, the success rate in closing contracts was extremely high. It appears that active approaches by foreign companies are very effective

Figure 27: Approaches to repair service businesses regarding foreign-made parts

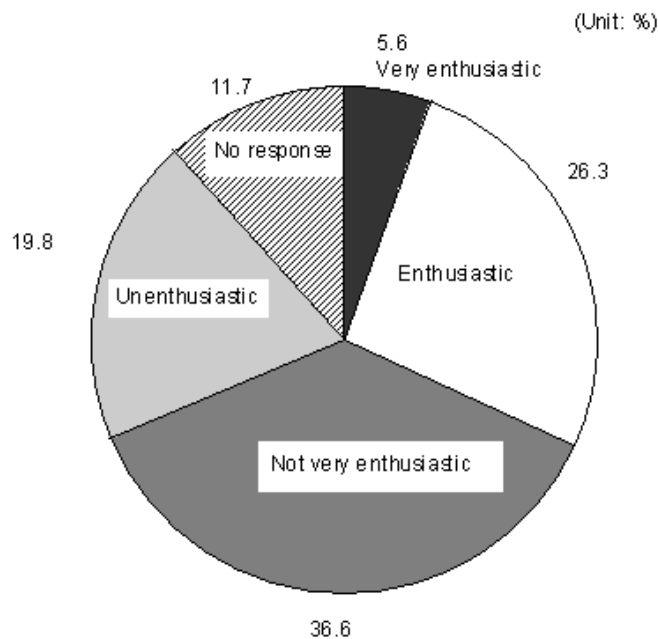




Source: Japan Federation of Auto Parts Sales Association "Study of Improving Access to the Replacement Parts Market"

Moreover, the subjects rated the sales approaches largely as not very enthusiastic; more aggressive approaches would be desirable.

Figure 28: Evaluations of sales approaches by foreign parts suppliers



Source: Japan Federation of Auto Parts Sales Association "Study of Improving Access to the Replacement Parts Market"

Replacement Parts Market"

(2)-6 Taking advantage of government, related organizations, and trade organizations' support programs to expand purchases of foreign-made parts

It would be wise to take advantage of the programs to expand purchases of foreign-made parts that are being aggressively implemented by the Japanese government, related organizations, and trade organizations.

The following programs and policies support the access of foreign-made parts to the Japanese market. Since most were launched in 1995, some have not been actively used as yet; however, it is expected that foreign companies will take aggressive advantage of them as they gradually lead to successful business deals.

(1) JETRO's domestic programs to support auto parts sales missions to Japan

JETRO has domestic programs to support foreign auto parts sales missions to Japan. Support was provided in 6-7 instances per year in 1995 and 1996. JETRO also provides support for buying missions from Japan.

Figure 29: Status of support for auto parts sales missions

Date	Country	Organization name
Jul 95	Australia	-
Nov 95	Canada	Automotive Parts Manufacturers' Association (APMA)
Oct 95	Austria	Austrian Original Equipment Manufacturers (AOEM)
Oct 95	Belgium	-
Oct-Nov 95	UK	Birmingham Chamber of Commerce and Industry (BCC)
Oct-Nov 95	Germany	Verhand der Automobilindustries (VDA)
Nov 95	Hungary	-
Mar 96	U.S.	SEMA/MEMA
Mar 96	France	FIEV
Mar 96	U.S.	ITS America
Mar 96	UK	Society of Motor Manufacturers and Traders (SMMT)

Sep-Oct 96	U.S.	Metal Powder Industries Federation
Jan 97	Austria	Austrian Original Equipment Manufacturers (AOEM)
Feb 97	UK	Department of Trade and Industry (DTI)

Source: JETRO

Figure 30: Status of support for auto parts buying missions

Date	Country	Organization name
Oct 95	Vietnam	Japan Auto Accessories Manufacturers Association (JAAMA)
Oct 95	U.S.	Auto Sports Equipment Association (ASEA)
Oct 95	U.S.	Japan Auto Accessories Manufacturers Association (JAAMA)
Oct 95	U.S.	Japan Federation of Auto Parts Sales Association
Feb 96	India	Japan Auto Parts Industries Association (JAPIA)
Sep 96	Germany	Japan Auto Accessories Manufacturers Association (JAAMA)
Sep 96	France, Germany	Japan Federation of Auto Parts Sales Association
Nov 96	U.S.	Auto Sports Equipment Association (ASEA)

Source: JETRO

(2) JETRO's establishment of permanent exhibitions of foreign-made auto parts

To provide support to foreign automakers and parts / accessories manufacturers to enter the Japanese market, JETRO established permanent exhibitions in three cities: Tokyo, Osaka, and Nagoya. The objective of the exhibitions is to promote imports by further enhancing Japanese understanding of foreign-made parts and accessories and increasing purchase volition through the establishment and operation of these exhibitions.

(3) Japan Automobile Service Promotion Association (JASPA) is building the "Network to

Provide Information on Foreign-made Automobile Parts" (scheduled to go into operation in FY 97).

JASPA began to build the network system in May 1995 to provide repair garages with fast, accurate information on foreign-made automobile parts as part of its plan to provide appropriate repair service through the diversification of aftermarket parts handled by repair service garages.

This system is targeted to begin operating in fiscal 1997 under a three-year plan for which ¥100 million (including ¥50 million in subsidies from the Japanese government) was appropriated respectively in the fiscal 1995 and 1996 budgets.

(4) Establishment of a contact point in Japan

Federation of Auto Parts Sales Association to support foreign suppliers.

This service received 21 contacts from September 1995 through December 1996.

(5) Identification of contact points at automakers and distributors

To facilitate contacts with foreign suppliers and provide potential opportunities for access to Japan's replacement parts market, contact points have been identified by Japan Auto Parts Industries Association (11 companies), Japan Automotive Products Association (26 companies), Japan Federation of Auto Parts Sales Association (1,048 companies), Japan Auto Accessories' Manufacturers Association (86 companies), as well as 375 *buhan and kyohan* wholesalers.

Note: A list of contact points can be obtained at the offices of the various trade organizations.

VII. Related Lists

1) Exhibitions and Business Discussions

Figure 31: Trade shows / exhibitions in Japan

<i>Exhibition</i>	<i>Sponsor</i>	<i>Venue</i>	<i>Scheduled time</i>	<i>No. of exhibitors</i>
Tokyo	Japan Motor	Tokyo	Oct 24 - Nov 5	354 in 1995

Tokyo International Motor Show	Japan Motor Industrial Federation	Tokyo	Oct 27- Nov 3, 1997	554 in 1995 (including 64 foreign companies and 6 foreign organizations)
Import Car Show	Japan Automobile Importers Association	25 cities in Japan	To run from November 1996 through April 1997	30 companies (Tokyo)
Auto Service Show	JETRO* Japan Automotive Machinery and Tool Manufacturers Association (For inquiries, contact International Communications Specialist, Inc.)	Tokyo	May 1997	174 companies in 1995 (including 7 foreign companies)

* JETRO does not co-sponsor all the shows. (As of Dec. 1996)

JAMA holds One-On-One Parts Business Development Meetings in collaboration with the Motor & Equipment Manufacturers Association (MEMA) and the Association of European Parts Suppliers (CLEPA). Since the first One-On-One Meeting in 1990, meetings have been held at roughly 18-month intervals. The fifth meeting held in June 1995 in San Francisco was attended by approximately 200 personnel in 30 teams from 11 Japanese automakers and approximately 300 personnel from 60 U.S. parts suppliers.

Japanese automakers have been taking part since 1992 in the A.A.I.W.'s annual parts business meetings held in U.S.A..

One-On-One Parts Business Development Meetings in Europe were launched in 1995; the 1997 meeting is set to be held in London.

The Japan Auto Parts Industries Association (JAPIA) has since 1995 been holding one-on-one business development meetings with MEMA. The business development meeting held in Chicago

in September 1996, attended by 39 Japanese-affiliated manufacturers and 43 U.S. parts suppliers, resulted in a total of more than 500 business development meetings.

Figure 32: Trade shows / exhibitions held outside Japan

<i>Exhibition</i>	<i>Sponsor</i>	<i>Venue</i>	<i>Scheduled time</i>	<i>Participants</i>
Parts Business Development Meeting / Seminar	JAMA/CLEPA	London	Autumn 97	Japanese automakers, European parts suppliers
One-On-One Parts Business Development Meeting	JAMA/MEMA	U.S.	Feb 97	Japanese automakers, U.S. parts suppliers
Liaison Committee Meeting	JAPIA/MEMA	Tokyo	Oct 97	Japanese automakers, Japanese-affiliated U.S. parts manufacturers, U.S. parts suppliers
One-on-one Meeting	JAPIA/MEMA	U.S.	early 98	same
A.A.I.W. (Automotive Aftermarket Industry Week)	MEMA, SEA, ASIA, APAA, AIA	Las Vegas (Until 2005)	Oct. '97	Attended by Japanese automakers since 1992

(As of Dec. 1996)

2) Related Organizations

(1) Governmental Organizations

Automobile Division, Machinery and Information Industries Bureau,

Ministry of International Trade and Industry	
Address:	1-3-1 Kasumigaseki, Chiyoda-ku, Tokyo 100
TEL:	03-3501-1511
FAX:	03-3501-6691
URL:	-
Maintenance Service Division, Engineering Department	
Road Transport Bureau, Ministry of Transport	
Address:	2-1-3 Kasumigaseki, Chiyoda-ku, Tokyo 100
TEL:	03-3580-3111
FAX:	03-3581-1454
URL:	-
Machinery Standards Division, Standard Department	
Agency of Industrial Science and Technology	
Ministry of International Trade and Industry	
Address:	1-3-1 Kasumigaseki, Chiyoda-ku, Tokyo 100
TEL:	03-3501-5704
FAX:	03-3580-8625
URL:	-

(2) Automotive Industry Associations

Japan Automobile Manufacturers Association, Inc.	
Address:	Otemachi Bldg., 1-6-1 Otemachi, Chiyoda-ku, Tokyo 100
TEL:	03-3216-5771

FAX:	03-3287-2073
URL:	-
Japan Motor Industrial Federation	
Address:	Otemachi Bldg., 1-6-1 Otemachi, Chiyoda-ku, Tokyo 100
TEL:	03-3211-8731
FAX:	03-3211-5798
E-mail:	webmaster@motorshow.or.jp
URL:	www.motorshow.or.jp
Japan Auto-Body Industries Association, Inc.	
Address:	Kishimoto Bldg., 2-2-1 Marunouchi, Chiyoda-ku, Tokyo 100
TEL:	03-3213-2031
FAX:	03-3213-2034

(3) Automobile Importers Association Japan

Automobile Importers Association	
Address:	5-3 Kojimachi, Chiyoda-ku, Tokyo 102
TEL:	03-3222-5421
FAX:	03-3222-1730

(4) Automotive Service and Equipment Associations

Japan Automobile Service Promotion Association	
Address:	1-1-6 Motoakasaka, Minato-ku, Tokyo 107

TEL:	03-3404-6141
FAX:	03-3404-6478
E-mail:	webmaster@jaspa.or.jp
URL:	www.jaspa.or.jp
Japan Auto Body Repair Cooperative Association	
Address:	1 Hirakawacho, Chiyoda-ku, Tokyo 101
TEL:	03-3866-3620
FAX:	03-5687-3203

(5) Automotive Parts and Accessories Associations

Japan Auto Parts Industries Association	
Address:	1-16-15 Takanawa, Minato-ku, Tokyo 105
TEL:	03-3445-4211
FAX:	03-3447-5372
Japan AutoAccessories Manufacturers' Association	
Address:	3Fl, Nakamura Bldg. 3-36-2 Yushima, Bunkyo-ku, Tokyo 113
TEL:	03-3833-7921
FAX:	03-3833-7922
Japan Auto Chemical Industries Association	
Address:	9Fl. Nikkin Bldg., 1-2-16 Higashisinbashi, Minato-ku, Tokyo 105

	TOKYO 103
TEL:	03-3571-5422
FAX:	03-3571-4634
Japan Light Metal Association	
Address:	Nihonbashi Asahiseimeikan, 2-1-3 Nihonbashi, Chuo-ku, Tokyo 103
TEL:	03-3273-3041
FAX:	03-3213-2918
The Japan Automobile Tire Manufacturers Association, Inc.	
Address:	1-1-12 Toranomom, Minato-ku, Tokyo 105
TEL:	03-3503-0191
FAX:	03-3503-0199
Japan Strage Battery Association	
Address:	3-5-8 Shibakoen, Minato-ku, Tokyo 105
TEL:	03-3434-2061
FAX:	03-3434-2691
Japan Paint Manufacturers Association	
Address:	Tokyo Toryo Kaikan, 3-12-8 Ebisu, Shibuya-ku, Tokyo 150
TEL:	03-3443-2011
FAX:	03-3443-3599
Japan Lubricating Oil Society	
Address:	6Fl, Sanei Bldg. 5-23-7 Shinbashi, Minato-ku, Tokyo 105

TEL:	03-3459-0437
FAX:	03-3459-0319
URL:	www.meshnet.or.jp/JALOS/
Flat Glass Manufacturers Association of Japan	
Address:	2Fl. Sinkokusai Bldg. 3-4-1 Marunouchi, Chiyoda-ku, Tokyo 100
TEL:	03-3212-8631
FAX:	03-3216-3726
The Japan Refrigeration and Air-conditioning Industry Association, Inc.	
Address:	3-5-8 Shibakoen, Minato-ku, Tokyo 105
TEL:	03-3432-1671
FAX:	03-3438-0308
Japan Electric Lamp Manufacturers Association, Inc.	
Address:	Yurakucho-Denki Bldg., 1-7-1 Yurakucho, Chiyoda-ku, Tokyo 100
TEL:	03-3201-2641
FAX:	03-3201-2644
Japan Light-alloy Wheel Association, Inc.	
Address:	2-13-13 Akasaka, Minato-ku, Tokyo 107
TEL:	03-3588-9008
FAX:	03-3588-1950
Auto Sports Equipment Association, Inc.	

Address:	8Fl. Yamako Bldg., 4-2-3 Toranomom, Minato-ku, Tokyo 105
TEL:	03-3438-5424
FAX:	03-3438-1708
Japan Safety Appliances Association, Inc.	
Address:	3Fl. Kyoiku Bldg., 4-6-16 Kohinata, Bunkyo-ku, Tokyo 112
TEL:	03-3947-2493
FAX:	03-3947-2314
Japan Tirechain Association, Inc.	
Address:	c/o Toyo Seisa Inc., 3-11-8 Owadacho, Hachiojishi, Tokyo 192
TEL:	0426-44-3231
FAX:	0426-44-3235
The Japan Automotive Filter Element Association	
Address:	1 Fl. Eikodenki Bldg., 5-8-4 Toranomom, Minato-ku, Tokyo 105
TEL:	03-3437-0878
FAX:	03-3437-0808
Japan Genuine Parts Dealers Association	
Address:	2-25-3 Nishigotanda, Sinagawa-ku, Tokyo 141
TEL:	03-3492-6401
FAX:	03-3492-6408

Japan Auto Parts Association	
Address:	3-19-7 Shimbashi, Minato-ku, Tokyo 105
TEL:	03-3433-1658
FAX:	03-3433-1063
Japan Auto Parts Union Association	
Address:	3-18-12-1111 Toranomom, Minato-ku, Tokyo 105
TEL:	03-3431-0333
FAX:	03-3431-3027
Japan Federation of Auto Parts Sales Association	
Address:	7-12-3 Ueno, Taito-ku, Tokyo 110
TEL:	03-3847-8682
FAX:	03-3847-0882
Japan Automotibe Accessories Wholesalers' Union	
Address:	1-1-2 Hamamatsucho, Minato-ku, Tokyo 105
TEL:	03-3434-3887
FAX:	03-3434-3887
National Federation of Petroleum Commercial Associations	
Address:	Sekiukaikan, 2-17-14 Nagatacho, Chiyoda-ku, Tokyo 100
TEL:	03-3563-5811
FAX:	03-3580-9245
The National Federation of Japan Tire Dealers and Retreaders Association	
Address:	Tire Bldg., 1-10-2 Kudankita, Chiyoda-ku, Tokyo 102

TEL:	03-3263-5811
FAX:	03-3264-5235
Japan DIY Industry Association	
Address:	5Fl. Daini-Okano Bldg., 2-16-7, Higashinohonbashi, Chuo-ku, Tokyo 103
TEL:	03-5687-4475
FAX:	03-5687-4487

(6) Japanese Industrial Standards

Japanese Standard Association	
Address:	4-1-24 Akasaka, Minato-ku, Tokyo 107
TEL:	03-3583-8005
FAX:	03-3586-2014

