[Provisional translation : Original text is in Japanese]

Outline of the Interim Summary of the Guidelines on Investments in Forest, Forestry, and Wood Industry in Japan that Contribute to Achieving Carbon Neutrality, etc.

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Study Group on Proper Investments in Forest/Forestry/Wood Industry in Japan

I. Expected Role of Forests in Response to Climate Change

- Emissions reduction and CO_2 absorption are important to achieve carbon neutrality by 2050.
- CO_2 is expected to be absorbed by growing trees in forests, and is expected to be stored in wood used for buildings. The use of woody biomass as fuel will replace or reduce fossil fuels.
- The Plan for Global Warming Countermeasures aims to reduce GHG emissions by 46% by FY2030. Of this percentage, 2.7% (approx. 38 million t-CO_2) will be reduced through forest absorption.
- In the United States and other countries, there are forest investments with long-term stable profits. In Japanese forests, however, it is difficult to secure profits due to the long-term slump in stumpage prices, and there have been very few cases of investment in forests.
- In order to establish the cycle of "Harvesting, Utilizing, and Replanting" trees and achieve a virtuous cycle of the environment and economy, it is necessary to return to profitability through "new forestry" by saving labor and reducing costs in forestry and to attract private-sector funds as well as existing grant-aided projects (such as public works) to further promote forest management.

II. Environmental Changes Related to Investments in Forests, etc.

- The flow of ESG investments, which takes into account environmental impacts such as climate change and biodiversity, has accelerated.
- As the impact of environmental contribution has gained recognition, expectations for investments in forests have been raised in Japan.
- In order to secure profits in forestry businesses, it is important to increase the value of forests by adding high value to wood products, using woody biomass energy, adding new income sources such as the J-Credit Scheme, as well as producing wood.
- The investment environment for forests is being improved, as the scope of investment was expanded to forestry under the investment promotion system for agriculture, forestry and fisheries corporations, and Fund for Supporting Carbon Neutrality Projects (tentative name), which include forest conservation as an investment target, is planned to be established under the revised Law Concerning the Promotion of the Measures to Cope with Global Warming.

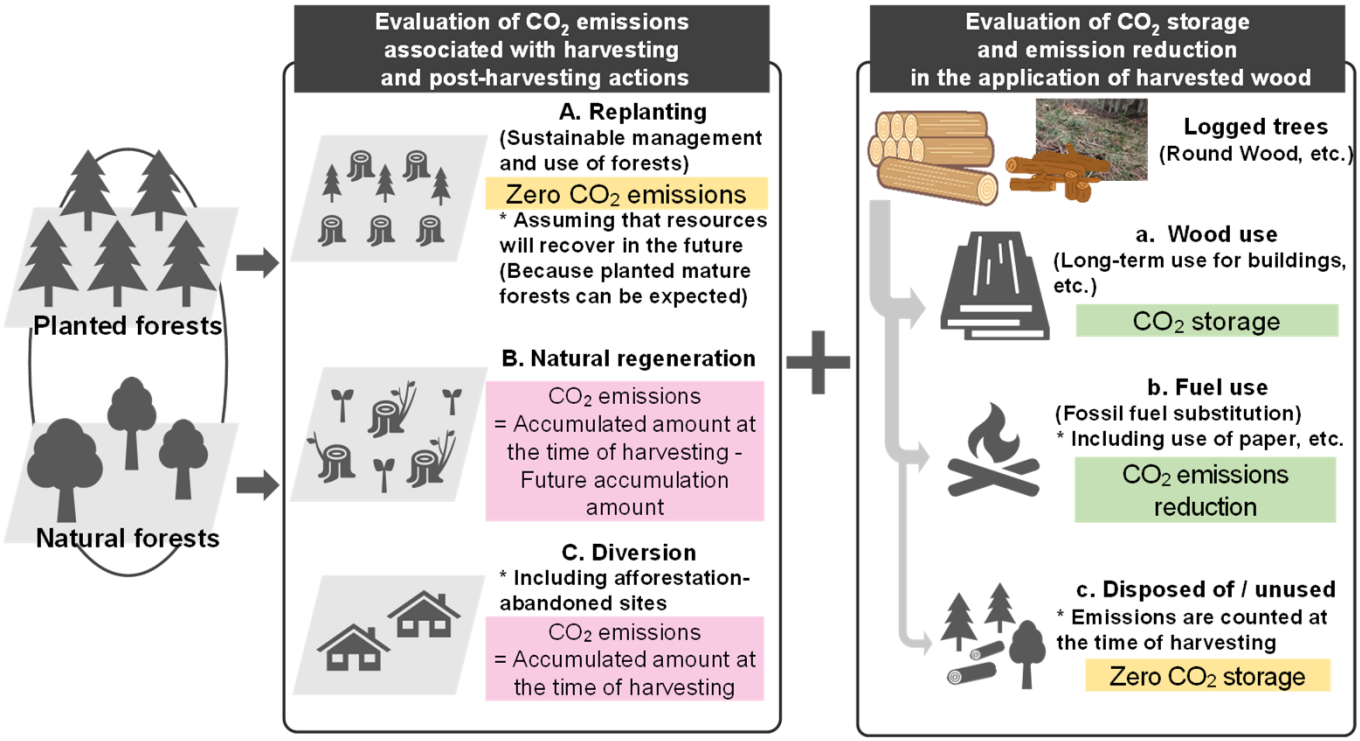
III. How Investment in Forests, etc. Should be Promoted from the Viewpoint of Promoting Carbon Neutrality

- For investment projects for forests, elements such as "contribution to carbon neutrality" and "impact on biodiversity" will be shown with simple evaluation methods, and environment for attracting desirable investment based on the Basic Plan for Forest and Forestry will be prepared.
- Using this evaluation method will:
  1) ensure that investments are not greenwashing;
  2) reduce the issuance costs by investors and administrative burdens; and
  3) prove investment projects' contribution to carbon neutrality.
- As the next step, we plan to prepare explanatory guidelines for general use, which describe case studies and explain the evaluation of impact on biodiversity.

IV. How to Evaluate Investment Projects

1 Evaluating the Contribution to Carbon Neutrality

Contribution to carbon neutrality is comprehensively evaluated using 1) evaluation of CO_2 emissions associated with harvesting and post-harvesting actions and/or 2) evaluation of CO_2 storage and emission reduction in the application of harvested wood.



(1) Evaluation of CO_2 emissions associated with harvesting and post-harvesting actions

CO_2 absorption and emissions are calculated by estimating timber volume based on the yield table, and multiplying the obtained volume by forest area, wood density, biomass expansion factor, root/shoot ratio, carbon fraction, and CO_2 conversion factor.

(2) CO_2 storage amount by using wood

CO_2 storage amount is calculated by multiplying planned supply volume of logs for sawn lumber by yield to obtain product volume, and then multiplying the product volume by wood density, carbon fraction, and the CO_2 conversion factor.

(3) Reduction of CO_2 emissions by fuel use (fossil fuel substitution)

Reduction of CO_2 emissions is calculated by multiplying the planned supply of logs for chips, etc. by wood density, fossil fuel substitution effect per ton of wood, and the CO_2 conversion factor.

2 Evaluating the Contribution to Biodiversity Conservation, etc.

Projects are qualitatively checked whether they conform to "the demonstration of public functions that forests have" and "sustainable and sound development of forestry" specified in the Basic Plan for Forest and Forestry.

(1) Matters that directly lead to the maintenance and demonstration of forests' public functions

- Appropriate forest practices in an entire investment project, including areas that are not harvesting areas
- Acquisition status of forest certification systems
- Act on Promotion of Use and Distribution of Legally-Harvested Wood and Wood Product, etc.

(2) Matters that contribute to the confirmation of the stability of businesses based on the characteristics of investment projects for the forest, forestry, and wood industry

- Create a Collective Forest Management Plan
- Reduce labor and costs for planting
- Improve occupational health/safety and working environment
- Regional contribution, etc.