

2014 New Year Address

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I would like to wish you a Happy New Year as we enter 2014. I very much appreciate the continued cooperation and support of our member enterprises, in your contribution to the Association. As well, I am grateful for the guidance given to us at all times by related organizations and governmental institutions.

According to the monthly report on the economy published by the Cabinet last December with regard to Japan's economic conditions "Concerning short-term prospects, the recovery is expected to take hold as household income and business investment continue to be on upward trends, while exports move toward picking up and the effects of the policies develop. However, slowing down of overseas economies is still downside risk of the Japanese economy. A last-minute rise in demand before a consumption tax increase and subsequent negative reaction are expected". Optimism is not yet called for, and may not be for some time.

In this context, when we consider domestic and overseas production of land-use internal combustion engines from January through September 2013 as compiled by the Association, it becomes apparent that domestic production of diesel engines has dropped by 7% compared to the same period of the previous year, to 920,000 units, while gasoline engine production has dropped by 13% to 2.25 million units. On the other hand, while overseas gasoline engine production has dropped by 6% to 7.26 million units, production of diesel engines has shown a large increase of 21% to 370,000 units.

Looking at total worldwide figures, diesel engine production has dropped by 1% compared to the same period of the last year, to 1.29 million, while gasoline engine production has dropped to 8% to 9.51 million units. Production of both diesel and gasoline engines is trending downward compared to the previous year, and the production total has dropped by 7% to 10.80 million units. This decrease appears against the steady recovery of production figures ever since the Lehman crash, and is felt to be an extremely serious situation. This year, I believe that we, in the industry, will need to work together to reinforce our globally successful competitive strength as well as to develop

new markets and new demand.

Production of diesel engines outside Japan has been on the rise, reaching a level of 29%(January-September 2013) compared to 24% in 2012. Gasoline engines have only increased 1% relative to 2012, in spite of sustained growth in production in recent years. This increase in production volume of diesels is mainly attributed to robust expansion overseas in the past few years, whereas stagnation of gasoline engines is a consequence of production site adjustment following depreciation of the Japanese yen. Against this background, expansion of production outside Japan is expected to continue.

Japanese engine manufacturers totaled a staggering 10.8 million units in the interval January-September 2013, representing an annual equivalent of approximately 15 million, a quarter of the engines produced worldwide. Also, in spite of a slight decrease in the manufacture of multi-purpose engines, Japan maintains its strong standing as a reputable world player, on account of the high performance, quality and environmental friendliness of our engines. It is my belief that by continuing to support each other and persevering in providing “quality made in Japan”, we will expand our share in the world markets.

In 2013, I also had the opportunity to outline the situation of the land-use internal combustion engines worldwide to the Ministry of Economy, Trade and Industry. With the Japanese government introducing a series of strategies for the revitalization of the local economy, it is essential for us in the industry to deepen collaboration among each other and also with related governmental and civilian institutions.

With regard to environmental awareness, from 2014 we will introduce Phase3 of our voluntary regulations on small gasoline engines. In Japan, use of both multi-purpose gasoline and diesel engines under 19kW is administered by the voluntary regulations established by our Association. Diesel engines are currently being governed by Phase2 of our voluntary regulations, equivalent of EPA Tier4 requirements, while gasoline engines are planned to be managed under new regulations scheduled to gradually take effect from January 2014. These are equivalent to EPA Phase3, currently the world's most advanced. I would like to urge fellow member enterprises to take the necessary action to ensure timely implementation of these regulations, in order to proactively contribute to decreasing the burden on the environment.

Our Association celebrated its 65th anniversary last year. After its establishment in 1948, our Association continues to play an essential role in furthering development of the industry and new technologies, and reinforcing the ties among players in the manufacturing industry.

In light of the major themes of “environmental awareness” and “globalization” , "65th anniversary of the Association" that I stressed upon becoming President of the Association in 2012, we proceeded with “supporting legislation on the next generation of environmental regulations”, “management and dissemination of the voluntary regulations of our Association”, “enhanced collaboration with related overseas institutions” and “enhancement of safety measures regarding portable power generators”, among others. In 2014, we will continue with these undertakings, and I would like to use this opportunity to kindly request your sustained collaboration in the upcoming months.

The rapid and drastic changes in our industry make it necessary for each of our member companies to make full use of the technological and managerial know-how accumulated over the years to keep abreast of times and realize sustainable growth. The Association itself will do its utmost to support and guide these initiatives.

In closing, allow me to express my sincere wishes for 2014 to be a prosperous year for each and every one of us, and that we will continue to contribute to the further development of our industry and society.