Survey of Japanese Companies in Southern California 2012

南カリフォルニア日系企業協会
Japan Business Association of Southern California

JETRO Los Angeles

Forward

Since 1983, the Japan Business Association of Southern California (JBA) and the Japan External Trade Organization (JETRO) Los Angeles have conducted surveys to obtain an accurate assessment of Japanese companies in Southern California. The results of these surveys have been utilized to foster better understanding of Japanese companies in the region and facilitate their business activities.

We have compiled the “2012 Survey of Japanese Companies in Southern California,” the 10th of its type, and give thanks to the cooperation of all parties participated. The results of this survey show the great contributions made by Japanese companies to the regional economy in terms of investment and employment. At the same time, it also reveals how much improvement has been made in the revenues of Japanese companies in the region as a whole, as well as their challenges to facilitate their business activities. We will utilize the survey results to gain a better understanding of Japanese companies doing business in Southern California, as well as to improve California’s overall business environment.

The “2012 Survey of Japanese Companies in Southern California” may also be viewed on the websites of JBA (http://www.jba.org) and JETRO (http://www.jetro.org/la).

Finally, we would like to extend our sincere gratitude to the JBA members who cooperated in this survey and the Japanese companies that submitted the completed questionnaire to JETRO.

July 24, 2012

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JBA President

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Survey Objectives and Methodology

1. Survey Objectives

The survey's purpose, now on its 10th installment, is to gain a better understanding of the business conditions and management environment in Southern California-based Japanese companies.

(Note) The past surveys were conducted in 1983, 1987, 1997, 2000, 2002, 2004, 2006, 2008 and 2010.

2. Survey Targets

The survey is targeted at Japanese companies based in Southern California that fall into one of the following categories: a company with 10 % or more of its capital owned (directly or indirectly) by a company headquartered in Japan; a branch or representative office of a company headquartered in Japan; a company established and operated by individuals of Japanese origin.

(Note) In this survey, Southern California is the area consisting of the following 10 counties: Los Angeles, Orange, Ventura, Santa Barbara, Kern, San Luis Obispo, San Bernardino, Riverside, San Diego and Imperial.

3. Survey Methodology

The web-based questionnaire form was sent to a total of 700 Japanese companies by e-mail request from February through March 2012. In total, 461 companies responded (response rate: 65.8%).

Contents

I. Overview of Japanese Companies in Southern California

1. Geographic distribution

Southern California, where 700 Japanese companies are located, has one of the world's leading concentrations of foreign direct investment. Japanese companies account for a large[1] portion of the total investment, not through acquisitions or capital participation, but by incorporating a business in the U. S.

On geographic distribution by county, approximately 70 % of all companies are based in Los Angeles County, followed by Orange County and San Diego County. To sum up, most Japanese companies are located in these three counties.

By city, 195 companies are located in the city of Torrance, which is a home to many well-established Japanese companies. The city of Los Angeles has the second highest number with 98 companies, followed by 56 in Irvine and 36 in Gardena.

[Table 1] Geographic Distribution Statistics

		Number of Companies	
			Ratio
Los Angeles		**492**	**70.3%**
	Torrance	195	27.9%
	Los Angeles	98	14.0%
	Gardena	36	5.1%
	Long Beach	22	3.1%
	Other	141	20.2%
Orange		**147**	**21.0%**
	Irvine	56	8.0%
	Cypress	23	3.3%
	Other	68	9.7%
San Diego		**46**	**6.6%**
	San Diego	28	4.0%
	Other	18	2.6%
San Bernardino		**6**	**0.8%**
Riverside		**4**	**0.6%**
Others		**5**	**0.7%**
Total of Southern California		**700**	**100%**

* In the previous survey, 69.7% were located in Los Angeles County, 18.7% in Orange County, 8.4% in San Diego County and 3.2% in others.

1. This survey shows that 88 % of Japanese companies responding to the survey entered Southern California by incorporating a business.

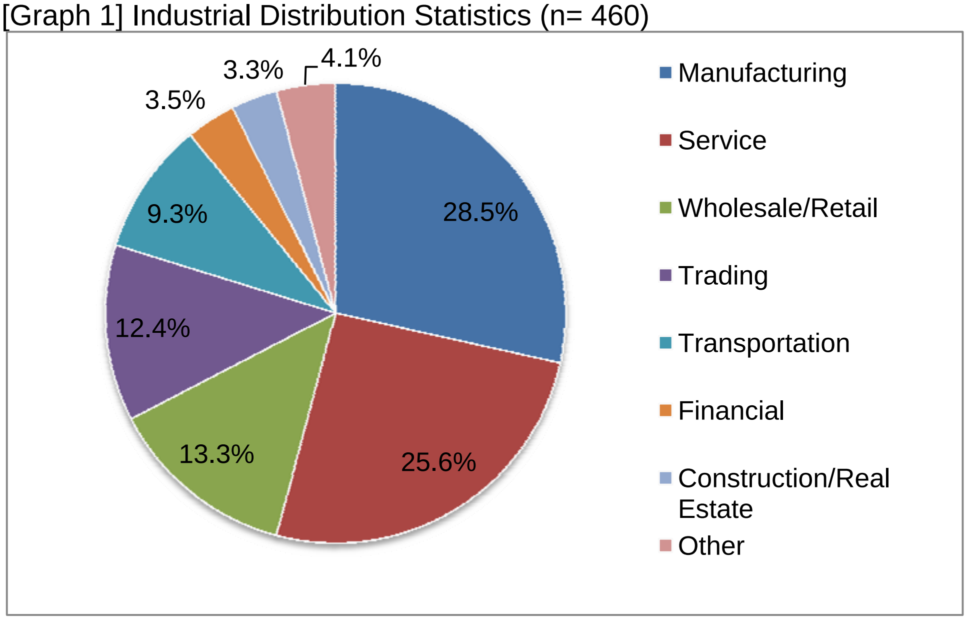
2. Industrial distribution

On Industrial distribution, “Manufacturing” (28.5%) is the leading segment and combined with “Service” (25.6%) will make up more than 50% of the total. “Service” includes information systems, film/publishing, leisure/tourism and professional services (law firms, accounting firms and consulting).

“Wholesale/Retail” (13.3%), “Trading” (12.4%) and “Transportation” (9.3%) follow, accounting for approximately 30 % of the total.

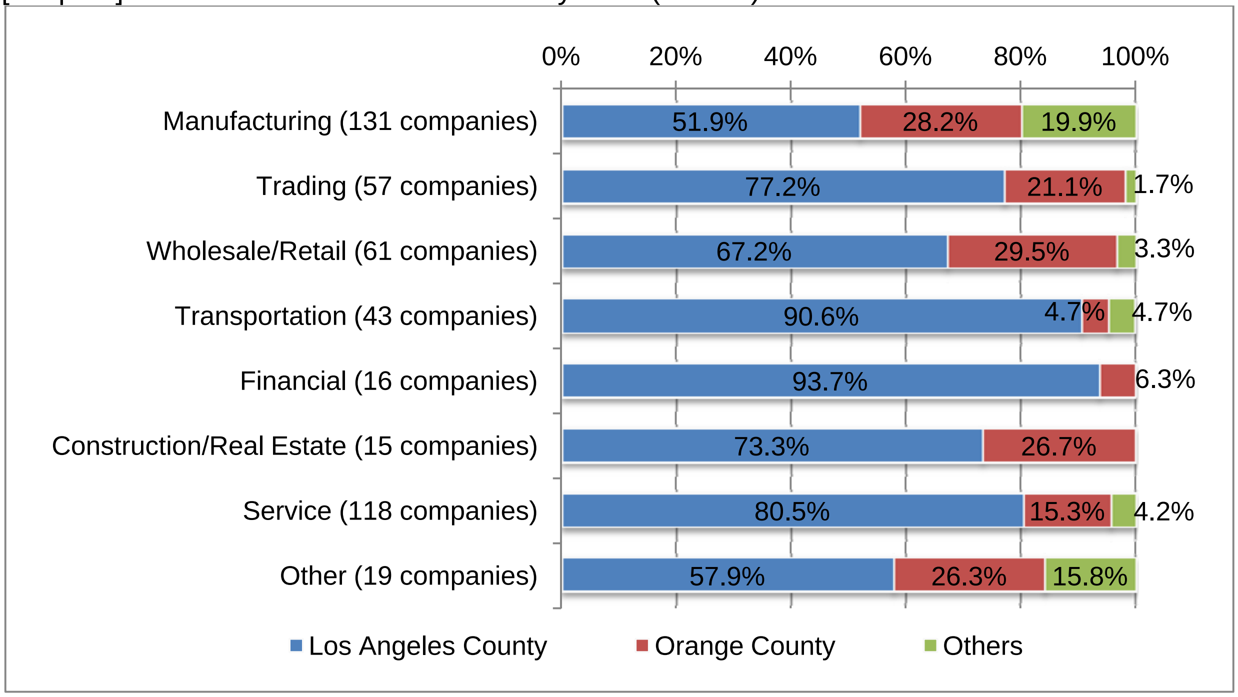
Southern California serves as a major logistics hub in the U.S., (Port of Los Angeles, Port of Long Beach and Los Angeles International Airport) and is also a major trade gateway to Asia. Both are significant factors leading to the concentration of these industries in Southern California.

[Graph 1] Industrial Distribution Statistics (n= 460)



On geographic location by industry, the center of Southern California, Los Angeles County is home to many local Japanese companies. Orange County is home to near 30 % in the "Manufacturing," "Wholesale/Retail" and "Construction/Real estate" sectors.

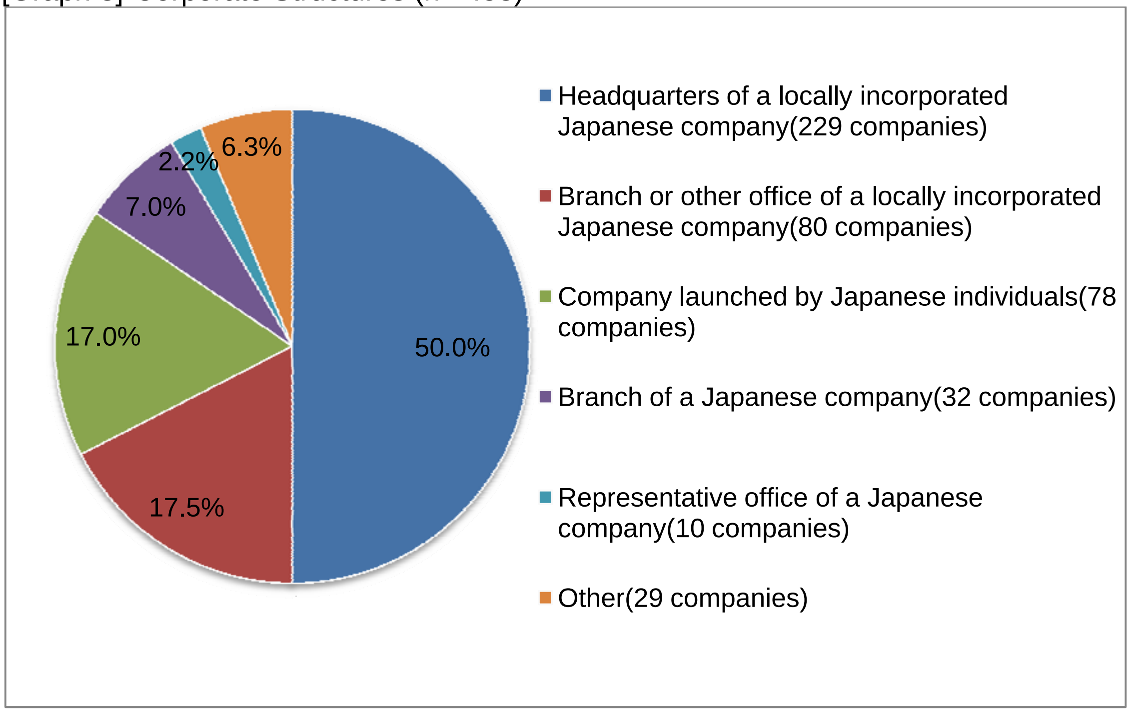
[Graph 2] Industrial Distribution Statistics by Area (n= 460)



3. Corporate structure

On corporate structure, Southern California plays a vital geographic role for Japanese companies entering the United States, 50% of the total are headquarters of locally incorporated Japanese companies.

[Graph 3] Corporate Structures (n= 458)



4. Timing of incorporation

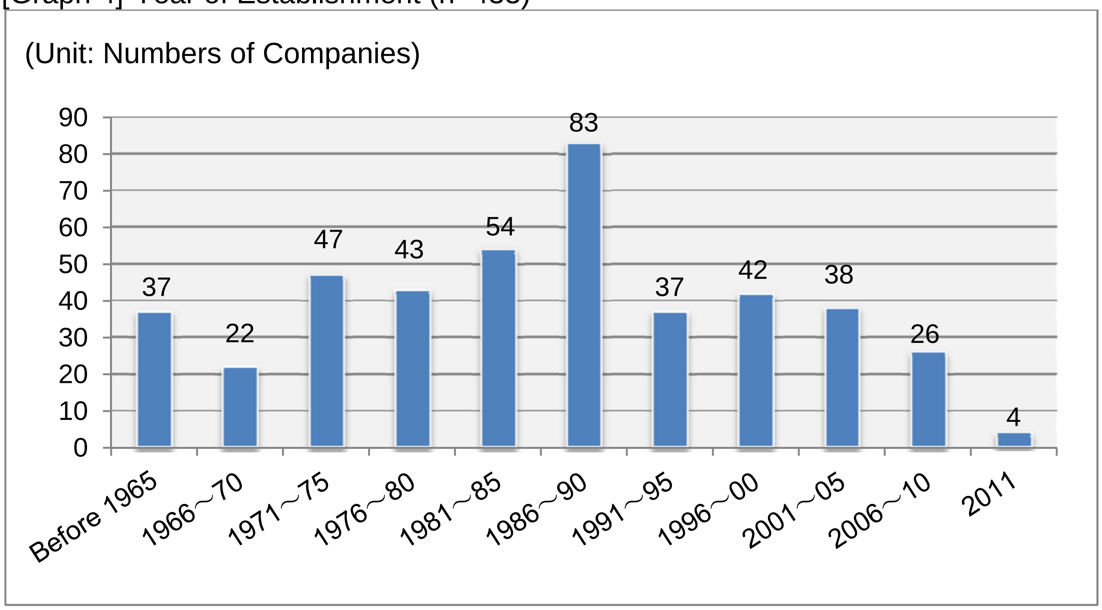
Viewing the background of market expansion by Japanese companies from a historical perspective, Japanese companies expanded their operations to the U.S. market in the 1950s, for the purpose of conducting market research and entering business deals. In the 1960s to 1970s Japanese companies entered the U.S. to promote exports and market expansion.

After 1971, U.S.-Japan textile negotiations signaled the beginning of trade-friction issues related to sheet glass, televisions, iron and steel, semiconductors, etc., thus encouraging the subsequent U.S. expansion of Japanese companies for local production. After 1981, such local production was further promoted, due in part to the need to correct the trade imbalance between Japan and the United States.Concurrently, there were an increasing number of companies entering the U.S. market in search of investment opportunities in order to utilize excess funds generated on the back of the rising yen and bubble economy, which peaked from 1986 to 1990.

After 1991, the U.S. expansion of Japanese companies slowed down in the aftermath of the collapse of the bubble economy, with some even withdrawing from the U.S. market. However, after 1996, a renewed drive was seen among information service companies, including those in film and publishing, to enter the U.S. markets.

Since 2006, the U.S. expansion of Japanese companies has become stagnant due to the slumping U.S. economy triggered by the collapse of Lehman Brothers and other associated factors.

[Graph 4] Year of Establishment (n=433)



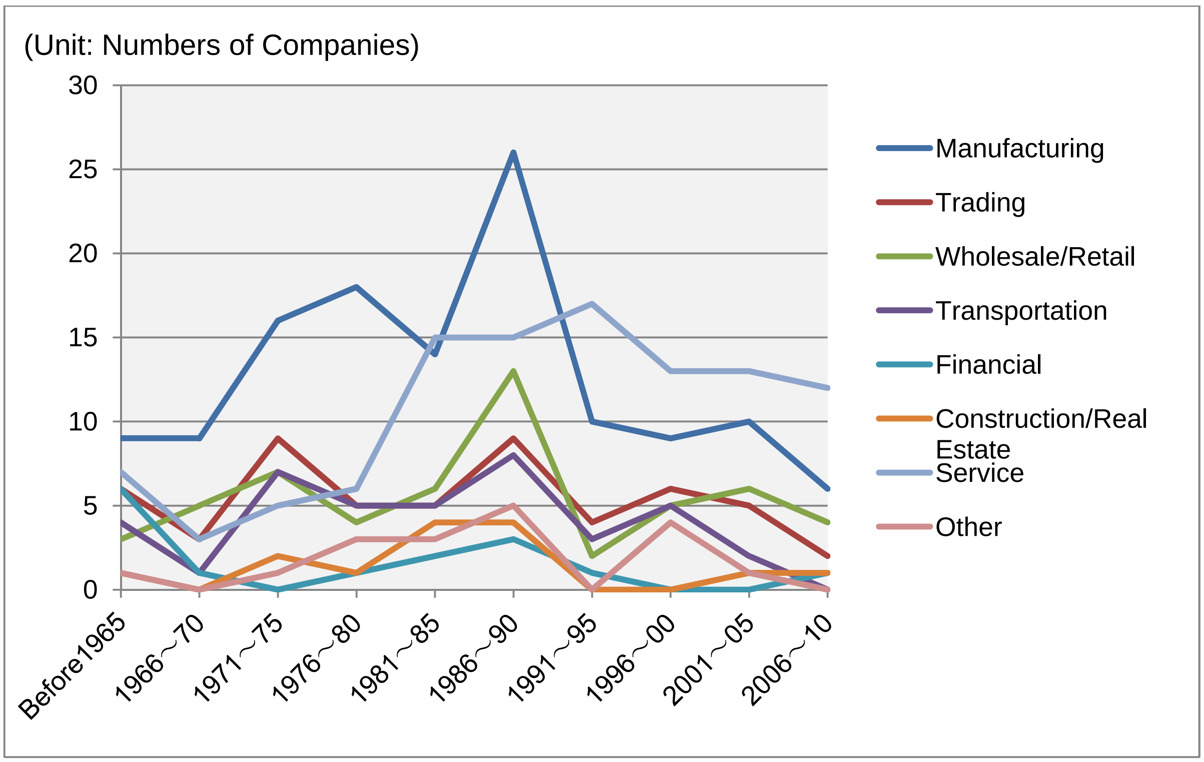
Note: Numbers of companies provide a distribution based on the years of incorporation of the companies surveyed .The numbers do not include companies that have already withdrawn from the U.S. market.

The market expansion of Japanese company by industry: early Japanese entrants to the U.S. included “Wholesalers, Retailers” and “Trading” companies that required relatively small amounts of capital investment.

“Manufacturing” also entered the U.S. in earnest against the backdrop of the rising yen and increasing trade friction, and transportation companies that supported the logistics operations of those companies also set up operations in the U.S. in the 1980s.

After reaching its peak in 1986 to 1990, the U.S. expansion of “Manufacturing” companies has started to recede, while “Service” companies have continued at a strong pace.

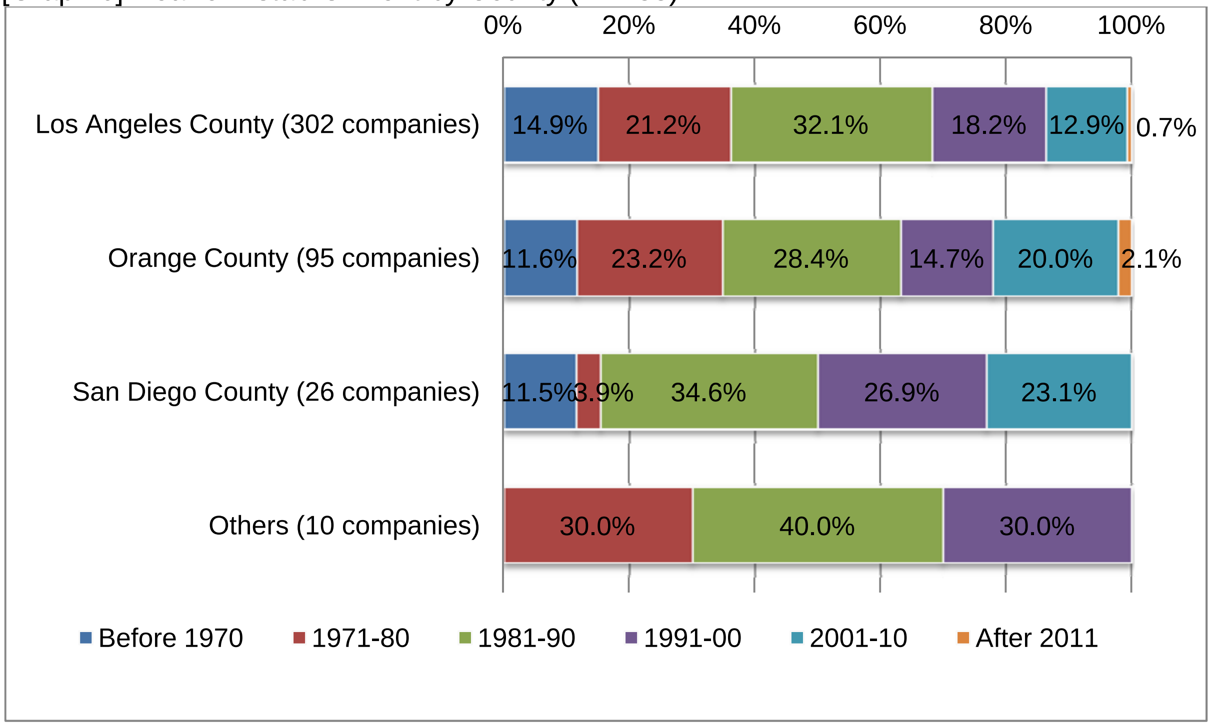
[Graph 5] Year of Establishments by industry (n=433)



By region, the result shows that more than 30 % of respondent companies in Los Angeles and Orange Counties were established prior to 1980, while over 80 % of those in San Diego County were established in 1981 and thereafter.

In addition, after 2011, Orange County has a high percentage of Japanese companies establishing a base there compared to other counties.

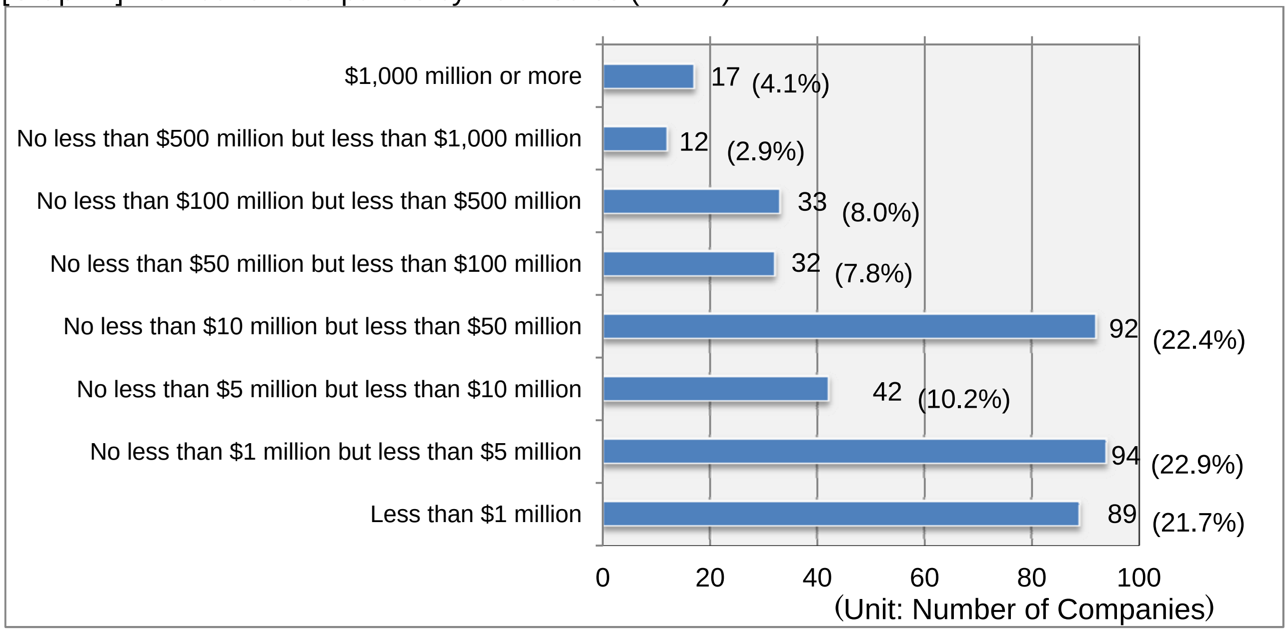
[Graph 6] Year of Establishment by County (n= 433)



5. Total Sales

54.8% of all respondent companies had sales of less than $10 million per year, while companies with sales of $100 million per year or more accounted for 15.0 %of all companies.

[Graph 7] Number of Companies by Total Sales (n=411)



II. Contributions to Regional Communities

1. Job creation

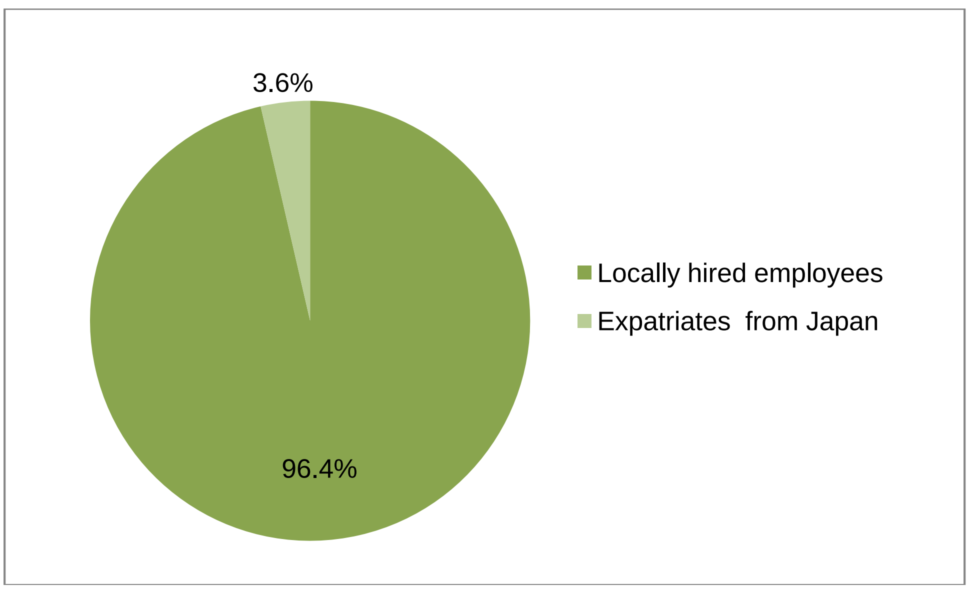
The total number of employees in Southern California reached 49,651 with 453 companies' responding. Of these, locally hired employees (47,860) comprised 96.4% of the total, while the remaining 1,791 are expatriates from Japan.

The number indicates that Japanese companies are contributing to the local economy through job creation. The average number of employees per company is 109.6.

[Table 2] Number of Employees Hired by Japanese Companies (n=453)

	Total	Expatriates from Japan	Locally hired employees
Number of employees	49,651	1,791	47,860
Average number of employees per company	109.6	4.0	105.6

[Graph 8] Percentage of Locally Hired Employees



By industry breakdown, "Manufacturing" accounted for the highest percentage 49.1% with 24, 396 employees.

"Service" was second 14.0% with 6,956 employees, followed by "Financial" 12.3% with 6,108 employees and "Wholesale/retail"10.2% with 5,078 employees.

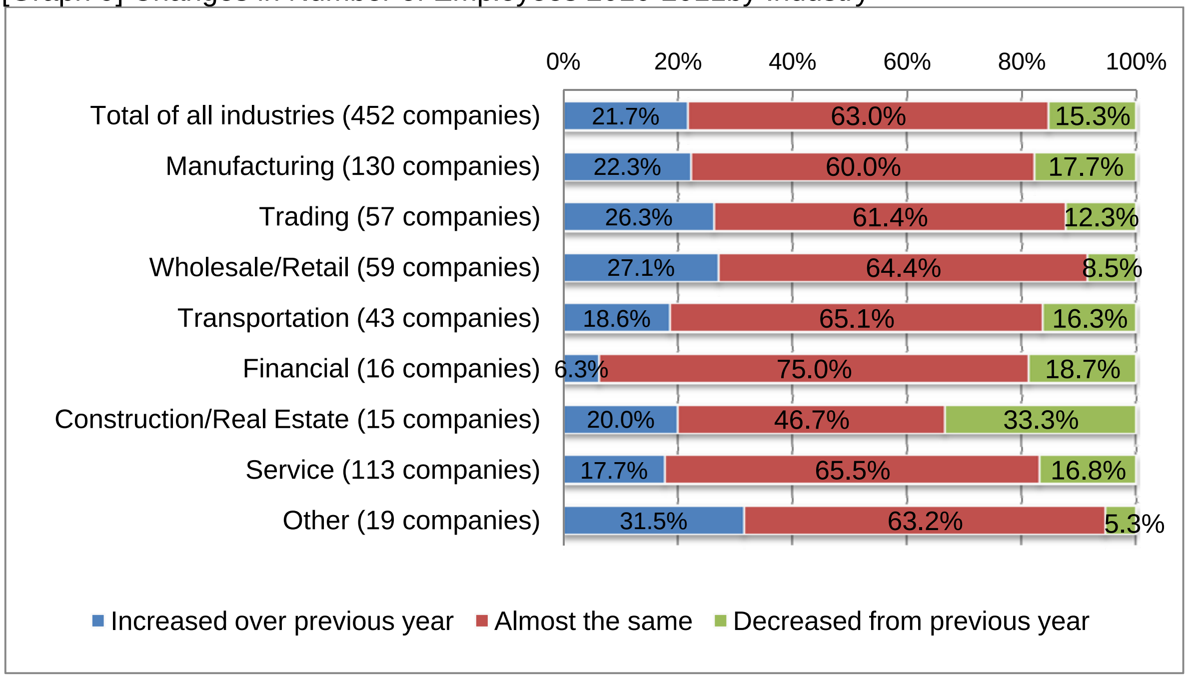
[Table 3] Employment Size by Industry (n=453)

		Number of employees	
			Ratio
Manufacturing	(129 companies)	24,396	49.1%
Service	(116 companies)	6,956	14.0%
Financial	(16 companies)	6,108	12.3%
Wholesale/Retail	(60 companies)	5,078	10.2%
Transportation	(42 companies)	3,543	7.1%
Construction/Real Estate	(15 companies)	1,718	3.5%
Trading	(56 companies)	1,080	2.2%
Other	(19 companies)	772	1.6%
Total		49,651	100%

The changes in number of employees compared to 2010 and 2011, show 21.7% of all respondents "Increased" hiring while 15.3 % experienced a "Decrease". 63.0% of all industries responded "Almost the same" level of employees.

By industry, responses citing hiring "Increased over previous year" rose in the "Wholesale/retail" and "Trading" sectors. By contrast, the "Decreased from previous year" was relatively high, 33.3% in the "Construction/Real estate" sector. This figure probably caused by the sluggish recovery of the housing market in California.

[Graph 9] Changes in Number of Employees 2010-2011by Industry



2. Salaries and wages

A total of $2.16 billion in salaries and wages (including benefits) were paid by the 319 responding Japanese companies in Southern California.

The average salary shows $61,800 per year per employee.

[Table 4] Total Amount of Salaries and Wages Paid by Japanese Companies (n=319)
(Unit: In thousand dollars)

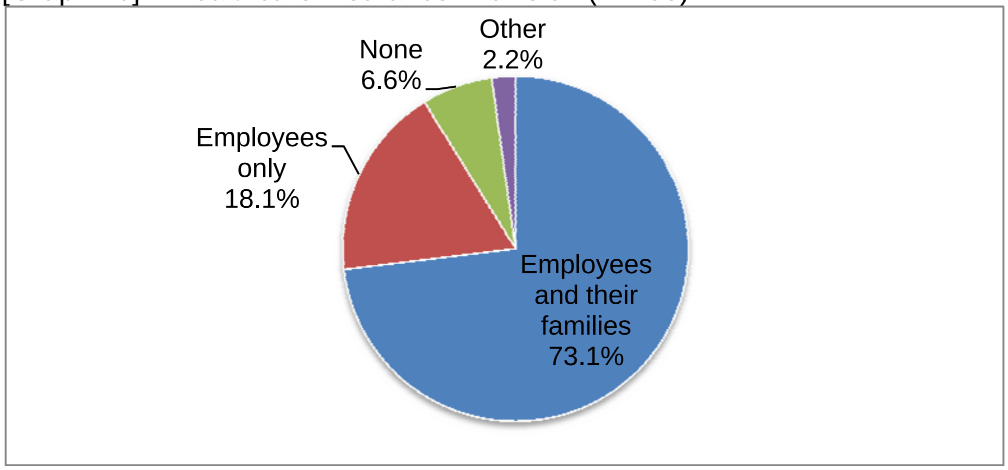
Total salaries and wages paid	2,160,130
Average salary paid (per employee)	61.8

3. Healthcare insurance coverage

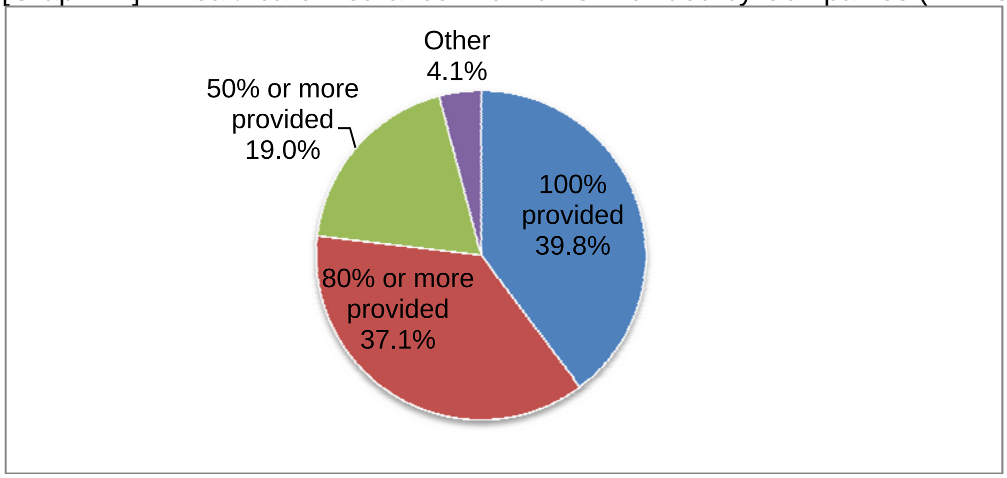
Approximately 70% of the Japanese companies provide healthcare insurance for "Employees and their families." Combined with the number of companies offering healthcare insurance for "Employees only," The result shows over 90 % of all Japanese companies (91.2%) provide healthcare insurance for their employees.

Additionally, roughly 80 % of the companies contribute at least 80 % of the cost of employees' insurance premiums and around 40 % of these companies bore the premium costs fully. These results suggest that Japanese companies provide great healthcare benefits to their employees.

[Graph 10] Healthcare Insurance Provision (n=453)



[Graph 11] Healthcare Insurance Premiums Provided by Companies (n=415)



(Note) "Other" includes companies bearing 100 percent of all healthcare insurance premiums for employees and 50 percent for their families, or combinations of other ratios, and the percentage of contribution by these companies is not necessarily less than 50 percent.

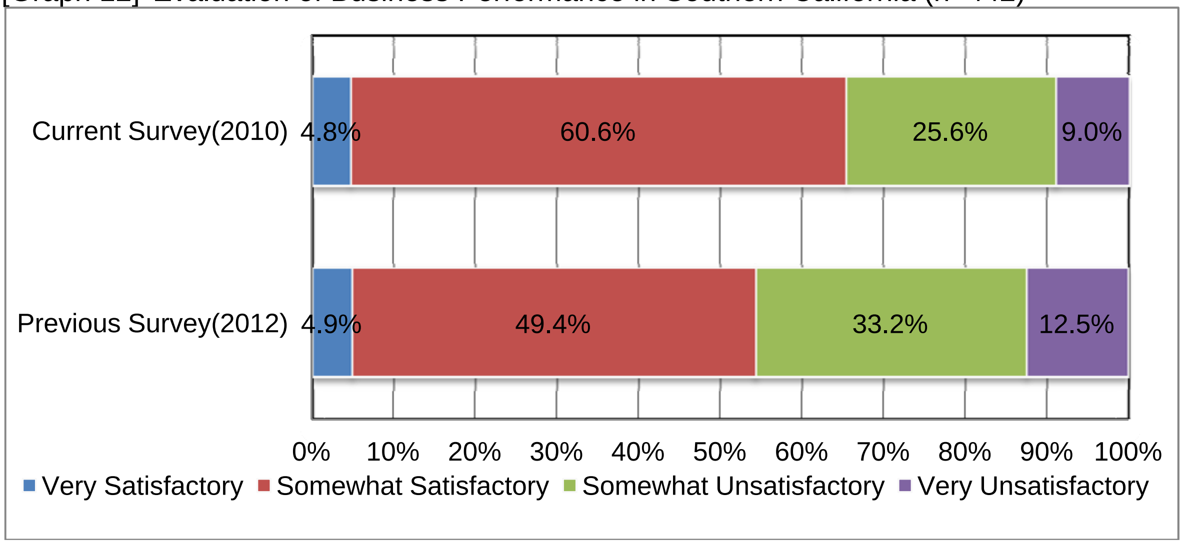
III. Evaluation of Investment and Business Environments

1. Evaluation of business performance

In business performance, 65.4% of all respondents gave positive evaluations, such as "Very Satisfactory" and "Somewhat Satisfactory".

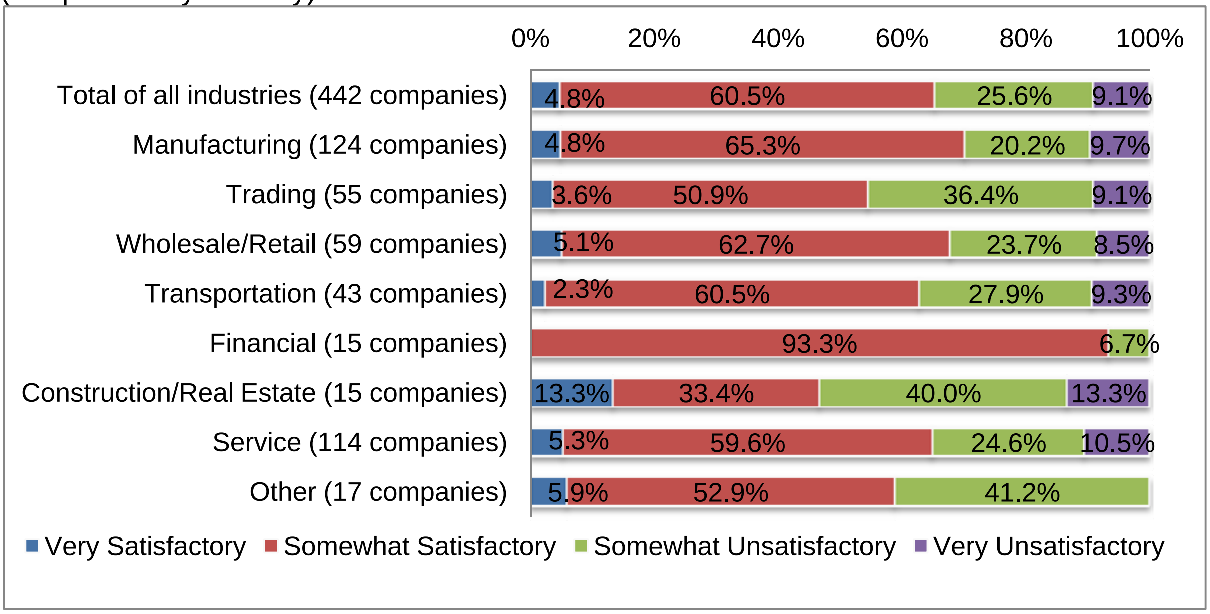
Compared to the previous survey, the percentage of "Somewhat Satisfactory" has increased by over 10 % (11.2% from 49.4% to 60.6%).

[Graph 12] Evaluation of Business Performance in Southern California (n=442)



By industry, over 90% of “Financial” responded as “Somewhat Satisfactory”, while more than half of “Construction/Real Estate” responded as “Somewhat Unsatisfactory” or “Very Unsatisfactory”.

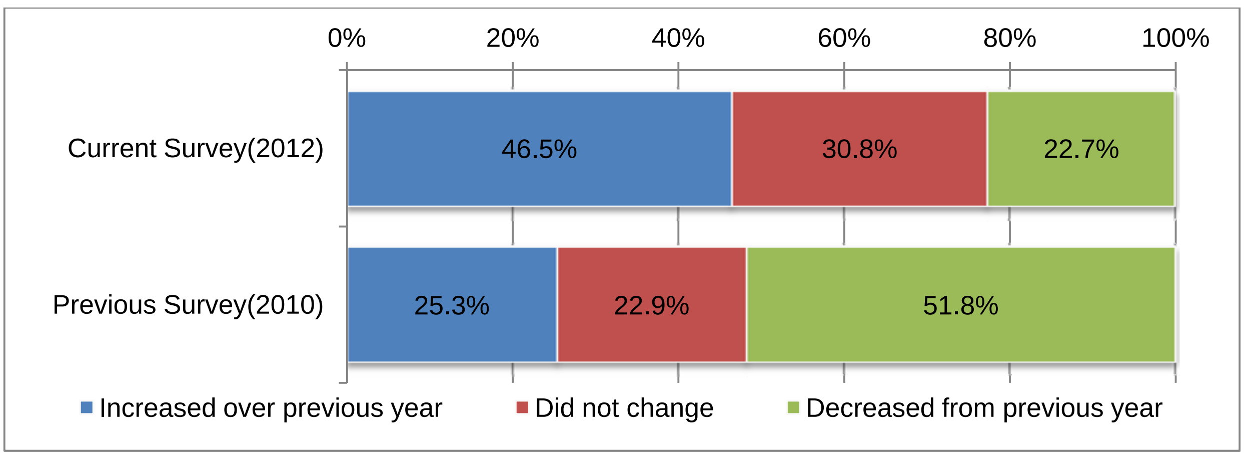
(Responses by industry)



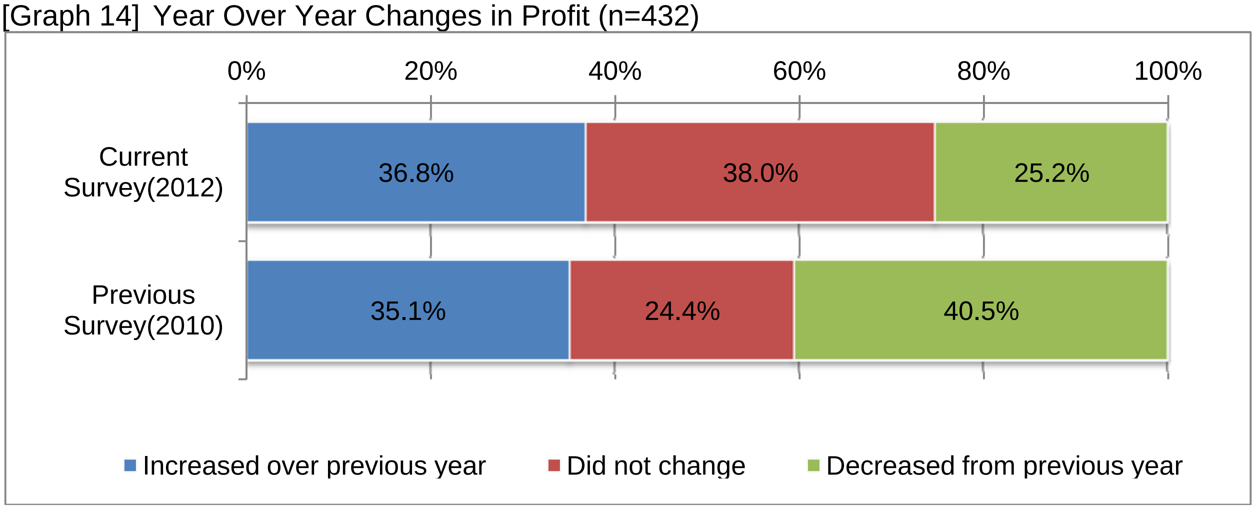
Companies which experienced a year-over-year change in sales increased over 40% in current survey with 46.5% of respondents stating sales “Increased over the previous year”. This was substantially increased from the 25.3% in the previous survey. In contrast, companies suffering from sales which “Decreased from the previous year” were reduced by half from the previous survey (from 51.8% to 22.7%). These results indicate that Japanese companies are headed toward economic recovery.

On the other hand, year over year changes in profit responses showed companies’ profits that “Increased over the previous year” were about the same as previous survey showing a flat rate of increase for companies expecting greater profit the last year. However, companies that expected to see profits “Decreased from the previous year” were decreased substantially (from 40.5 % to 25.2%).

[Graph 13] Year Over Year Change in sales (n=437)



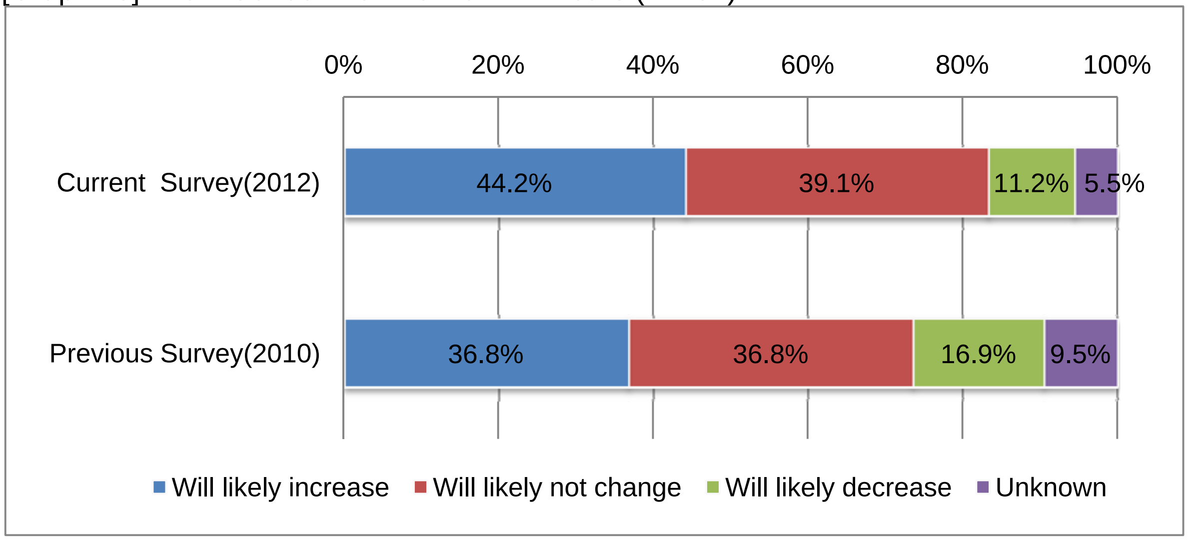
[Graph 14] Year Over Year Changes in Profit (n=432)



2. Future outlook

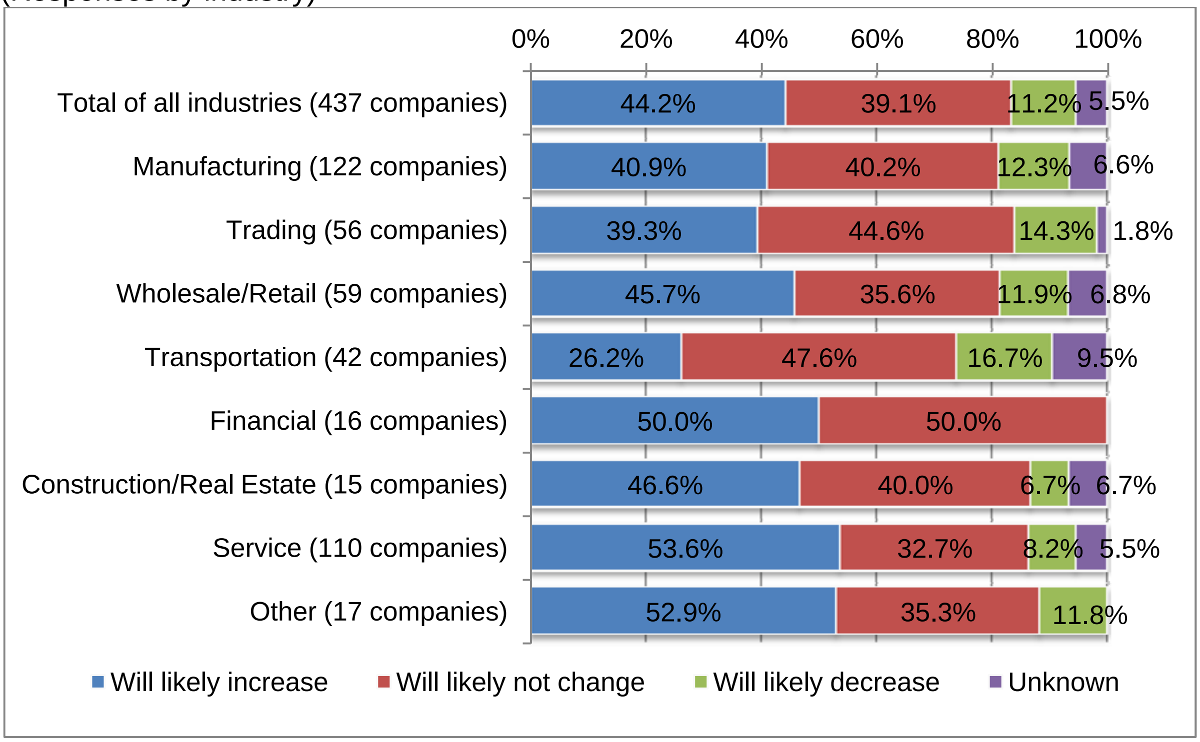
As for the outlook on future business performance over the next year or two, “Will likely increase” was increased from 36.8 % in the previous survey to 44.2 %, while “Will likely decrease” was decreased from 16.9 % in the previous survey to 11.2 %.

[Graph 15] Profit Outlook For the Next 1-2Years (n=437)



The profit outlook over the next year or two by industry reveals that none of the “Financial” respondents cited “Will likely decrease”. They cited either profits “Will likely increase” or “Will likely not change”. Also, over 50% of “Service” sector respondents cited profits “Will likely increase”.

(Responses by industry)

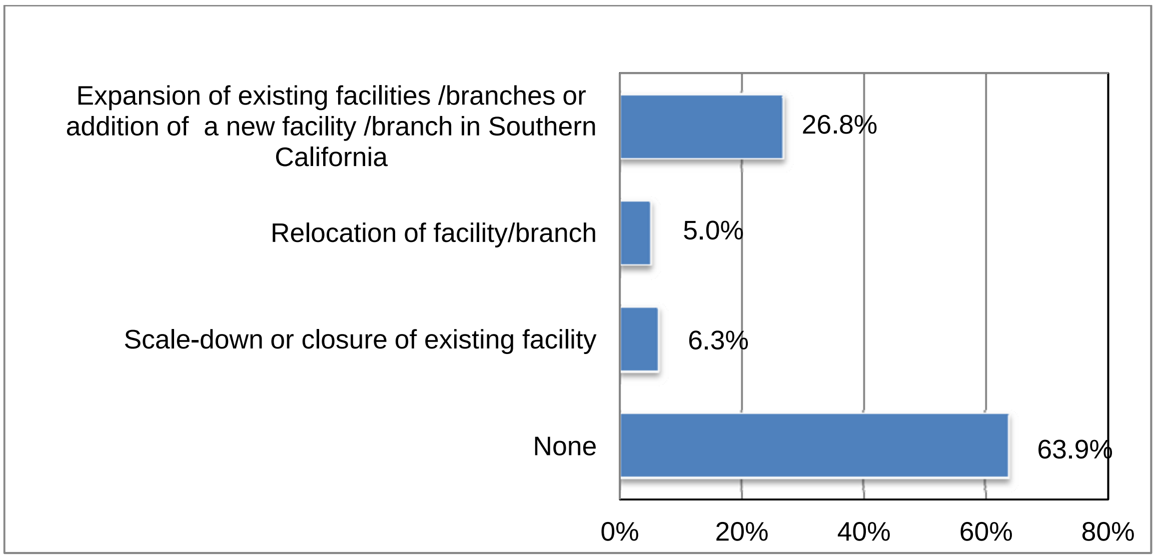


3. Investment and business plans

For investment and business plans over the next year or two, 26.8 % of the respondents planned an "Expansion of existing facilities/branches or addition of a new facility/branch in Southern California."

On the other hand, approximately 10% plan the "Relocation of facility /branch" or "Scale-down or closure of an existing facility".

[Graph 16] Investment and Business Plans for Next 1-2 Years (Multiple responses; n=441)



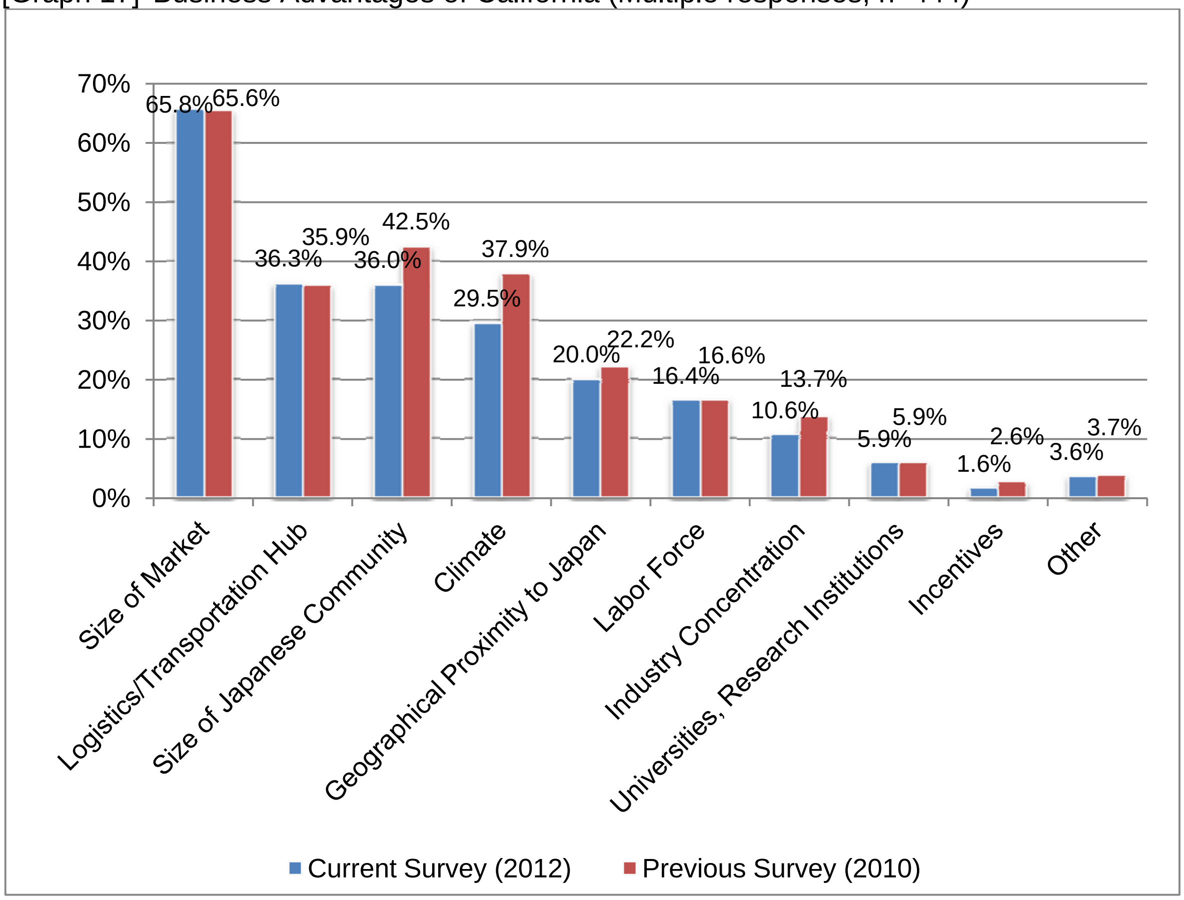
4. Advantages of California

As for the business advantages of California, (a state with a population of about 37 million) the "Size of Market" is a major advantage according to the responses of approximately two-thirds (65.8%) of the 444 participants.

Other advantages are: "Logistics/Transportation Hub" with 36.3% referring to this region as a trade gateway because of its seaports and airports; "Size of the Japanese Community" rated an advantage by 36.0% (as the population of Japanese citizens and residents of Japanese origin in Southern California tops approximately 270,000). Lastly 29.5% listed "Climate" as an advantage.

Compared to the previous survey, the percentages cited advantages of "Size of the Japanese Community" and "Climate" decreased. This may be because of Japanese companies looking for more business prospects outside of the Japanese community or because Japanese companies are under increasing pressures of global competition, and are focusing more on opportunities that can directly benefit them.

[Graph 17] Business Advantages of California (Multiple responses; n=444)



By industry, more than half of all industries cited “Size of Market” as an advantage. 60 % of “Wholesale/Retail” and about 80 % of both “Financial” and “Service” sectors cited “Size of Japanese Community" as an advantage to operating a business in Southern California.

[Table 5] Advantages of Operating Business in Southern California (by industry)
(Multiple responses; n=444)

		Size of Market	Logistics/Transportation Hub	Size of Japanese Community	Climate	Geographical proximity to Japan	Labor Force	Industry Concentration	Universities, Research Institutions	Incentives	Other
Manufacturing	(124 companies)	75.8%	33.9%	24.2%	27.4%	16.1%	23.4%	10.5%	5.6%	2.4%	2.4%
Trading	(57 companies)	62.1%	41.4%	20.7%	29.3%	19.3%	8.8%	19.3%	1.8%	0.0%	3.5%
Wholesale/Retail	(58 companies)	55.4%	15.2%	60.7%	34.8%	19.0%	13.8%	3.4%	1.7%	0.0%	5.2%
Transportation	(43 companies)	70.2%	50.9%	17.5%	29.8%	11.6%	4.7%	4.7%	0.0%	0.0%	4.7%
Financial	(16 companies)	75.0%	6.3%	81.3%	25.0%	18.8%	6.3%	12.5%	0.0%	0.0%	0.0%
Construction/Real Estate	(16 companies)	55.6%	44.4%	33.3%	33.3%	25.0%	18.8%	12.5%	25.0%	0.0%	0.0%
Service	(112 companies)	73.3%	0.0%	80.0%	26.7%	27.7%	18.8%	9.8%	8.9%	2.7%	3.6%
Other	(18 companies)	88.9%	11.1%	22.2%	55.6%	22.2%	22.2%	22.2%	22.2%	5.6%	11.1%

(Note 1) The percentages in the table indicate the ratios of companies that selected the applicable item to those responding to the questionnaire.
(Note 2) Percentages equal to or greater than 50% are shaded.

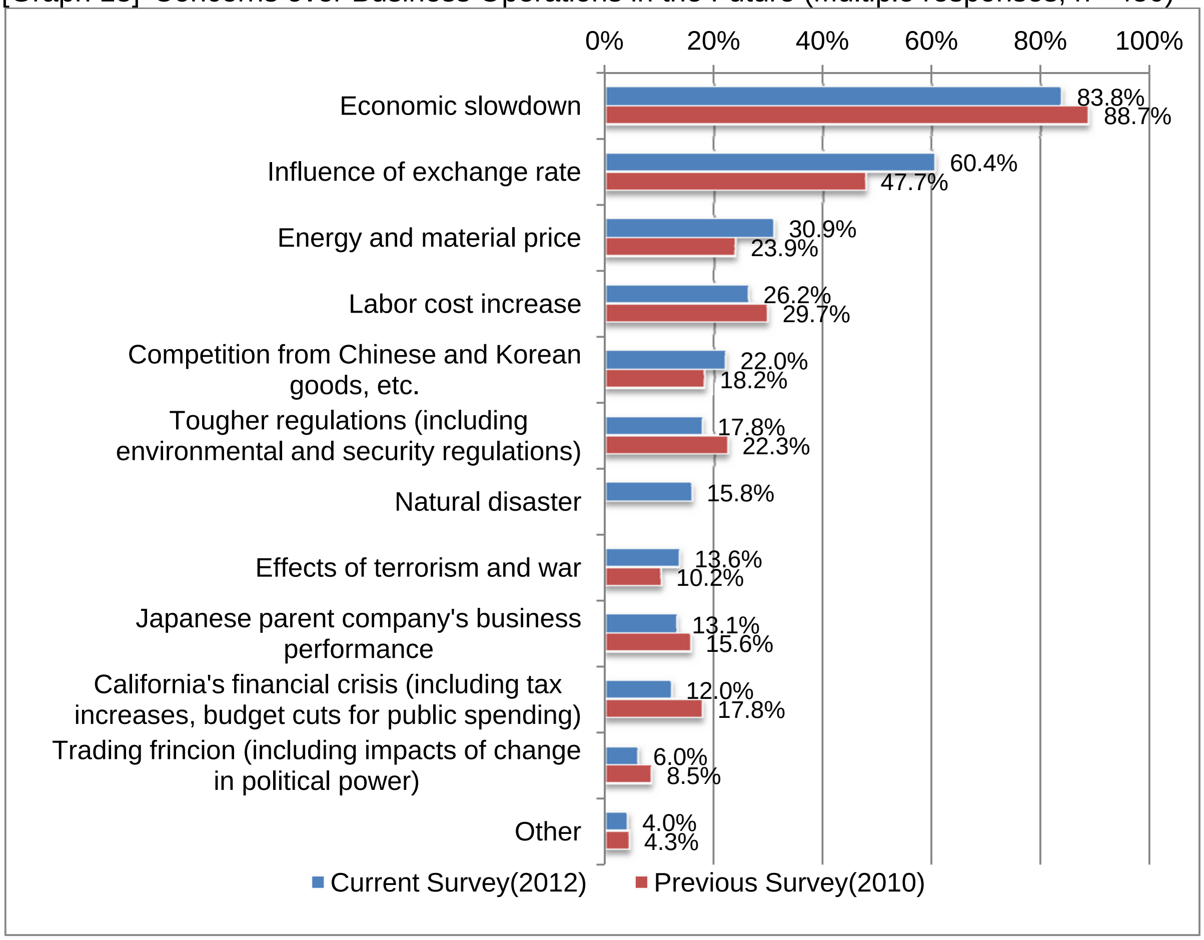
5. Concerns over business operations in the future

83.8% cited the "Economic slowdown" as the highest of concerns over business operations in the future, followed by 60.4% citing "Influence of exchange rate", 30.9% of a rise in "Energy and material price", 26.2% "Labor cost increase" and 22.0% tabbing "Escalating competition from Chinese and Korean manufactured goods, etc"

Compared to the previous survey, "Influence of exchange rate" was increased 12.7 %(from 47.7% to 60.4%), since many Japanese companies may concern a decline of profits because of the rising value of the yen. "Energy and material price" was increased 7.0 % (from 23.9% to 30.9%). Indeed, the rise in crude oil prices becomes one of the concerns.

Furthermore, 15.8% cited "Natural disaster", which was newly added in this survey. "California's financial crisis" was decreased 5.8 % (from 17.8% to 12.0%) from the previous survey.

[Graph 18] Concerns over Business Operations in the Future (Multiple responses; n= 450)



Note: "Natural Disaster" was added to the selections from this survey.

By industry, more than 80% of all industries cited “Economic slowdown” as a major concern as well as the impact of the “Influence of exchange rate”; the exceptions are the “Construction/Real estate” and “Service” sectors.

Other points are: “Manufacturing” and “Trading” sectors cited “Energy and material price” and “Escalating competition from Chinese and Korean manufactured goods” as primary concerns for future operations.

In addition, “Transportation” sectors cited “Labor cost increase” and “Financial” sectors cited “Tougher regulations” as areas of concerns. “Construction/Real estate” sector was worried about “California’s financial crisis” and “Trade friction.”

[Table 6] Concerns over Business Operations in the Future (by industry)

(Multiple responses; n=450)

	Economic slowdown	Influence of exchange rate	Energy and material price	Labor cost Increase	Competition from Chinese and Korean goods	Tougher regulations (including environmental and security regulations)	Natural disaster	Effects of terrorism and war	Japanese parent company's business performance	California's financial crisis (including tax increases, budget cuts for public spending)	Trading friction	Other
Manufacturing (128 companies)	83.6%	68.0%	43.0%	24.2%	33.6%	13.3%	10.9%	5.5%	14.8%	10.2%	4.7%	3.1%
Trading (56 companies)	91.1%	73.2%	39.3%	21.4%	32.1%	16.1%	12.5%	14.3%	14.3%	8.9%	10.7%	3.6%
Wholesale/Retail (60 companies)	83.3%	83.3%	31.7%	21.7%	26.7%	13.3%	13.3%	6.7%	11.7%	6.7%	5.0%	3.3%
Transportation (43 companies)	88.4%	62.8%	34.9%	44.2%	18.6%	32.6%	23.3%	16.3%	11.6%	7.0%	7.0%	2.3%
Financial (16 companies)	93.8%	62.5%	0.0%	12.5%	0.0%	37.5%	12.5%	12.5%	12.5%	0.0%	6.3%	0.0%
Construction/Real Estate (14 companies)	85.7%	21.4%	14.3%	14.3%	0.0%	7.1%	21.4%	14.3%	7.1%	42.9%	42.9%	0.0%
Service (114 companies)	78.9%	38.6%	17.5%	28.1%	8.8%	15.8%	18.4%	25.4%	10.5%	17.5%	0.0%	7.0%
Other (19 companies)	73.7%	52.6%	31.6%	36.8%	21.1%	36.8%	31.6%	10.5%	26.3%	15.8%	10.5%	5.3%

(Note 1) The percentages in the table indicate the ratios of companies that selected the applicable item to those responding to the questionnaire.

(Note 2) Percentages equal to or greater than 50% are shaded.

6. Disadvantages associated with business operations

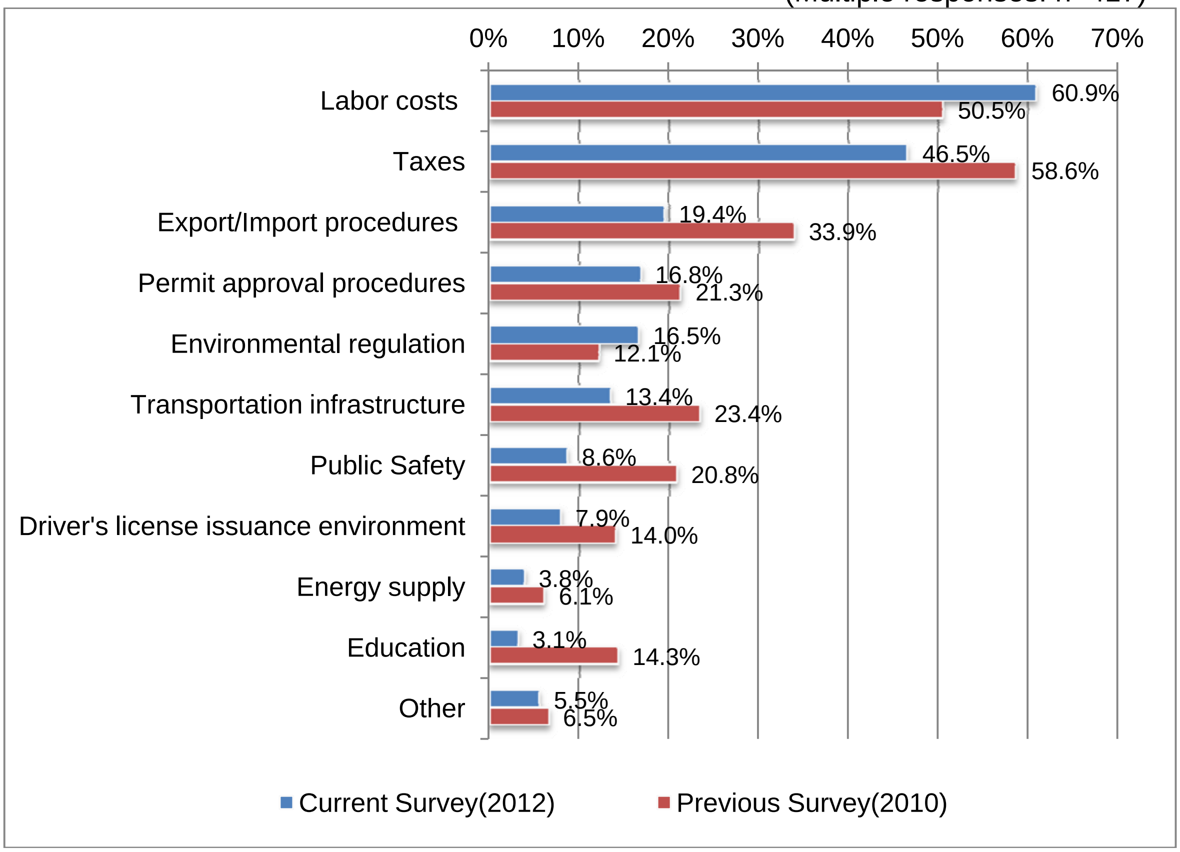
Among concerns associated with operating a business in California (multiple answers were allowed), "Labor costs" and "Taxes" are the two highest. Singled out was dissatisfaction over the cost burdens on employers for pensions, health insurance, and higher tax rates compared to other states.

"Export/Import procedures", "Permit approval procedures" and "Environmental regulation" registered nearly 20% respectively.

Compared to the previous survey, "Labor costs" was increased substantially (from 50.5% to 60.9%). As for the remaining concerns, all were down from the previous survey, except "Labor costs" and "Environmental regulation" increased 4.4%.

[Graph 19] Concerns with Operating Business in California

(Multiple responses: n=417)



[Reference] Specific Examples of Disadvantages and Requests for Improvement

Issues related to labor costs

<Labor costs>

- Rising costs of employee benefits, including healthcare insurance
- Labor costs such as workers' compensation insurance, unemployment insurance and health insurance
- The labor costs, including workers' compensation insurance and other types of insurance, are excessive, making it difficult for employers to secure profits.
- Costs of workers' compensation and other insurance and expenses associated with labor laws are excessive.
  Insurance costs and legal fees are high.
- Compared to Japan, healthcare insurance costs for employers are excessive.
- Measures against the rise in healthcare insurance premiums
- Costs of pensions and healthcare insurance are becoming too much of a burden on employers.
- Reduce personnel expenses.
- Compared to other states, labor costs are extremely high.
- Steep rise in healthcare insurance premiums
- Health insurance premiums are increasing year after year.
- Costs of insurance, such as liability and healthcare insurance are increasing.
  Personnel expenses remain high.
- Burdens of high premiums of workers' compensation and healthcare insurance, burdens of consumption taxes and the state tax
- Costs are increasing due to rising insurance premiums etc.
- Rising employment costs

<Labor laws>

- There are too many lawsuits, such as those concerning employment and gender discrimination.
- A major challenge is how to control and reduce the risk of being sued by workers.
- There are too many restrictions on hiring, which increase the hidden costs of having to check the details frequently. It also creates an environment in which lawyers are depended upon more than would otherwise be necessary.
- The labor laws were anomalously developed to protect workers from a very few employers that would otherwise force their employees to work under poor conditions. As a result, increasing numbers of companies are unable to conduct realistic business operations.
- Lawyers, who should be working to restore the current labor laws to a practical state, are instead chasing after immediate gains, thereby contributing to an increase in unnecessary lawsuits.

- The largest drawback with continuing business operations in California is that the state imposes on companies very strict labor-related rules that are too lenient on workers.
- There are laws and regulations peculiar to Southern California that is biased in favor of workers. Therefore, companies need to be particularly careful about labor-related risks.
- Compared to other states, there are more management issues to overcome, such as harsh employment situations for employers.
- Employment issues are always a concern. Because it is difficult to lay off workers or reduce their salaries, companies are unable to make drastic investments.
- Good human resources must be secured and fostered.
- It is getting harder and harder for small businesses to thrive in CA because of strict labor regulations that manifests in steeper taxes or settlement of legal cases because of compliance issues.

<Hiring, recruiting and staffing>

- Although important, it is difficult to discover and foster competent human resources within the U.S.
- Secure and foster good human resources.
- The time and costs required to invest in the education of new employees are excessive.
- It is difficult to find workers for the positions requiring proficiency in both English and Japanese.
- Because it is difficult to secure bilingual Japanese-English workers and provide visa support for such workers, companies are having a hard time securing the human resources they need.
- Employee education and recruitment are our upcoming challenges.
- It is necessary to secure appropriate human resources.
- It is necessary to secure bilingual workers (with proficiency in Japanese and English).
- Recruitment and education of competent workers
- Securing highly competent Japanese workers or workers of Japanese American
- Recruitment of bilingual workers
- Long-term retention of competent human resources
- Workers aren't consistent in terms of quality. The risk of being sued by workers is high.

<u>Issues related to tax</u>

- California seems to have higher taxes than other states.
- California has relatively high tax rates.
- The U.S. corporate tax rate is not very different from the Japanese corporate tax rate. Therefore, when considering transferring development bases to an overseas location it is better to choose other countries where we're entitled to preferential taxation treatment.
- Steep rises in taxes, business license fees, etc.
- Increasing costs resulting from state, county & local taxes & regulatory.

- California have the highest taxes and cumbersome regulations, which prompts businesses to move to other states

Export/import procedures

- As part of the post-9/11 security measures against terrorism, tighter regulations are now imposed upon a wide range of export/import freight shipping, which can sometimes have a negative impact on clients' businesses.
- During the customs inspection process, sometimes packages are damaged or only certain products become subject to frequent sample inspections, which should be questioned. These types of complaints should be handled more appropriately.
- The restrictions on the importation of Japanese products (particularly food products) are too strict. For example, a wide variety of products contains animal extracts and thus can't be imported. The U.S. demands that Japan import American beef, but it doesn't permit the importation of beef extracts from Japan. There are many such discrepancies.
- The procedures for importation have become more complex, and restrictions on Japanese imports have been tightened.
- Simplification and quickening of procedures for obtaining or renewing an export license

Issues related to permit/license procedures

<State permit/license procedures and other regulations>

- California's excessively strict regulations on hazardous materials
- We must come up with measures to increase our income and profits in order to make our company strong enough to bear the cost burdens of complying with various regulations.
- The law prohibiting the sales of alcohol through self-checkout systems has been approved. Although there has been an increasing demand for the systems as a measure to reduce labor costs, the law will discourage further adoption of the systems.
- When you inquire with responsible state agencies about various permits/licenses, it is difficult to obtain accurate answers.
- California has its own "regulations" that are separate from federal standards, and they can pose disadvantages in the competition against import products.
- Every time we needed to expand our factory or build a new warehouse, as a condition for the permit we were obliged to donate part of our land to the city for future road expansions.
- California's excessively strict regulations on hazardous materials

<Related to visas/entry application>

- Strict visa application rules: It is difficult to hire workers for the position required to be proficient in both English and Japanese.
- High costs of immigration visas, drastically extended processing time and more unfavorable conditions

- Extended review and issuance periods for SENTRI and drivers' licenses, which are needed for travel to and from our plant in Mexico
- The number of Japanese workers (expatriates) has rapidly decreased (due to the return to Japan or the shift of the auto industry to the Midwest and a decrease in the number of Japanese overseas students), causing California's Japanese community (in Los Angeles area) to diminish. I would like you to urge the U.S. government to relax the restrictions on immigration from Japan and visa clearance for the Japanese.
- No improvement has been made in the immigration procedure at LAX.
- It is becoming difficult to obtain visas for additional expatriate staff.
- It has become increasingly difficult to obtain work visas.
- Lately, it has become difficult to obtain visas, thus posing a concern in terms of securing human resources from Japan.
- A major challenge is the difficulty of obtaining work visas for employees.

<Related to food products>

- I hope that the import restrictions on food products will be relaxed.
- In the food industry, all Japanese imports must clear the restrictions by FDA, and consequently there are many that can't be imported. For that reason we often develop products that meet the U.S. standards. However, in doing so we must bear extra costs, such as those for managing inventory until the market is established or dealing with issues concerning freshness dates.
- I question whether the restrictions tightened by FDA and California are really appropriate.
- Compared to Japan, restrictions on alcohol beverages are very strict. Particularly, the stringency of restrictions on distilled liquors, such as shochu, is unthinkable in Japan.

Issues related to environmental regulations

- The very high costs of complying with environmental regulations are creating extremely harsh business environments for primary industries. For that reason considerable numbers of companies are leaving California and moving to other states or countries.
- A challenge for the electronics industry is to comply with regulatory changes pertaining to energy savings and recycling.
- Measures against tightened environmental regulations at the ports of entry and departure
- The stringent environmental restrictions put a limit on our new capital investments. (e.g.) metal plating, quick-drying anti-corrosion agents, etc.
- Environmental controls become stricter year after year, making it difficult for companies to maintain competitive strength.
- California has tight environmental restrictions, which strictly control designs and construction standards each year. This may be good in terms of protecting the environment, but it requires customers to spend more money on the construction of new facilities or the expansion of existing facilities than they would spend in other states.

Issues related to public safety

- When prioritizing safety and good school districts, the ideal areas to live for expatriates are extremely limited. Moreover, the cost of living in such areas is high.
- Security measures to protect the safety of employees

Other

<Related to economy>

- Construction demands in California haven't fully recovered, thus negatively impacting our sales.
- Increased transportation costs and decreased market prices
- Inflation and high gasoline prices have bowed to pressure our business operations.
- After the collapse of Lehman Brothers in 2007, the U.S. construction industry entered a steep financial decline, hitting the bottom in 2011. It is now expected to slowly recover, but we still need to watch the European financial crisis.
- In terms of public works, particularly building construction, the expected progress hasn't yet been observed.
- In 2008, with the state in financial crisis, the amount of taxable income could no longer be offset by the current year's gains and NOL (Net Operating Loss) carryover.
- With both the state and the city experiencing financial struggles, the processing fees for various procedures as well as license/certificate issuance fees have significantly increased, negatively impacting the restaurant industry.
- Cost of doing business has become too high compared to many other States.
- The CA government's unwillingness to fully recognize the extent of the deficit situation and unwillingness to act and make the appropriate reforms.

<Issues particularly relevant for Japanese companies>

- Japanese companies entering the U.S. market lack strong presence; unless they find potential customers within the U.S. that are increasing or considering the increase of equipment investments, they can't localize their design practices.
- The presence of Japanese consumer electronics manufacturers has been weakened.
- Japanese travelers aren't as interested in California as they used to be, and the number of tourists has declined. Due to last year's earthquake and nuclear plant disasters, the number of American tourists visiting Japan has also declined. We can't expect high tourist traffic between Japan and the U.S. (California) as we once did.
- As for the transportation industry, although there are Japanese companies in California, they mostly serve as company headquarters, thus offering limited sales opportunities for the industry. Manufacturing plants and logistics operations are concentrated in the Midwest. When considering accessibility, cheaper labor and various costs, it seems more beneficial to have an office in the Midwest. Still, it doesn't change the fact that Los Angeles is an important operational base as a trade gateway to Asian countries and for our future business expansion into Mexico.

<Other>

- Compliance with laws and regulations
- Recovery of the sales loss (profits) caused by the hollowing-out of the manufacturing industry.
- Measures against issues related to lawsuits
- Communication with local employees
- Catch the trend in the U.S. as quickly as possible, and report it to our parent company. Due to the time difference, our actions tend to be delayed.
- Differences between Japanese laws and California laws (cultural differences)
- Concern over whether we can secure necessary materials or whether excessive competition may take place
- Establishment of location strategies, reduction of raw material costs
- Although we are under investigation by the CA Tax Bureau for the transfer price, there hasn't been much progress made in the investigation over the past one and a half years. It seems a waste that we have to keep paying for the consultant the whole time.
- Investment targets are currently shifting toward Central and South America. One of the factors in determining whether California can continue to be an area of investment target among Japanese companies is how much the state can maintain and improve its attractive features.