

Report on the Current Situation of Foreign Tourist Visits and Investment in Niseko Area

(Summary)

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1. General information on Niseko area

(1) Definition and geographical features of Niseko area

“Niseko” area, in terms of tourism, consists of five towns (Iwanai, Kutchan, Kyowa, Rankoshi, and Niseko) located in the mountainous and hilly region surrounding “Niseko Annupuri” (1,308 meters) and the Niseko mountain range. Total land area is 1,283 km². Kutchan and Niseko are the main tourism centers in the region.



“Shiribetu-gawa” river is a popular venue for various water sports such as canoeing and rafting. The river, which spans some 126km and has a catchment area of 1,640 square km, runs through a valley between the Niseko mountain range and Mt. Yoteizan. Shiribetsu-gawa was designated as Japan’s cleanest river three years in row, from 2000 to 2002. Its catchment area includes an agricultural zone famous for potato and asparagus production.

The area around the Niseko mountain range is also one of Japan’s most popular hot spring resort regions.

(2) Access and transportation

Niseko area is located 93km to the west of Sapporo, Hokkaido’s largest city (population: 1.87 million), or about a two to three hours’ drive.

The New Chitose Airport is also located within a three-hour drive of Niseko. The airport has a total of 123 domestic flights per day to and from 18 destinations outside Hokkaido, including 48 to/from Tokyo and 17 to/from Osaka.

Regular direct international flights are in service to/from Seoul, Shanghai, Shengyang, Hong Kong, Taipei, Yuzhno-Sakhalinsk (Russia) and Guam. Australian Airlines offers seasonal flight services between Cairns and Chitose from November through March.

(3) Climate

The climate in Hokkaido is characterized by long winters and short summers. Niseko area is known for its cool climate and low humidity. All the five towns in the area are designated as special heavy snowfall zones.

Data for the past five years shows that the annual snowfall days in Kutchan was between 130 to 151, and annual snow cover reached 947 to 1,410 centimeters.

Taking advantage of abundant snow, seven ski areas on the southern slope of Niseko mountain range attract many visitors to the area in winter.

(4) Organizations for tourism promotion

In addition to the local governments, tourism associations for each town (such as the “Kutchan Kanko Kyokai Hirafu-Shibu” (Hirafu branch of Kutchan Tourist Association) and Niseko Resort Tourist Co., Ltd.) are also working to promote tourism in the area.

The “Niseko Mountains Tourist Association Council”, jointly established by the five towns, issues “*NISEKO express*”, an annual sightseeing guidebook.

In response to the growing number of Australian tourists, “Kutchan Town’s Council for Tourism Promotion” was established to attract foreign tourists, and is working to improve infrastructure and services catered to the needs of foreign visitors.

2. Current situation of tourism in Hokkaido and Niseko area

(1) Hokkaido

The total number of tourists in Hokkaido in 2004 was about 49.39 million, of which 87% (43.04 million) were from within Hokkaido, while 13% or 6.35 million came from outside Hokkaido.

By location, “Do-oh”, the central part of Hokkaido, including Sapporo city, received the largest number of tourists (actually, more than half of all tourists in Hokkaido visited this area), followed by major cities such as Hakodate, Otaru, Kimobetu town (a part of Niseko area) and Asahikawa.

In terms of seasons, about half of tourists from outside Hokkaido visited the island during the summer season (June to September), which is about 2.5 times as many as those during the winter season (December to February).

A prefectural government survey of tourists visiting Hokkaido points out the following:

- 1) Although figures fluctuate from year to year, the majority of visitors stay in Hokkaido for three days/two nights or four days/three nights (together make up about 60% of total visitors).
- 2) While the number of visitors traveling in packaged group tours is declining, those coming in family tours is on an upward trend, and account for more than 60% of all tourists, followed by those coming in small group tours (more than 20%). As for mode of transportation within Hokkaido, about 80% of all visitors toured by private car.

In line with “Visit Japan Campaign (VJC)”, a national project to increase the number of foreign visitors to 10 million/year by 2010, Hokkaido launched its own drive to ensure a steady and increasing flow of foreign visitors, with focus on tourists from Hong Kong and Taiwan.

By revamping its existing foreign visitor attraction plan, Hokkaido introduced a new three-year campaign covering 2005-2007, entitled “International Tourism Promotion Program – Welcome to Hokkaido”, under which the prefecture aims to boost the number of foreign visitors to 540,000 by the end of 2007, from 290,000 in 2003.

In recent years, the number of foreign visitors to Hokkaido (particularly from Taiwan, Hong Kong, Korea and the rest of East Asia) has been steadily increasing; the number jumped 3.5 times from 121,000 in 1997 to 427,000 in 2004. Taiwanese tourists accounted for 48.8% (208,000) of Hokkaido’s total foreign visitors in 2004, while a steep increase of Australian visitors (3,300 in 1997 to 14,500 in 2004) is attracting the attention of everyone involved in tourism.

These figures suggest that East Asia is the most promising overseas market for Hokkaido tourism, alongside the soon-to-retire baby boomer market in Japan. In addition to the three largest markets of Taiwan, Hong Kong and Korea, visitors from China, Singapore and other Southeast Asian countries (where disposable income is rapidly growing) and Australia are also expected to rise. The Japanese government is introducing a flexible visa policy, for example by exempting tourists from these countries from visa requirements.

Table 1: Number of foreign visitors to Hokkaido

Country/region		1999	2000	2001	2002	2003	2004
Asia	Taiwan	120,900	109,700	119,450	133,200	119,750	208,600
	Hong Kong	20,800	29,400	45,900	55,450	58,600	82,750
	Korea	17,800	19,900	27,850	41,900	61,200	63,850
	China	2,100	2,400	3,900	5,200	5,800	12,050
	Others	3,950	6,200	5,450	7,050	8,200	11,250
America		7,350	8,350	6,950	7,500	7,850	9,100
Russia		6,400	5,100	6,100	6,800	6,950	8,700
Australia		2,900	3,700	1,550	2,230	7,550	14,650
Others		21,700	20,850	18,950	20,020	19,880	18,100
Total		203,900	205,500	238,100	279,350	293,780	427,050

(Source: Tourist Promotion Team of Economic Dept. of Hokkaido Prefecture)

(2) Niseko area

Niseko hosted the ski competition of the 1962 National Sports Festival, which helped place the area on the map as a ski resort. Throughout the 60s and the 70s, when the Japanese economy was growing at a high rate, huge investments were made to build tourism-related infrastructure, such as roads and airports. However, the number of tourists visiting Niseko has remained flat in the last 10 years. The figure for 2004 was 4.786 million, with lodging ratio at 24.1% and the aggregate number of lodgers at 1.458 million persons.

Niseko area ranks high on the list of Hokkaido cities/areas receiving students on school trips; Niseko ranked third after Sapporo and Furano by number of schools (191 schools) and second after Sapporo by number of nights (with about 66,000).

The three towns of Kutchan, Niseko and Rankoshi jointly established the “East Asian Tourist Attraction Promotion Council”, under which they have been working to attract foreign tourists. The council sent a promotional mission to Taiwan, their main target market.

The total number of foreign visitors to the four towns in Niseko area in 2004 was 19,000 (69,000 person-days). By nationality, Australians (5,119 person-nights: 27%), Koreans (4,274 person-nights) and Taiwanese (2,567 person-nights) formed the majority. By town, Kutchan received 5,800 persons (55,300 person-nights), while Niseko welcomed 12,900 persons (13,800 person-nights). Most of the visitors to Kutchan were Australian, who stayed on average 10.7 nights/person. In sharp contrast, visitors to Niseko were mostly from Taiwan, Korea and Hong Kong, and stayed on average 1.0 night/person.

(3) Tourism related industries in Niseko area

1) Outdoor sports

Thanks to Niseko’s world-famous deep, dry powder snow, the area’s seven ski slopes attract a combined 1.5 million visitors each year. Three slopes joined together under the “Niseko United” brand, and now sell a ski lift pass good for all three slopes.

For the summer season, the rafting business on Shiribetsu-gawa river, launched by an Australian entrepreneur in the mid 1990s, is steadily generating tens of thousands of visitors. There are also four golf courses in the area.

2) Lodging

There are about 260 lodging facilities, mainly located near the ski slopes, which include five large-scale hotels with more than 100 rooms each and a myriad of “pensions” (bed and breakfast type establishments) opened in the 1980s and 1990s.

Foreign investors are now rushing to start construction, sales and rental of condominiums, which seems to have triggered a “land bubble” in some areas.

3) Food and dining

There are in total about 170 restaurants in Kutchan and Niseko. In Hirafu, where foreign visitors are concentrated, a shortage of food and dining establishments is becoming a pressing issue, particularly during the winter season.

4) Other related businesses

Hirafu is also in need of money exchange facilities.

5) Foreign business owners

Foreign business owners in Niseko are mostly Australians. The first group started outdoor sport businesses in the 1990s and made their success mainly in rafting operations. Late-comers include travel agents who organize inbound packaged ski tours from Australia, and property agents, both of whom established their business models first in Australia before bringing them to Niseko.

An outstanding example of Australian investment is the Nihon Harmony Resorts (NHR). NHR bought ski slopes and a golf course from the Tokyu Group (who now owns 5% in NHR) and plans to turn the area, in 10 to 15 years, into a resort village modeled after “Whistler”, an all-seasons resort in Canada. The firm is currently working to develop a comprehensive resort village near the ski slope and build condominiums with a total of 2,000 units that may accommodate 5,600 people.

3. Key success factors and challenges to attracting foreign tourists

(1) Background of/success factors for rapid increase in Niseko’s foreign tourist arrivals

While the number of foreign travelers visiting Japan topped 6 million for the first time in 2004, the number of Japanese traveling abroad is still three times this figure. To correct this huge imbalance, the Japanese government launched the “Visit Japan Campaign” in 2003, aiming to raise the number of foreign tourists to 10 million by 2010, through joint efforts of public and private sectors.

There are four key components to attracting tourists: natural environment, historical monuments, delicious foods and shopping.

In terms of the number of foreign visitors, France is by far the largest tourist destination in the world, receiving 73 million visitors in 1999. This is no wonder, considering that the country offers all four components—natural landscapes (the Alps, Mediterranean coasts, etc.); a wealth of historical monuments; fine cuisine; and shopping—in high quality.

Despite having received 6 million foreign visitors in 2004, Japan ranks only seventh among Asian countries (and 36th in the world). Japan’s visitor figure is only about half that of Thailand or Malaysia. Japan is rich in tourist attractions, and considered to have the potential to take the second or the third place.

Niseko is doing fairly well in attracting foreign visitors, and the increasing inflow of Australian skiers to Niseko in recent years has attracted nationwide attention, but there are also challenges. Australian tourists are heavily concentrated in Kutchan and Hirafu, and in winter, with the ratio of visitors in summer to that in winter at 1:9.

As mentioned above, the majority of foreign visitors to Niseko are from Asian

countries/regions including Korea, Hong Kong and Taiwan. Part of Niseko's success in attracting Asian visitors may be attributed to the national "Visit Japan Campaign" as well as the efforts of the region's "East Asian Tourist Attraction Promotion Council".

With the above in mind, the rest of this section analyzes the key success factors behind the rapid increase of Australian visitors to Niseko:

- 1) Firstly, the excellent natural resources. Australian skiers in Niseko, as well as Australian residents in the area engaged in outdoor sport business, praise Niseko's snow as "the world's highest quality powder." And the area's natural resources are arguably the major attraction that inspired these business owners to start rafting and other outdoor sport businesses.
- 2) Secondly, the efforts of Australian business owners in Niseko who introduced or designed outdoor activities that were new to Japan. Australians played the pioneer role in spreading rafting, canoeing and other water sports in Hokkaido. They set concrete examples of how to "add value", or turn natural resources into tourism resources.
- 3) Thirdly, the role played by Australian tourists. Australians tend to stay longer (10.7 days on average) compared to those from Taiwan, Hong Kong, Korea (1.0 night on average) and from within Japan (1~3 nights). Australian tourists, in a way, introduced to Niseko the concept of long-stay vacations, which was in line with the region's strategy to become a destination resort. Australians also played a huge role in attracting foreign visitors to Niseko, by spreading at home by word-of-mouth the splendor of Niseko's natural resources. Niseko's wide popularity also owes to the recent advances in internet technology that helped the region deliver up-to-date information and images to potential visitors.
- 4) Fourthly, the 9/11 terrorist attack in 2001 caused security concerns among Australian skiers about flying to Europe and the US, and helped draw their attention to Niseko as an alternative destination. In addition to the 9/11 effect, Niseko's safety, shorter flight hours, small time difference and relatively low cost (compared to ski resorts in Europe and the US) are also appealing to the Australians.
- 5) Finally, over a decade of steady growth in the Australian economy, together with the strong Australian dollar, should also be counted as important factors.

It is said that some Australians who came to Niseko area for skiing in the mid 90s were fascinated by the area's skiing and natural environment, and started to settle down in the area. And these so called Australian "pioneers" in Niseko helped spread the news about Niseko's excellence among fellow Australians.

Moreover, these "pioneers" played the same role Japanese travel agents played in

creating a prolonged boom in overseas travel among the Japanese. In the 1970s, Japanese staff at overseas branches of these agents would receive the Japanese tourists, offer guided tours in Japanese and patiently accommodate every demanding request they made. Tourists, satisfied with such devoted services, would then return home to tell the story to their family and friends, who would naturally become eager to travel abroad themselves. Tour agents, in response to the growing demand, which was in part a result of their own efforts, continued planning and operating more overseas tours.

In the case of Niseko, the Australian “pioneers” themselves went around spreading word about Niseko’s attractiveness and great skiing. They also looked after Australian tourists to the area with attentive care, anytime day or night, and in English, just like the Japanese travel agents did for Japanese tourists. Their contribution in attracting Australian tourists to Niseko is immense.

(2) What should be done to develop Niseko area into an international resort?

Although Niseko area is coming into the spotlight, it is still in the process of evolution into an “international all-season resort.”

In this context, we conducted an analysis of Niseko’s advantages, potentials, problems and threats. (Table 2)

Table 2: Potentials of Niseko area as an international resort

(1) Factors for success (Advantages)
<ul style="list-style-type: none"> 1) Excellent natural resources. <ul style="list-style-type: none"> → Increase efforts to inform the world about “the world’s No.1 powder snow” 2) Easy access from New Chitose Airport and Sapporo (approx. two-hour drive) 3) Outdoor sport business and tourism-related industries in the area developed by Australian entrepreneurs; word-of-mouth advertisement 4) Advantages as a destination for Australian skiers (easy access, relatively low cost, etc.) 5) Active efforts undertaken to promote international cultural exchanges and inbound tourists.
(2) Future (Potentials)
<ul style="list-style-type: none"> 1) Regional revitalization expected if long-stay tourism is to take root <ul style="list-style-type: none"> → Improve accommodation facilities to meet long-stay tourists’ needs → Cooperate with Hokkaido prefectural government on long-stay programs and immigration plans 2) Enhancement of inter-cultural understanding expected through increase of inbound tourists 3) Further development of outdoor sport business

<p>4) Introduction of “outdoor activities” and “long-stays” to visitors from key East Asia markets and Japan → Establish Niseko as a brand name in international resort</p> <p>5) Alliance with neighboring areas/cities such as Sapporo, Otaru, Sotomachi-Toya Lake area toward an area-wide tourism strategy → Synergy expected</p>
<p>(3) Challenges (to follow the model of overseas resorts such as Whistler and Zermatt)</p>
<p>1) Lack of vision and concrete measures for building an “international resort”</p> <p>2) Absence of initiatives/participation of local organizations</p> <p>3) Lack of system/strategy that makes the benefits of increased tourist inflow circulate within the region → No study conducted/data gathered to assess the effects of tourism on the region’s economy → Local firms reluctant to join in ground operations, lodging for long-stays, real estate and other businesses targeted at foreign visitors</p> <p>4) Need to develop hard and soft infrastructure for serving foreign tourists → Restaurants, bars, supermarkets, intra-regional bus services, medical care, police boxes → Foreign language ability, quality of services aimed at long-stays, comprehensive dissemination of information on Niseko</p> <p>5) Niseko’s uniqueness should be recognized (need to define its positioning and differentiate itself from its rivals)</p> <p>6) Need to enhance intra-regional collaboration in attracting tourists → Exchange of information and collaboration within Niseko area</p> <p>7) Issues to be faced in making Niseko an “all-season” and “repeater-friendly” resort → “All-season”: promotion of outdoor activities to summer visitors, mainly those from East Asia → “Repeater-friendly”: development of new products/services targeting family groups and affluent free independent travelers (FITs)</p>
<p>(4) Anticipated obstacles/negative factors</p>
<p>1) Strong competition from various ski resorts in Hokkaido</p> <p>2) Securing safety during outdoor activities (including on ski slopes)</p> <p>3) Uncertainty regarding future inbound tourism market demand (i.e., economic conditions, drive for real estate investments)</p> <p>4) Concerns over possible friction between hosts and guests (that may be caused by drastic and rapid increase of foreign visitors in the area)</p>

What is required for a resort to compete in the world market? There are three conditions.

- 1) An environment in which you can relax and feel at ease
 - Abundant, untouched nature, such as thick forests, that makes one relax and feel close to nature
 - Attractive and welcoming park-like streetscape; a sense of unity and harmony in the town's setting is required.
 - Kind and hospitable local residents
- 2) Leisure settings

Niseko area already has in place many ski slopes for winter and a river for rafting in summer. The area also has facilities for other outdoor sports, including golf, mountain climbing and trekking. As for trekking, more routes need to be developed to add variety and entertain long-stay visitors.
- 3) Fine food and enjoyable shopping
 - One idea is to open a restaurant that serves full-course (from aperitif to dessert) meals. Japanese cuisine (now a worldwide favorite) can be served as a course meal comprising hors d'oeuvre, soup, main dish and dessert, featuring a wider variety compared to western cuisines. Such dishes, when served in a traditional Japanese house made into a restaurant, would surely be an unforgettable highlight for foreign tourists.
 - Shopping is also an attraction for tourists. International resorts usually have many stores that sell artistic crafts and products. There are always buyers, so long as the products have true artistic value.

What can local governments do to make Niseko an international resort (in line with the three key factors)?

- 1) Natural environment: Niseko area today is not a place where people can feel truly relaxed, and so cannot be called a resort. And with Japanese real estate developers rushing to build (randomly and disorderly) condominiums for Australian visitors, the area is headed in the wrong direction.

To stop the deterioration of Niseko's environment, the authors of this report would like to suggest that local administrations draw up a master plan to streamline development and protection of nature; a plan that ensures the right balance between unified streetscapes and natural environment.

However, considering the present situation, what is left for local governments to do to save Niseko from further deterioration seems limited. In this respect, the report places high expectations on Nihon Harmony Resorts (NHR) and future foreign and Japanese investors. NHR has a 15-year plan to develop a world-class resort that is both

human-friendly and in harmony with the surrounding natural environment.

The appearance of the towns around Niseko-Hirafu ski slopes are far from the concept of a true resort, with scarce greenery and no sense of uniformity. The squalid streetscape of these towns, typical of Japan and Asia, suggest that it would take a long time to transform this area into a world-class resort village. This is where NHR comes in. The western style resort village that the firm is building is expected to become a core attraction of Niseko area. Tourists will be able to enjoy both the smart and relaxing atmosphere of a western style resort and the squalid gaiety of an Asian resort.

2) Leisure settings: development of new trekking routes

The authors would like to propose that local authorities develop new three to five-hour trekking routes, for example one through forests, one with a view of Mt. Yoteizan and one that leads through green fields and farm land.

3) Dining and shopping

As mentioned above, the authors would like to suggest that local authorities encourage businesses to open a restaurant serving Japanese cuisine in a traditional Japanese style house, and invite and offer space for artists and create a shopping area. Artists can be invited from Japan and around the world. Local governments can also consider starting a new art school.

As mentioned above, the roles played by travel agents in tourism promotion cannot be ignored. The authors would like to propose that local governments develop a strategy to encourage foreign travel agents to set up a local office in Niseko. To invite agents in key markets such as China and other East Asian countries to open branch offices in Niseko, local governments may consider offering free office space and various other incentives. Such efforts will not fail to create a market; foreign travel agents, with a viewpoint different from that of the Japanese, will find new sales points of Niseko's tourism resources, just as the Australian "pioneers" discovered the opportunity for the rafting business.

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Table 3: Australian investment in Niseko area

Name of company or Individual	Location	Representative	Business type
Outdoor-activity business			
NAC (Niseko Adventure Center)	Kutchan Yamada, Abutagun	Ross Findley	Outdoor and café-bar
NOASC	Kutchan Yamada, Abutagun	Ross Carty	Outdoor, café-bar
SAS (Scot Adventure Sport)	Kutchan Yamada, Abutagun	Scot Walker	Outdoor
Travel agents			
Niseko Connection	Kutchan Yamada, Abutagun	Ben Kerr	Travel agent
Ski Japan	Kutchan Yamada, Abutagun	Peter Murphy	Travel agent, real estate agent
Deep Powder Tour	Australia Kutchan Yamada, Abutagun	Glenn Gruding	Travel agent
Real estate			
Hokkaido Trucks	Kutchan Yamada, Abutagun	Matt Denning (Layer) Simon Robinson (restaurant owner)	Real estate
Niseko Real Estate	Kutchan Yamada, Abutagun	Ben Kerr Sou Yoshida (judicial scrivener)	Real Estate
Graham Rigg	Staying in Hong Kong		Pilot, real estate
Nihon Harmony Resorts Co.	Kutchan Yamada, Abutagun	Corin Huckwork (CEO) Rodger Donasan (Chairman) Francis Jackson	Niseko Hanazono Ski Resort Niseko Kokusai Snow Sport School NISS

(Source: Tourism Section of Kutchan Town)