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Market Update Report: EBPA Japan

Month: April 2006

I. Market Trends

I 2005 Wood Receipt Record to Tokyo Port

Wood shipping/receipt records from/to Tokyo Port was recently announced.

Tokyo Port, located in the 15th reclaimed land in Tokyo, is one of the world largest ports dedicated to the shipping of wood products and therefore its trading records fully reflect the trend of total wood import to Japan.

Overall trend:

The total import in 2005 was 890,000m³, 6.9% decline from the previous year. What is significant is a grow of Kiln Dried (KD) and Engineered Wood (EW) that reached 55% of the total import, 375,000m³ (42,1% increase over 2004) for KD and 113,000m³ (12.7% increase) for EW. This trend is expected to continue for several years ahead.

North American Wood:

Decreased 7% to 590,000m³. Still a dominant exporter to Japan but its main products (green Hemlock and Pine for post & Beam houses) has dropped about 20%. The ratio of KD/EW wood is still low at 43.5% which is the main reason for the total decrease.

EU Wood:

Also decreased 12% to 155,000m³. Export of lamina for domestic glue-lam manufacturers has sharply grew, however, the finished product (KD Glue-lam) export has steadily declined, being replaced with Chinese and Russian suppliers.

Chinese and Russian Wood:

Chinese wood decreased 8% to 44,000m³ whereas Russian export has jumped up to 25,000m³, which has marked 322% over 2004.

With a general trend toward green movement in Japan, illegal logging issue has become a serious problem both in the industry and government administration. As a result, Japanese government set out a new legislation "Green Purchase Law". (See the following report "Green Purchase Law Enforced" for more information).

Russia has been seriously working on this issue and realized holding a meeting "Japan-Russia Wood Conference" in April 2006 in Khabarovsk where Eastern Russia Wood Export Association committed all wood products exported to Japan from this association members to be those certified by Japanese forest/wood certification scheme. (See the following report "Russia to Tie-up with Japan for Supply of Certified Wood")

II. Recent Headlines

! Russia to Confirm 100% Certified Wood Supply to Japan by 2010

On April 11th, Japan Lumber Importers' Association (JLIA) and East Russia Wood Export Association (RWEA) held "Japan-Russia Wood Conference" in Khabarovsk, Russia, after 10 years of blank period since the last meeting held in May, 1996. At the conference, Russian Association made a statement that in 2010, all products exported to Japan by its member shippers will be those certified to meet legitimacy and sustainability requirements of the Japan Green Purchase Law which was enacted in April 2006. (RWEA has 43% share in the total wood export from East Russia.)

This has shown a strong commitment of RWEA to the Japanese market as well as Japan's considerable expectation on the wood supply from Russia in the coming years.

Since the dissolution of the Soviet Union in 1991, Russia has experienced a drastic change toward the privatization, liberalization and de-centralization of the social structure. During this course, the Russian wood industry tried to respond to a demand from Japan by flexible products supply with a lower price level, which was once favorably accepted by the Japanese market. However, it gradually turned out to be a criticism about an unstable supply capacity and products quality level, which finally made one of the Japanese industry reps say "Japan is not a garbage dump of Russian wood!!"

In the last 10 years, the picture of the wood trading surrounding Japan has changed, of which major ones are:

- 1. Grow of sawn timber export from Europe to Japan**
- 2. Rapidly expanding demand from China**

Under these circumstances, Japan has shifted its import from Russia from logs for sawn timber to those for plywood and currently more than 50% of plywood logs are imported from Russia (4.7mil.m3 in 2005).

Russia is also a major log exporter to China; 2/3 of Chinese log import are from Russia (20mil. m3 in 2005).

In view of the growing demand for Russian logs in Japan, it was decided to re-start the "Japan-Russia Wood Conference" this time in order for Japan to ensure a stable supply of environmentally friendly high quality wood from a reliable resource.

At the meeting, JLIA announced that it had adopted Industry Association Certification system under the Japan Green Purchase Law and would make efforts to obtain CoC certification. RWEA confirmed that it would also work on obtaining CoC certification as well as forestry certification. As a temporary measure by RWEA obtaining CoC and forestry certifications, it was decided that RWEA certify its members to satisfy legitimacy and sustainability requirements who may issue certificates to their wood products that are endorsed by RWEA.

! Japan to start implementing ISPM NO. 15 within 2006

MAFF (The Ministry of Agriculture, Forestry and Fisheries of Japan) plans to implement ISPM NO. 15 (the international standard for the trade in wood packaging material including dunnage), within this year, against inbound wood packaging materials.

! Asbestos density levels show small improvement

The Yomiuri Shimbun

The density of asbestos in the air at demolition sites and lots formerly occupied by asbestos-related factories passed Air Pollution Law standards, improving from a similar study 10 years ago, according to survey results released by the Environment Ministry on Friday.

The study examined the air in 361 spots at 141 sites around the country between October and March. The law stipulates that the density must not exceed 10 fibers per liter of air in boundaries between the factories and surrounding areas. The highest density recorded at the sites surveyed was 5.78 fibers per liter near extractor fans used during demolitions dealing with asbestos.

The highest concentration of asbestos at industrial waste disposal plants and demolition sites where asbestos was being removed but that did not have extractor fans was 2.7 fibers per liter of air. The figures for residential and commercial areas were 1.38 and 1.56 fibers per liter of air, respectively.

(Apr. 1, 2006)

III. Projects

! Green Purchase Law Enforced

Following an agreement made at “G8 Summit in UK in July 2005, the Japanese Ministry of Environment has enacted “Law on Promoting Green Purchasing” as of April 1st, 2006. By this law, all the wood products purchased by government (including local governments) must be those certified their legitimacy and sustainability.

Currently the law is applied only to public procurement, but the industry takes it very seriously with a view that the scope will be expanded to the procurement in the private sector sooner or later.

The wood products subject to this new law is:

1. Paper: Form Paper, Printing Paper, etc.
2. Stationary: Notebook, Envelope, etc.
3. Equipment: Desk, Chair, Cabinet, etc.
4. Bed Frame
5. Materials for public works: Lumber, Glue-lam, Plywood, Veneer, etc.

Under the law, Japan Forestry Agency of MAFF announced “Guideline to attest legitimacy and sustainability of wood products”, according to which there are three ways to prove products’ “legitimacy” and “sustainability”.

1. Forest Certification Systems and CoC

Utilizing existing forest certification systems, such as Forest Stewardship Council (FSC), Sustainable Green Ecosystem Council (SGEC), Program for Endorsement of Forest Certification Schemes (PEFC), combined with Chain of Custody (CoC).

CoC: At each products processing stage, the authorized company to issue a

certificate to its direct receiver of the commodity that attests to the legitimacy of their supplying logs/wood products and that they are not mixed with non certified products. By doing it on every delivery, a chain of custody is to be formed.

2. Industry Association Certification

Wood industry associations at different processing stage establish voluntary rules respectively for providing products attest to the legitimacy and sustainability, and certify companies according to the rule. The certified companies hand the "certificate" to the company working at the next stage so that eventually to form a CoC.

So far, Japan Federation of Wood-Industry Association, Japan Plywood Manufacturers Association and Japan Plywood Wholesalers' Association announced to utilize this scheme.

3. Individual Company Certification

Individual company to prove the product legitimacy from the initial logging stage to its the product delivery by its own ability. (Only large companies may take this method.)

According to some statistics, 50% of wood products imported from Indonesia to Japan is illegal products and some illegal logs are firstly shipped to Malaysia for manufacturing and finally exported to Japan. It is also said that 20-30% of Russian wood to Japan are illegally logged, although the Russian government announced the ratio to be less than 1%.

IV. Trade Leads

- ? UNO Construction
- ? Ishida Home for Spare Parts to repair the Windows

V. Activities

1. Follow up TLS
2. Research into Window Energy Efficiency Labeling
3. Research into "PSE" Electrical Legislation
4. Preparation for Osaka Intex "Kaiteki Jyutaku" Fair
5. Preparation for May Mission
5. Database Update