

Activities of JAPIA  
The 11<sup>th</sup> :Trade Fairness

Report: Procurement and Production Subcommittee / Task Force (TF) for Trade Fairness

Supporting members for coexistence and co-prosperity with business partners  
Voluntary Action Plan revised annually

JAPIA's Procurement and Production Subcommittee works daily to resolve issues throughout the supply chain of members. Currently, we are focusing on activities to support the Trade Fairness for the purpose of coexistence and co-prosperity with business partners. In response to the government's request, we have been revising our voluntary action plan every year to promote proper transactions and improve productivity and value-added, and the latest revision was formulated on October 27, 2022. Task Force (TF) for Trade Fairness was launched in September 2022 directly under Organizational Affairs Committee and is working to resolve issues from a company-wide, management-oriented perspective.

**Procurement and Production Subcommittee Activities**

■ Activities and schedule Outline for this fiscal year

Activity Themes	Policies for this year's activities	1st Qtr.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
<b>Meetings</b>	Subcommittee, Board of Governors, and WG for Appropriate Mold/Die Transactions	● 6/9 subcom mittee		● 8 board of governors	● 12 subcom mittee		● 24 board of governors	● 8 subcom mittee		○ board of governors	○ subcom mittee
<b>I . Trade Fairness</b>	Actions added against a background of strengthened policies to optimize prices, mold/die transactions, payment terms, etc. basis To Enhance in this fiscal year	★	Submission of Comments on the Guidelines for the Automotive Industry			Revision of Voluntary Action Plan		FU Research			★ Briefing for members
			6/24 Study Session for Trade Fairness ( Small and Medium Enterprise Agency Invitation )			Report to Organizational Affairs Committee and the Board of Directors		① Request for "Straighten up" for members ② Sharing issues with JAMA		Promotion by TF under Organizational Affairs Committee	
<b>II . Appropriate Mold/Die transactions</b>	Continued activities to promote scrapping of old molds/dies, etc.	● 5/9 WG		● 5 WG	★ 1 Tripartite meeting with JAMA and METI					★ Next Tripartite Meeting	★ Briefing For members
<b>III . Carbon neutral</b>	Support for encouraging suppliers to engage in CO2 reduction activities	→	Narrowing down target activities for Good Practice Examples		Listening to good practices from the results of survey conducted by CN Subcommittee			→		Establishing and sharing of activity models	

4 . Conflict Minerals Regulatory Compliance (WG held when needed) ● 6/3

Developed a revised version recognizing the emergency of ever-rising raw material and energy costs.

The three priority issues of the voluntary action plan are "reasonable pricing," "appropriate mold/die transactions", and "appropriate payment of subcontract proceeds". In addition to increased global demand, Russia's invasion of Ukraine has caused the cost of raw materials, energy, and logistics to soar, putting pressure on the auto manufacturing industry.

JAPIA regards the current situation as an "emergency," and has requested JAPIA members jointly by chairman and all vice chairmen to "straighten up" their practices, as well as formulated a revised edition of the action plan for 2021. The purpose of this "straighten up" is for JAPIA members to adopt more serious approach on proper business transactions from the standpoint of the ordering side, which will also lead to the resolution of issues on the receiving side.

In addition, in September 2022, a new "TF for Trade Fairness" was established as a cross-sectional team, which reports directly to Organizational Affairs Committee. It also aims to strengthen cooperation between JAPIA and the Japan Automobile Manufacturers Association (JAMA) in order to resolve issues throughout the supply chain from a company-wide, management-oriented perspective.

In September 2022, Fair Trade Commission and Small and Medium Enterprise Agency selected 19 industries that are frequently found to be in violation of the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors, and requested related organizations to conduct self-audits of compliance with the Act by their member companies. These 19 industries included transportation machinery and equipment manufacturing and also covered the auto parts industry.

The main issue for the auto parts industry in the past has been "appropriate mold/die transactions". Even after the mass production of a vehicle is completed, it is required for parts suppliers to supply spare parts for a long period of time, and we have been working to improve the various problems that arise here.

On the other hand, with the invasion of Ukraine by Russia also serving as a backdrop, and with soaring prices of various commodities becoming more conspicuous, since the latter half of 2021, the government has begun to strongly request the promotion of Trade Fairness, with a particular focus on price pass-through of cost increases.

In response to this trend, JAPIA's revised 2022 Voluntary Action Plan on Trade Fairness focuses on promoting activities to "straighten up" with direct suppliers as an ordering party, as well as promoting trade optimization, including price shifting, throughout the supply chain.

Mr. Haruya Mori (Career Expert, Procurement DX Reform Department, Procurement Group, DENSO CORPORATION), Chairman of Procurement and Production Subcommittee, said, "In this revised version, we have moved up a gear to further specify the properness of

transactions. In other words, we have clearly stated and incorporated into the plan the purpose of the "'straighten up' activity request," which was issued around the same time, and encouraged the ordering side to be even closer to the receiving side than before in order to achieve a better balance between the two sides".

The "straighten up" activity means, specifically, that the ordering side should conduct its own competent interviews regarding the problems faced by suppliers and proactively work to solve their problems. Chairman Mori stated, "According to a survey by Small and Medium Enterprise Agency, the top management of large companies have the correct philosophy regarding appropriate transactions, but when it comes to price negotiations, this philosophy is not reflected on the front lines. We need to ensure that this divergence is eliminated at the transaction level"

### TF for Trade Fairness consists of 11 members from 9 companies

The new organization, "TF for Trade Fairness," launched in September 2021, aims to further promote the revised voluntary action plan by Procurement and Production Subcommittee throughout the entire supply chain, including automobile manufacturers. It consists of 11 members from 9 companies who are members of Organizational Affairs Committee, Board of Governors, OEM-Supplier Communication Subcommittee, and Procurement and Production Subcommittee. In addition to the realization of the "straighten up" action, JAPIA and JAMA will work together to discuss measures to address the current situation, in which material and other costs are soaring significantly, as an emergency, and position rational pricing through price shifting to suppliers and other measures as an issue that the industry as a whole should tackle.

Kazuhiro Iwai, leader of TF for Trade Fairness (executive officer of DENSO CORPORATION), expressed his determination, "The current situation where material and energy costs are rising rapidly in light of Russia's invasion of Ukraine is making the management of the auto parts industry difficult, and we must somehow overcome this emergency". He added, "The automotive industry is in a unique situation, which is said to be a once-in-a-century period of great change, and automotive component manufacturers are facing a mountain of challenges, such as accelerated electrification, carbon neutrality, and investment in response to digital transformation. If small and medium-sized companies, which account for about 90% of the parts industry, lose the ability to invest for future growth due to their current business difficulties caused by price hikes, the growth of the domestic automobile industry will be hindered," he warns.

TF for Trade Fairness meets two to three times a month, and each participating member states, "Large companies are supported by small and medium-sized companies. We must improve the industry as a whole to improve our own business as well," with a particular focus on the promotion of rational pricing.

Regarding the direction of future activities, Leader Iwai states, "In the Japanese automotive industry, the strong relationship between automakers and parts suppliers has been a source of competitiveness, and we hope to survive this emergency by leveraging this relationship to strengthen ties throughout the supply chain," and expresses hope for cooperation from automakers".

Automobile manufacturers currently lack contacts with small and medium-sized parts suppliers below Tier 2, which are vulnerable to price hikes. TF for Trade Fairness, composed mainly of Tier 1 parts suppliers, will take the initiative in seeking cooperation from automakers, thereby serving as a bridge between automakers and small- and medium-sized parts suppliers.

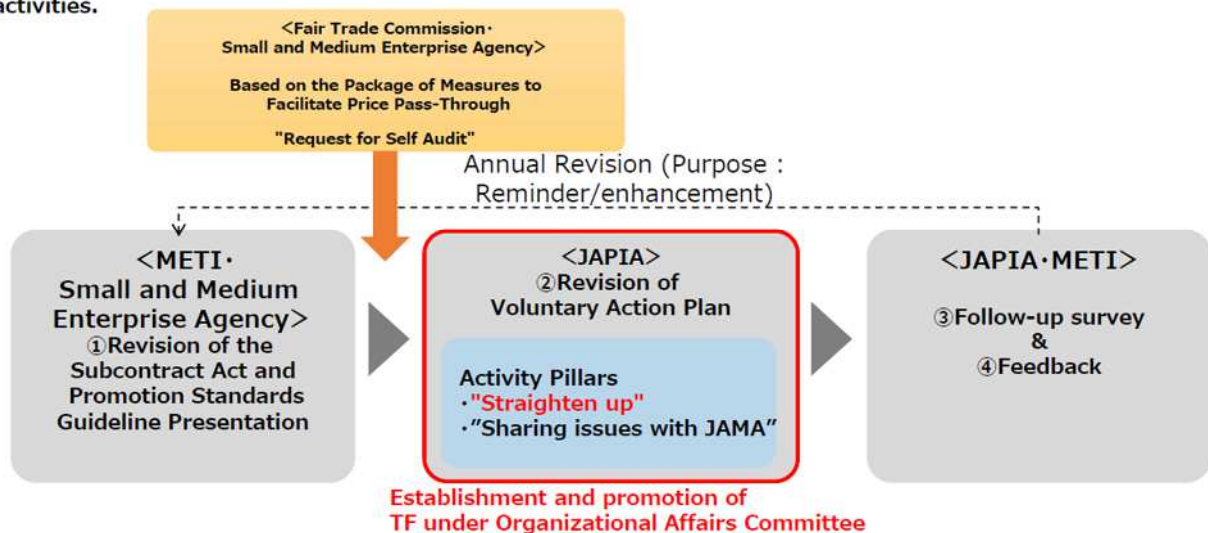
## Recent developments in the area of Trade Fairness

### ① Revision of Voluntary Action Plan

Revision of Voluntary Action Plan in line with the revised Guidelines for Fair Trade in the Automotive Industry.

### ② Request for "Straighten up" for members

Due to soaring resource prices and other factors, small and medium-sized enterprises (SMEs) in particular are in a difficult situation, and we see the need for an emergency plan for "Trade Fairness," and we are considering taking action in cooperation with other associations. We believe that the first thing we should do is to "straighten up" as a trade association, and we request our member companies to "straighten up" activities.



## Examples of Efforts to "Straighten up"

"Straighten up" activity request document with video message was broadcasted.

[https://www.japia.or.jp/topics\\_detail1?id=3492](https://www.japia.or.jp/topics_detail1?id=3492)

Promote proactive efforts as top management stance to propagate the message to lower Tier suppliers with no direct business relationship, in addition to specifically reaching out to small and medium-sized companies to solve their problems as the ordering side.

Small and Medium Business problems	"Straighten up" as an ordering party (Examples of emergency practices at TF members of JAPIA)	
	Active Initiatives	Internal Initiatives to Push Forward
<p><b>Want a place where it is easy to ask for advice</b></p> <ul style="list-style-type: none"> <li>•Cash flow is tight before pricing is determined.</li> <li>•Could go out of business due to production cutbacks</li> </ul>	<p><b>Individualized support for companies in financial difficulty</b></p> <ul style="list-style-type: none"> <li>•Assigned a person in charge and shared the "daily schedule" with suppliers.</li> <li>•Establishment of the "Management Issues Consultation Office" to provide consultation to suppliers without going through the procurement department.</li> <li>•Self-procurement → paid-for and proposed offsetting treatment</li> </ul>	<p><b>① Culture and mindset building</b></p> <ul style="list-style-type: none"> <li>•Spread the message of "price hikes = bad" → "appropriate price pass-on = sustainable growth" throughout the entire company and all divisions.</li> <li>•Visualization of price increase requests from suppliers and the status of the agreement(Do not allow individuals or procurement divisions to carry the responsibility alone)</li> </ul> <p><b>② Conflict-free internal structure</b></p> <ul style="list-style-type: none"> <li>•Cross-functional company-wide project to address common issues and goals across functions</li> <li>•Clarification of division of responsibilities by function               <ul style="list-style-type: none"> <li>-Procurement: Listen to all supplier requests and pass them on to the accounting department</li> <li>-Sales: Visualize the status of customer price pass-throughs</li> </ul> </li> <li>Accounting: Identify profit/loss impact and establish company-wide activity guidelines</li> </ul> <p><b>③ Governance Structure</b></p> <ul style="list-style-type: none"> <li>•Incorporate Trading Fairness into Internal Audits</li> <li>•Establishment of an external hotline</li> </ul>
<p><b>Limited negotiation opportunities</b></p> <ul style="list-style-type: none"> <li>•Regular revisions cannot keep up with the speed of material price hikes.</li> <li>•Even if material price hikes can be passed on, price reductions will be added.</li> </ul>	<p><b>Take measures to view the situation as an emergency</b></p> <ul style="list-style-type: none"> <li>•Increase revision frequency and online consultation opportunities</li> <li>•Change the timing and method of payment (Retroactive Settlement, Provisional Settlement)</li> <li>•Decide on a starting point (Example of energy costs: 5-year average as a period of stability from after the shale gas revolution to the sharp rise due to COVID-19, etc.)</li> <li>•Cash and early payment terms</li> </ul>	
<p><b>Evidence collection and calculation</b></p> <ul style="list-style-type: none"> <li>•Objective market conditions and detailed reasons cannot be grasped.</li> <li>•Energy and logistics costs are difficult to reflect in the unit price.</li> </ul>	<p><b>Consult and suggest standards and ideas</b></p> <ul style="list-style-type: none"> <li>•Substitute similar market conditions (e.g., source data from power or gas companies)</li> <li>•Prorate plant unit energy costs to product unit costs based on shipment volume and sales ratio</li> </ul>	