

JAPAN

Emerging issues facing the Japanese pulp and paper industry

- 1. Worldwide economic recession triggered by subprime crisis in the U.S. has been severely affecting the Japanese economy. The recession caused significant decline of domestic demand for paper and paperboard, which forced paper manufacturers to curtail production in order to balance supply and demand.**

Domestic shipments of paper and paperboard in 2008 decreased by 3.0% from 2007. Especially, shipments for the fourth quarter of 2008 dropped by 12.1% compared to the same period of the previous year. It is forecasted that sluggish demand will continue through 2009 due to the continued economic slowdown, and JPA forecasts that domestic demand for the year will drop by 8.0% from 2008 to 28,256 thousand tons, that was a similar to the level in the year of 1993.

- 2. Global Warming is one of the most important issues for the industry in Japan.**

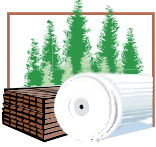
Under the Committed Action Plan for the Environment, JPA promotes the use of energy saving equipment and the conversion from fossil fuels to biomass, as well as the expansion of forest plantation areas for absorbing and fixing carbon dioxide. JPA is committed to achieving the following targets:

- On a five-year averaged basis from fiscal 2008 to fiscal 2012, reduce fossil energy consumption per unit and CO₂ emission per unit derived from fossil energy by 20% and 16% from the level of fiscal 1990, respectively
- By fiscal 2012, expand the industry's forest plantation at home and abroad to 700 thousand hectares through promoting forest plantation activities.

In 2008, Japanese government launched the scheme “experimental introduction of an integrated domestic market for emissions trading”. Total number of participants in the scheme is 501 companies and organizations, of which ten participants are pulp and paper companies. So far the trial of this emission trading has not started yet.

- 3. Corporate Social Responsibility**

In the beginning of 2008 there was news in media about falsified recovered paper content between actual and specified number in paper product. In order to regain credibility from users we established verification system including auditing by customers and third party, and already started the operation.



Japanese pulp and paper industry's economic/business performance for 2008

- Japanese economy in 2008
 - Real GDP growth rate for 2008 is negative 0.7% (preliminary results).
- Performance of the Japanese pulp and paper industry in 2008 over the previous year.
 - Paper and paperboard production decreased by 2.0% to 30,625 thousand tons.
 - Domestic shipments of paper and paperboard fell by 3.0% to 29,322 thousand tons.
 - Imports of paper and paperboard dropped by 6.1% to 1,291 thousand tons.
 - Exports of paper and paperboard rose by 5.0% to 1,454 thousand tons.
 - Recovered paper consumption decreased by 1.6% to 19,006 thousand tons, while utilization rate rose by 0.4 points to 61.8%. Recovered paper recovery rate grew by 0.6 points to 75.1%. Both rates are the highest numbers in the record and main reasons are due to time lag between collection of recovered paper and shipment of paper and paperboard, and more reduction of paper that utilize less amounts of recovered paper comparing to paperboard.
 - Recovered paper exports dropped by 9.2% to 3,491 thousand tons, of which 2,925 thousand tons were shipped to China accounting for 83.8%.