

2. Passenger Cars

1. Definition of Category

All automobiles except those used for cargo transport or other special purposes.

HS Numbers	Commodity
8703.21-90	Passenger cars

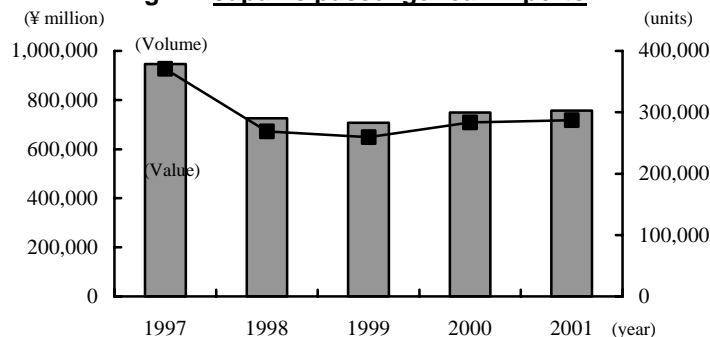
2. Import Trends

(1) Recent Trends in Passenger Car Imports

The market for imported cars has grown since 1993. The highest ever record was broken for three consecutive years in 1996, and imports reached to 439,638 units. There are several reasons for this increase until 1996. Foreign carmakers launched vigorous sales campaigns for popular RV models and introduced new models in lower price ranges. Foreign makers cut prices on older models because of the appreciation of Japanese yen. Intergovernmental talks led to the Japan-US automobile and auto parts agreements, resulting in an increase in the number of dealers of Japanese cars that also carry imported cars. The agreements also increased the number of cars by Japanese auto makers produced their own overseas plants and imported back to Japan. All of these factors made imported cars seem more affordable to Japanese customers.

Passenger car demand overall has been down ever since 1997, reflecting the higher consumption tax rate and the persistent economic slump. Some Japanese carmakers have suspended imports of cars made at their overseas plants, while others have been forced to raise prices on some models due to the weakness of the yen. Passenger car imports have been down on an annualized basis for three straight years, falling to 259,736 units in 1999. The slide finally came to a halt in 2000, and in 2001 imports rose by 1.2% to 287,116 units worth a total of ¥757.3 billion, up 1.1% from a year earlier.

Fig. 1 Japan's passenger car imports



	1997		1998		1999		2000		2001	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Passenger car	371,113	947,076	268,795	725,463	259,736	707,007	283,582	749,136	287,116	757,292

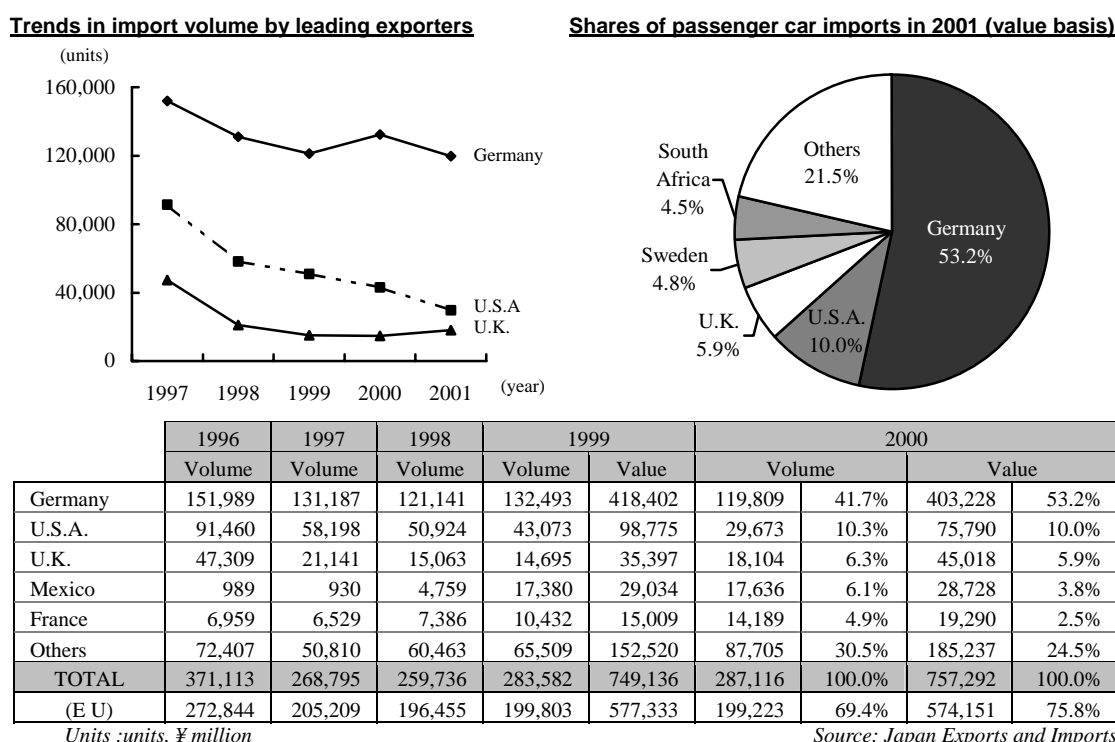
Units: units, ¥ million

Source: Japan Exports and Imports

(2) Imports by Place of Origin

The leading exporter of passenger cars to Japan is Germany. In 2001 Germany accounted for 41.7 % on a volume basis, and 53.2% on a value basis. Regarding import trends in terms of new car registration, German carmakers dominated positions as leading exporters in Japanese car market (see Fig. 6). But in 2001 it failed to attain previous year levels on either a volume or value basis. Second-ranked USA saw its exports fall even farther, with a drop of 31.1% to just 29,673 units (import share 10.3%). This represents a decline of nearly 120,000 units since 1996, when the United States exported 142,351 units to Japan. Part of the reason for this is that American carmakers have increased offshore production, and they now export many cars directly from offshore plants in Mexico and South Africa, etc. Also, Japanese carmakers have cut back on their imports of cars made at their own American plants. In contrast to Germany and the USA, though, the United Kingdom and France fared quite well.

Fig. 2 Principal exporters of passenger cars to Japan



(3) Imports' Market Share in Japan

According to the Japan Automobile Dealers Association, domestic sales of new passenger cars (excluding mini-cars) registered 3,016,485 units in 2001, a rise of 1.3% over the previous year. The introduction of new models by Toyota, Honda, Nissan stimulated demand, chiefly among individual car users. Based on new-vehicle registrations, imported passenger cars increased splendidly in 1993 and afterwards, became 393,392 units with a share of more than 10% in the Japanese market for passenger cars (excluding mini-cars) in 1996. However, imports' share fell below the 10% mark in 1997 and onward. In 2001 imported cars came 268,560 units with a share of 8.2%. 2001 saw a sizable drop in cars produced abroad by Japanese carmakers, which fell from 19,968 units the year before to 14,002 units. Cars made by foreign makers rose slightly, from 247,799 units to 254,558 units (up 2.7%). Mercedes-Benz and Volkswagen both set all-time volume sales records for Japan in 2001. Thus, there have been substantial differences from one maker to another in sales. For the information about leading models in Japan, see Fig. 6.

Fig. 3 Imports' share in the Japanese market

	1996	1997	1998	1999	2000	2001
Domestic new-vehicle registration	3,711,347	3,574,906	3,145,788	2,917,919	2,978,607	3,016,485
Standard passenger cars (more than 2 liters)	897,985	873,220	756,117	723,999	770,220	741,489
Small passenger cars (less than 2 liters)	2,813,362	2,701,686	2,389,671	2,193,920	2,208,387	2,274,996
Imported new-vehicle registrations	393,392	341,495	265,848	271,436	267,767	268,560
Imports' share	10.6%	9.6%	8.5%	9.3%	8.2%	8.2%

Unit: units

Sources: Japan Automobile Dealers Association, Japan Automobile Importers Association

3. Key Considerations related to Importing

(1) Regulations and Procedural Requirements at the Time of Importation

Automobile imports have been completely deregulated, and there are no laws or regulations that apply to cars at the time of importation. However, importers must notify car numbers and other items stipulated by the Road Vehicles Act with the Minister of Land, Infrastructure and Transport within 20 days of importing each car. In addition, all cars must comply with safety standards under the Road Vehicles Act before they can be sold or driven on the roads of Japan.

(2) Regulations and Procedural Requirements at the Time of Sale

When driving on the road of Japan, all passenger cars are subject to provisions of the Road Vehicles Act, the Energy Conservation Law, and the Act Against Unjustifiable Premiums and Misleading Representations.

1) Road Vehicles Act

The Road Vehicles Act sets structural and equipment standards for automobiles in order to assure the safety of automobiles and to prevent environmental pollution. Therefore, prospective importers must decide whether to import automobiles that already comply with these safety standards, or instead to make any needed modifications after reaching Japan. In principle the government is required to test each car for compliance at a test facility. However, in order to simplify and streamline the process, the government actually performs test on sample cars from each model line. The certification system offers three different sets of procedures, the choice of which is up to the applicant. For details about the certification systems, contact the Evaluation and Registration Division, Engineering and Safety Department, Road Transport Bureau, Ministry of Land, Infrastructure and Transport.

<The Automobile Certification System>

The certification system offers three different sets of procedures:

- a. Type designation system
- b. New car notification system
- c. Special handling procedures for small-quantity automobiles (special program for imported cars)

Manufacturers usually choose “type designation system” for cars produced and sold in volume. In the “new car notification system,” certification of uniformity of quality control of each type of car is required. The “system for special handling of imported cars” facilitates the import and sale of imported cars. This system is limited to use to sales of less than 2,000 of the same make of car per year.

When a car is newly inspected at the Land Transport Office and Testing and Registration Office, in the case of “type designation system,” inspection of the actual car is not required at the time of inspection if the car is certified as meeting the safety standards. In the case of the “new car notification system” and “system for special handling of imported cars,” however, the car is submitted for checking if improvements have been made as specified in the advance certification. It is then registered and a license plate issued. Note that the Ministry of Land, Infrastructure and Transport has issued directives and ordinances for the simplification of the procedures in the type designation system, etc. and acceptance of international harmonized standards for automobile lights, etc. For details, contact the Engineering and Safety Department, Road Transport Bureau, Ministry of Land, Infrastructure and Transport.

Contact:

- Japan Vehicle Inspection Association (VIA)

TEL: 0424-71-7623

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

<Certification System for Parallel Imported Cars>

The automobile certification system above does not apply, however, to cars imported by “parallel” importers (imports other than the above) and by individuals for their own use. In these cases the importer must submit each single vehicle to inspection for compliance with safety regulations. Cars purchased from “parallel” importers or imported by individuals for their own use generally are acquired from a dealer in another country, and are designed to meet the specifications of other countries. If this is the case, the car must be modified to meet Japanese safety standards. The owner must then take the car for emissions testing to a member facility of the regulatory agencies that are authorized by the Ministry of Land, Infrastructure and Transport to conduct such tests. (see following (3) competent agencies)

When applying for a new inspection, etc., first, the “customs clearance certificate” and other documents of the car and a “parallel imported car notification” are submitted to the local Land Transport Office or Testing and Registration Office and an advanced documentary inspection performed. When the car is of a type that has never been imported before, further documents sometimes must be attached, so it is recommended to inquire in advance. When the documentary inspection ends, the actual car is inspected to check if the safety standards are complied with. When not passing them, further improvement may be required.

2) Energy Conservation Law

Under provisions of the Energy Conservation Law, passenger cars are required to make improvement in the performance concerning energy saving and subject to labeling requirement about energy consumption efficiency, etc. (see 4. Labeling)

3) Act Against Unjustifiable Premiums and Misleading Representations (Fair Competition Code) <Fair Competition Code Concerning Representation of Automobile Industry>

The industry has voluntarily adopted labeling guideline in order to assure consumer product choice availability and preserve fair competition, based on the Act Against Unjustifiable Premiums and Misleading Representations. (see 4. Labeling)

(3) Competent Agencies

- Road Vehicles Act
Evaluation and Registration Division, Engineering and Safety Department, Road Transport Bureau, Ministry of Land, Infrastructure and Transport-----Manufacturer Agreement (Imports)
Engineering Planning Division, Engineering and Safety Department, Road Transport Bureau, Ministry of Land, Infrastructure and Transport----- Automobile safety standards
Operation Safety and Environment Division, Engineering and Safety Department, Road Transport Bureau, Ministry of Land, Infrastructure and Transport-----Exhaust emission
TEL: 03-5253-8111 <http://www.mlit.go.jp>
- Energy Conservation Law
Energy Efficiency and Conservation Division, Energy Conservation and Renewable Energy Department, Agency of Natural Resources and Energy, Ministry of Economy, Trade and Industry
TEL: 03-3501-1511 <http://www.enecho.meti.go.jp>
- Act Against Unjustifiable Premiums and Misleading Representations (Fair Competition Code)
Consumer Related Trade Division, Trade Practices Department, Fair Trade Commission of Japan, Ministry of Public Management, Home Affairs, Posts and Telecommunications
TEL: 03-3581-5471 <http://www.jftc.go.jp>

4. Labeling

(1) Legally Required Labeling

When selling passenger cars, there are labeling requirements under provision of the Energy Conservation Law.

(2) Voluntary Labeling Based on Provisions of Law

There is no voluntary labeling based on provisions of law for passenger cars.

(3) Voluntary Industry Labeling

Under the Act Against Unjustifiable Premiums and Misleading Representations, the Automobile Fair Trade Council establishes labeling requirements, labeling standards, etc. for catalogs, store displays, newspaper advertisements, etc. For details, see the Automobile Fair Trade Guidelines and Manual of Guidelines.

- Automobile Fair Trade Council TEL: 03-3265-7975 <http://www.aftc.or.jp>

Fig. 4 Labeling requirements under the Fair Competition Code (for new cars)

Required items	Points to note etc.
1. Name, model, and main specifications of car	(1) Model: based on Road Vehicles Act (2) Main specifications: engine displacement, body type, transmission type, grade, etc.
2. Selling price	Selling price of the car and its explanation (Ex.: The price does not include premiums, taxes (consumption tax and other taxes), registration fee.)
3. Name and address of company	To clarify where liability lies, the name of the party producing the catalog must be indicated. The name and address of either the manufacturer or dealer are acceptable.
4. Standard equipment and optional equipment	Equipment provided as standard specifications by the manufacturer is to be represented as standard equipment, while equipment provided on order is to be represented as optional equipment.
5. Main dimensions	The dimensions, weight, performance, engine, etc. must be indicated based on the Road Vehicles Act. The Energy Conservation Law further mandates indication of the fuel consumption, etc. Other information may also be indicated for the benefit of the consumer.
6. Others	Size of tires used, fuel used, etc. must be indicated.

5. Taxes

(1) Customs Duties

Automobile imports have been deregulated, and all imports are duty free.

Fig. 5 Customs duties on passenger cars

HS No.	Description	Rate of Duty (%)			
		General	WTO	Preferential	Temporary
8703	Motor cars, with spark-ignition internal combustion reciprocating piston engine				
21	Of a cylinder capacity not exceeding 1,000 cc.	Free	(Free)		
22	Of a cylinder capacity exceeding 1,000 cc. but not exceeding 1,500 cc.	Free	(Free)		
23	Of a cylinder capacity exceeding 1,500 cc. but not exceeding 3,000 cc.	Free	(Free)		
24	Of a cylinder capacity exceeding 3,000 cc.	Free	(Free)		
	Motor cars, with compression-ignition internal combustion piston engine (diesel or semi-diesel)				
31	Of a cylinder capacity not exceeding 1,500 cc.	Free	(Free)		
32	Of a cylinder capacity exceeding 1,500 cc. but not exceeding 2,500 cc.	Free	(Free)		
33	Of a cylinder capacity exceeding 2,500 cc.	Free	(Free)		
90	Other motor cars	Free	(Free)		

Note: Refer to "Customs Tariff Schedules of Japan" (published by Japan Tariff Association) etc. for interpretation of tariff table.

(2) Consumption Tax

CIF x 5%

6. Product Characteristics

European and American cars differ considerably by manufacturer, model, grade and place of origin. This makes it difficult to discuss their product characteristics with any brevity. Nevertheless, it is fair to say that every make and model of car from every country is quite distinctive. In terms of functionality there is a strong trend toward international standardization of feature sets. With the increase in the number of foreign cars to Japan, foreign car makers have made a number of improvements, such as increasing air conditioner output and modifying radiators and water pumps to prevent overheating, designed to make their cars better attuned to the climate and automotive usage patterns of Japan.

- Germany and northern Europe

These cars sport distinctive features to help them cope with the cold climate of their homelands. They are known for reliability and durability, which cars need in order to get through bitter cold and blizzards, and for the high performance and safety features needed to drive on Germany's Autobahn, the highway with no speed limit.

- France and Italy

French cars are known for high-performance seats and lights. Italian cars are known for their attractive color and styling as they dart through the narrow, winding cobbled streets in Italy's small Medieval towns.

- United Kingdom

British cars are known for their air of aristocracy. The traditional craftsmanship of its luxury model cars and the distinctive feel of its sports cars are renowned the world over.

- United States

America is a place where it is hard to get by without a car. As a result, American cars tend to have a good feel on the road, large bodies that hold up better in crashes, and comfortable seats and interior furnishings that make it easier to drive long distances without tiring.

7. Domestic Distribution System and Business Practices

(1) Domestic Market Conditions

After continued remarkable growth until 1996, sales of imported vehicles showed a sharp decline from April 1997. An overall drop in demand for automobiles has hit sales of imported vehicles hard. Since then, sales of imported vehicles have shown a continuing year-on-year decline each month. Imports by Japanese automakers of products from their overseas factories experienced a remarkable decline, resulting in a serious drop in total sales of imported vehicles in the Japanese market. Faced by the severe market environment, foreign automakers are taking the following measures to revive sales:

- 1) Upgrading sales networks and expanding exclusive ones
- 2) Introducing lease-type auto loans to strengthen sales
- 3) Strengthening after-sales service

Almost all leading foreign automakers now market their cars through their own affiliates in Japan. These Japanese affiliates are steadily expanding their own dealer networks and introducing their own marketing strategies to expand sales. Following table lists model names of imported cars with registration of more than 10,000 units from 1997 through 2001. Mercedes-Benz and Volkswagen both set all-time volume sales records for Japan in 2001. Thus, there have been substantial differences from one maker to another in sales.

Fig. 6 Ranking of the imported vehicle new registration

	1997	1998	1999	2000	2001	2001/1997
VW	49,535	41,652	47,254	58,585	61,213	123.6
Mercedes-Benz	42,133	42,556	53,474	51,613	53,438	126.8
BMW	36,298	33,309	35,281	36,079	36,068	99.3
Volvo	19,943	16,392	14,299	15,689	16,626	83.4
Opel	34,397	24,223	19,433	15,318	12,626	36.7
Peugeot	5,760	6,341	7,145	10,767	12,295	213.5
Honda	29,974	8,753	18,511	10,619	9,107	30.4
Chrysler	15,366	8,823	7,083	8,342	8,671	56.4
Chevrolet	20,245	13,133	10,103	9,530	8,218	86.2

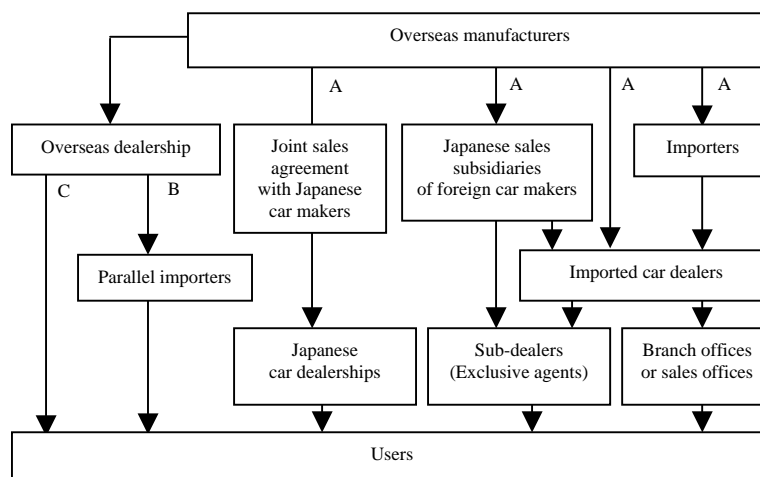
Unit: units

Source: Japan Automobile Importers Association

(2) Distribution Channels

Foreign cars are usually imported direct from the foreign car manufacturer to the dealer, or through an importer to a sales outlet that deals directly with the consumer, or through an exclusive agent or Japanese sales subsidiary of foreign car manufacturer. Parallel importers have no contractual relationship with the manufacturer. Instead, they buy directly from dealers in other countries and sell the cars in Japan. In recent year, however, the percentage of parallel-import vehicles is very low due to efforts by official distributors to lower sales prices to roll back parallel-import sales.

Fig. 7 Imported car distribution channels



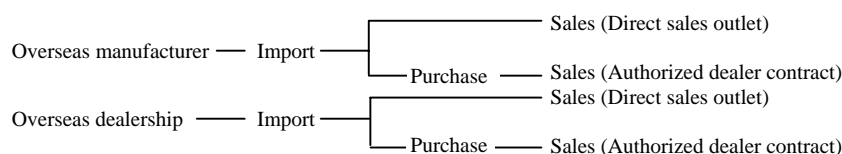
A: Manufacturer agreement imports, B: Parallel imports, C: Direct imports by individuals

Many Japanese automakers' dealers already participate in sales channels established by foreign automakers. Today Japanese affiliates of foreign automakers and independent importers play a leading role in the distribution of imported automobiles in the Japanese market. Most Japanese affiliates owned by foreign automakers have the right to import in order to establish their own networks. However, Japanese automakers' dealers distribute some imported vehicles.

(3) Key Considerations for entering the Japanese Market

As stated previously, passenger cars are imported in one of two ways: either from the foreign manufacturer (manufacturer agreement imports) or from a dealer in another country (parallel imports). Retailers acquire inventories of cars through one of these routes, so any new market entrant can choose from one of four ways to enter the market.

Fig. 8 Four ways to enter the market



As the import market increase, problems in the areas of retailing and after-sales service have led to some of the following problems.

a. After-sales service

As the number of unit sales increases, shortages arise in the number of service technicians available to service the vehicle sold. In addition, it has become increasingly difficult to operate a parts warehouse or repair facility in or near the major metropolitan areas because of the high costs of land and land-use restrictions.

b. Problems with used cars

Much of the support for the imported car market is coming from replacement sales (in which current owners of Japanese or foreign cars trade in their old cars for a new foreign car). There need to be more receiving and storage facilities for the increasing numbers of used cars taken in trade, and there also need to be more used car centers and exhibitions.

8. After-Sales Service

Most carmakers delegate responsibility for after-sales service to the retailer who sold the car originally. Warranty work and recall work necessitated by some defect are the responsibility of the manufacturer, but in practice the retailer under contract also provides these functions with the manufacturer. Importers and imported car dealers are gradually increasing both the number and the quality of their new car preparation facilities, parts centers, showrooms and repair facilities. The importer with the largest dealer network now has some 500 dealerships. However, companies differ in their dealer network development capabilities. Some carmakers such as Mercedes-Benz, BMW and Volvo have set up wholly owned sales subsidiaries. However, there remain many cases in which car owners who purchased their car from a parallel imports outlet, imported the car themselves, or bought the car overseas and brought it back to Japan have been unable to obtain after-sales service. Thus, further improvements are needed.

9. Related Product Categories

Related product categories include cargo vehicles and special use vehicles (fire trucks, crane trucks, etc.), which are subject to same provisions as passenger cars.

10. Direct Imports by Individuals

Parallel and direct imports do have certain advantages: 1) prices are lower, 2) new models are available sooner, 3) some cars sold outside Japan have performance features lacking in cars made for sale in Japan. However, the manufacturer may not take any responsibilities for modifying the car to meet Japanese emission and safety standards, and it may prove difficult to get the car maintained and repaired. There are four specific problems that can occur:

1) Parts

Parallel imports and direct imports usually are not designed for use in Japan. In some cases there are parts that must be ordered direct from the manufacturer outside Japan.

2) Repair facilities and technology

Similarly, sometimes service technicians may need specialized tools, facilities or technologies to repair a car not designed for use in Japan. Sometimes repairs cannot be done even by an authorized service facility.

3) Warranties

Carmakers offer warranties for a certain period of time or a specified distance driven after sale. The warranty often has very precise restrictions on the area where the car can be used and serviced, and parallel imports and direct individual imports often cannot receive warranty service work.

4) Recalls

When a product defect results in a recall, the manufacturer notifies owners directly. Because the manufacturer cannot identify the owner of a parallel or direct import as the actual owner of the car, recalls cannot be carried out smoothly.

11. Related Organizations

- Japan Automobile Importers Association (JAIA-All imported cars)
TEL: 03-3222-5421 <http://www.jaia-jp.org>
- Foreign Automobile Importers Association (FAIA-Parallel imported cars)
TEL: 03-3375-8611 <http://www.faia.or.jp>