

Memo



Date: September 23, 2010
File: 0705-61
To: City Manager
From: Lorna Gunn, Grants Manager
Subject: Kelowna-Kasugai Economic Development Initiative Report

Recommendation:

THAT Council receives the Kelowna-Kasugai Economic Development Initiative Report dated March 31st, 2010 as information;

AND THAT Council supports all of the recommendations within the Kelowna-Kasugai Economic Development Initiative Report;

AND FURTHER THAT Council directs staff to work with the Central Okanagan Economic Development Commission and the Kelowna-Kasugai Sister City Association to consider ways to strengthen the City's relationship with Kasugai and the greater Nagoya region in terms of furthering economic development.

Purpose:

The purpose of the Kelowna-Kasugai Economic Development initiative is to develop trade and investment between the City of Kelowna and the Japanese City of Kasugai, the Greater Nagoya area, and other regions in Japan by utilizing the longstanding sister-city relationship between the cities as well as other assets in Japan.

Background:

In 2008 the City of Kelowna applied for and received \$50,000 under the BC/Asia Provincial Twinning initiative. This funding delivered through the Ministry of Community Development was for local governments interested in establishing either new international twinning arrangements, or to enhance existing ones. Funding support was to cultivate relationships that have the potential to provide substantial economic and cultural benefits.

In July 2009 Council directed staff to prepare a Memorandum of Understanding between the City of Kelowna and the COEDC to complete an economic strategy that builds business relationships between the City of Kelowna and our Kasugai Sister City and the region of Nagoya in Japan.

The Memorandum of Understanding (MOU) and plan framework were signed by both parties in October 2009 and an interim report prepared for Council in December 2009. Execution of the terms within the MOU were completed by March 31st, 2010 with a follow up report to Council to be presented in September 2010.

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Internal Circulation:

City Clerk
Director of Strategic Initiatives

External Agency/Public Comments:

COEDC PowerPoint Presentation Attached

Considerations not applicable to this report:

Community & Media Relations Comments:	N/A
Alternate Recommendation:	N/A
Considerations not applicable to this report:	N/A
Legal/Statutory Authority:	N/A
Legal/Statutory Procedural Requirements:	N/A
Existing Policy:	N/A
Financial/Budgetary Considerations:	N/A
Personnel Implications:	N/A

Submitted by:



L. Gunn, Grants Manager

Approved for inclusion:



David Graham, Director of Strategic Initiatives

Report of: COEDC Export Development Officer

Date: March 31, 2010

Subject: Kelowna-Kasugai Economic Development Initiative –
Final Report to City of Kelowna

Author of Report: Richard Takai

Purpose:

This is the Final Report on the Kelowna-Kasugai Economic Development Initiative prepared pursuant to a Memorandum of Understanding between the City of Kelowna and the Central Okanagan Economic Development Commission dated October 20, 2009.

Background Documents:

- Memorandum of Understanding Between City of Kelowna and Central Okanagan Economic Development Commission, Re: Kelowna-Kasugai Economic Development Framework, dated October 20, 2009
- Kelowna-Kasugai Economic Development Initiative – Interim Report to City of Kelowna, December 31, 2009
- BC/Asia Twinning Project Toolkit



Executive Summary

The Kelowna-Kasugai Economic Development Initiative is an export development program of the Central Okanagan Economic Development Commission (“COEDC”), as part of the COEDC’s Business Enhancement Strategy. The initiative is supported by the City of Kelowna and the Province of British Columbia’s Ministry of Community Services.

The purpose of the initiative is to develop trade and investment between the City of Kelowna and the Japanese City of Kasugai, the Greater Nagoya area, and other regions in Japan by utilizing the longstanding sister-city relationship between the cities as well as other assets in Japan.

The 21st century is being billed as the “Pacific Century”, and the rapidly growing Asian economies offer long-term opportunities for Kelowna companies, which are increasingly developing products and services for a global marketplace. Japan is a natural gateway to Asia for Kelowna, not only because of the twinning arrangement with Kasugai, but because it is a sophisticated, knowledge-based economy with established commercial practices and respect for the rule-of-law. The needs and wants of the Japanese also fit well with products being produced here. Establishing commercial relations with Kasugai and the Nagoya area opens the door to the rest of Japan as well as other Asian economies.

An economic development proposal was drafted by the COEDC and submitted to the City of Kasugai in October 2009. The proposal was reviewed by the City of Kasugai and the Kasugai Chamber of Commerce, and as a follow-up COEDC representatives visited Kasugai in February 2010. Both the City of Kasugai and the Kasugai Chamber of Commerce expressed interest in raising the level of engagement with Kelowna and the businesses here to better understand the potential economic opportunities. The visit with



Kasugai, as well as several meetings with Canadian Trade Commissioners, Japanese firms, and Canadian industry associations confirmed that the Japanese market holds a great deal of economic potential for Kelowna companies. Both short-term and longer-term opportunities were identified, and the COEDC is in the process of facilitating introductions between Kelowna companies and potential Japanese partners. Furthermore, Chubu University, located in Kasugai showed great enthusiasm in investigating a potential academic affiliation with a post-secondary institution in Kelowna.

The intent of this program is to develop a sustainable bilateral international economic development strategy that will provide significant long-term benefits to Kelowna. The following recommendations are respectfully submitted to the City of Kelowna in furtherance of this initiative:

Recommendation 1

Increase the level of engagement between the City of Kelowna and the City of Kasugai with the objective of strengthening the sister-city relationship in civic, cultural, economic, and educational areas.

Recommendation 2

Direct and support the COEDC to continue to develop and expand the economic initiative with Kasugai and the rest of Japan, and encourage participation of the Kelowna Chamber of Commerce in the initiative.

Recommendation 3

Develop and implement strategies to increase ties between educational institutions of all levels in Kelowna and Kasugai.

Recommendation 4

Continue to develop and enhance the relationship with Canadian governmental and industry organizations in Japan which can provide the required market intelligence and support infrastructure for Kelowna firms.



1. Summary

1.1 This Final Report has been prepared pursuant to a Memorandum of Understanding between the City of Kelowna and the Central Okanagan Economic Development Commission (“COEDC”) dated October 20, 2009, whereby the COEDC is directed to develop an economic strategy between Kelowna and the City of Kasugai and the Nagoya region of Japan. This report presents strategies and recommendations on economic engagement with the City of Kasugai, the Greater Nagoya Region, and other parts of Japan, and expands on the Interim Report dated December 31, 2009, previously submitted to the City of Kelowna.

1.2 Kasugai is a city with a population of approximately 300,000 located in Aichi Prefecture in the Greater Nagoya Area of Central Japan, and has had a sister city relationship with the City of Kelowna for close to 30 years. See Figures 1.2 and 1.21 below:



Figure 1.2 – Japan



Figure 1.21



- 1.3 The COEDC, as part of its Business Enhancement activities and with the support of the City of Kelowna and funding from the provincial Ministry of Community Services, is developing an economic initiative with Kasugai and the Greater Nagoya Area.

2. History of the Kelowna-Kasugai Sister City Relationship

- 2.1 The Kelowna-Kasugai sister city relationship had its informal origins in late 1980 when delegates from Kasugai visited BC looking for sister city candidates. Civic and cultural exchanges took place between the cities and in 1983 a formal agreement was executed, along with the formation of the Kelowna-Kasugai Sister City Association (“KKSCA”) under the *Society Act*.



- 2.2 The longstanding relationship has been an excellent one focused on civic, cultural and educational exchanges. The Constitution sets out the purpose of the Association as, *inter alia*: “To plan and co-ordinate communications between interested groups and individual citizens of the two cities in the areas of:

- 2.2.1 Culture;
- 2.2.2 Education;
- 2.2.3 Commerce;
- 2.2.4 Athletics;
- 2.2.5 Civic Affairs; and
- 2.2.6 Fellowship.”



2.3 Kasugai Civic Sister City Association

The counterpart to the KKSCA is the Kasugai Civic Sister City Association (“KCSCA”). Sister city events and exchanges are coordinated between the KCSCA and the Planning Department of the City of Kasugai.

2.4 Kasugai Gardens and Kelowna Boulevard

Kasugai Gardens was developed in the mid-1980s as a celebration of the sister city relationship and a symbol of goodwill between the communities. The design was drawn up by the City of Kasugai and the gardens were built by the city on land donated for use



as park space. The City of Kelowna reciprocated with the donation of a replica of the Sails, which is prominently located on Kelowna Boulevard in Kasugai.

2.5 Delegations

Delegations of junior high school students from Kasugai visit Kelowna each summer accompanied by faculty chaperones. The delegates stay with host families in Kelowna and participate in a number of cultural, sporting, and recreational activities organized by the KKSCA. There is currently no delegation from Kelowna that visits Kasugai on a regular basis.

2.6 The Kuwahara Family of Kasugai

One of the benefits stemming from the strong ties between Kelowna and Kasugai is a significant relationship has developed between Kelowna and the Kuwahara family of Kasugai. The Kuwahara’s are a prominent family in Kasugai with diverse business interests including gas station operations and wine distribution. Kelowna has been the fortunate beneficiary of he Kuwahara’s generosity and affection for the Okanagan. The Kuwaharas have been responsible for the generation of considerable goodwill between Kelowna and Kasugai as well as the



development of trade between the Kelowna and Japan. Their interest in the region led them to send one of their sons to Okanagan College to study. This in turn led to the export of Okanagan wines and gourmet food products to Japan. In addition, the Kuwaharas, at great personal expense, have generously sponsored the Lady of the Lake and the Kelowna Princess and their chaperone to visit Japan during the annual Kasugai Festival in mid-October. This sponsorship, which has spanned ten years, is set to expire in 2010.

As noted above in section 2.5, there is no regular delegation from Kelowna that visits Kasugai, but the generosity of the Kuwahara family has allowed the Lady of the Lake and the Kelowna Princess to represent Kelowna as goodwill ambassadors during Kasugai's most important cultural event. The benefits from this sponsorship are numerous, and it is suggested that the City of Kelowna find a way to maintain this tradition to help raise awareness of Kelowna to the citizens of Kasugai, and to continue the goodwill generated by the beneficence of the Kuwaharas.

2.7 Commercial Activity and Trade Development



The constitution of the KKSCA does mention the promotion of commerce as one of the purposes of the association, but trade has not been a focus of the sister city relationship. While over the years there has been a small amount of trade between the regions, it was primarily a by-product of personal relations between individuals and companies in the respective cities (such as the Kuwahara family) and not the result of a targeted effort at economic development.

Previous sister city relationship projects include the Kelowna delegation to the Japan Expo in 2005, with the primary objective to showcase Kelowna and build



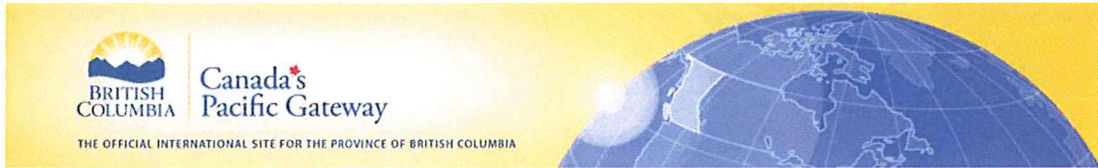
cultural, tourism and business to business relationships as a result of the delegates participation in the Canada Day celebration in Aichi, near Kasugai. Delegates volunteered at the Canada Pavilion during both Canada Day and Kelowna Day.

More than 80 residents, including business representatives, local politicians, artists and performers showcased Kelowna at Expo '05. Outcomes included a Memorandum of Understanding between Okanagan College and Chubu university. Although additional economic development outcomes were expected as a result of the expo, due to lack of follow up from Kelowna companies and limited resources from the COEDC, these projected outcomes were not realised. Currently the COEDC has increased its capacity by the



contract services of an export development program providing additional support to Okanagan companies and facilitating access to the markets of the Nagoya region and facilitate business to business connections and follow through.

With the intent of expanding the scope of the sister city relationship, in early 2009, the KKSCA began to consider the promotion of a trade initiative with Kasugai. The City of Kasugai indicated a conceptual interest in looking at economic opportunities with Kelowna, and the KKSCA facilitated an introduction between the City of Kasugai and the COEDC.



3. Province of British Columbia Asia Pacific Initiative

3.1 In April 2007, the Province of British Columbia launched the Asia Pacific Initiative, a long term strategy to diversify BC's economic ties with the Asia Pacific.

3.2 The Asia Pacific Initiative identifies five priority areas:

- advance B.C.'s global identity as Canada's Pacific Gateway;
- continue to build a world-class infrastructure and supply chain;
- strengthen and maximize B.C.'s trade and investment relationships with Asia;
- become the Asia-Pacific education, tourism and cultural destination of choice; and
- ensure the province's labour force is equipped with the skills to thrive in the Pacific Century economy.

3.3 The use of sister city relationships to help develop economic trade with Asia is one vehicle promoted by the Province through its Asia Pacific Initiative, and in 2008, the City of Kelowna was the recipient of \$50,000 of funding from the Ministry of Community Services. \$48,000 of this funding was allocated to the COEDC to develop trade with the City of Kasugai and the Greater Nagoya Area.

3.4 The success of using sister-city relationships to further economic objectives is highly dependent upon the nature of the cities and the degree to which industries in the cities complement the needs and wants of the respective areas. The Province of British Columbia's *BC/Asia Twinning Toolkit* states that the drive to



establish strong twinning arrangements stems from a recognition of longer-term economic challenges and opportunities facing the Province including the:

- need for continued diversification beyond resource-based industries;
- importance of international trade;
- value of immigration;
- development potential for smaller communities in the “new” economy;
- rise of Asia on the global stage

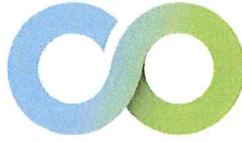
The opportunities and challenges enumerated above are a subset of the ones facing Kelowna. While not all sister-city relationships will give rise to significant commercial opportunities, the nature of the Japanese knowledge-based economy, the location of Kasugai in the industrial heart of Japan, and the types of businesses and industries here in Kelowna, indicate a strong potential for sustainable economic development between the cities and regions.

4. The Opportunity in Japan

4.1 Export development is part of the COEDC’s Business Enhancement strategy and Asia Pacific countries present huge market potential for Kelowna companies interested in diversifying their markets. Japan is a natural entry point into Asia for a number of reasons:

- Size of economy;
- Type of economy;
- Fit with Kelowna’s industries;
- Gateway to other Asian markets; and
- Existing strong relationship with Kasugai.





4.2 Japan's Economy

Despite the rapid growth of China, in 2008, Japan's had the world's second largest single-country economy with a GDP of over \$4.9 trillion.¹ Japan has a sophisticated, knowledge-based economy, with wants and needs that fit well with products and services offered by Kelowna companies. Examples of industries and products in demand in Japan:

- High-end agri-food, including wine;
- Software;
- Information and communication technologies;
- Wireless technologies;
- Environmental technologies;
- Aerospace-related technologies;
- Composites technologies;
- Advanced housing and healthy housing technologies;
- Products and services for an aging society;
- Supplements, nutraceuticals, and functional foods.

Japan has a long-established history of international trade experience, with respect for the rule of law, and there are fewer concerns with respect to intellectual property issues as compared to emerging markets in Asia. This will allow Kelowna companies to transact business with confidence.

The COEDC views the initiative with Kasugai and Greater Nagoya as a gateway to other regions of Japan as well as other markets in Asia. The GDP of Greater Nagoya, while very large at \$500 billion, represents about one-tenth the GDP of Japan. Expanding into the huge markets in the Tokyo (population 36 million) and

¹ Data from the International Monetary Fund for 2008. The USA had the world's largest single-country economy at \$14.4 trillion. Canada ranked 11th with a GDP of \$1.5 trillion.



Osaka (population 19 million) areas would be a natural progression after establishing a foothold in the Nagoya region. While the Nagoya region is the industrial heart of Japan, Tokyo and Osaka function as the primary distribution areas of Japan and are the principal points of entry and distribution for exports.

5. Greater Nagoya Area

5.1 Nagoya, located in the Chubu region of central Japan is the country's third largest city with a population of approximately 2.2 million. The surrounding Greater Nagoya Area (defined as the area within a 100 km radius of the Nagoya Central Business District) has a population of over 12 million people and is home to Japan's largest industrial base.



5.2 In 2008, the GDP of the Greater Nagoya Area was approximately \$500 billion, roughly one-tenth Japan's GDP. Historically Nagoya has been the manufacturing centre of Japan, currently producing over 18 percent of the nation's manufactured products. The traditional industries of woodcraft, textiles, ceramics, and steel have evolved and the region is now home to world-leading producers of materials and machinery. Nagoya's prominent industries are as follows:

5.3 Automotive

Over 44% of the automobiles produced in Japan come from the Greater Nagoya Area. Companies such as Toyota, Honda, Mitsubishi, Suzuki, General Motors, and Volkswagen have their headquarters, major manufacturing operations, or distribution facilities in the region.

Many auto parts and component makers are also located in Greater Nagoya, among them such world leaders as Denso, Aisin, NGK, PPG and Magna



International. These and other companies in Greater Nagoya account for 45% of the auto parts and components produced in Japan. Major manufacturers such as Toyota attract clusters of small-to-medium-sized companies with superior technology and know-how to create a world-leading automotive industry centre. Many of these manufacturers are located in Kasugai.

5.4 Aerospace

Japan's major aerospace companies are also clustered in Greater Nagoya. Design and assembly of both aircraft and space launch vehicles is undertaken by companies such as Mitsubishi Heavy Industries, Nagoya Aerospace Systems Works, and Fuji Heavy Industries. Mitsubishi Heavy Industries is currently developing the Mitsubishi Regional Jet, a brand new regional passenger jet incorporating the latest airframe and engine technologies, which will be commercially available in 2012. Companies in the region are also suppliers to companies such as Airbus, Bombardier and Boeing, including supplying significant airframe and landing gear components for Boeing's next-generation 787 aircraft. Leading edge composite technology is being developed in the Nagoya region for use in the aerospace industry.

5.4 Advanced Materials

Fine Ceramics

The Greater Nagoya region has long been home to traditional ceramics with a history of nearly 1000 years. From the technologies of this traditional industry came fine ceramics, a new material that has gained considerable notice in recent years, with new applications in semiconductor / LCD manufacturing equipment, information technology, mobile communications, intelligent transportation systems, and environmental preservation. Ceramics companies in the region hold significant global share of fine ceramic components in uses such as cellular phones and substrates for automobile catalytic converters. Nagoya is also home to



the Japan Fine Ceramics Centre, a leading edge ceramics research and development and testing facility.

Composites and Advanced Metals

The large number of companies in the aerospace and automotive industries in Greater Nagoya has led to the development of advanced composites and structural metals for use in these industries. Mitsubishi Heavy Industries, Fuji heavy Industries, Kawasaki Heavy Industries and Toray, are all companies with leading edge plants and R&D facilities serving these markets.

5.6 Machinery

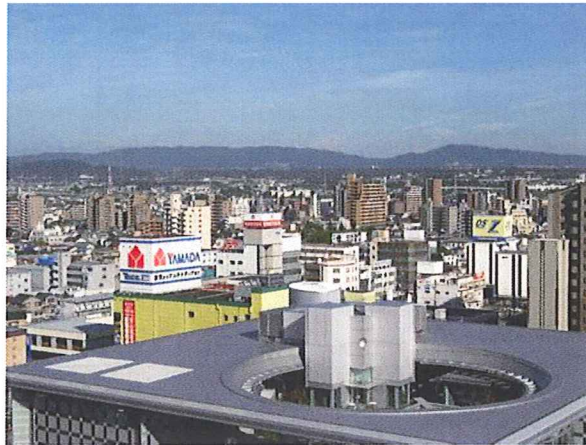


The Greater Nagoya Area is responsible for 18.2% of the nation's manufactured products, and the manufacturing industry accounts for close to 33% of the region's GDP. As such, it is not surprising that machinery has the greatest number of business establishments of any industry. The region is a world leader in the development of robotics and advanced manufacturing systems.

5.7 Developing Industries

Rapid development in the following industries is being promoted in the Greater Nagoya Area:

- Environmental technologies;
- Information technologies;
- Health/welfare/medical;
- Bio-technology.



6. The City of Kasugai

The City of Kasugai has a population of approximately 300,000, and was founded in 1943. Its current Mayor is Mr. Futoshi Ito. It is known as “The City of Calligraphy” as one of the three greatest masters of calligraphy, Tofu Ono, is said to have been born in Kasugai. The city celebrates and preserves this cultural tradition through projects promoting calligraphy.

The City of Kasugai is located centrally in the Greater Nagoya area, and as such it is difficult to separate the economy of Kasugai with the surrounding metropolitan area which is the industrial centre of Japan. Although Kasugai retains its local traditions through festivals and events, its location gives it access to one of Japan’s most vibrant economic regions, and makes it an excellent gateway to Greater Nagoya and the rest of Japan.



6.1 Major Industries in Kasugai

According to the Kasugai Industry statistics, as of December 31, 2007, there were 888 industrial companies² in Kasugai. The following shows the breakdown by industry:

INDUSTRY	NO. OF COMPANIES	% OF COMPANIES
General machinery	170	19.1%
Metal products	150	17.1%
Plastic products	86	9.7%
Paper/pulp products	83	9.3%
Electrical machinery	71	8.0%
Printing	53	6.0%
Furniture	44	5.0%
Transportation	37	4.2%
Ceramics	31	3.5%
Other ³	163	18.1%

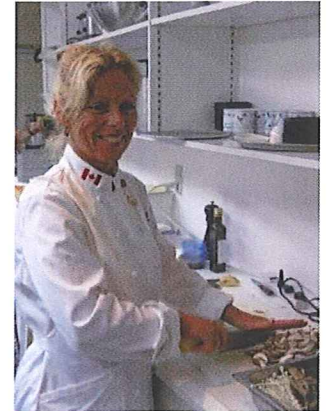
² Companies with four or more employees.

³ Other industries include food, beverage, textiles, high-precision machinery, electronic parts, leather products, rubber products, oil/coal products, chemicals, wood products, and clothing.



7. Kelowna Industries and Businesses

7.1 In recent years in Kelowna there has been a shift away from traditional industries such as forestry, mining, and light manufacturing, towards development in the technology sector. At the same time, there have been changes in the agricultural sector with many farms altering the crops they have traditionally grown to new high-quality fruit or artisanal products which can bring higher prices, or converting orchards to vineyards. These changes are resulting in products whose consumers tend to be in highly developed economies with greater discretionary income. The types of products, and the development of new businesses in Kelowna align well with the needs and wants of the Japanese.



7.2 An economic initiative with Japan offers opportunities for bilateral trade, development of strategic alliances (e.g., pursuing joint ventures or licensing arrangements, etc.), and foreign direct investment.

7.3 The following Kelowna industries would hold excellent potential for developing business with Japan:

- High-end agri-food including wine;
- Aerospace;
- Advanced materials;
- Environmental technologies;
- Information and communication technologies;
- Software and new media;
- Products and services for an aging society;
- Construction.



8. Kelowna-Kasugai Economic Development Initiative

With the support of the City of Kelowna and the Province of British Columbia's Asia Pacific Initiative, the COEDC drafted a bilateral economic development proposal which was sent to the City of Kasugai in October 2009. The proposal recommended engagement between the respective cities, chambers of commerce, and post-secondary institutions in furtherance of economic ties between the regions. As a follow-up to the proposal, representatives from the COEDC visited Kasugai in early February 2010. While trade opportunities between the cities of Kelowna and Kasugai proper may be limited due to the relative small sizes of both cities, opening up geographic target markets beyond the two cities would give rise to a large potential for economic activity. The COEDC feels that the Kasugai relationship can be the gateway to accessing the world's second largest economy.

9. February 2010 Visit to Kasugai

COEDC Executive Director, Robert Fine, and Export Development Officer, Richard Takai, visited Kasugai and the Nagoya region from February 3 to 10. The visit's objective was to follow up with the City of Kasugai on the economic development proposal, as well as investigate opportunities for Kelowna companies interested in the Japanese market. The timing of the visit was set to coincide with the Discover Kasugai Business Forum, an exhibition which showcased 100 prominent Kasugai-based businesses.



9.1 Discover Kasugai Business Forum

The Discover Kasugai Business Forum is a trade and business development exhibition organized by the Kasugai Chamber of Commerce and the City of Kasugai. The 2010 Forum was the third year of what has become an annual event.

The Forum provides a venue for companies in Kasugai to promote their products and services to other regional businesses. It is a two-day event with the first day catering to businesses, and the second day open to the general public, who are encouraged to bring



their children to give them an idea of the type of businesses located in their city. The Forum provided an ideal opportunity for the COEDC to get a snapshot of the types of industries and companies located in Kasugai, as well as identify possible opportunities with Kelowna companies.

The City of Kasugai had its origins as a “bed town” of the city of Nagoya. As the Nagoya metropolitan area expanded, suppliers to the large industrial firms in Nagoya started locating in surrounding cities such as Kasugai. As such, Kasugai boasts a large number of manufacturers supplying giants such as Toyota, and Mitsubishi Heavy Industries. While these manufacturers would not be likely business partners for Kelowna companies, there are also a number of companies in Kasugai involved in the environmental technology field whose products might be of interest to companies here. Examples would include air purification products, photocatalyst technologies, and unique biocidal products.



9.2 Meeting with the City of Kasugai and the Kasugai Chamber of Commerce

COEDC representatives had an opportunity to meet with senior managers from the City of Kasugai's Industry, and Policy Planning Departments, as well as senior executives of the Kasugai Chamber of Commerce.

Both the City and Chamber showed interest in continuing a dialogue with Kelowna to develop economic opportunities. It was acknowledged that it would be prudent to look beyond the geographic boundaries of the two cities in order to develop a sustainable plan, and that regular exchanges should be held to allow both sides to become more familiar with the industries and businesses in the respective regions.

9.3 Meeting with Chubu University

COEDC representatives met with the Dean and Associate Dean (External Relations) of Chubu University, which is located in Kasugai. Chubu University was founded in 1934 and is a comprehensive university offering undergraduate



and graduate programs in a wide range of disciplines including medicine, engineering, business administration and information science, international studies, humanities and biotechnology. Chubu University has a student body of approximately 7,000 including approximately 30 foreign students. Recruitment of foreign students and opportunities for their Japanese students to study abroad represent areas of interest.

Chubu University has a number of academic affiliations with universities around the world, but none with a Canadian post-secondary institution. They are very enthusiastic about evaluating the possibility of an affiliation with UBC Okanagan or Okanagan College, or both. The COEDC is coordinating the development of an information package for Chubu University's review.



10. Opportunities Identified

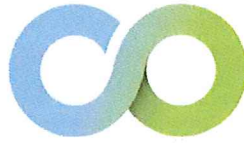
10.1 The visit to Japan identified concrete opportunities with respect to both commercial activity as well as educational affiliations at various levels.

10.2 Trade Opportunities

The Interim Report identified the following areas where potential existed for economic development between Kelowna and Japan:

- High-end agri-food including wine;
- Aerospace and advanced materials;
- Environmental technologies;
- Information and communication technologies;
- Software and new media;
- Products and services for an aging society;
- Construction.

A visit with the Consul and Senior Trade Commissioner in the Canadian Consulate in Nagoya confirmed that viable markets and demand exist for products being developed by local firms involved in these sectors. Prior to visiting Japan, the COEDC identified five Kelowna organizations (three manufacturers and two educational institutions) interested in establishing ties with Japan. With the assistance of Japan-side assets, specific opportunities in the agri-food, recreational products, and advanced materials markets are being coordinated by the COEDC. In addition, the COEDC is conducting an ongoing assessment of opportunities in the construction industry.



Agri-food

A local producer of gourmet and specialty foods expressed interest in expanding into the Japanese market. This company specializes in the creation of natural foods using no preservatives, a sales feature that is of particular interest to the Japanese. Furthermore, the flavour profile of many of their products matches well with the Japanese palate. The immediate objective is to find a Japanese distributor of fine artisan foods that would be interested in taking on their product line.

The agri-food specialist in the Canadian Consulate in Nagoya was able to identify five candidate distributors in Japan, all of which specialized in the distribution of foreign-made specialty foods. This information was conveyed to the Kelowna company, which evaluated and selected the candidate they thought would be the best match for their products. An introduction was facilitated by the Consulate, and samples have been sent to Japan where they are currently undergoing evaluation. The CEO of the Kelowna producer commented on the proactive nature of the Consulate, as well as the speed and professionalism with which requests were responded to by both the Consulate and the candidate distributor. The response time experienced was far shorter than typically encountered in North America. The network and relationship developed by the agri-food specialist with candidate distributors is tremendously valuable in facilitating business matching opportunities.

Recreational Products

Kelowna is home to a company that uses a patented technology to manufacture unique, high-end recreational products. The primary products currently being produced cater to the recreational and sports markets, but the core technology is such that a number of different applications from military use to disaster relief are possible. The company's president had long thought that Japan would be an ideal market, but had limited knowledge and resources to make any inroads.



Information on the company was conveyed to the Senior Trade Commissioner in the Consulate, who immediately suggested a possible distribution partner, Japan's largest direct marketing company, Oak Lawn Marketing, Ltd. Oak Lawn which in 2008 had revenues of approximately \$400 million, is Japan's largest purchaser of television airtime and specializes in the marketing and sales of lifestyle products sourced from around the world. Sales are conducted via television shopping channels, infomercials, online stores, paper catalogues, as well as through brick and mortar stores. In 2009 51% of Oak Lawn was purchased for \$330 million by NTT DoCoMo, Japan's largest mobile carrier. Shopping via mobile phones will be the next major marketing medium in Japan, and NTT DoCoMo wants to leverage its strength in the mobile telecommunications market with Oak Lawn's position as one of the leaders in direct marketing.

The COEDC introduced the Kelowna company's products to Oak Lawn's Global Sourcing Manager who showed considerable interest in receiving further information and product samples. The COEDC facilitated communications and introductions between Oak Lawn and the Kelowna company, and samples have been sent to Japan for review. One of Oak Lawn's founding partners has recently relocated to Shanghai, China, where he has started a direct marketing company called Acorn. Success in Japan with Oak Lawn may lead to a natural distribution channel in China with Acorn.

Advanced Materials

As described in section 5.4, Japan is one of the world's leaders in the development of advanced materials. Sourcing leading edge components from Japan can give local firms a competitive advantage, while allowing for the development of ties with Japan that may lead to the cultivation of Japanese clients.



A Kelowna-based manufacturer of products using advanced composites and ceramics indicated an interest in both selling their products in Japan as well as evaluating new materials that may be superior to what they are currently using. The Consulate's Senior Trade Commissioner set up a meeting between the COEDC and the Japan Fine Ceramics Center ("JFCC") in Nagoya, and a principal researcher with Nippon Tungsten Co., Ltd., a member company of the JFCC and manufacturer of a wide range of ceramic and derivative products. The intent of the initial meeting was to introduce materials that may be of interest to the Kelowna firm. Samples and technical data were given to the COEDC, which were then passed on to the Kelowna manufacturer for evaluation. The COEDC will also work with the Kelowna company on opportunities to market their products in Japan.

Future Opportunities for Kelowna Manufacturers

The COEDC has identified a number of companies in Kelowna in varied industries (agri-food, wine, wireless technology, ICT, lifestyle products, environmental technology) that have products that potentially fit well with Japan. These companies are currently pursuing other markets, but introductions to Japan can be made when they have the resources necessary to further diversify their markets.

11. Construction

11.1 Development of Seniors' Residences and Care Facilities



Japan has the world's highest ratio of elderly people, with over 21% of the population aged 65 or over. In 2007, this amounted to 27.4 million people. By 2055, it is estimated that 40% of Japan's population will be over the age of 65. While Japan



has a longstanding tradition of families taking care of their elderly, conditions are changing: in many extended families, the adult children, both men and women, are now working, as often as not in different cities from their parents. Thanks to better healthcare, the parents are living longer, and in many cases need more care than their children (who, in many cases, are quite old themselves) can give them. Moreover, there is greater acceptance of aging parents not necessarily wanting to live with their grown children. The aging demographics of Japan combined with this shift in attitudes towards responsibility for the care of seniors, has resulted in a great need for seniors' residences and care facilities. It is estimated that there are currently about 400,000 Japanese seniors awaiting access into residential care. This represents about 7,500 facilities.

- 11.2 The Canadian forest products industry has been promoting Canadian materials and building technologies abroad for many years. In Japan, a substantial amount of promotion and lobbying has taken place by organizations such as the Council of Forest Industries (COFI), Canada Wood, and CMHC International, including efforts promoting seniors' residences. Due to these efforts Japan has amended their regulations to allow the use of wood frame construction for commercial buildings (multi-unit residences fall within the commercial designation). The removal of this key obstacle opens up opportunities for Canadian wood frame construction technologies.



- 11.3 Development of seniors' residences has potential benefits to the following Kelowna industries:
- Developers
 - Forestry companies



- Technology companies (e.g., RFID technology⁴)
- Senior care practitioners and consultants

11.4 Support Organizations

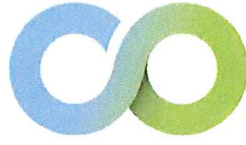
There are industry and government-sponsored organizations whose mandate is the promotion and commercialization of Canadian building products and technologies abroad. Two of the groups most actively involved in Asia are COFI/Canada Wood and CMHC International. Both organizations are well-established and have representatives in Japan. One of their primary focuses has been marketing Canadian 2 x 4 building technologies for single-family dwellings. However, both COFI/Canada Wood and CMHC International have for many years been investigating and promoting wood frame construction technologies for multi-family buildings. With the current downturn in the global economy and its effect on housing starts, COFI/Canada Wood is looking at seniors' residences as an area with significant growth potential.

During the February visit to Japan, the COEDC met with the Tokyo-based representatives of COFI/Canada Wood as well as the Chairman of the 2 x 4 Association of Central Japan, a Japanese trade association promoting wood frame 2 x 4 construction. A visit to an elder care facility in Kasugai built with 2 x 4 technology was also arranged to demonstrate the type of facility expected by the Japanese.

The need for a large number of new facilities was confirmed, as was the viability of using wood-frame construction in certain locations.⁵ The COEDC, in

⁴ Radio frequency identification (RFID) technology involves the use of wireless sensors to assist in the location of people or objects. RFID use in medical and geriatric settings is increasing, and one application is to assist in the monitoring of elderly people suffering from dementia.

⁵ The Japanese building code has two fire-rating classifications for wood frame commercial buildings: fireproof and quasi-fireproof. The applicable rating is determined by the location of the structure and the density and proximity of the surrounding buildings. Building a fire-proof wood structure requires the



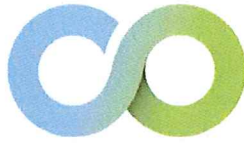
conjunction with COFI/Canada Wood, CMHC International and local developers will continue to investigate the best approach to participate in the Japanese seniors' residence market.

11.5 Gifu University “Canadian Village”

Gifu University is a mid-sized university located in central Japan approximately 30 kilometres north of Nagoya. A private sector company in Japan, in conjunction with the Canadian Consulate has put together a proposal to develop a Canadian-themed “village” on grounds owned by Gifu University. The over-arching concept is that communities and universities should work together more closely in the development and promotion of healthy lifestyles and international exchange. The University Village master plan consists of a hospital operated by Gifu University, retirement homes, single family dwellings, and offices thematically designed around the culture of another country. The Canadian Village would tie in design and lifestyle elements typically found in Canada. Over time, a Sweden-themed village and a Norwegian-themed village would be added. The project would be a joint effort involving Gifu Prefecture, Gifu City, Gifu University, as well as private sector Japanese and Canadian firms. Benefits for the Canadian companies would be supplying the concept, design, and possibly materials and equipment. A partnership would have to be established with Japanese architects and builders.

The project is currently in the early concept stage and the COEDC will communicate with the Consulate and the Japanese development company to determine project feasibility and the role that Kelowna firms might have should they participate.

design by an architect with training and certification to design such structures. There are currently only a few Japanese architects with the required certification.



12. Educational Opportunities

As noted in section 9.3 above, Chubu University has shown a high level of interest in pursuing an academic affiliation with a Canadian post-secondary institution. It is only natural that priority for such an affiliation be given to Okanagan College or the University of British Columbia Okanagan to take advantage of the existing relationship between Kelowna and Kasugai. In fact, the City of Kasugai is encouraging such an affiliation and has agreed to be the intermediary in establishing the information exchange required to develop the relationship.



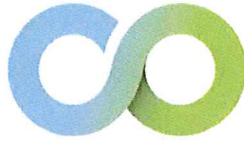
OKANAGAN

Okanagan College has expressed interest in developing formal ties with Chubu University to enhance their international program. The College currently has affiliations in Japan with Toyota Technical College (Nagoya), Nagoya Gakuin University (Nagoya), and Ritsumeikan University (Kyoto). Semester-based exchanges with Chubu University, or short-term study tours for both students and faculty would be of interest to the College.



The COEDC will also be connecting with University of British Columbia Okanagan regarding any interest they may have in pursuing affiliations with Chubu University or other Japanese post-secondary institutions.

In addition to affiliations at the post-secondary level, one private Kelowna elementary school is interested in expanding their international education program by recruiting students from Japan. Introducing students of all ages to Kelowna and the Okanagan can not only produce immediate economic benefits through tuition and other monies expended during their stay in Kelowna, but possible downstream benefits as awareness is developed of Kelowna and the types of businesses and industries that exist here. The export of Okanagan wines and agri-



food products by the Kuwahara family was a result of their son attending college in Kelowna. Raising awareness of the Okanagan to Japanese students at all levels may foster ties to the region that may be carried through to when the students enter the business world.

The Consulate in Nagoya has identified three possible agencies that may be able to assist the Kelowna elementary school in recruiting students from Japan. Two are located in Japan and one is based in the Okanagan. The school is in the process of developing a profile of the school and its international program, and has had an initial meeting with the Okanagan-based agency. The COEDC will also coordinate with the KKSCA and the City of Kasugai to investigate the possibility of elementary school exchanges between the cities.

13. Inward Investment Opportunities

There are currently very few Japanese companies that have invested directly in the Okanagan. Much of this has to do with the lack of awareness of the region and amenities and opportunities that may exist here. Despite the long-standing sister-city relationship, outside of the active members of the respective associations, there is not a great deal of knowledge about Kelowna, even as a vacation destination. Continued engagement between the cities at several levels (civic, economic, educational, etc.) can help raise the awareness of Kelowna as a place to do business. Furthermore, relationships with Canadian agencies in Japan (e.g., Embassy and Consulate, Provincial Trade Officers, industry organizations) must be fostered and developed so that Kelowna is recognized and can be recommended when inquiries into investment into Canada are received.



16. Strategic Direction

A focused program such as Kelowna-Kasugai Economic Development Initiative is an effective means to pursue business expansion in strategic markets. A coordinating agency such as the COEDC can develop relationships with assets in the target jurisdiction and provide guidance and introductions to local firms that lack comprehensive export knowledge and experience. Continued engagement with Kasugai and other regions in Japan can lead to the cultivation of a sustainable economic development program that has the potential to lead to market-entry opportunities in other Asian countries.

The following section will discuss recommendations to further develop the relationship with Japan.

15. Recommendations

15.1 Increased Civic Engagement

The long relationship between Kelowna and Kasugai has been primarily directed towards activities initiated and organized by the respective sister-city organizations. While there has been a degree of local government involvement, activities have been of an *ad hoc* nature, and there is no over-arching strategy at the civic level between the two cities.

During the COEDC's meeting with the City of Kasugai, it was pointed out by the Senior Manager of their Policy and Planning Department that regular exchanges were required so that both sides develop an awareness of the potential opportunities that may exist in the respective regions. Raising the level of engagement with Kasugai in all areas (cultural, sporting, academic, civic affairs, commerce) will lead to a more vibrant relationship that will enhance the



international appeal of Kelowna and lead to increased economic development opportunities with Japan including tourism.

Increased civic engagement between Kelowna and Kasugai can also lead to the sharing of ideas and strategies on issues common to both cities. Examples would be environmental concerns such as waste management and water treatment. Both cities are home to a significant percentage of elderly citizens. This places burdens on medical and elder care infrastructure and services. Increased communication between the city governments on regional best practices to deal with aging societies may result in innovative cross-cultural solutions.

There are currently few companies in Kelowna with significant ties to Japan, due in large part to the lack of awareness of the region. The ability to attract new investment from Japan, even a small number of companies, is important as those that locate here often act as champions for the region helping bring in others. Expanding on the sister city relationship can help raise the profile of Kelowna as a place to invest in and do business. The City of Mississauga which has a strong sister city relationship with the Japanese city of Kariya (also in the Nagoya area) is home to nearly 80 Japanese companies. The existence of large numbers of Japanese companies in Mississauga acts as a positive feedback loop when other Japanese companies are looking for sites for their Canadian operations.

Tourism is not within the direct mandate of the COEDC, but there may be opportunities to work with stakeholders in the tourism industry to give Kelowna greater exposure to potential Japanese tourists. While Canada still attracts a fairly high number of tourists from Japan, few visit the Okanagan. The Initiative with Kasugai may be a way to provide a low-cost vehicle with which to promote the Okanagan to Japanese tourists, and a senior manager with the City of Kasugai welcomed the promotion of tour packages targeting citizens of Kasugai.



Asian cultures are very much based on the strength of relationships, and it is suggested that representatives (or proxies) from the City of Kelowna visit Kasugai on a biennial basis. Delegations from the City of Kasugai would visit Kelowna in the intervening years. The timing of the visits can be coordinated to coincide with events that would further the strategic objectives of the cities.

Recommendation 1

Increase the level of engagement between the City of Kelowna and the City of Kasugai with the objective of strengthening the sister-city relationship in civic, cultural, economic, and educational areas.

15.2 **Continued Engagement between Economic Development Organizations**

Business enhancement is one of the primary economic development strategies being promoted by the COEDC as research has shown that assisting the expansion of existing businesses is the most effective means of growing the local economy. Capacity-building and market diversification through exporting is part of the COEDC's Strategic Plan, and the initiative with Kasugai has shown that a focused program in developing export trade has the potential for significant short and long-term benefits.

Most businesses in Kelowna are small to mid-sized, and many do not have experience in exporting their products or services. While many are interested in expanding their business through exports, they often do not have the resources to develop an effective strategy. A targeted initiative, such as the one with Japan, where the COEDC can provide significant guidance, coaching and export-preparation assistance is the most effective method in which to develop export markets in strategic regions. The COEDC can select and work one-on-one with companies to get them export-ready, and then assist them with business-matching in the target jurisdiction.



The 21st century is being billed as the “Pacific Century”, and the rapidly growing Asian economies offer long-term opportunities for Kelowna companies, which are increasingly developing products and services for a global marketplace. Japan is a natural gateway to Asia for Kelowna, not only because of the twinning arrangement with Kasugai, but because it is a sophisticated, knowledge-based economy with established commercial practices and respect for the rule-of-law. The needs and wants of the Japanese also fit well with products being produced here. Establishing commercial relations with the Nagoya area opens the door to the rest of Japan as well as other Asian economies.

Economic development initiatives within the City of Kasugai are coordinated primarily between the Policy and Planning Department and the Industry Department. As there is no formal economic development office, the COEDC has and will continue to coordinate with the City of Kasugai on strategic elements of this initiative.

The Kasugai Chamber of Commerce works closely with the city in business development activities, and as concrete trade and investment opportunities are identified, it would be beneficial for the Kelowna Chamber of Commerce to join their Kasugai counterparts and participate in the initiative. Connecting the chambers of commerce adds another layer in the engagement between the cities and opens up possibilities such as joint trade fairs or opportunities for lobbying respective governments on issues restricting economic activity between the regions.

In addition to opportunities with Kasugai, the COEDC should continue to look at expanding the target markets in Japan to include the huge metropolises of Tokyo and Osaka. While the Nagoya region is the industrial heart of Japan, Tokyo and



Osaka function as the primary distribution areas of Japan and are the principal points of entry and distribution for exports.

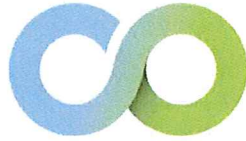
Recommendation 2

Direct and support the COEDC to continue to develop and expand the economic initiative with Kasugai and the rest of Japan, and encourage participation of the Kelowna Chamber of Commerce in the initiative.

15.3 **Fostering Educational Affiliations**

During the development of this initiative, it became increasingly clear that there is little awareness of Kelowna and the Okanagan, not only in Japan generally, but in Kasugai as well. Raising the profile of the region, as a place to vacation, do business, and attend school, is an important step in developing short and long term economic opportunities. From the perspective of educational institutions, foreign student recruitment has immediate economic benefits, but longer-term, more substantive benefits may accrue as students enter the workforce with an awareness of opportunities that exist here.

Japan is still in many ways a very homogeneous, insular country. However, there is an increasing realization of the importance of internationalization and the ability to speak English. While English grammar and vocabulary are taught from an early age in Japan, little emphasis is placed on the ability to speak English. Japanese students with proficient spoken-English skills can have a distinct advantage over their peers, and an international educational experience, especially at a young age, is the best way to achieve this proficiency. As part of the sister-city activities, high school students from Kasugai visit Kelowna for a few days each year, primarily to participate in cultural and recreational activities. Developing an initiative to increase academic engagement between elementary, secondary, and post-secondary institutions in the two cities helps further the



mandate of the sister-city organizations, and can lead to potential long-term economic benefits. Encouraging academic exchanges at all school levels can also benefit Kelowna students by giving them opportunities for increased exposure to international cultures.

Recommendation 3

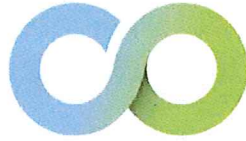
Develop and implement strategies to increase ties between educational institutions of all levels in Kelowna and Kasugai.

15.4 **Enhance the Relationship with Canadian Governmental Organizations in Japan**

In addition to the City of Kasugai, there are several Canadian governmental agencies and industry organizations that can assist in both trade development in Japan as well as inward investment opportunities. As discussed in sections 10 and 11 above, the Trade Commissioners in the Consulate in Nagoya were invaluable in arranging introductions to four Kelowna firms with interest in the Japanese market. Expanding the geographic reach into other parts of Japan would be facilitated by the knowledge and relationships developed by the Trade Commissioner Service.

The Province of British Columbia has also established a trade office in Tokyo, and a representative of that office joined the COEDC at the Discover Kasugai Business Forum as well as the meetings with the City of Kasugai and their Chamber of Commerce.

Establishing strong linkages with in-country federal and provincial agencies and their staff can also assist with inward investment opportunities. Japanese companies looking to establish a Canadian presence often request the advice of the Trade Commissioner Service to identify suitable locations in Canada for their



investment and Trade Commissioners can recommend Kelowna as a potential candidate for the investment. The COEDC is aware of two instances where federal or provincial trade officers suggested Kelowna as a site for two potential Japanese projects. Raising awareness of Kelowna's interest and suitability as a location for inward investment can increase the number of referrals.

The COEDC is also working to engage with private-sector industry organizations such as Council of Forest Industries/Canada Wood and BC Wood, and met with their representatives during the February visit to Japan. Both organizations have offices in Japan to represent Canadian interests in Japan, and initiatives such as the Gifu University Canada Village project can be facilitated by these organizations.

Recommendation 4

Continue to develop and enhance the relationship with Canadian governmental and industry organizations in Japan which can provide the required market intelligence and support infrastructure for Kelowna firms.

9. Conclusion

The initiative with Kasugai and the Nagoya region has shown excellent potential for sustainable economic development with Japan. The efforts of the Kelowna-Kasugai Sister City Association to maintain a strong tie with Kasugai over the past 29 years can be enhanced as relations at the civic, educational and economic development levels are encouraged. In addition to generating economic benefits, pursuing a higher level of engagement will help fulfil the sister-city mandate and increase the cultural richness of the community.



While China has or will soon surpass Japan as the world's second-largest single-country economy, Japan still remains the best Asian country for Kelowna businesses looking to diversify their markets into Asia. The advanced economy of Japan and its fit with local businesses, the relationship with Kasugai, and the other assets available to support economic development, strongly favour continuing this initiative with the support of the City of Kelowna.



Kelowna-Kasugai Economic Development Initiative Update

Kelowna City Council Meeting
October 4, 2010



Recap of Activities Prior to February 2010 Visit to Kasugai and the Nagoya Region

- With support of the City of Kelowna, developed a bilateral economic development proposal (Oct 2009)
- Recruited local companies interested in the Japanese market




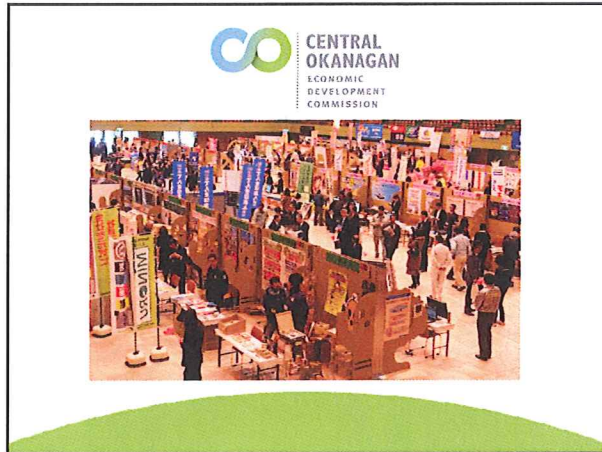
February 2010 Visit to Kasugai and Nagoya

1. Attend "Discover Kasugai Business Forum"
2. Meetings with:
 - City of Kasugai & Kasugai Chamber of Commerce
 - Chubu University
 - Consulate of Canada
 - COFI/Canada Wood



Discover Kasugai Business Forum

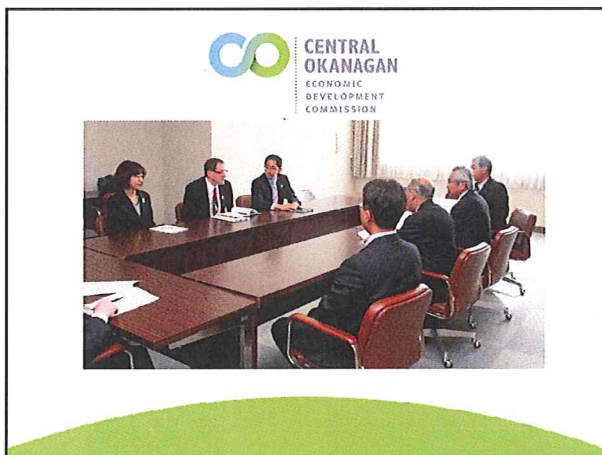




CENTRAL OKANAGAN
ECONOMIC DEVELOPMENT COMMISSION

Meeting with City of Kasugai and Kasugai Chamber of Commerce

- Very interested in continuing to develop a relationship with Kelowna.
- Recognition that we need to look beyond Kelowna and Kasugai.
- Encouraging regular exchanges to become more familiar with industries and companies in the respective regions.



CENTRAL OKANAGAN
ECONOMIC DEVELOPMENT COMMISSION



WTH? How do I translate that!?!?



Business Matching

COEDC represented companies in the following sectors:

- Recreational products
- Agri-food
- Advanced materials
- Education



Outcomes and Follow up Activities

- One company has received an order which was shipped to Japan in September
- One company is in discussions to procure samples for testing and evaluation
- Continuing to work with other companies
- Identifying other companies interested in Japan
- Preparation of marketing materials
- Laying groundwork for October visit



October 2010 Visit to Kasugai and Nagoya

- In conjunction with sister city association visit to Kasugai
- Further relationships with City of Kasugai and Kasugai Chamber of Commerce
- Assist six local organizations with development of the Japanese market
- Chubu University/Okanagan College



Recommendation 1

Increase the level of engagement between the City of Kelowna and the City of Kasugai with the objective of strengthening the sister city relationship in civic, cultural, economic and educational areas.



Recommendation 2

Direct and support the COEDC to continue to develop and expand the economic initiative with Kasugai and the rest of Japan, and encourage the participation of the Kelowna Chamber of Commerce in the initiative.



Recommendation 3

Develop and implement strategies to increase ties between educational institutions of all levels in Kelowna and Kasugai.



Recommendation 4

Continue to develop and enhance the relationship with Canadian governmental and industry organizations in Japan which can provide the required market intelligence and support infrastructure for Kelowna firms.



Next Steps

- Continue to work with local firms interested in Asia
- Develop similar directed initiatives for other markets