

The Honda Element, Page 2



2 Parts Sales Set New Record
Sales Pass \$37 Billion

4 Tokyo Motor Show: Driving Toward a Better Future

6 EXECUTIVE HIGHLIGHTS
Meet Iwao Nakamura, President of Nissan Diesel Motor Co., Ltd.

a report from the Japan Automobile Manufacturers Association • volume 7 number 3 • October 2003

Japanese Heavy-Duty Truck Industry Enjoys Increased Sales and Profits

Market Turn Attributed to New Diesel-Emission Regulations

COMMENTARY

DO EXCHANGE RATES MATTER?



William C. Duncan, Ph.D.
General Director, JAMA USA

A controversy has arisen over the value of the dollar. The Bank of Japan has been buying dollars to discourage currency speculation that could rapidly strengthen the yen. Detroit manufacturers object, arguing that this action weakens the yen making it more expensive for them to sell vehicles in Japan and cheaper for Japanese companies to sell in the U.S. Spokesmen for Ford, GM and Chrysler estimate that the yen is undervalued by 20 percent and argue that this equates to a 20 percent price disadvantage for their products. This assessment appears excessive when the following is considered:

- Private foreign trade and investment flows have far more to do with currency value than government intervention. The size of the yen/dollar market amounts to about \$230 billion per day. Over six months, this would amount to about \$40 trillion. During the first six months of this year, the Japanese government purchased \$75 billion or only two-tenths of a percent of total transactions.
- During the past decade, the dollar has fluctuated between 90 yen per dollar and as high as 140 yen per dollar. The yen rate for the past two years has been about 123 yen per dollar. The current yen rate at

COMMENTARY—Continued, Page 2

After years of lackluster sales, Japanese heavy-duty truck manufacturers are now beginning to see increased sales and profits.

This turnaround does not appear to be coming from an improving economy, but rather from the enforcement of a diesel truck control ordinance that goes into effect in October in Tokyo, Kanagawa, Chiba and Saitama prefectures. Heavy-duty trucks that fail to meet these new regulations will not be allowed to drive through these areas.

To make sure that their fleets comply with the stricter diesel-emission regulations, trucking companies are retiring older trucks and buying replacement vehicles. While retrofit technology is available, many trucking companies and fleet operators find it more economical to buy new vehicles, which are equipped with the latest diesel-emission control technology.

This compliance strategy is reflected in the sales figures. For example, manufacturers report that heavy-duty truck sales increased 36.7 percent between January and July 2003 compared with the same period last year. Hino, Isuzu, Mitsubishi Fuso and Nissan Diesel have reported year-on-year sales increases of more than 20 percent.

However, no one expects the trend to continue. When the trucking fleets finish replacing their vehicles, analysts believe the domestic heavy-duty truck market again will drop off because the economy itself is not growing



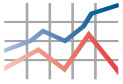
The newly introduced Mitsubishi Fuso Super Great Truck is one of Japan's top-selling heavy-duty trucks that meets the stringent new diesel-emission requirements.

fast enough to sustain the industry.

Consequently, Japan's large truck makers are turning their attention to cutting costs and building sales in the growing markets of China, Africa and other parts of the world (see Executive Highlights, page 6).

Isuzu, for example, is set to export 13,000 large and midsize trucks to Southeast Asia and China in fiscal 2003, up 40 percent from a year ago. Hino expects to rapidly increase its exports due to anticipated growth in the Thai, Chinese and other Asian vehicle markets. Largely due to its strong sales to Southeast Asia, Mitsubishi Fuso exported 52,000 trucks last year, and anticipates a further increase in 2003. Nissan Diesel, meanwhile, saw its truck exports at the beginning of April jump 50 percent from the same period a year ago, largely

HEAVY-DUTY TRUCK INDUSTRY—Continued, Page 6



Continued From Page 1—COMMENTARY

about 112 yen per dollar as of press time is close to the average yen/dollar rate over the past decade — 114 yen per dollar.

- However, even if Japan's purchase of dollars did have more than a temporary effect, would this make much difference in the competitive relationship between automobile companies in a global auto market? As an example, 60 percent of the vehicles sold by Japanese companies in the U.S. are built in the U.S., with high rates of local content that in some cases exceed 90 percent. Sales of these vehicles would not be significantly affected by the yen exchange rate.
- The exchange rate effect on competitiveness is complicated by the fact that Detroit car companies are also global. They import auto parts and vehicles from a number of countries, including Canada, Mexico and Japan, among others. They have significant equity interests in several Japanese automobile companies. They also produce jointly in Japan and in the U.S.

2

What is lost in this currency controversy, however, is that market shares are not won or lost on price, but on value for the money. Consumers decide to purchase automobiles based on a complex consideration of vehicle performance, price, safety, fuel economy, quality, and dealer service, just to name a few factors. Here, competition among auto manufacturers depends on management efficiency, the development of new technology and the ability to apply it.

The Future

The fluctuating dollar obviously affects prices and profits in a variety of ways. Nevertheless, the complexities of a global auto industry raise significant questions regarding the extent to which exchange rates affect overall competitiveness. Meanwhile, consumer standards are rising and government regulations are becoming more stringent. These are the challenges. The advantages or disadvantages from fluctuating exchange rates will be rendered relatively insignificant compared to what happens at the drawing table, in the laboratories and on the factory floor.

Your thoughts and views about this commentary are welcome. Please send them to me at wd@jama.org or by fax to 202-872-1212.

Center Pillar-Less Design Makes Debut

Japanese Automakers Adopt Design Approach in New Models

When a group of Honda designers attended an "extreme sports" event 4 years ago, they got a good taste for what young, active drivers hauled in their sports utility vehicles — people, snowboards, mountain bikes and surfboards.

To accommodate this particular market niche, Honda decided to build an SUV without structural posts between the front and back doors, thereby creating more space for people who need convenience when transporting their gear. That vehicle, the Honda Element, made its debut both in Japan and the U.S. in late December.

However, Honda isn't the only automaker to adopt center pillar-less construction similar to that found in the Element.

This year, Toyota introduced its completely refurbished Raum and Mazda unveiled its overhauled RX-8. While not SUVs, both vehicles feature a pillar-less design that allows for panorama-type doors

that make it easy to get into and out of the cars.

To assure the vehicles' safety, all three automakers use a variety of reinforcement techniques, including the addition of reinforcement steel in the doors and a hook-and-catcher system linking the doors to the frame.

More brands using this design approach are on the way both in Japan and other markets. Mercedes-Benz, General Motors and Isuzu are developing similar designs. ♦



Toyota Raum

Mazda RX-8



Honda Element

SALES OF U.S. AUTO PARTS SET A NEW RECORD IN 2002

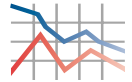
Sales of American-made auto parts to Japanese automakers set a new record in fiscal 2002.

According to figures released by the Japan Automobile Manufacturers Association (JAMA) in July, U.S. companies sold a record \$37.34 billion in parts and materials to Japanese auto manufacturers, up from the \$35.66 billion sold in

2001. Last fiscal year, sales had declined slightly from the \$35.78 billion sold in 2000.

The new sales record demonstrates the continuing internationalization of the auto industry as well as cooperation between Japanese manufacturers and U.S. parts producers, analysts said.

Of the total, local procurement by



JAMA NEWS

JAMA/MEMA Hold Liaison Committee Meeting and One-on-One Business Conference

From May 20-22, JAMA and the U.S.-based Motor and Equipment Manufacturers Association (MEMA) held their 22nd JAMA/MEMA Liaison Committee Meeting in Yokohama, Japan. Since 1987, JAMA and MEMA have been holding these meetings periodically to exchange information to facilitate the purchase of U.S. auto parts by JAMA members.

In conjunction with the Liaison Committee, JAMA and MEMA sponsored the 9th One-on-One Business Conference, also in Yokohama. These conferences were initiated in 1990 to encourage business between individual Japanese automobile manufacturers and individual U.S. auto parts companies. (See story below.)

The 9th conference was the first to be held in Japan. In addition to the regular business development meetings, the conference for the first time facilitated exchanges between Japan and the United States at the engineering level. The meetings provided engineers from American automobile parts suppliers with opportunities to meet directly with Japanese design and development engineers for the purpose of introducing new technologies and products. About 400 representatives from 12 Japanese automobile manufacturers and about 200 representatives from 33 American automobile parts suppliers participated in about 180 individual sessions.

As part of their exchange promotion, Private Technical Seminars allowed five American automobile parts suppliers to introduce their new technologies and products to Japanese automakers' design and development engineers.

Following the success of the May meeting, JAMA and MEMA agreed that subsequent One-on-One Business Conferences would be alternatively held in the U.S. and Japan with the ongoing purpose of promoting understanding and business exchange in the global automobile industry. The next conference is scheduled in Detroit in September 2004. ♦

History of JAMA/MEMA One-on-One Business Conferences

Dates of Conferences Conference Sites

1st April 1990 Las Vegas

2nd June 1991 Las Vegas

3rd October 1992 Las Vegas

4th February 1994 San Francisco

5th June 1995 San Francisco

6th February 1997 San Francisco

7th October 1998 San Francisco

8th February 2000 Las Vegas

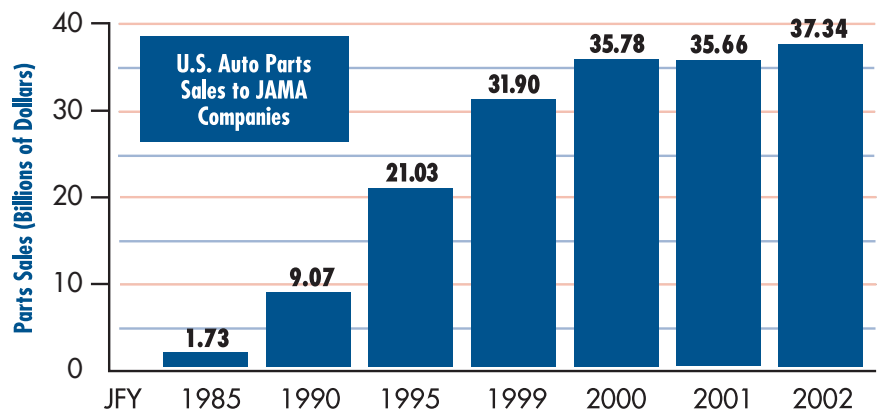
9th May 2003 Yokohama

Next conference scheduled for September 2004 in Detroit.

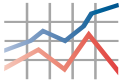
3

Japanese-owned U.S. facilities reached an all-time high of \$33.74 billion, up 5 percent from the previous year. Exports to Japan of U.S.-made parts climbed to \$3.6 billion, a 4 percent increase over the \$3.46 billion sold during the previous fiscal year.

JAMA bases its numbers on invoices received by JAMA members from U.S. suppliers during the Japanese fiscal year, which begins April 1 and ends March 31. This includes sales of parts, materials and accessories both for original equipment and aftermarket use. ♦



Source: JAMA



Auto CEOs to Meet for 2nd Global Automotive Industry Meeting

The CEOs of the major world automobile companies will meet during the Tokyo Motor Show to discuss environmental and safety technologies and ways governments and industry can work together to establish a common set of global vehicle standards.

The 15 executives representing all the major automakers from the U.S.,



Europe and Asia also will discuss acceptance of clean diesel technologies and the future of the industry in general. The meeting is a follow-up to one held last year in Paris (see www.jama.org, *Japan Auto Trends*, January 2003, Volume 6-4, page 1).

At the Paris gathering, the executives agreed to strive for the “earliest possible establishment of Global Technical Regulations,” which would create common safety and environmental standards worldwide. They also agreed to communicate the benefits of clean diesel technology to government officials and consumers and promote the infrastructure needed to support advanced technology vehicles, including those powered by electricity, fuel cells and hydrogen. ◆

The 2003 Tokyo Motor Show: “Driving Toward a Better Future”

Visitors to the 37th Tokyo Motor Show from October 24–November 5 in the Makuhari Messe in Chiba City will see and be able to participate in several new hands-on events that underscore the importance of environmental protection and automotive safety. These events show the driving public how the industry is responding to those social challenges.

Visitors will be able to test drive hybrid cars as well as those powered by fuel cells and compressed natural gas. The show also will feature special traffic safety demonstrations, including a driving aptitude test and a “seat belt convincer,” a device that allows the visitor to safely experience the force of low-speed crashes.

In addition, the show will feature a display of 30 original cars manufactured by small-lot carmakers as part of the Carrozzeria Exhibit and 16 symposia and forums on such topics as the environment, safety and new technologies. All events reinforce this year’s theme — “The Challenge: Driving Toward a Better Future.”

Since the first Tokyo Motor Show in 1954 (see article, page 5), organizers have used the venue to highlight the role that automobiles play in people’s daily lives. Automakers use the event to display new models, concept cars and technologies.

They also conduct business conferences and summit meetings that promote international exchange (see story, page 4).

This year, four governments, 263 companies and one organization have signed up to exhibit. The exhibit area covers 452,000 square feet.

Jama Firsts

This is the first time that the Japan Automobile Manufacturers Association (JAMA) has organized the Tokyo Motor Show’s biennial automobile and motorcycle show. The show’s former organizing body, the

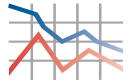
Japan Motor Industrial Federation, merged with JAMA in May 2002 (see www.jama.org, *Japan Auto Trends*, March 2002, Volume 6-1, page 5).

This also is the first time that organizers have made sponsorship opportunities available to non-automotive companies. Sony Computer Entertainment, Tomy Co., Fuji Xerox and Japan Airlines are just a few of the non-automotive companies that will participate as sponsors. As sponsors, they will be able to exhibit and distribute information to visitors.

In yet another first, JAMA decided this year to allow free admission to elementary and younger school-age children, while high school students may attend at half price. JAMA instituted the new pricing policy to reach out to young people and encourage increased attendance. ◆



Art director Ryoji Tsukada created this year’s Tokyo Motor Show logo, which uses three-dimensional lettering to communicate driving toward a better future.



Snapshots

A Look Back: The First Tokyo Auto Show Declared an Unqualified Success

Now one of the world's premier auto shows, the Tokyo Motor Show has come a long way since 1954 when organizers held their inaugural event outdoors in Hibiya Park.

It was an inauspicious start. That week, it rained and the wind blew, knocking down tents and turning passageways into muddy paths. Even so, 254 exhibitors displayed 267 vehicles and the six public relations executives, who conceived of an all-Japan auto show as a way to publicize domestic vehicles and promote their employers' products, declared the event an unqualified success.

Only 17 of the 267 exhibited vehicles were passenger cars. This is worth noting as the 37th Tokyo Motor Show, scheduled for October 24–November 5, consists entirely of passenger cars and motorcycles (see story, page 4).

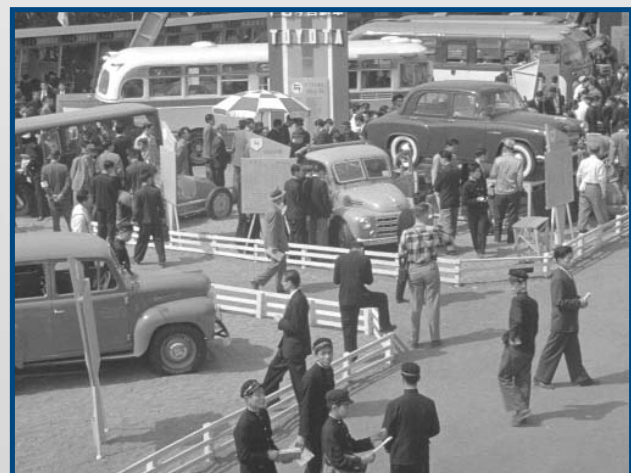
It illustrates how much the industry has changed since the 1950s. At the time, Japanese-made trucks were the mainstay of the industry, and not surprisingly, most of the exhibits consisted of construction equipment, trucks, buses, motorcycles and the distinctly Japanese innovation, the three-wheeled vehicle. The four-wheeled Japanese-made passenger cars that did make an appearance — including the Prince Sedan AISH, Toyopet Super RH and Datsun Passenger Delux — were novel, if not rare on the streets of Tokyo, which then were dominated by American and European models.

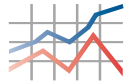
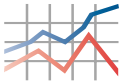
In spite of the relatively modest start, the 547,000 people who attended the show gave organizers hope. Their attendance indicated potential demand for their employers' products and a bright future for Japan's fledgling automobile industry. In 1954, after all, electric washing machines were just coming into widespread use, and automobile ownership didn't register with average Japanese consumers.

Within just 4 years, organizers were proven correct. The Japanese economy began to expand during the 42-month "Iwato Boom," and with it, Japan's domestic automobile industry. ♦



The first Tokyo Motor Show, held as an outdoor event at a city park, featured 254 exhibitors who displayed 267 vehicles.





EXECUTIVE HIGHLIGHTS

Iwao Nakamura, President, Nissan Diesel Motor Co., Ltd.: Pursuing a Multi-Pronged Growth Strategy

As the long ailing Japanese truck industry begins to see signs of recovery at home (see story, page 1), Nissan Diesel Motor Co., Ltd. President Iwao Nakamura is pursuing a multi-pronged growth strategy.

Nissan Diesel, in which Nissan Motor and Renault each hold a 22.5 percent equity stake, announced a new "mid-term management plan" in September 2002. The plan emphasizes improved cash-flow management, the reduction of interest-bearing debt, increased operational profits, a stronger presence in the vibrant Chinese market, and superior customer satisfaction.

Just a few months after implementing action plans to carry out the company's new goals, Nissan Diesel says it has started to see positive results. By the end of the Japanese fiscal year on March 31, for example, the company reported that pretax profits rose 19 percent to \$50.3 million. The company had originally predicted a pretax profit of \$33.5 million. In addition, domestic truck sales for the full fiscal year rose 3 percent to 14,600 units.

Nakamura, who began his career with Nissan Motor after graduating from Tokyo University in 1966 with a degree in aeronautical engineering, attributes the current domestic sales rate mainly to the enforcement of stricter environmental regulations. "We will do our best to provide



trucks that meet these new requirements as quickly as possible," he said. "However, at the same time we will try not to increase fixed costs after the current demand for replacement orders have been met."

Nissan Diesel will establish a new joint venture company with Nissan Motors to design and develop light-duty trucks. Under this arrangement, Nissan Diesel can avoid a heavy investment in development costs. "In the long run, our management burden will be lightened by Nissan's participation in this venture. Furthermore, we can learn from Nissan Motors, particularly their advanced techniques for procurement and inventory management. This, we hope, will contribute to the strengthening of our industrial foundation.

The agreement with Nissan Motors is an important stepping stone for our company's growth and development," he said.

Keeping a tight lid on costs is one element of Nakamura's strategy. Improving long-range sales is another. To that end, he's looking to bolster Nissan Diesel's presence in the overseas market. "As for our overseas operations, we have determined China and South Africa as our strategic market centers and therefore, we will invest our operational resources accordingly," he said.

Because he believes China's demand for trucks will steadily grow, Nakamura plans to use Dong Feng Nissan Diesel, which the company established as a joint venture with Dong Feng Motor in 1996, as its marketing nucleus to expand the company's presence in the Chinese market.

On the latest technology front, Nissan Diesel also has good news to report. In February, the company's mid-size capacitor-hybrid truck received the top prize in the best energy saver category from the Ministry of Economy, Trade and Industry. "We will continue manufacturing trucks, buses and other products, which are environmentally friendly, safe and economical and provide services as quickly as possible in response to our customers' requirements," he said. ♦

6

Continued From Page 1

Japanese Heavy-Duty Truck

because of brisk demand in China.

Because of greatly improved market conditions at home and abroad, most manufacturers are extending production runs to Saturdays and hiring part-time workers. With the exception of Hino, truck makers also continued production during the August shutdown period. Isuzu, for example,

kept production lines open at its Fujisawa and Kawasaki plants during three of these days. Nissan Diesel extended production runs for two days at three plants. It also added 200 term contract employees in May to work on Saturdays.

Importers are also benefiting from the increase in domestic demand. In

July, DaimlerChrysler introduced a new edition of its Actros large truck in Japan. The company hopes that the introduction of Japan's tougher diesel-emission regulations will lead to higher replacement demand for its product. ♦

WHAT'S HAPPENING IN THE MARKET

- Total import car sales fell 0.1%, while overall car sales rose 2.4%.
- BMW sales increased 4.2% boosted by continued robust sales of the Mini Cooper.
- The PSA Group of Peugeot and Citroen also rose a substantial 12.9%.
- Imports of General Motors-related brands fell 48.4%.

NEW IMPORTED PASSENGER CAR SALES IN JAPAN: JANUARY THROUGH JUNE 2003 vs. 2002

	Percent Change 2003/2002	Total Cars 2003	Total Cars 2002
GENERAL MOTORS			
Chevrolet	-41.9%	1,505	2,592
Cadillac	-37.8%	378	608
Saturn	0.0%	6	6
Opel	-55.4%	2,234	5,007
Saab	-35.7%	433	673
Other	26.2%	53	42
SUBTOTAL	-48.4%	4,609	8,928
FORD			
Ford	-19.7%	2,414	3,006
Volvo	-10.0%	7,197	7,997
Land Rover	6.2%	1,150	1,083
Jaguar	-4.0%	2,595	2,702
Aston Martin	50.0%	18	12
SUBTOTAL	-9.6%	13,374	14,800
DAIMLERCHRYSLER			
Chrysler	-0.4%	3,193	3,205
Mercedes-Benz	5.3%	22,633	21,502
Smart	-40.3%	1,898	3,181
Other	n/a	1	0
SUBTOTAL	-0.6%	27,725	27,888
VW			
VW	-6.9%	29,321	31,497
Audi	5.6%	5,848	5,540
Other	4.8%	66	63
SUBTOTAL	-5.0%	35,235	37,100
BMW			
BMW	-7.2%	16,418	17,696
Mini	54.0%	6,219	4,039
Rolls Royce	n/a	3	0
SUBTOTAL	4.2%	22,640	21,735
PORSCHE			
	5.3%	1,176	1,117
RENAULT			
	0.2%	1,180	1,178
PSA			
Peugot	8.6%	7,737	7,124
Citroen	72.6%	894	518
SUBTOTAL	12.9%	8,631	7,642
FIAT			
Fiat	-27.1%	869	1,192
Alfa Romeo	-19.1%	3,188	3,941
Ferrari	4.9%	235	224
Other	-21.1%	30	38
SUBTOTAL	-19.9%	4,322	5,395
SUBARU			
	-46.4%	1,339	2,499
TOYOTA			
	626.2%	3,239	446
HONDA			
	130.0%	11,694	5,085
ISUZU			
	-99.8%	2	1,265
HYUNDAI/KIA			
	-0.4%	1,234	1,239
OTHERS			
	-21.2%	596	756
GRAND TOTAL IMPORT SALES	-0.1%	136,996	137,073
(Imports from Japanese Companies)	75.0%	16,289	9,306
(Total Less Imports from Japanese Companies)	-5.5%	120,707	127,767
GRAND TOTAL CAR MARKET SALES	2.4%	2,337,592	2,281,999

- The small/mini-car share of the Japanese car market fell by one percentage point to 84.4% for the first half 2003 compared with the first half 2002.
- Meanwhile, more importers continue to enter the small car market. The small/mini-car ratio of the import car market rose by 6.5 percentage points to 25.8%, the highest level in more than 4 years.
- Nevertheless, 74.2% of imports remain in the large car segment in a market dominated 84.4% by small/mini cars.

—by MAJOR MARKET SEGMENT: JANUARY THROUGH JUNE 2003

	Small Car Ratio (B/A)	Total Cars (A)	Small/Mini Cars (B)	Large Cars (C)
GENERAL MOTORS				
Chevrolet	0.1%	1,505	1	1,504
Cadillac	0.0%	378	0	378
Saturn	16.7%	6	1	5
Opel	47.3%	2,234	1,056	1,178
Saab	0.2%	433	1	432
Other	0.0%	53	0	53
SUBTOTAL	23.0%	4,609	1,059	3,550
FORD				
Ford	0.0%	2,414	1	2,413
Volvo	0.0%	7,197	0	7,197
Land Rover	0.0%	1,150	0	1,150
Jaguar	0.0%	2,595	0	2,595
Aston Martin	0.0%	18	0	18
SUBTOTAL	0.0%	13,374	1	13,373
DAIMLERCHRYSLER				
Chrysler	0.0%	3,193	0	3,193
Mercedes-Benz	0.0%	22,633	0	22,633
Smart	100.0%	1,898	1,898	0
Other	0.0%	1	0	1
SUBTOTAL	6.8%	27,725	1,898	25,827
VW				
VW	34.8%	29,321	10,214	19,107
Audi	0.0%	5,848	1	5,847
Other	0.0%	66	0	66
SUBTOTAL	29.0%	35,235	10,215	25,020
BMW				
BMW	0.1%	16,418	12	16,406
Mini	100.0%	6,219	6,219	0
Rolls Royce	0.0%	3	0	3
SUBTOTAL	27.5%	22,640	6,231	16,409
PORSCHE				
	0.4%	1,176	5	1,171
RENAULT				
	71.0%	1,180	838	342
PSA				
Peugot	56.4%	7,737	4,360	3,377
Citroën	64.1%	894	573	321
SUBTOTAL	57.2%	8,631	4,933	3,698
FIAT				
Fiat	78.8%	869	685	184
Alfa Romeo	0.9%	3,188	28	3,160
Ferrari	0.0%	235	0	235
Other	43.3%	30	13	17
SUBTOTAL	16.8%	4,322	726	3,596
SUBARU				
	0.0%	1,339	0	1,339
TOYOTA				
	0.1%	3,239	4	3,235
HONDA				
	75.1%	11,694	8,783	2,911
ISUZU				
	0.0%	2	0	2
HYUNDAI/KIA				
	38.2%	1,234	472	762
OTHERS				
	35.9%	596	214	382
GRAND TOTAL IMPORTS 2003 (6 months)	25.8%	136,996	35,379	101,617
GRAND TOTAL IMPORTS 2002 (6 months)	19.3%	137,073	26,437	110,636
GRAND TOTAL CAR MARKET 2003 (6 months)	84.4%	2,337,592	1,973,194	364,398
GRAND TOTAL CAR MARKET 2002 (6 months)	85.4%	2,281,999	1,948,489	333,510

Note: Small/mini cars—engine size 2,000 cc and below; large cars—greater than 2,000 cc. Totals include mini-car sales.