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Japanese companies hope for a better 2014



Tadayoshi HIRAKI
Nada TASIC
Research Dpt

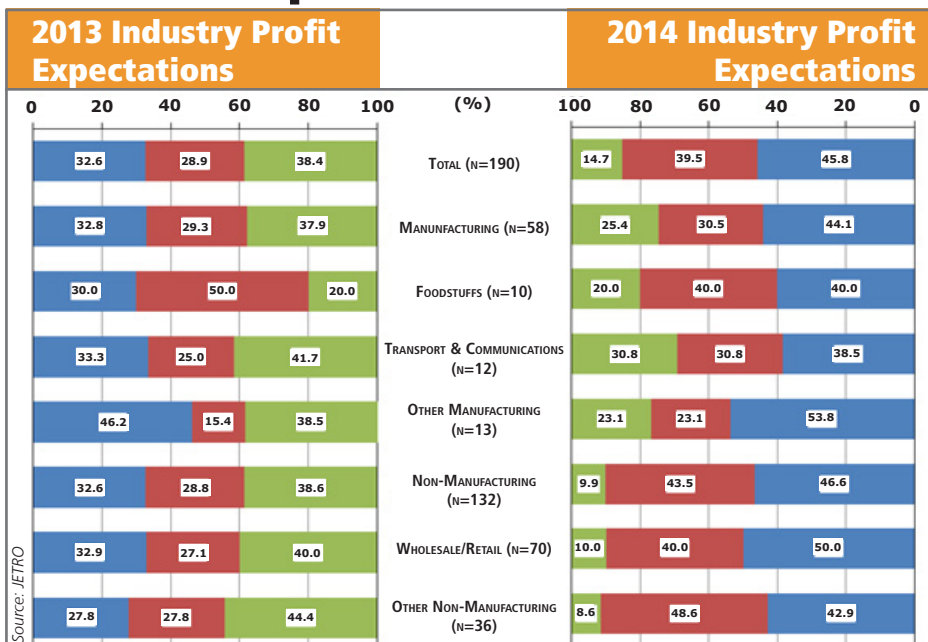
The results on this year's Survey on Business Conditions for Japanese-Affiliated companies in Australia (The Survey) are in, but the picture they paint is a mixed one.

Overview of the Survey

The proportion of Japanese companies in Australia citing an expectation of achieving an operating profit fell 9.5 percentage points to 63.7%, down from 73.2% in the last survey. In addition, the number of firms expecting to post losses rose to 21.6% of respondents, also a 9.5% shift.

The analysis suggests that key contributing factors to this loss of confidence were: economic uncertainty stemming from the downturn in mining investment; the continued high Australian Dollar; and concerns over the future direction of the Chinese economy.

There were some positive signs for the future however, with the number of companies expecting weaker operating profits in 2014, significantly falling and those expect-



ing an improvement increasing to a similar degree.

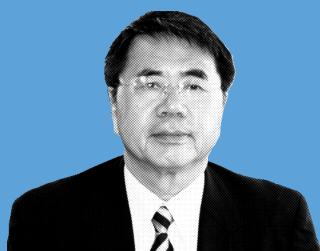
The Survey suggests that the primary factor contributing to this improved outlook for 2014 was the combination of a strengthening local sales outlook, coupled with cost reductions in personnel, management, utili-

ties and procurements.

These positive sales figures are strongly correlated with higher rankings for 'improved sales efficiency' and 'expanded export sales' in the survey.

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A Message from the Managing Director



Mr Takashi Tsuchiya
- Managing Director -

A silver lining to greying hairs

It is no secret that Japan is an ageing society; with a quarter of the country over 65, the population began officially contracting in 2010. A trend that shows no signs of abatement with the proportion of over 65s set to increase to a third by 2035.

This shift in demographics will present numerous challenges for Japan, particularly in the aged care and medical device

industries. Medical expenses are already on the increase, being attributed not only to Japan's ageing, but also an increase in the number of older citizens living alone, weaker family support, and more costly medical and nursing care.

But it's not all bad news.

Continued page 4

Japanese companies hope for a better 2014

From page 1

In terms of companies who saw a negative outlook for 2014, the survey showed that the a 'downturn in the local market' or 'increasing labour costs' were considered the principle causes.

The Survey also confirmed concerns over the high Australian Dollar; when comparing 2013 with 2014, 'exchange rate fluctuations' were heavily correlated with firms' operating profits (either worsening or improving). In comparison to 2012, there was a tendency for 2013 respondents in this category who cited a softer exchange rate as being responsible for improved operating profits to also be those with high rates of local procurement.

Meanwhile, in many cases more trade exposed and high export companies blamed weaker operating profits on the high cost of raw materials, procurement costs from overseas and lower export volumes.

When analysing data between industries, in 2013 both manufacturing and non-manufacturing firms attributed improving operating profits to 'reducing labour costs' or 'reducing procurement costs' but in 2014 there was a rise in the number of firms listing 'improved of sales efficiency'. These results strongly suggest that many companies have taken their cost cutting measures to the limit, and must now focus on efficiency.

The woes of the manufacturing industry in Australia have been covered at length in the media of late, with the high Australian

dollar, labour costs and high general costs often blamed.

The Survey confirms many of the claims that have been made to date, with respondents predominately blaming rising labour costs, management costs, and utilities for receding profits. Moreover, they survey suggests that few of these costs have not been passed on to consumers, with a significant increase in the number of respondents also citing 'inadequate sale pricing' as another reason these poor results.



These results strongly suggest that many companies have taken their cost cutting measures to the limit, and must now focus on efficiency."

Future Focus on ASEAN and China

As the Asia-Oceanic region becomes increasingly integrated – with more Free Trade Agreements and Economic Partnership Agreements expected to be signed by 2015 and beyond, we will see a dramatic increase in trade in the region. The Survey reflects a fair amount of optimism regarding this prediction, with respondent companies signaling that in the next one to three years they expect that the most promising markets for their goods/services will be Oceania, ASEAN, Japan and China, with a great deal of expectation around the ASEAN and China markets in particular.

Important insights into the future direction of trade flows were also found in the responses to questions on companies' procurement policies for raw materials and parts; 38.3% of respondents answered they would seek to 'Raise the level of local procurement', with the remainder of companies focusing on overseas procurement – of which ASEAN countries represent 34%, and China accounted for 27.7%.

The employment of a 'low cost strategy' was the primary driver for companies with overseas procurement policies, while for companies that sought to raise levels of local procurement, less than half indicated 'increasing quality' as a priority. This suggests that there is cost/quality tradeoff for firms deciding to emphasize procurement origin.

These measures are having an effect however, with the survey clearly showing that those companies which expect improvements in 2014 are those that have already implemented such measures.

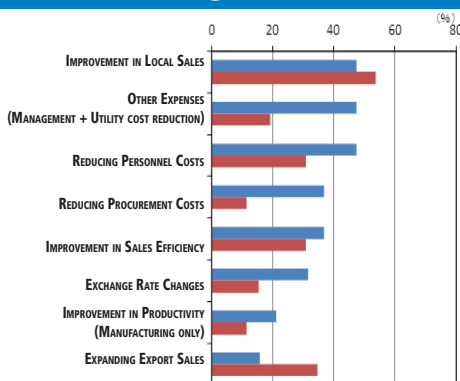
As noted above, cost cutting measures in labour and procurement are already close to their limit, and efficiency is now the primary focus.

Lastly, as free trade agreements continue to proliferate in the Asia-Oceania region, we will see a marked increase in raw materials and parts procurement from ASEAN countries and China.

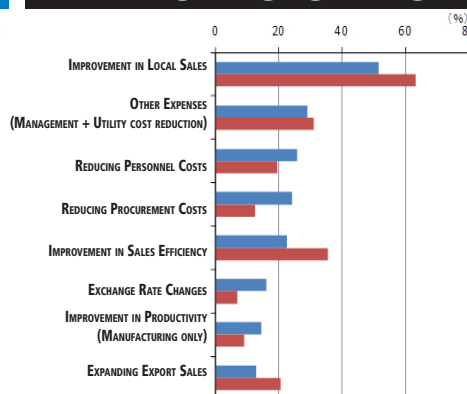
These changes have had an undeniable effect on the way Japanese companies in Australia operate, and will continue to for the foreseeable future. ●

REASONS LISTED FOR PROFIT IMPROVEMENTS

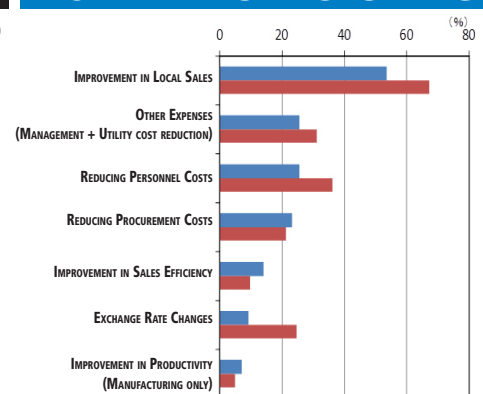
TOTAL



MANUFACTURING



NON-MANUFACTURING



Source: JETRO

Graph Key:

2013

2014

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Off the beaten track with PowderRecon

PREMIUM JAPANESE SNOW TOURS



picture courtesy of pixbay.com

A JETRO Australia success story

Australia, known the world over as a sun-baked land, isn't exactly famous for its winter sports. So it was little surprise when we failed to win a single gold-medal at the recent Winter Olympics in Sochi.

After all, this is a country whose winter sporting heroes consist of people like Steven Bradbury, who won gold in his the short track event at the '02 Olympics when his competitors famously fell over.

So it might surprise some people to learn that Australia actually has a relatively large winter sports scene. It's just a little more recreational than our other pursuits.

Powder Recon is no stranger to this fact. The company, which specialises in taking people to less well known 'off the beaten track' locations, saw an incredible and untapped business opportunity in Japan.

Japan is famous for its vast and 'powder' (the term for soft, fresh snow) laden winter mountains, but most tourists will only ever see a select few where there are well established resort towns.

Powder Recon hoped to change this, by offering to give Australians - and anyone else interested - a unique and authentic Japanese winter experience by taking them to little known locations away from the tourist traps in other parts of the country.

So in 2010 Powder Recon applied to JETRO Sydney for support in establishing a business in Japan so they could do just that.

Along with seeking JETRO's help, the company engaged in significant early reconnaissance work. They spent five years building a network of relationships with ski resorts, hotels and restaurants in the Myoko (Niigata) area of Japan.

After the initial application with JETRO Sydney, Bryce Elvin, Powder Recon's owner, then met with JETRO Tokyo Advisors in January 2011. He then began working with JETRO staff to build his business.

For Mr Elvin, JETRO's assistance made turning his concept into a reality in Japan far less daunting than he imagined.

In addition to the support he received on arrival in Japan at one JETRO's many Invest-Japan Business Support Centres (IBSCs), he says that the assistance he "received in navigating Japan's regulations, visa system and tax code was critical to making my business sustainable."

Things have taken off significantly since then,



Picture: PR Owner Bryce Elvin

and Powder Recon is now the only provider of off-track tours with on the ground staff all season. They provide their clients in Japan with a daily guiding service and are the only tour provider in the

Myoko region that takes its clients to alternate ski areas using its own transportation.

The company has also just completed renovations on a recently acquired building. The end result is a traditional Japanese building that will serve as lodging facilities for Powder Recon's staff.



move in gradually and put plenty of work into building relationships with key people in the community"

-Bryce Elvin

Reaching this point hasn't been without its difficulties however, Mr Elvin, has remained in continual contact with JETRO for the past four years as he has worked to establish his business in Japan.

Of the main challenges, Mr Elvin encountered some difficulties when his company first began setting up in Myoko. Mr Elvin said that in spite of his early work establishing his brand, there remained some misunderstandings about what role there was for the community with Powder Recon.

By and large however, he says that the local reception has otherwise been incredibly warm and generous.

When asked what advice he would offer to others looking at establishing a business in Japan, Mr Elvin said new businesses should "move in gradually and put plenty of work into building relationships with key people in the community where you plan to set up."

Of the future, Mr Elvin looks forward to exploring more of Japan's many snow covered mountains in search of new and exciting destinations for his clients. ●

A new face at JETRO Sydney

JETRO Sydney would like to welcome its new Editor and Business Development Coordinator, Daniel O'Toole.

Daniel replaces Thomas O'Keefe, to whom JETRO recently bid farewell. Thomas accepted a new role after working tirelessly to promote stronger economic ties between Japan and Australia for JETRO Sydney these past eighteen months.

JETRO Sydney extends its heartfelt gratitude to Thomas for all his hard work for our team and wishes him all the best for the future.

Daniel comes to JETRO Sydney following previous stints at The Japan Oil, Gas and Metals National Corporation (JOGMEC), work on an independent senate campaign in last year's federal election, and several other roles in academic research and the healthcare industry.

Although he has worked with people from a variety of industries and backgrounds, Daniel has had a continuing association with Japan and Japanese organisations.

As a university student, he spent a year studying abroad as part of an Overseas Placement Program in Nagoya, Japan. After completing his studies, Daniel went on to work as a research officer at JOGMEC Sydney, where he worked on numerous reports bringing the office up to date on developments in the minerals market, mining related legislative changes, and political shifts.

When asked what motivated him to join JETRO Sydney, Daniel said that he hopes to use his cross-cultural experiences to help Australian companies build stronger ties with Japanese industry and hopefully even begin operating in Japan itself.

JETRO Sydney looks forward to working with Daniel for the duration of his tenure. ●



Pictures: Left: Former Editor & Business Development Coordinator Thomas O'Keefe receiving recognition for graduating from JETRO; Right: his successor, Daniel O'Toole

A silver lining to greying hairs

From page 1

The demands of looking after the elderly means that there is silver to be mined amongst the growing grey and Australian companies are uniquely positioned to capitalize.

The picture here is counterintuitive; an ageing and declining population leading to increasing investment opportunities in an industry.

The statistics tell the story: Japan has already the second largest pharmaceutical market in the world after the United States. In the 2011 Japanese financial year (FY) – which begins April 1st - it was worth over ¥9 trillion (A\$81 billion), a 4.8% increase over the previous year. Of this, imports made up 27 percent, worth ¥2.5 trillion (around A\$27 billion).

A further breakdown of the market demonstrates why these levels will increase: A significant portion is comprised of cardiovascular drugs that mostly assist age related conditions. In a similar bracket is regenerative medicine, which was worth ¥9.1 billion (A\$99.4 million) in FY 2012 and is expected to grow over 10 fold to ¥95 billion by FY 2020.

At present, this market is dominated by treatment areas like immune cell therapy to treat cancer, bone marrow regeneration treatment, and cosmetic treatments based on things like fibroblast infusion. But this is expected to open up in the coming years, with regenerative medicine - capable of replacing vital organs like the pancreas, kidney and liver - being touted as a major growth

area by 2030 and beyond.

Lastly, Japan's medical device market is the third largest in the world, being valued at ¥2.4 trillion yen (A\$26 billion) in FY 2011, of which 44 percent was comprised of imports, and the field is growing at a healthy 3 per cent per annum.

This field is also heavily correlated with the needs of an ageing society, and it is expected Japan will increasingly require imports of endoscopic surgery medical equipment, magnetic imaging (MRI) equipment, medical X-ray computerized tomography



The picture is counterintuitive; an aging and declining population leading to the growth of industries and opportunities."

(CT) equipment, artificial organs, catheters and tubes, and interventional radiology (VR) products.

Foreign companies are already capitalizing on these figures, with biotechnology companies working with cancer and arthritis drugs – two significant age related areas - being amongst the most successful.

These companies, working with antibody and low-molecular weight targeted agents, are serving as models for the Australian biotechnology and life-sciences industry. The industry in Australia is still underexposed in Japan, but the Abe government is already taking action to make entry

into the Japanese market simpler.

For instance, as part of the government's Advanced Medical Highway Initiative, a number of amendments to Japan's Pharmaceutical Affairs Law (PAL) have been passed and more are on the way. These changes will make it easier for foreign companies to have their products to receive regulatory approval.

Under two separate bills, cellular and gene therapy products will have their own classification and approval system, stand-alone medical device software will be independently regulated and third party certification of medical devices will be expanded and modified.

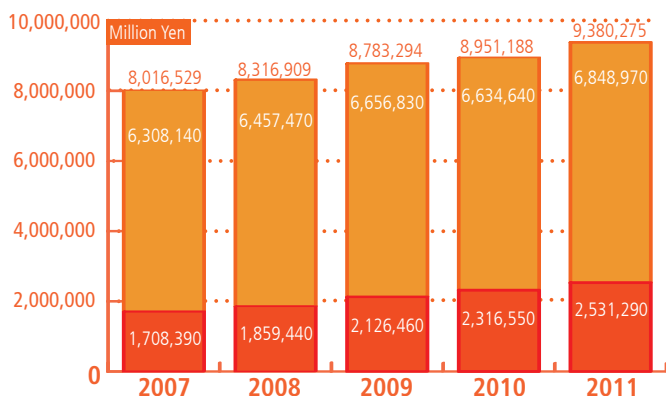
A second major change to the law aims to revise the provisions relating to IT medical devices. Currently, medical devices with IT components are regulated as a combination product of both hardware and software. Under the new rules, software would be independently regulated as a stand-alone product. In drafting these new regulations, it is expected Japan will use the standards established by the International Medical Device Regulators Forum as a framework.

Finally, third party certification of medical devices will likely be expanded and modified to allow medium risk Class III devices to receive certification by approved third parties, rather than the Japanese government authority.

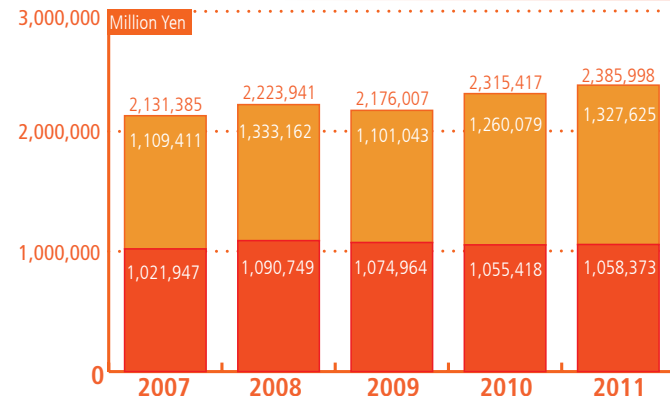
There are numerous more changes on the way that will simplify Japan's regulatory process further. All of these will make tapping into Japan's widening silver seam ever simpler and more profitable. ●

CHANGES IN THE JAPANESE MEDICAL MARKET

Changes in the size of the domestic drug market



Changes in the size of the domestic medical device market



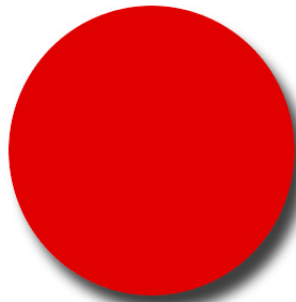
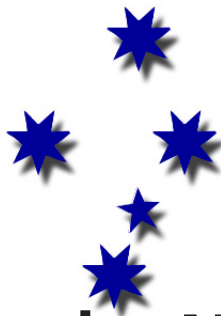
Source: JETRO

Graph Key:

Exports

Imports

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How the NFAJS is building better relationships



Ross Humphreys
Director of Genbridge

A background to the NFAJS

The National Federation of Australia Japan Societies (NFAJS) was formed to promote friendship, cooperation and mutual understanding between the peoples of Australia and Japan and to assist Member Societies in achieving this objective.

Our member Societies are located in each of the states and territories around Australia and provide the local presence for the Australia-Japan relationship. Many of the Societies have been celebrating long years of friendship spanning back to the 1970's and before. These longstanding and important relationships have stood the test of time and provide a valuable link between the Australian and Japanese communities.

Our members include individuals, families, students, schools, universities and corporations. Usually there are representatives from the Australian Government, Japanese community in Australia and the Japanese Consulates on these committees.

Strengthening our structures

But like any long standing relationship it is important to revive and renew that bond. The environment in which Australia-Japan Societies are established around the country is different to today,

and we have a responsibility to ensure our organisations remain relevant to our existing members whilst continuing to attract new members.

To that end, we have set out to strengthen member engagement through more thorough utilisation of online facilities by redesigning our website and establishing a social media presence.

We want make the NFAJS a powerful channel that can quickly and efficiently disseminate information regarding Australian and Japanese activities



We want to make the NFAJS a powerful channel that can quickly and efficiently disseminate information regarding Australian and Japanese activities to various member communities."

to various member communities. We encourage all to have a look at our website and our member websites around Australia.

Sister cities on the up

With cities increasingly being acknowledged as the primary economic drivers of many countries, sister city programs have been undergoing a revival.

At present, sister cities provide a great snapshot of the day to day life of the people in their respective communities. But by including strong business to business partnerships, these arrangements also have the potential to strengthen the economies of

member cities.

A good example is the Brisbane City-Kobe relationship. Here, both sides have been working collaboratively with the support of their Mayors to expand their agreements to include measures aimed at improving economic outcomes.

They have already undertaken business missions to that end, and launched a 'Brisbane Kobe Bridge' website aimed at fostering business between the two cities. The web address is:

www.brisbanekobebridge.com.au.

This initiative is supported by the Australia Japan Society of Queensland Inc., Brisbane City Council and Kobe City.

Upcoming NFAJS conference

The NFAJS will be holding the National Federation of Australia Japan Societies National Conference in Brisbane between the 5th and 6th of September 2014.

The Conference will commence on Friday the 5th with a focus on emerging business fields, highlighting opportunities for Australia and Japan. This will provide a chance for companies to capitalise on our longstanding economic partnership by gaining insight and contacts.

On the second day we will have what we call 'peoples day'. It will commence with discussions on sister cities, education, food and some unique cultural experiences. There will also be some conference holiday extensions available for our friends coming from Japan and other parts of Australia.

We look forward to continuing the development of our great relationship. ●

Ross Humphreys is the Director of Genbridge and the President of National Federation of Australia Japan Societies

Need to get in touch with JETRO Sydney?

Thinking of Doing Business in Japan?

Ask JETRO Sydney's Business Development Department about what you NEED to KNOW and where You can FIND it.

Call us on: 02 9002 6200

Or visit our office at: L19, 39 Martin place, Sydney 2000 NSW

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Picture: Mitsuhiro Furusawa speaking at the Australia-Japan International Economic Outlook Conference
Source: The Daily NNA

Promising signs of recovery



Manuel Panagiotopolous
Australian & Japanese
Economic Intelligence

On the 24th of February this year, we held the annual Australia-Japan and International Economic Outlook conference ('The Conference') in Sydney. With the G20 Finance Ministers Meeting (G20 Meeting) being held the day before, The Conference had the good fortune to obtain the participation of two key members from the G20: Vice Minister of Finance for International Affairs of Japan's Ministry of Finance, Mr Mitsuhiro Furusawa, and Mr Barry Sterland, Executive Director and head of the International section of Australian Treasury. Rounding the programme was Warren Hogan, Chief Economist of the ANZ Banking Group.

In their presentations at The Conference, both Mr Sterland and Mr Furusawa conveyed a great deal of enthusiasm for the G20 Meeting, which was presided over by Australia. The comments were a strong endorsement for the close and collaborative relationship between Australia and Japan throughout the G20. The two gave similar praise to The Conference, saying it was paving the way for the rest of the 2014 agenda by providing detailed growth targets and goals.

Mr Furusawa's presentation on "Abenomics and the Japanese Economy" gave a comprehensive account of the so called 'Third Arrow' of 'Abenomics' three arrow strategy to reinvigorate the Japanese economy. In brief, Mr Furusawa explained how, along with quantitative easing - the 'First Arrow' - and the stabilising effect of more flexible fiscal policy - the Second Arrow -, the Third Arrow of 'Revitalisation' would promote growth.

“

In 2013 nine bills aimed strengthening the economy were passed, with a further thirty expected to pass before the Diet session ends in June 2014.”

The Third Arrow is designed to encourage growth by promoting structural reform and actively courting private investment. Japan has already left the era of deflation behind but more needs to be done to turn the current recovery into sustained growth.

Mr Furusawa emphasized that elements of the Third Arrow were already in place, noting that in 2013 nine bills aimed strengthening the economy were passed, with a further thirty are expected to pass before the Diet session ends in June 2014.

The progress here has been promising. Of the laws passed were measures such as the full liberalisation of the electricity market; the rapid approval of new medicines and medical devices; the abolition of the rice production quota and related subsidies – which in turn will pave the way for the consolidation of farm ownership; and the creation of National Strategic Zones to implement changes in agriculture, healthcare, education and urban planning.

According to Mr Furusawa, the key indicators to watch in 2014 are: increases in basic wages, a rise in female workforce participation, and increases in private capital expenditure. Finally, he emphasized the importance of the 2020 Olympics and Paralympics, arguing that the presence of such a large medium term goal will help to sustain the optimism

necessary to drive growth and reform.

For his talk, Mr Sterland spoke about the need for groups like the G20 and the complementary role Australia and Japan jointly play in helping to mitigate some of the uncertainties in the global economy.

But Mr Sterland emphasized that emerging economies are increasingly better equipped to withstand destabilizing macro-economic events like the tapering policy of the US Federal Reserve and China's moderating growth, in spite of a few missteps in recent times.

On the global economy more broadly, he advised a cautious optimism about China and other emerging markets, based on the growth of the middle classes of Asia. In the case of the United States, Mr Sterland was bullish, claiming it had the potential to achieve unexpectedly high growth in 2014.

The final presentation from The ANZ's Warren Hogan provided an optimistic assessment of the Australian economy and its fortunes.

He argued that the expected slowdown in the growth driving mining and energy investment boom will be countered by an expansion in non-mining sector. In short, the weakened resources demand will have a knock on effect of a lower Australian dollar - hovering around US80 cents – and continued low interest rates.

This in turn is expected to provide drive activity in residential and non-residential private investment. That investment will largely fill the gap left by the natural resources sector, whilst creating more jobs along the way.

Meanwhile the resources sector itself will shift from investment in capacity to huge increases in production volumes of LNG, iron ore and coal. Mr Hogan stressed that the full benefits of these trends will be enjoyed with sustained increases in productivity. ●

Editors Note: Why 2014 will see an Aus-Japan FTA



Daniel O'Toole
Editor

For Australia and Japan's economic partnership, 2014 is shaping up to be a momentous year. Japan is our most diverse trading partner and our second largest overall. In 2012 bilateral trade was valued at over \$70 billion.

However, there is potential for this to be much greater, with longstanding tariffs and restrictions to key areas like agricultural and the automotive industries on both sides limiting the potential of the relationship.

But this could be about to change. The new Coalition government in Australia proclaimed early in its term that it would seal Free Trade Agreements (FTA) with Japan, China and South Korea. And the government has moved swiftly, already concluding an in principle agreement with South Korea in December of last year, and has now set its focus on Japan.

Japan and Australia have been through sixteen rounds of negotiations for an FTA since 2007, seem-

ingly unable to break the impasse on issues like Japan's restrictions agricultural imports, and Australia's tariffs on imported vehicles.

But this time things are different. Both countries have been moving on their respective areas of dispute, creating renewed optimism that a deal can finally be concluded.



... both countries have been moving on their respective areas of dispute, creating renewed optimism that a deal can finally be concluded."

Specifically, with the automobile manufacturing sector in Australia now winding down, there is no longer any need to place tariffs on auto-imports. Meanwhile, Japanese Prime Minister Shinzo Abe has made agriculture one of his government's key reform items, with 'special economic zones' to be introduced to effectively enact targeted deregulation of the agricultural industry. This change is expected

to make negotiating the removal of at least some of Japan's agricultural tariffs easier.

These two changes will effectively eliminate many critical stumbling blocks for an Australia-Japan FTA. In addition, Mr Abbott's decision to impose a twelve month deadline on the deal will likely result in a greater willingness to compromise.

This is good news, as an Australia-Japan FTA promises to provide considerable benefits to both countries. The Department of Foreign Affairs has estimated that the increased flows of trade from an FTA could boost Australia and Japan's GDPs by \$39 billion and \$27 billion respectively over the next 20 years.

The deal will also have the added benefit of improving a number of other relationships between the two countries, with everything from security to education expected to benefit from the strengthened ties between the two countries.

Mr Abbott travels to Japan in April, while Mr Abe is reportedly planning a visit to Canberra in July, where he will make history as the first Japanese Prime Minister to address the parliament. It is expected that the momentous occasion will be punctuated by the signing of the deal. ●



OUT & ABOUT WITH JETRO Sydney



SEMINARS, EVENTS AND MEETINGS



Julie Toth, Chief Economist Australian Industry Group (Ai Group), meets with Tadayoshi Hiraki, JETRO Sydney's Research Director.



The Australian's Rick Wallace meets with JETRO Sydney's Research and Business Development Departments in Melbourne.



Ross Garnaut, Distinguished Professor of Economics at the Australian National University, meets with Tadayoshi Hiraki, JETRO Sydney's Research Director.

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