

## JFTC News

### Contents

1. New Year's Address
2. New Year's Reception
3. Awards JFTC Essay Competition 2008
4. The Importance of a U.S.-Japan Economic Partnership Agreement to the Ongoing Economic Integration of East Asia
5. FY 2009 Outlook for Japan's Trade Balance and Current Account
6. State Banquet and Welcome Luncheon in Honor of Their Majesties King Juan Carlos I and Queen Sofia of the Kingdom of Spain
7. Formulation of Supply Chain CSR Action Guidelines
8. Financial Results of Shoshas for the Six Months ended September 30, 2008

#### Japan Foreign Trade Council, Inc.

World Trade Center Bldg. 6th Floor,  
4-1, Hamamatsu-cho 2-chome,  
Minato-ku, Tokyo 105-6106, Japan  
Tel. (03)3435-5966 Fax.(03)3435-5979  
URL. <http://www.jftc.or.jp/>

## New Year's Address

**Nobuo Katsumata**  
**Chairman, Japan Foreign Trade Council, Inc.**  
**Chairman, Marubeni Corporation**

First, let me take this opportunity to wish you a happy new year.



Until recently, the global economy had been in the midst of an unprecedented boom driven by the full-scale industrialization of emerging economies such as China and India in addition to soaring global commodity prices, and expanded consumer spending in the U.S. However, 2008 proved to be a year that in many ways brought home the realization that times had changed. Indeed, the Kanji (Chinese-character) “変” meaning “change or transformation” was selected as the Kanji of the Year because it captured the overall timbre of 2008. Turbulence in financial markets precipitated by the subprime meltdown in the U.S. widened into a full-scale crisis the economies of the leading industrialized countries stalled. Although the economies of emerging countries also slowed, they were not impacted as severely as the industrialized countries and this helped blunt the pace of the sharp decline to a certain degree at the global level.

What might the year 2009 hold in store? While

uncertain and clouded conditions make predictions difficult at best, I would like to present my own observations and outlook.

The world economy at the start of this new year seems to be teetering on the brink of a cataclysmic abyss as a rapid chain reaction of credit crunches and financial crises have led to the deterioration of the real economy. Kamekichi Takahashi, a well-known Japanese “street” economist once deeply involved in national politics, underlined the importance in an ever-evolving economy of determining whether trends are transient, one-time events or signs of deeper, fundamental and structural change. Elaborating further, he noted that in case of temporary or transient events, the appropriate response should be to return the situation to a condition of normalcy as quickly as possible, but that in case of structural and fundamental change, we should not try to restrain or reverse it but instead address it with policies of accommodation and adaptation. Currently, the world economy faces structural transformation under a globalization process. Therefore, an internationally coordinated approach is essential.

History has always been marked by turning points in which the international community transitions away from a long-established framework and moves on to a new age. By that definition, the current financial crisis has set the stage for a turning point that will move the world toward a drastic overhaul of the international order that has centered around the U.S. to date. The problem, though, is that a turning point does not always

mean a smooth shift to a new stage but is often accompanied by an abrupt collapse or crash of the outgoing order and framework if the policy response is not appropriate. This is one of the lessons taught by the Great Depression of the 1930s. Without question, 2009 will be a pivotal year in which we search for a new and better age in the 21st century averting a global economic collapse while we have not yet seen a way out of the current financial crisis.

What views, actions and countermeasures are needed in such global circumstances? First of all, as many commentators have pointed out, the U.S. centered global economic system will have to make a significant change into a multi-polar one. As exemplified by the G20 financial ministers' summit that met in November 2008, it has become increasingly difficult for the U.S. alone or for the G8 which includes the EU and Japan to lead the rest of the world. Indeed, substantial cooperation from China, India, Russia, Brazil, and other emerging nations is now absolutely necessary. The U.S. dollar's position as a key global currency will probably be maintained with substantial support from these emerging nations.

Furthermore, we will probably see revisions to the so-called market fundamentalism that was initially advocated by Britain's Thatcher administration in the late 1970s and backed by the U.S. Clinton administration of the 1990s followed by the Bush administration. Particularly, to put the U.S. economy back on track as quickly as possible in the midst of a worsening financial and economic crisis, it is anticipated the incoming Democratic administration under the leadership of Barack Obama will reaffirm the role of government, strengthen industrial competitiveness, and tighten regulatory controls without being overly influenced by the Democratic Party's traditional policy platform. That scenario brings to mind the situation facing the U.S. back in the early 1980s.

At that time, as a step to address the issue of industrial hollowing, the Republican administration led by then President Ronald Reagan launched the Commission on Industrial Competitiveness headed by then Hewlett-Packard Chairman John

Young. Noting that traditional policy lacked a focus on competitiveness, the Young Report issued in 1985 called for a set of unified and coherent industrial policies aimed at boosting industrial competitiveness. This new policy mix covered areas ranging from social infrastructure development and R&D investment to tax reform and subsidization and was designed to cultivate the future growth fields of information and communications, biotechnology, aviation and aerospace, and other sunrise industries as well as provide aid to traditional industries including those in the fields of steel, automobiles, and machine tools. The Obama administration will presumably be involved in a search for new forms of industrial endeavor, even including steps to reorganize or restructure existing industries. It appears likely that a national quest for survival will start in the field of manufacturing, including the automotive industry, as well as in agriculture, and health-care services.

We can at the same time expect to see a variety of initiatives in economic reconstruction swiftly implemented in the EU, the emerging-market economies, and Japan. Note also that more-open policies of global economic cooperation will be all the more important in view of the tendency of each country to become inward looking and inclined to isolationism in times such as these. Given this scenario, the opportunities for international contributions that harness Japan's strengths will likely grow. For example, I can conceive of expanded trade and investment through formation of value chains, development of new energies and global-warming countermeasures fully utilizing advanced Japanese technology, and the promotion of economic cooperation including official development assistance. "**Shosha**", Japanese trading companies, definitely have an instrumental role to play in these areas of endeavor. **The Japan Foreign Trade Council (JFTC)**, moreover, is committed to continuing to actively produce policy recommendations and proposals to promote new projects and environmental development. I do hope that, with concerted efforts on a global scale, we will see the current economic downtrend touching bottom in 2009.

## New Year's Reception

On Friday, January 9, 2009, the JFTC hosted a New Year's Reception in the Ho-oh Room of the New Otani Hotel. Nearly 500 people attended, including politicians and government officials, ambassadors from various countries, representatives of chambers of commerce and industry based in Japan, and leading figures active in the realms of business and trade.

The reception opened with greetings from Chairman Nobuo Katsumata, followed by remarks on behalf of the guests presented by Senior Vice Minister of Economy, Trade and Industry Takamori Yoshikawa, LDP Secretary-General Hiroyuki Hosoda, and New Komeito Chief Representative Akihiro Ota. This was followed by the introduction of award recipients of the JFTC Essay Competition 2008, and by a toast given by JETRO Chairman and CEO Yasuo Hayashi. With the venue filled with pleasant conversation, the reception was brought to a successful conclusion.



Standing from left to right Chairman Katsumata; Vice Chairmen Utsuda, Kobayashi, Kase, Kojima, and Shimizu; Vice Chairman Representative Nakaido.



Scene of the Reception

## Awards JFTC Essay Competition 2008

The JFTC sponsors of the "JFTC Essay Competition 2008" are very pleased to announce that we received a total of 151 submissions from 35 different nationalities for the competition this year.

After a strict screening of all the essays, the four submissions below have been selected as the Prize Excellence of the competition in 2008. Unfortunately, however, there was not one that the Selection Committee members should strongly back for the Grand Prize of 1 million yen.

But this year, we have decided to award a Selection Committee Chair's Special Prize to an outstanding essay by the writer in his or her teens.

We would like to express our congratulations to the winners and thank all the participants for taking part.

### Selection Committee:

Chair : Dr. Iwao NAKATANI, Director of Research, Mitsubishi UFJ Research and Consulting Co., Ltd. and Professor, Dean, Renaissance Center, Tama University

Vice Chair: Professor Yoko WAKE, Faculty of Business and Commerce, Keio University

Vice Chair: Mr. Kazuo MORI, Senior and Editorial Writer, Nihon Keizai Shimbun, Inc.

### Remarks by Selection Committee Chair

For the JFTC Essay Competition 2008, we received a total of 151 essays from 35 nationalities including Japan, the highest numbers of entries and nationalities of entrants so far. Sixty percent of the essays were submitted by foreign nationals, reflecting the increasing international character of the competition. As chair of the Selection Committee, I am delighted that we received so many interesting essays from countries all over the world. There has never been an essay competition in Japan that has gained such international participation. I would like to express my sincere appreciation to the JFTC for continuing to hold this essay competition and to the members of the Committee who have again taken time out of their

busy schedules to assist in the screening of essays.

The theme of this year's competition was "The Possibility of 'Japanese-Style Business Models' for Preserving the Earth." The solution of environmental problems, such as pollution and depletion of natural resources, is now an urgent matter and the role of Japan is becoming increasingly important. We were strongly impressed that so many of the essays submitted expressed high expectations for Japanese corporations in the solution of global environmental problems, making us profoundly aware of Japanese corporations' great responsibility in this regard.

All the essays provide an interesting perspective on this year's theme and are well worth reading. Unfortunately, however, the Selection Committee did not feel that there was one outstanding essay that it could strongly recommend for the Grand Prize this year. Consequently, we decided to select the following four essays for the Prize for Excellence.

"Reinforcing the Japanese Brand as Environmental Leader: The Role for Corporations" by Kamila PIECZARA

The author provides a well-balanced analysis of how Japanese corporations have succeeded in improving their ability to respond to environmental issues. The author makes the very interesting point that the "soft" assets of Japanese culture have played a major role.

"Anatomy of Japanese Business Leading to Sustainable Growth" by WONG, Chun Yiu

The author explains environmental management by Japanese corporations, drawing on a wide range of examples. His persuasive argument that responding to environmental problems is not a cost burden but a business opportunity is particularly commendable.

"Japanese Environmental and Energy Services – The Dark Horse" by Ananya MUKHOPADHYAY

The author argues convincingly that the difficulty many developing countries may face in taking environmental measures lies not in capital investment but in providing the services required, expressing high hopes for the contribution of Japanese corporations in this field.

"From 'Differential-Oriented Management' to 'Integral-Oriented Management' – Three Paradigm Shifts" by Naoki ABE

The author argues persuasively how, amid the current concerns about the limitations of natural resources, Japanese corporations can change their conventional ways of thinking and avoid the fate of a country with limited natural resources in the long term.

Not a few of the essays submitted this year were by writers in their teens. Since the majority of the members of the Committee expressed the opinion that an outstanding essay among these should be commended for their encouragement, we have decided to award a Selection Committee Chair's Special Prize to "Japan's Green Technology for Earth and Economy" by Shellen HALIM, who argues convincingly that environmental problems represent great business opportunities for Japanese corporations and that it is particularly important for them to place emphasis on their relationships with developing countries, especially in Asia.

Dr. Iwao NAKATANI  
Chair  
Selection Committee  
JFTC Essay Competition 2008



**JFTC Essay Competition 2008 Awards Ceremony**  
From left to right: Selection Committee Vice Chair Yoko Wake; Selection Committee Chair Iwao Nakatani; prize recipients Naoki Abe, Kamila Peiczara, and Chun Yiu Wong; and JFTC Chairman Katsumata

## The Importance of a U.S.-Japan Economic Partnership Agreement to the Ongoing Economic Integration of East Asia

The 45th annual U.S.-Japan Business Conference convened on October 6–7 this year in Tokyo as a forum for business leaders from both countries to exchange views and opinions on important economic issues. It comprised panel discussions on two key themes: “U.S.-Japan Economic Partnership Agreement (EPA)” and “Energy and Environment.” Additionally, political and economic trends in both countries as well as intellectual property rights were topics of vigorous discussion and debate. At the close of the conference, participants adopted a joint statement on 10 issues, including the aforementioned themes.

The panel discussion on the U.S.-Japan EPA was divided into three parts. Part I focused on “Council Updates,” with attention to the development of dialogue through the U.S.-Japan Business Conference and a review of discussions held to date. Part II provided for an exchange of views on the theme, “Rebuilding a Bilateral Consensus on Trade and Economic Integration.” Finally, Part III was devoted to the theme, “Implications for the Asia-Pacific” and specifically, expanding the scope of economic integration to the Asia-Pacific region. As a speaker participating in Part III of the discussions, Chairman Katsumata articulated his views as follows on the significance of a U.S.-Japan EPA.

### ~ Text of Speech to the U.S.-Japan Business Conference’s Panel Discussion Part III, “Implications for the Asia-Pacific” ~

**Nobuo Katsumata**  
Chairman, Japan Foreign Trade Council, Inc.

#### 1. Introduction: Transforming “Crisis” into “Opportunity”

Recent months have witnessed the occurrence

of two important events with a bearing on the future of the world economy and the system of free trade. Global fallout from the current financial market turbulence that began in the U.S. counts as one.



**JFTC Chairman  
Nobuo Katsumata**

The breakdown of talks in the final stages of negotiations under the Doha Round of the World Trade Organization (WTO) three months ago counts as the other. These two events have had a major impact not only on the U.S., but on Japan as well. In effect, though Japan otherwise should have experienced comparatively minor repercussions from the financial crisis, stock prices in Japan have tumbled and concerns now are that efforts to deal with this crisis could be protracted over a long period, thus delaying steps in economic cooperation with the U.S. Further, had the WTO talks in Geneva ended with an accord, that in my view would have opened the door to further reforms in Japan’s agricultural sector and provided additional momentum for an economic partnership agreement.

As the outlook for the global economy grows increasingly murky and uncertain, we may be prone to becoming more inward-looking. However, should Japan and the U.S.—two economic superpowers—assume that attitude, the global economy itself can be expected to atrophy. It is imperative that we transform the current atmosphere of “crisis” into one of “opportunity.” At this crucial juncture, we need to join together as the leading proponents of globalization and make measurable progress toward the establishment of a U.S.-Japan EPA. I reiterate, it is this, in my view, that will help revitalize the global economy.

#### 2. Intensifying the Economic Integration of East Asia

Turning now to the main theme of economic integration, one notable development is that since the year 2000, active efforts have been made toward East Asian economic integration with the Association of Southeast Asian Nations (ASEAN)

acting as the hub or nucleus. ASEAN has already established separate EPAs with China and South Korea and has also reached an agreement with Japan. We are thus witnessing the creation of the foundation for a so-called ASEAN+3 bloc.

By August this year, agreements in principle had also been worked out with Australia, New Zealand, and India. This means that ASEAN has either implemented or worked out separate agreements with each of the countries in the "ASEAN+6" bloc that Japan has envisaged and proposed. As these examples illustrate, efforts toward economic integration with a focus in Asia have been moving forward and, in my view, Japan and the U.S. should seriously take note of this fact.

### **3. Expanding the Scope of Integration to the Asia-Pacific Region**

Most East Asian countries procure raw resources from outside the region and allow inward transfers of capital, technologies, and other business resources from the more advanced regions of the world. Finished goods manufactured in East Asia are then exported to Europe, North America, and other markets worldwide. East Asia from its formative years has developed and operated on the basis of an open system of trade. Had that system not been open, the regional Asian economy arguably would not have demonstrated the progress it has. Accordingly, nothing should seem strange about the utilization of open frameworks for economic integration, either. As I see it, economic integration as it is being pursued in East Asia now will be readily accepted and understood as a natural process that can be expected to expand and spread throughout the Asia-Pacific region, which includes the U.S.

In fact, Singapore, Brunei, New Zealand, and Chile recently implemented the Trans-Pacific Strategic Economic Partnership Agreement and the U.S. has announced plans to begin negotiating for participation in that arrangement. The implication here is that economic integration trends in East Asia could eventually spread across the Pacific in the years ahead.

The Asia-Pacific Economic Cooperation (APEC) would be one effective forum for dialogue on the economic integration of the Asia-Pacific region. I think the 2006 U.S. proposal for an APEC-wide EPA

is an indication of that. The 2010 APEC Economic Leaders' Meeting is scheduled to convene in Japan. Under the Bogor Declaration issued 14 years ago, 2010 is the deadline year for the achievement of free and open trade and investment by the industrialized economies. In that context, the year 2010 may very well prove to be an important turning point.

### **4. The Significance of a U.S.-Japan EPA**

That may also be a favorable time to begin seriously exploring the framework for an Asia-Pacific EPA. Should such study move forward, it will be crucial to have a comprehensive, high-level U.S.-Japan EPA in place to serve at the center of that larger framework. Among those countries that have signed EPAs with the ASEAN community, Japan has a major presence. The U.S., moreover, has assumed a pivotal role within the NAFTA framework. If Japan and the U.S. entered into a free trade agreement of their own, it could be expected to serve as a bridge connecting East Asia with North America. Should Japan and the U.S. sign and implement an EPA, that step will likely add to the momentum to integrate ASEAN with NAFTA as well as encourage heightened trade, investment, and technology transfers between these two regions.

This can also be expected to facilitate smoother corporate operations at the global level. Further, the conclusion of a U.S.-Japan EPA will conceivably provide a new model for the promotion of closer ties not only between Japan and the U.S. but also between Asia and the Americas. In that respect, a U.S.-Japan EPA arguably would send a strong message to the world.

We should re-acknowledge the value that a U.S.-Japan EPA would have in encouraging the nations of the Asia-Pacific region to more broadly share the benefits of liberalization in the fields of trade, investment, intellectual property rights, and the flow of human resources. We need to act with the conviction that unless progress is made toward the conclusion of a U.S.-Japan EPA, Japan's growth strategy will be nothing more than pie in the sky. It is essential that Japan and the U.S.—two of the world's economic superpowers—actively involve themselves in efforts to conclude an EPA.

Those efforts will very likely serve as a force for the promotion of the multilateral system of free trade. It is an undeniable fact that headway



Scene of panel discussion on U.S.-Japan EPA-1

in regional economic integration was one of the driving forces behind the successful conclusion of the Uruguay Round some years ago. Under an EPA, negotiations could proceed in fields not covered by the WTO. Let me also point out that such negotiations would precede and potentially influence related discussions within the WTO framework.

## 5. Expectations toward the Next U.S. Administration

Next year a new U.S. administration will take office. I am hopeful above all that this will set the stage for new and energetic discussion and debate from a global perspective on frameworks for free trade, lead to a new policy orientation that faithfully reflects current realities, and improve the prospects for implementation of a U.S.-Japan EPA.

## FY 2009 Outlook for Japan's Trade Balance and Current Account

### JFTC Trade Research Committee

The JFTC released on December 5 "FY 2009 Outlook for Japan's Trade Balance and Current Account". The Trade Research Committee of the JFTC has been working on forecast of trade balance and current account since 1974. One of the most unique features of the JFTC Outlook is the methodology employed for the forecast. The Outlook was conducted by compiling trade forecast of major categories of commodities which were

gathered and analyzed by hearing with industry specialists.

## 1. Overview

### (1) Outlook for Trade by Commodity (Customs-Cleared Basis)

- **FY 2008:** All-time high in total import value fueled by soaring first-half prices for resources and energy

In value terms, exports are expected to total 83,122 billion yen in FY 2008, down 2.3 percent from the year before. Owing to the slump in automobile and computer product exports chiefly to the U.S. and European markets, total export volume appears likely to experience a setback of 0.2 percent year-on-year, for the first annual decline since FY 2001. Export prices are expected to fall 2.1 percent year-on-year mainly as a result of yen-denominated price declines reflecting the stronger yen.

The total value of imports appears set to reach 76,943 billion yen, up 2.7 percent from the year before. This expected increase will be attributable to a 4.2 percent year-on-year climb in import prices caused by sharp gains in prices for energy, metal resources, grains, and other primary commodities. However, in volume terms, imports are expected to sustain their downtrend from FY 2007 and weaken 1.4 percent in response to flat domestic demand.

- **FY 2009:** Deepening downtrend in exports coupled with a sharp decline in imports due to falling prices

In FY 2009, it is projected exports will reach 77,560 billion yen in total value terms, for a setback of 6.7 percent from the year before. In volume terms, exports will likely experience a significant decline of 4.1 percent from their FY 2008 level due to the effects of a severe global economic slowdown. Export prices, moreover, are likely to fall 2.7 percent year-on-year as a result of the impact from the strong yen.

Steep price declines for energy, metal resources, and food staples together with the continued strengthening of the yen will likely trim import prices significantly, with the result of reducing the total value of imports to 63,898 billion yen, the lowest

level in three years and a 17.0 percent decline from the year before. In volume terms, imports will probably continue to slide for the third year running, falling 2.7 percent year-on-year in response to slow domestic demand.

## (2) Outlook for the Current Account

- **FY 2008:** Weaker exports and stronger imports behind first current account surplus reduction in seven years

The current account surplus is expected to total 20,430 billion yen, its first contraction in seven years.

With the value of exports shifting down and

the value of imports up, the trade surplus in FY 2008 is expected to total 7,910 billion yen, for a decline of 3,776 billion yen from the previous year. Additionally, falling interest rates overseas and the effects of a stronger yen have undercut the yen-based value of income receipts to the extent the surplus in the income account is expected to total 15,830 billion yen, down 924 billion yen from its FY 2007 level. Conversely, due to narrowing shortfalls in the transportation account and travel account, the deficit in the services account is expected to total 1,990 billion yen, a contraction from its level the year before.

- **FY 2009:** Record 27 trillion yen current account

## Summary Data

### 1. Trade on Customs-Cleared Basis

Item	FY2007 Results (final)		Forecast for FY2008		Forecast for FY2009	
	(Billion yen)	(Changes from previous year)	(Billion yen)	(Changes from previous year)	(Billion yen)	(Changes from previous year)
Exports	85,116	9.9%	83,122	▲ 2.3%	77,560	▲ 6.7%
Quantum Index		7.7%		▲ 0.2%		▲ 4.1%
Unit Value		2.0%		▲ 2.1%		▲ 2.7%
Imports	74,904	9.4%	76,943	2.7%	63,898	▲ 17.0%
Quantum Index		▲ 3.1%		▲ 1.4%		▲ 2.7%
Unit Value		13.0%		4.2%		▲ 14.7%

### 2. Balance of Payment Basis

Item	FY2007 Results (final)		Forecast for FY2008		Forecast for FY2009	
	(Billion yen)	(Changes from previous year)	(Billion yen)	(Changes from previous year)	(Billion yen)	(Changes from previous year)
Balance in Goods and Services	9,090	904	5,920	▲ 3,170	12,660	6,740
Trade in Goods	11,686	1,202	7,910	▲ 3,776	14,680	6,770
Exports	80,945	9.9%	79,050	▲ 2.3%	73,760	▲ 6.7%
Imports	69,258	9.6%	71,140	2.7%	59,080	▲ 17.0%
Trade in Services	▲ 2,596	▲ 298	▲ 1,990	606	▲ 2,020	▲ 30
Investment Income	16,754	2,506	15,830	▲ 924	15,660	▲ 170
Current Transfers	▲ 1,300	▲ 20	▲ 1,320	▲ 20	▲ 1,340	▲ 20
Current Account	24,544	3,391	20,430	▲ 4,114	26,980	6,550

### 3. Assumptions

Item	FY2007 Results (final)	Forecast for FY2008	Forecast for FY2009
Global Trade (C.Y.)	6.4 %	4.9 %	4.1 %
Global Economy (real growth rate/C.Y.)	5.0 %	3.7 %	2.2 %
U.S. Economy (real growth rate/C.Y.)	2.0 %	1.4 %	▲ 0.7 %
EU Economy (real growth rate/C.Y.)	3.1 %	1.5 %	▲ 0.2 %
Asian Economy (real growth rate/C.Y.)	9.3 %	7.6 %	6.3 %
Japanese Economy (nominal growth rate)	2.1 %	0.5 %	▲ 0.2 %
Yen Exchange Rate (against dollar)	114 yen	101 yen	95 yen
At-arrival Crude Oil Price (dollar/barrel)	78 dollars	97 dollars	70 dollars

Note 1: Figures other than Yen Exchange Rate and At-arrival Crude Oil Price are based on "World Economic Outlook October/November 2008."

Note 2: Figures on Asian economy have been adjusted to a 29 country/region basis as defined by the IMF (25 developing countries/regions in Asia and 4 NIEs).

Note 3: Yen Exchange Rate and At-arrival Crude Oil Price are not forecasts but are calculated based on latest data.



surplus buoyed by sweeping decline in import prices

The surplus in the current account is expected to reach 26,980 billion yen, an increase of more than 6,000 billion yen above the FY 2008 level. This forecast is based on the expectation that the margin of decline in the value of exports will be more than offset by the decline in the value of imports due to tumbling prices for energy and metal resources and food staples. By contrast, the deficit in the account for services is expected to show slight growth, primarily reflecting the impact of a widened deficit in the travel account due to the strengthened yen. The surplus in the income account is seen narrowing somewhat in response to the reduced yen-based value of income receipts due to lower overseas interest rates and the strengthened yen.

## State Banquet and Welcome Luncheon in Honor of Their Majesties King Juan Carlos I and Queen Sofia of the Kingdom of Spain

On the occasion of the state visit to Japan by Their Majesties King Juan Carlos I and Queen Sofia of the Kingdom of Spain, the visiting royal couple were entertained at an evening banquet held in the Houmei-Den Hall of Japan's Imperial Palace and hosted by Their Majesties the Emperor and Empress of Japan on November 10, 2008. The event was attended by HIH The Crown Prince of Japan and other members of the Imperial Family; Prime Minister and Mrs. Aso; and approximately 140 guests with ties to both Japan and Spain. Chairman Nobuo Katsumata and Mrs. Katsumata attended as representatives of the JFTC.

On the afternoon of November 11, Prime Minister Aso hosted a welcome luncheon for the royal couple at his official residence. About 70 guests with connections to both Japan and Spain attended the event, including Chairman Katsumata from the JFTC.

## Formulation of Supply Chain CSR Action Guidelines

### JFTC CSR Study Committee

Acting in the spirit of the Shosha's Corporate Code of Conduct, the JFTC for some time has been engaged in efforts to address issues in corporate social responsibility (CSR). Recently, it established a set of Supply Chain CSR Action Guidelines and began encouraging the business counterparts of trading companies to adopt the same philosophy and promote CSR-oriented operations of their own.

Inaugurated by the JFTC in 2003, the CSR Study Committee has explored CSR issues and implemented research and surveys on related domestic and international trends from the perspective of Japan's trading companies and other elements of the trading industry. It has become increasingly important that trading companies have their supply chains implement CSR operations. Noting this trend, in fiscal 2007 the CSR Study Committee took up supply chain CSR action guidelines as a substantive theme and began the task of developing such guidelines. On November 19, its Supply Chain CSR Action Guidelines were approved by the JFTC Board of Executive Directors.

These new guidelines are positioned as subordinate to the Shosha's Corporate Code of Conduct and reflect the same spirit behind revisions to the Code of Conduct that were made in 2005 in response to mounting public concern over CSR-related issues.

The guidelines consist of seven items that suppliers are encouraged to accept and put into practice. Four items pertain to the key issues of human rights and labor relations, and the remaining three cover areas that are closely related to CSR, namely, the "environment," "fair trade and ethics," and "information disclosure." Each policy focus was chosen and worded with attention to action guidelines and other rules that the JFTC member-companies and other industries had already put into effect. Additionally, an English-language version of the guidelines was prepared in view of the fact that Japanese trading houses do business with many

suppliers around the globe and need to apply these guidelines to such overseas counterparts.

Because these are purely guidelines, they do not have any binding power. Nonetheless, the JFTC is determined to encourage its member-companies to pursue supply-chain CSR operations that are in line with these guidelines.

Investigative work by expert attorneys has concluded that the JFTC and its member-companies could face only an exceedingly small risk of litigation stemming from the formulation of these guidelines or their content.

The JFTC Chairman has issued a written request to regular member company representatives urging that all promote full employee familiarity with these guidelines. Furthermore, the guidelines have been publicized through press releases and placement on the JFTC website.

The JFTC recognizes the importance of supply chain CSR to trading company operations and is committed to promoting healthy, responsible corporate behavior that is not only in compliance with the law but that also reflects social norms and expectations.

November 19, 2008

## Supply Chain CSR Action Guidelines

Japan Foreign Trade Council, Inc.

### < Foreword >

In 2005, the Japan Foreign Trade Council, Inc. (JFTC) revised the Shosha's Corporate Code of Conduct (formulated in 1973 as the Code of Conduct for General Trading Companies and revised as the Shosha's Corporate Code of Conduct in 1999) in response to heightened concerns regarding CSR (Corporate Social Responsibility) against the background of the globalization of the economy and the maturation of civil society.

In 2002, the Environmental Code of Conduct was formulated to deal with the global environmental problems addressed under "Management Philosophy" in the Shosha's Corporate Code of Conduct.

The JFTC has now prepared these Supply Chain CSR Action Guidelines in line with the spirit of the Shosha's Corporate Code of Conduct, considering the strong demands to address CSR not only within individual companies, but also in supply chain management.

### < Supply Chain CSR Action Guidelines >

*We shall seek understanding and implementation of the following items by our suppliers and other trading partners, and jointly promote CSR activities with them.*

1. We shall respect the human rights of employees, and never treat employees in an inhumane manner.
2. We shall prevent forced labor, child labor, and unfair low-wage labor.
3. We shall strive to provide employees with a safe, sanitary, and healthy work environment.
4. We shall prepare disaster, accident and other emergency countermeasures to protect the lives and health of employees, and publicize these countermeasures so they are known by all concerned parties.
5. We shall strive to maintain a healthy global environment.
6. We shall observe all domestic and foreign laws, engage in fair transactions, and maintain sound relations with government and politics.
7. We shall disclose information regarding the above items in a timely and appropriate manner.

## Financial Results of Shoshas for the Six Months ended September 30, 2008

(Unit : Millions of Yen, Percentage : changes from the previous year)

Consolidated Financial Results	ITOCHU CORPORATION		MARUBENI CORPORATION		MITSUBISHI CORPORATION		MITSUI & CO.,LTD.		SOJITZ CORPORATION		SUMITOMO CORPORATION		TOYOTA TSUSHO CORPORATION	
Total Assets	5,451,181	(0.8%)	5,499,021	(3.6%)	12,585,244	(2.5%)	9,717,800	(-3.1%)	2,740,488	(2.7%)	7,771,633	(2.6%)	2,648,276	(3.9%)
Liabilities	4,284,185	(1.2%)	4,656,927	(6.0%)	9,372,764	(6.3%)	7,485,556	(1.0%)	2,240,083	(6.2%)	6,073,975	(2.1%)	1,993,043	(5.6%)
Shareholders' Equity	202,241	(0.0%)	262,686	(0.0%)	202,698	(0.7%)	339,620	(1.0%)	160,339	(0.0%)	219,279	(0.0%)	64,936	(0.0%)
Total Shareholders' Equity	1,166,996	(-0.7%)	842,094	(-7.9%)	3,212,480	(-7.2%)	2,232,244	(-14.8%)	500,405	(-10.5%)	1,697,658	(4.6%)	655,233	(-1.1%)
Trading Transactions	6,613,502	(12.1%)	5,881,762	(15.4%)	13,180,573	(19.2%)	8,536,664	(4.0%)	2,905,109	(3.7%)	6,084,287	(6.8%)	3,889,427	(13.5%)
Gross Trading Profit	542,165	(10.3%)	340,114	(20.9%)	757,263	(28.7%)	628,687	(31.4%)	143,661	(7.0%)	539,660	(15.5%)	200,251	(7.1%)
Gross Trading Profit Ratio	8.20%	-	5.78%	-	5.75%	-	7.36%	-	4.95%	-	8.87%	-	5.15%	-
Selling, General and Administrative Expenses	365,448	(2.1%)	200,867	(8.4%)	439,345	(9.6%)	312,101	(5.3%)	93,660	(5.7%)	337,233	(2.4%)	124,507	(5.4%)
Operating Income	164,348	(23.4%)	139,410	(45.8%)	312,526	(66.4%)	310,800	(65.7%)	50,001	(9.4%)	192,903	(44.8%)	75,744	(9.9%)
Financial Balance	3,330	-	-32,971	(116.0%)	74,064	(15.8%)	20,536	(328.5%)	-4,618	(-37.3%)	8,426	-	147	-
Net Income	139,192	(18.9%)	106,439	(32.5%)	289,199	(17.0%)	240,548	(-4.5%)	35,912	(1.3%)	160,292	(43.2%)	45,492	(26.6%)

Non-Consolidated Financial Results															
Cash Dividends	10.5 yen	-	7.0 yen	-	36.0 yen	-	25.0 yen	-	4.5 yen	-	19.0 yen	-	18.0 yen	-	

Consolidated Financial Results	CHORI CO.,LTD.		HANWA CO.,LTD.		HITACHI HIGH- TECHNOLOGIES CORPORATION		INABATA & CO.,LTD.		IWATANI CORPORATION		JFE SHOJI HOLDINGS, INC.		KANEMATSU CORPORATION		NAGASE & CO.,LTD.		SUMIKIN BUSSAN CORPORATION	
Total Assets	70,337	(-2.8%)	578,539	(18.2%)	481,323	(-2.3%)	280,939	(-3.2%)	404,134	(-0.6%)	780,772	(20.2%)	499,927	(-3.5%)	412,554	(-4.8%)	438,724	(2.1%)
Liabilities	51,689	(-6.7%)	472,963	(22.4%)	241,498	(-6.9%)	207,246	(0.3%)	336,909	(-1.6%)	656,459	(22.4%)	433,704	(-6.3%)	206,100	(-8.7%)	383,433	(1.0%)
Shareholders' Equity	6,800	(0.0%)	45,651	(0.0%)	7,938	(0.0%)	9,364	(0.0%)	20,096	(0.0%)	20,000	(0.0%)	27,781	(0.0%)	9,699	(0.0%)	12,335	(0.0%)
Total Shareholders' Equity	18,648	(9.7%)	105,576	(2.4%)	239,825	(2.9%)	73,693	(-11.9%)	67,225	(4.7%)	124,313	(9.7%)	66,222	(20.1%)	206,453	(-0.6%)	55,290	(9.9%)
Trading Transactions	131,874	(6.2%)	911,263	(23.8%)	423,361	(-13.1%)	257,078	(5.6%)	360,119	(5.5%)	1,503,836	(26.1%)	637,089	(3.8%)	384,621	(4.2%)	708,105	(6.4%)
Gross Trading Profit	11,097	(2.1%)	34,920	(35.9%)	58,443	(-20.9%)	15,653	(-3.3%)	67,700	(8.2%)	58,276	(32.2%)	47,692	(3.8%)	39,052	(0.9%)	38,430	(4.9%)
Gross Trading Profit Ratio	8.41%	-	3.83%	-	13.80%	-	6.09%	-	18.80%	-	3.88%	-	7.49%	-	10.15%	-	5.43%	-
Selling, General and Administrative Expenses	7,316	(-7.9%)	15,100	(10.1%)	45,885	(-9.3%)	12,069	(0.9%)	59,822	(2.9%)	28,686	(7.7%)	34,459	(3.2%)	30,151	(7.4%)	25,357	(-1.4%)
Operating Income	3,781	(29.3%)	19,819	(65.4%)	12,557	(-46.0%)	3,584	(-15.4%)	7,878	(78.1%)	29,590	(69.7%)	13,232	(5.5%)	8,901	(-16.2%)	13,072	(19.6%)
Financial Balance	0	-	-559	(-22.9%)	786	(9.9%)	-19	(-94.2%)	-1,189	(3.3%)	-244	(16.2%)	-1,808	(-18.0%)	290	(-2.0%)	-965	(-21.7%)
Net Income	1,976	(17.0%)	10,216	(43.7%)	7,564	(-48.6%)	-407	-	2,665	-	17,807	(51.8%)	3,687	(-33.4%)	5,706	-	7,545	(32.7%)

Non-Consolidated Financial Results																		
Cash Dividends	0.0 yen	-	6.0 yen	-	15.0 yen	-	5.0 yen	-	0.0 yen	-	5.0 yen	-	0.0 yen	-	8.0 yen	-	5.5 yen	-

## REGULAR MEMBERS OF JFTC

### Companies (Total 45)

ASSOCIATED LUMBER & TRADING CO., LTD., CARGILL JAPAN LIMITED, CHORI CO., LTD., CBC CO., LTD., D. NAGATA CO., LTD., HANWA CO., LTD., HITACHI HIGH-TECHNOLOGIES CORPORATION, INABATA & CO., LTD., ITOCHU CORPORATION, IWATANI CORPORATION, JFE SHOJI HOLDINGS, INC., KANEMATSU CORPORATION, KINSHO CORPORATION, KOWA COMPANY, LTD., KYOEI SHOJI CO., LTD., KYOKUTO BOEKI KAISHA, LTD., MARUBENI CORPORATION, MEIWA CORPORATION, METAL ONE CORPORATION, MITSUBISHI CORPORATION, MITSUI & CO., LTD., MORIMURA BROS., INC., NAGASE & CO., LTD., NIPPON STEEL TRADING CO., LTD., N. I. TEIJIN SHOJI CO., LTD., NOMURA TRADING CO., LTD., NOSAWA & CO., LTD., OGURA TRADING CO., LTD., OKAYA & CO., LTD., SANKO MEDICAL SYSTEM CO., LTD., SANKYO SEIKO CO., LTD., SEIKA CORPORATION, SHINYEI KAISHA, SMILE CORP., SOJITZ CORPORATION, SUMIKIN BUSSAN CORPORATION, SUMITOMO CORPORATION, T. CHATANI & CO., LTD., THE TOSHO CO., LTD., TOKYO BOEKI LTD., TOHO BUSSAN KAISHA, LTD., TOYOTA TSUSHO CORPORATION, Y. NISHIDA & CO., LTD., YAGI TSUSHO LTD., YUASA TRADING CO., LTD.

### Associations (Total 24)

COSMETIC IMPORTERS ASSOCIATION OF JAPAN, FUKUOKA FOREIGN TRADE ASSOCIATION, INTERNATIONAL DEVELOPMENT ASSOCIATION OF THE FURNITURE INDUSTRY OF JAPAN, JAPAN AUTOMOBILE IMPORTERS ASSOCIATION, THE JAPAN BANANA IMPORTERS ASSOCIATION, JAPAN CHEMICAL EXPORTERS' ASSOCIATION, JAPAN CHEMICAL IMPORTERS' ASSOCIATION, JAPAN EEL IMPORTERS ASSOCIATION, JAPAN ELECTRONIC PRODUCTS IMPORTERS ASSOCIATION, JAPAN FISH TRADERS ASSOCIATION, JAPAN FOREIGN TRADERS ASSOCIATION, INC., JAPAN MACHINE TOOL IMPORTERS' ASSOCIATION, JAPAN MACHINERY CENTER FOR TRADE AND INVESTMENT, JAPAN OVERSEAS ROLLING STOCK ASSOCIATION, JAPAN PAPER IMPORTERS' ASSOCIATION, JAPAN SHEEP CASING IMPORTERS ASSOCIATION, JAPAN SHIP EXPORTERS' ASSOCIATION, JAPAN TEXTILE EXPORTERS ASSOCIATION, THE JAPAN TEXTILES IMPORTERS ASSOCIATION, JAPAN WATCH IMPORTERS' ASSOCIATION, JAPAN WINES AND SPIRITS IMPORTERS ASSOCIATION, KOBE FOREIGN TRADE ASSOCIATION, KYOTO FOREIGN TRADE ASSOCIATION, THE YOKOHAMA FOREIGN TRADE ASSOCIATION

### CHAIRMAN

Nobuo Katsumata (Chairman, Member of the Board, Marubeni Corporation)

### EXECUTIVE MANAGING DIRECTOR

Masayoshi Amano

### HONORARY CHAIRMAN

Mikio Sasaki (Chairman of the Board, Mitsubishi Corporation)

### MANAGING DIRECTOR

Toshio Sampei

### VICE CHAIRMEN

Shoei Utsuda (President & CEO, Mitsui & Co., Ltd.)

Eizo Kobayashi (President & CEO, Itochu Corporation)

Susumu Kato (President & CEO, Sumitomo Corporation)

Yutaka Kase (President & CEO, Sojitz Corporation)

Yorihiko Kojima (President & CEO, Mitsubishi Corporation)

Junzo Shimizu (President, Toyota Tsusho Corporation)

## Bilingual "Japan's Foreign Trade 2009"

Now Printing

JFTC will publish "Foreign Trade 2009" (Nihon Boeki no Genjo) in next March. A series of this handy booklet, a kind of the "Small-White Paper on Trade" has been widely used among those interested in Japanese economy and trade since first edition in 1976.

Foreign Trade 2009 will be written bilingually in Japanese and English. Booklet will be available for purchase at large book stores and government book centers. Inquiry for mail order should be addressed to [iar@jftc.or.jp](mailto:iar@jftc.or.jp) or by fax 03-3435-5979.