MALAYSIA:
Scoping Baseline Information for Forest Law Enforcement, Governance and Trade

Baseline study 8

By
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Regional Support Programme for the EU FLEGT Action Plan in Asia

Background
The European Commission (EC) published a Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan in 2003. FLEGT aims not simply to reduce illegal deforestation, but in promoting good forest governance, aims to contribute to poverty eradication and sustainable management of natural resources.

The European Forest Institute (EFI), an international research organisation with its headquarters in Finland, conducts, advocates and facilitates forest research networking at the pan-European level. Under its Policy & Governance programme, the EFI assists in the EU's implementation of the FLEGT Action Plan. In 2007, the EU FLEGT Facility was established, hosted and managed by the EFI. The Facility (i) supports the bilateral process between the EU and tropical timber-producing countries towards signing and implementing "Voluntary Partnership Agreements" (VPAs) under the FLEGT Action Plan, and (ii) executes the regional support programme for the EU FLEGT Action Plan in Asia.

The FLEGT Asia Regional Office (FLEGT Asia) of the EFI's EU FLEGT Facility was formally established in October 2009. FLEGT Asia seeks to collaborate and build synergies with existing regional initiatives and partners in Asia.

The EU FLEGT Facility is managed and implemented by the EFI in close collaboration with the EU.

Goal of FLEGT Asia
The goal of the FLEGT Asia Regional Programme is the promotion of good forest governance, contributing to poverty eradication and sustainable management of natural resources in Asia, through direct support of the implementation of the EU's FLEGT Action Plan.

Strategy
The strategy to achieve this goal focuses on promoting and facilitating international trade in verified legal timber—both within Asia and exported from Asia to other consumer markets. In particular, it aims to enhance understanding of emerging demands in key timber-consuming markets and promote use of systems that assist buyers and sellers of Asian timber and timber products to meet these demands.

Work Programme
The work programme to achieve the Programme’s goal has three phases:

1. **Information Collection**
   Baseline information (trade statistics, product flows, future scenarios, stakeholder identification and engagement strategies), applied to countries in the region. Information on producers, processors, exports and major consumers of exports from this region will be collected and collated. It will then be used to develop training and communication materials; to further define the nature of the capacity-building to be undertaken (who the target beneficiaries and what the training needs are) and form the baseline for monitoring the progress over the three-year duration of the programme.
2. **Capacity-building**

   The second phase is the strengthening of key institutions (companies, trade associations, NGOs, government agencies, Customs organisations, etc.) for improved forest governance in each country and across the region to meet the identified market needs. This will consist of training (at individual level, training of trainers, workshops, pilot studies e.g. on individual supply chains and for Timber Legality Assurance); information dissemination and communications (roadshows, seminars, communication materials, website, etc).

3. **Customs & Regional Collaboration**

   The work to support trade regionally and to invest in Customs capacity in accordance with market requirements will be undertaken in collaboration with other programmes in the region.

   The FLEGT Asia financed this report because it is part of phase 1 and 2 activities.

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### Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>Anon.</td>
<td>Anonymous</td>
</tr>
<tr>
<td>AAC</td>
<td>annual allowable cut</td>
</tr>
<tr>
<td>APFSOS</td>
<td>FAO’s Asia Pacific Forest Sector Outlook Study</td>
</tr>
<tr>
<td>ASEAN</td>
<td>Association of Southeast Asia Nations</td>
</tr>
<tr>
<td>BIMP-EAGA</td>
<td>Brunei-Indonesia-Malaysia-Phillipines East ASEAN Growth Area</td>
</tr>
<tr>
<td>CDM</td>
<td>Center for International Forestry Research</td>
</tr>
<tr>
<td>CIFOR</td>
<td>French Agriculture Research for Development institute</td>
</tr>
<tr>
<td>CITES</td>
<td>Convention on International Trade in Endangered Species of Wild Fauna and Flora</td>
</tr>
<tr>
<td>dbh</td>
<td>diameter at breast height</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
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<tr>
<td>EFI</td>
<td>European Forest Institute</td>
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<tr>
<td>EIA</td>
<td>Environmental Impact Assessment</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>FAO</td>
<td>Food and Agriculture Organisation</td>
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<tr>
<td>FAO FRA</td>
<td>FAO Forest Resources Assessment report</td>
</tr>
<tr>
<td>FAOSTAT</td>
<td>FAO Statistical Database on agriculture, nutrition, fisheries, forestry, food aid, land use and population</td>
</tr>
<tr>
<td>FLEGT</td>
<td>Forest Law Enforcement, Governance and Trade</td>
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<tr>
<td>FMU</td>
<td>Forest management unit</td>
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<tr>
<td>FOB</td>
<td>Free on Board</td>
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<tr>
<td>FSC</td>
<td>Forest Stewardship Council</td>
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<tr>
<td>HS</td>
<td>Harmonized Commodity Description and Coding System</td>
</tr>
<tr>
<td>INECE</td>
<td>International Network for Environmental Compliance and Enforcement</td>
</tr>
<tr>
<td>ITTO</td>
<td>International Tropical Timber Organisation</td>
</tr>
<tr>
<td>KPKKT</td>
<td><em>Kumpulan Pengurusan Kayu Kayan Terengganu</em> (Terengganu Wood management group, a private Malaysian company)</td>
</tr>
<tr>
<td>MTIB</td>
<td>Malaysian Timber Industry Board</td>
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<tr>
<td>MTCC</td>
<td>Malaysian Timber Certification Council</td>
</tr>
<tr>
<td>MTCS</td>
<td>Malaysian Timber Certification Scheme</td>
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<tr>
<td>MYR</td>
<td>Ringgit Malaysia</td>
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<tr>
<td>NFC</td>
<td>National Forestry Council</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<tr>
<td>NLC</td>
<td>National Land Council</td>
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<tr>
<td>PEB</td>
<td><em>Pemberitahuan Ekspor Barangan</em> or Indonesian Customs Declaration form</td>
</tr>
<tr>
<td>PEFC</td>
<td>Programme for the Endorsement of Forest Certification</td>
</tr>
<tr>
<td>PNG</td>
<td>Papua New Guinea</td>
</tr>
<tr>
<td>PRF</td>
<td>Permanent Reserved Forests—similar to Permanent Forest Estates</td>
</tr>
<tr>
<td>RAFT</td>
<td>Responsible Asia Forest and Trade programme (TNC and USAID)</td>
</tr>
<tr>
<td>REDD</td>
<td>Reducing Emissions from Deforestation and Forest Degradation</td>
</tr>
<tr>
<td>RWE</td>
<td>Roundwood equivalent</td>
</tr>
<tr>
<td>SAPU</td>
<td>Security and Asset Protection Unit Sarawak, Sarawak Forestry Corporation</td>
</tr>
<tr>
<td>SEA</td>
<td>Southeast Asia</td>
</tr>
<tr>
<td>SFC</td>
<td>Sarawak Forestry Corporation</td>
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<tr>
<td>SFM</td>
<td>Sustainable Forest Management</td>
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<tr>
<td>SFMLA</td>
<td>Sabah the Sustainable Forest Management Licence Agreement</td>
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<tr>
<td>SKSHH</td>
<td><em>Surat keterangan sahnya hasil hutan</em> or Indonesian royalty collection form</td>
</tr>
<tr>
<td>STA</td>
<td>Sarawak Timber Association</td>
</tr>
<tr>
<td>STIDC</td>
<td>Sarawak Timber Industry Development Corporation</td>
</tr>
<tr>
<td>VPA</td>
<td>Voluntary Partnership Agreement</td>
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UK United Kingdom
UN United Nations
UNESCO United Nations Economic Commission for Europe
USA United States of America
USD US dollar
WCO World Customs Organisation
EXECUTIVE SUMMARY

The European Commission (EC) published a Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan in 2003. The goal of the EU FLEGT Asia Regional Programme, managed and implemented by the European Forest Institute (EFI) is the promotion of good forest governance, contributing to poverty eradication and sustainable management of natural resources in Asia, through direct support of the implementation of the EU’s FLEGT Action Plan. This study on Malaysia is to provide baseline information on Malaysia in the forestry sector including international timber trade.

The study uses official Customs statistics of countries and territories for the period 2000–2009 for analysis. Official export statistics in these categories for each country or territory in this study were compiled and analysed. The analysis uses round wood equivalent to compare data, using a set of conversion factors if data are available in other units.

Forestry in Malaysia comes under the jurisdiction of the respective State Governments. At the State level, co-ordination of cross-sectoral policies that interface with the forestry sector is undertaken through the State Development Council/Committee and the State Executive Council/State Cabinet.

Malaysia’s total land under forests is still high; at over 55%, but faces competition for land use by other sectors, in particular agriculture, settlements and infrastructural development. Some of the forested State land will be converted to other use but those unalienated land is rapidly dwindling through intensive use by the States. It is estimated that permanent forest land will reduce from 18.31 million ha at the end of 2005 to 16.73 million ha by 2020.

Furthermore, the area under forest plantation would increase by 1.75 million hectares by 2020, in view of the government policy to provide soft loans to the private sector to establish 375 000 hectares of forest plantations in the next 15 years in Peninsular Malaysia, the targeted establishment of 500 000 hectares by Sabah by 2020, and the envisaged 1.2 million hectares of forest plantations in Sarawak. Thus, at the end of 2020, forest plantations in Malaysia are expected to total 2.15 million hectares with 55.8% in Sarawak.

Malaysia’s imports is large and ranges from 2.3 to 3.3 million m$^3$ round wood equivalent (RWE) between 2000-2009 for the timber sector and a substantially larger paper sector imports of between 5 and 8 million m$^3$ RWE in the same period. The timber imports were dominated by voluntary Partnership Agreement (VPA) core products of logs, sawn timber, veneer and plywood.

Malaysia is a net exporter of wood-based products. Malaysia imports a small volume of other timber sector products other than VPA core products but exports a much greater volume of those products, in particular other panel products (other than plywood), furniture and mouldings and joinery in the last decade. The exports have been far larger in the same period from 2000-2009 amounting to between 24 and 31 million m$^3$ RWE, again dominated by VPA core products which ranges from 17 to 23 million m$^3$ RWE.

Malaysia imports a substantial RWE volume of products from neighbouring countries which might subsequently, perhaps after further transformation, be exported to the EU. The volume of logs which Malaysia declared as imports from Indonesia declined sharply between 2001 and 2002—reflecting the banning of exports of logs from Indonesia. Official imports of logs into Malaysia from Indonesia are small as Malaysia has a ban on log imports from Indonesia since the latter half of 2002. In terms of import value, Burma accounts for a substantial proportion (but still less than 5 000 m$^3$ in 2009) of the small volume of log imports which Malaysia im-
ports. Due to current sanctions against the Burmese regime, the direct import of wooden products from Burma is prohibited in the EU and the USA, but once they have been further processed in a third country/territory they escape sanctions.

Indonesia prohibits the export of most sawn timber, but its trading partners (including Malaysia) do not have reciprocal regulations prohibiting such imports from Indonesia. Intra-regionally in the last decade, Indonesia declared a small volume (less than 10 000 m³) of sawn timber exported to Malaysia in the years from 2004 to 2009. However, Malaysia’s official statistics says the country imported a large volume of sawn timber from Indonesia in the last decade, particularly during the first half when it reached 820 000 m³ in 2004. By 2009, the volume had declined to 5% of the peak five years earlier at 40 000 m³ due to the export ban on HS4407 rough sawn timber from Indonesia (which excludes some categories of planed sawn timber).

Malaysia imports a large volume of wood-based panels and a smaller quantity of sawn timber from Thailand. In 2009, the imports of other panels products from Thailand increased over 80% from the year before, reaching 760 000 m³ RWE, which is also about 83% of the total 2009 imports of ‘other panels’ imports of Malaysia. The great majority of this is likely to comprise rubber wood or to derive from wood plantations.

Between 2000 and 2009 Indonesia exported a small volume of mouldings and joinery to Malaysia, ranging from 20 000 to 120 000 m³ RWE yearly but for Malaysia, the imports from Indonesia comprises a significant portion between 36% in 2009 to 81% in 2000 of the country’s mouldings and joinery imports. At least some of the mouldings and joinery which Malaysia imports from Thailand might have been supplied to Thailand from neighbouring countries as Thailand has a logging prohibition in natural forests. The majority of the imports by Malaysia from Thailand comprise mouldings and from 2006-2009 this has average around 510 000 m³ RWE.

Malaysia imports paper from a wider range of countries including from a number of EU member States, ranging from 1.5 million tonnes in 2000 to a high of 2.1 million tonnes in 2006 before steadily dropping on a yearly basis to 1.3 million tonnes in 2009. However 20%-30% (1.3 million tonnes in 2009) of the substantial quantity of paper amounting to 5.18 million tonnes in 2009 which was imported into Malaysia was supplied from Indonesia.

For the timber sector in 2009, Malaysia’s exports to the EU accounted for around 6.5% of total exports or 1.61 million m³ RWE. The product mix varies between Peninsular Malaysia, Sarawak and Sabah, with Peninsular Malaysia dominating exports.

For VPA core products of logs, sawn timber, veneer and plywood, Malaysia exports to a wide range of countries. For VPA core products export to the EU, this has ranged from a peak of 1.368 million m³ RWE in 2006, to a low of 809 000 m³ RWE in 2009. The dominant EU importers are UK (peak of 627 000 m³ RWE in 2008 in the last decade), and the Netherlands which has been decreasing its imports in the last decade reaching 217 000 m³ RWE in 2009.

For other timber sector products exports other than VPA core products, Malaysia exported well over 7 million m³ RWE from 2005 to 2009, reaching a peak of 8.111 million m³ RWE in 2008. The countries mostly differ to those that imports primary timber products from Malaysia. In North America region, USA dominates imports with around 0.985 million m³ RWE in 2009. For non-VPA core products export to the EU, this has seen a steady rise from 551 000 m³ RWE in 2000, to around 800 000-900 000 m³ RWE in the second half of the last decade. The UK was the largest importer at 289 000 m³ RWE in 2009 and the Netherlands and Germany farther behind at 102 000 m³ RWE and 105 000 m³ RWE in 2009.
For the paper sector, Malaysia has seen a steady rise in exports from 2000-2009, from 320 000 tonnes in 2000 to 570 000 tonnes in 2009. Majority of the exports are to countries in East Asia. EU was a small importer of only 21 000 tonnes in 2009.

A small volume of FSC-certified wood-based products is derived from forest in Peninsula Malaysia and Sabah (specifically Deramakot Forest Reserve). A larger volume derives from timber plantations of Sabah Softwoods in Sabah which is FSC certified. Roughly 150 000 m³ of logs are extracted annually from forest which is certified under the Malaysia Timber Certification Scheme (MTCS). As at the end of July 2010, 4.8 million hectares of Permanent Reserved Forest (as nine FMUs) were MTCS-certified. Of this, over 4.6 million hectares (as nine FMUs) were Programme for the Endorsement of Forest Certification (PEFC) certified. The EU accounts for almost all the timber exported from Malaysia with a chain of custody certificate under the MTCS brand. The Netherlands, the UK and Belgium, respectively, were the destinations for roughly 55%, 25% and 10% of the total exported during the year up to the end of July 2010. Denmark, France and Germany accounted for most of the remainder.

There is a key role to play for Customs in Malaysia in monitoring and controlling international timber trade. Customs officials have the ability to monitor and control the trade through provisions in Customs legislation, and also the extensive enforcement capabilities to enforce Customs regulations and to support provisions in other legislation, as appropriate, when it comes to illegality in trade.

Discrepancies between the statistics of what Malaysia declares as exports (or imports) and what partner countries declare as imports from (or exports to) Malaysia has been documented. However, remedial measures, for example facilitating real time information exchange between relevant Customs authorities, do not seem to have taken place except for hazardous and toxic waste shipments. Cross-referencing of export information for a shipment with that supplied on import is sometimes possible if specific concerns arise, but such verification does not happen routinely. There is no standard designated documentation to use to double-check information in the Customs declaration forms in either exporting or importing countries.

Illegal logging and illegal timber trade can be further controlled by Customs through changes in documents submission requirements, control which should then be reflected in the narrowing of bilateral timber trade statistics discrepancies. The Customs export declaration form, has the potential to mirror the relevant data in the VPA, and possibly to be used to verify data from the operators under the Timber Regulation. The statistics could be analysed quickly, as the data would be captured by Customs as a matter of course. If the Customs data were to differ from the VPA and Timber Regulation data of the operator, then it would be a cause for further inspection and investigation. Customs authorities have the required legislation to impose additional requirements for legality and controls, such as the requirement for forestry departments to verify and certify the legality of a shipment. However, this has to be activated through requests from other government agencies that would like to use Customs controls for additional verification and control.

The EU should consider the following recommendations to assist Malaysia in meeting the VPA and EU Timber Regulation requirements:

- Enhancement of the awareness and knowledge of the VPA and the EU Timber Regulation, and their implications, among all stakeholders in the country. This is particularly important for those industries in the chain supplying EU markets, which will need to ensure they have clear evidence of the origin of their raw material and verification of its legality. It is recommended that more awareness, training and capacity-building among the industry, civil society and government agencies be conducted. A particular challenge with the
Timber Regulation is that the legal requirements in the country for forestry and timber trade preclude the need to have a full traceability system. Since there is legal requirement to have a traceability system in place, it will be difficult for operators in the EU to obtain legal documents that are fully traceable back to the stump. Hence, the evidence that might be needed for operators and monitoring organisations under the Timber Regulation has to be from a combination of legal documentation and company systems, records and procedures.

- Encouragement to Malaysia to enhance its forestry governance and technical support to ensure that the legality framework of the country is robust and can meet the Voluntary Partnership Agreement (VPA) or the EU Timber Regulation requirements.

- Expand the scope of coverage in the VPA negotiations to include all timber products as Malaysia exports substantially more non-VPA timber products to the EU than VPA core products.

- Assistance in developing ways of capturing national data on domestic trade. The EU can assist Malaysia to develop a system for data collection, compilation and analysis to determine the scale and scope of domestic consumption. This information, coupled with production data, imports and exports, can give a good basis for evaluating and revising national policies, legislation and systems.

- Assist Malaysia in ensuring that transparent, fully informed stakeholders’ consultations are conducted regularly at all stages of the VPA negotiation and after, and ensure that recommendations made during the consultations are adopted and reported back.

- Assist NGO stakeholders in capacity building, awareness raising and other support as needed so that those organisations can assist to monitor and provide feedback on the implementation of mechanisms related to legality.

- Engagement with other countries and territories that import timber from SEA but which may not have comparatively stringent import requirements, including the East Asia markets (in particular South Korea), India and the Middle East. For countries such as China and Japan, which are already in dialogue with the EU, the EU should identify specific areas for collaboration, such as Customs co-operation.

- To look further into the movement of timber from Indonesia to Malaysia. And to look into the movement of round log from Indonesia, Papua New Guinea or Solomon Islands to Malaysia (including into Free Trade Zones) although covered by log supply contracts authenticated by the Malaysian embassies or consular offices on the country of origin.

- To look further into the Malaysia-Philippines timber trade, in particular Malaysia’s export since it is one of the main exporter of timber products to the Philippines to assist Philippines in clarifying its imports.
1. INTRODUCTION

This study provides overview baseline information relating to timber trade, industry and forest governance within Malaysia. It draws on existing national data and recommends steps for further analysis and monitoring, and proposes an engagement strategy for moving the Asia Regional Programme of the European Union (EU)'s Forest Law Enforcement, Governance and Trade (EU FLEGT) forward in its implementation with key stakeholders in Malaysia.

Malaysia is a federation of thirteen States and three Federal Territories with eleven of the States and the Federal Territories of Kuala Lumpur and Putrajaya located in Peninsular Malaysia, while the State of Sabah together with the Federal Territory of Labuan and the State of Sarawak are located in the island of Borneo.

The total land area of Malaysia is estimated to be 32.83 million hectares with Peninsular Malaysia, Sabah and Sarawak having 13.16 million hectares, 7.37 million hectares, and 12.30 million hectares respectively. Peninsular Malaysia is separated from Sabah and Sarawak by 720 km of the South China Sea, giving the country a coastline of almost 4,830 km.

The forests of Malaysia are extremely complex ecosystems and are richer in tree species than in similar areas of Africa and South America. There are at least 15,000 species of flowering plants, of which 2,500 are tree species; 286 species of mammals; 600 species of birds; 140 species of snakes; 150 species of frogs and thousands of species of insects, many of which are still being documented. In addition, over 1,300 plant species have been identified as having potential pharmaceutical properties with some of them currently being used as traditional herbal medicine.

2. METHODOLOGY

The study uses official Customs statistics of countries and territories for the period 2000–2009 for analysis—this period is frequently referred to as the “last decade” in this report. The reason for using the Customs data is elaborated upon in the section on Customs. In terms of the data sets that are the most readily available and accessible, custom statistics are one of the few data sets that are comparable across countries. The official Customs statistics of the study countries and territories are classified according to the Harmonized Commodity Description and Coding System (HS) of the World Customs Organization (WCO), an internationally standardized system of names and numbers for categorizing traded products. The HS codes used by all Customs agencies which are members of the WCO are similar, to the 6 digit level. However, not all the categories of the HS codes are used by each country/territory as it depends on the products in trade by that country/territory. The statistics considered were solely those under HS codes for wood products under HS44. Official export statistics in these categories for each country or territory in this study were compiled and analysed.

The study did not use data from FAO Statistical Database on agriculture, nutrition, fisheries, forestry, food aid, land use and population data (FAOSTAT) as the data are usually two years out of date and are incomplete. The FAOSTAT data also do not include wood products such as furniture, flooring, and moulding. UN Comtrade was used where appropriate but some of its data are based on a constant factor of value and so the various anomalies would need to be revised.

For several products, Eurostat no longer requires that weight is declared for intra-EU trade. This makes it difficult to identify the not infrequent anomalies in Eurostat's volume data. Although the statistics published by Eurostat should be identical to those published by each EU
Member State, they are not, and judging by the UK’s data, Eurostat data are the less reliable of the two.

The USA does not declare more than value for several high unit value products (which account for a significant proportion of trade).

The statistics data that have been abstracted and processed for Indonesia, Badan Pusat Statistik (Department of Statistics) (nine digit HS codes, monthly data), the sum of importing country/territory statistics (for volume or weight), for the European Union (EU), Eurostat (http://epp.eurostat.ec.europa.eu/newxtweb/ eight digit HS codes, monthly data).

Roundwood equivalent (RWE) volume is a measure of the volume of logs used in making a given volume or weight of a wood-based product. For each type of product, the volume of logs used might vary, perhaps substantially, depending on such factors as the type of mill and the diameter and quality of those logs. In this assessment, RWE has been estimated by multiplying source data (revised where anomalous or estimated from trade value) by the following: in cubic metres per cubic metre—1.4 (particleboard), 1.8 (sawn timber and fibre board), 1.9 (veneer and mouldings), 2.3 (plywood); and, in cubic metres per tonne: 1.6 (wood chips), 2.8 (wooden furniture), 3.5 (paper), 4.5 (wood-based pulp), zero (pulp based on waste paper). In order to avoid double counting, it might be appropriate to modify such factors if a substantial proportion of the wood raw material actually used in making a given type of product was already accounted for in the RWE volume of the products from which that raw material was derived.

It is important to note that the statistics compiled contain some anomalies and inconsistencies and should therefore be taken as indicative of the extent of the trade only. This study will recommend some protocol changes for Customs that could help to narrow and reduce such anomalies and inconsistencies in Customs statistics.

“Paper sector products” in this study equate to wood chips and mill residues, wood-based pulp and paper; timber sector products are all wood-based products other than fuel wood and paper sector products. Voluntary Partnership Agreement (VPA) core timber products are logs, sawn timber, veneer and plywood; and non-VPA timber products are all other timber products in trade.

The study recommends the use of national export and import statistics as the most cost effective methodology for periodic monitoring of baseline data. A comparative analysis approach should be carried out, on a monthly basis, using specific and corresponding HS codes. The analysis and reasoning for the methodology of using the statistics is elaborated upon in the section on Customs.

### 3. POLICY AND LEGISLATION

Under the Malaysian Constitution, forestry comes under the jurisdiction of the respective State Governments. As such, each State is empowered to enact laws on forestry and to formulate forestry policy independently. The executive authority of the Federal Government only extends to the provision of advice and technical assistance to the States, training, the conduct of research, and the maintenance of experimental and demonstration stations.

In order to facilitate the adoption of a co-ordinated and common approach to forestry, as well as to reconcile cross-sectoral policies that interface with the forestry sector, the National Forestry Council (NFC) was established on 20 December 1971 by the National Land Council (NLC). The NLC is empowered under the Malaysian Constitution to formulate a national policy for the promotion and control of use of land for mining, agriculture and forestry. The NFC used
to serve as a forum for the Federal and the State Governments to discuss and resolve common problems and issues relating to forestry policy, administration and management, as well as to enhance co-operation between the Federal and State Governments, so as to ensure a co-ordinated approach in the implementation of policies and programmes related to forestry. All the decisions of the NFC have to be endorsed by the NLC. The responsibility for implementing the decisions of the NFC lies with the State Governments unless it is within the authority of the Federal Government. As of 2010, the NFC was disbanded and all forestry matters revert back to the NLC which in any case is the highest body that formulates relevant land related policies.

At the State level, co-ordination of cross-sectoral policies that interface with the forestry sector is undertaken through the State Development Council/Committee and the State Executive Council/State Cabinet.

In 1977, a National Forestry Policy was formulated and approved by the NFC which was later endorsed by the NLC on 19 April, 1978. This Policy is currently being implemented by all the States in Peninsular Malaysia, while the objectives of this Policy are also being implemented in Sabah. In Sarawak, the Forest Policy which was approved by the Governor-in-Council in 1954 and has similar provisions to the National Forestry Policy has remained the basis for forestry practices. However, with the concern expressed by the world community over the importance of biological diversity conservation and the sustainable use of forest genetic resources, as well as the role of local communities in forest development, the National Forestry Policy was revised in 1992 to address these important aspects of forestry. The salient features of the National Forestry Policy, 1978 (Revised 1992) are as follows:

(i) To dedicate as Permanent Forest Estate sufficient areas (Permanent Reserved Forests) strategically located throughout the country in accordance with the concept of rational land use, which will be managed and classified under four major functions, namely:

* Protection Forest for ensuring favourable climatic and physical conditions of the country, safeguarding of water resources, soil fertility and environmental quality, conservation of biological diversity and minimization of damage by floods and erosion to rivers and agricultural lands;

* Production Forest for the supply in perpetuity at reasonable costs of all forms of forest produce which can be economically produced within the country and are required for agricultural, domestic and industrial purposes, and for export;

* Amenity Forest for the conservation of adequate forest areas for recreation, ecotourism and in enhancing public awareness in forestry; and

* Research and Education Forest for the conduct of research and education.

(ii) To implement a planned programme of forest development through forest regeneration and rehabilitation operations in accordance with prescribed silvicultural practices;

(iii) To promote efficient harvesting and use within the Production Forest for maximum economic benefits from all forms of forest produce and to stimulate the development of appropriate forest industries commensurate with the resource flow, as well as to create employment opportunities;
To increase the production of non-wood forest products through scientific and sustainable management practices to meet local demands and related industries;

To provide for the conservation of biological diversity and areas with unique species of flora and fauna;

To encourage private sector investment in forest development through the establishment of forest plantation;

To undertake and support intensive research programmes in forestry and forest products aimed at enhancing maximum benefits from the forest;

To undertake and support a comprehensive programme of forestry training at all levels for the public and private sectors in order to ensure adequate supply of trained manpower to meet the requirements of the forest sector and the forest-based industries;

To promote education in forestry and undertake publicity and extension services in order to generate better understanding among the community of the multiple values of forest;

To set aside specific areas for the purpose of forestry education and other scientific studies;

To promote active local community participation in various forestry development projects and to enhance its involvement in agro-forestry programmes; and

To develop a comprehensive programme in community forestry to cater for the needs of the rural and urban communities.

To ensure effective forest management and the implementation of the National Forestry Policy in Malaysia, various forestry enactments and ordinances have been formulated and enforced by the respective State authorities since the early 1900s. These enactments and ordinances were further uniformized and strengthened in areas of forest management planning and operations through the adoption of the National Forestry Act and the Wood-based Industries Act in October 1984. These two Acts are currently being enforced by all the States in Peninsular Malaysia as Sabah and Sarawak have their own forest and forest-related enactments and ordinances, such as the Sabah Forest Enactment, 1968 amended 1992; Sabah Parks Enactment, 1984; Sabah Cultural Heritage (Conservation) Enactment, 1997; Sabah Wildlife Conservation Enactment, 1997; Sabah Water Resources Enactment, 1998; Sabah Biodiversity Enactment, 2000; Sabah Environment Protection Enactment, 2002; Sarawak Forests Ordinance, 1954 amended 1999; Sarawak National Parks and Nature Reserves Ordinance, 1998; Sarawak Wildlife Protection Ordinance, 1998; Sarawak Biodiversity Centre Ordinance, 1997; and the Sarawak Natural Resource and Environment Ordinance, 1994. These enactments and ordinances are also augmented by other legislation on land use, such as the Water Enactment, 1935; Land Conservation Act, 1960; Environmental Quality Act, 1974; Protection of Wildlife Act, 1972; and the National Parks Act, 1980.

The National Forestry Act, 1984 requires all the State Forestry Departments in Peninsular Malaysia to classify the Permanent Reserved Forests (PRFs) into one or more of the following functional use categories through a combination of slope and elevation classes:

(i) timber Production Forest under sustained yield;
(ii) soil protection forest;
(iii) soil reclamation forest;
(iv) flood control forest;
(v) water catchment forest;
(vi) forest sanctuary for wildlife;
(vii) virgin jungle reserved forest;
(viii) amenity forest;
(ix) education forest;
(x) research forest; and
(xi) forest for federal purposes.

To further strengthen the provisions for safeguarding and protecting the forest resources from encroachment and illegal logging, the National Forestry Act was amended in 1993. In this context, the penalty for the commission of any forest offence was increased from the maximum penalty of Ringgit Malaysia (MYR) 10,000 (USD 3137)\(^1\) or an imprisonment for a term not exceeding three years or both to a maximum penalty of MYR 500,000 and an imprisonment of not less than one year, but not exceeding 20 years. The amended National Forestry Act has also allowed the Forestry Departments in Peninsular Malaysia to request assistance from the Armed Forces to undertake surveillance of forestry activities, especially in curbing illegal logging, encroachment of forested areas and timber theft.

In addition, strategies in the National Policy on Biological Diversity, 1998 and the National Environment Policy, 2002 will guide Malaysia’s growth towards sustainable development through a comprehensive approach in managing the environment and natural resources. In this regard, natural resource areas, particularly those containing biologically rich habitats and ecosystems will be established and maintained as zones for the conservation and protection of indigenous flora and fauna, as well as genetic resources, so as to ensure the integrity of biological diversity and life support systems.

To mitigate the adverse impacts of forestry activities on the environment, the Environmental Quality Act, 1974 was amended to include Environmental Impact Assessments (EIAs) in 1985 which, among other things, requires any land development schemes converting an area of 500 hectares or more of forestland into a different land use, logging covering an area of 500 hectares or more, and conversion of mangrove forests for industrial, housing or agricultural use covering an area of 50 hectares or more, to conduct Environmental Impact Assessment (EIA) reports before such activities could commence.

Due to declining wood supply and because it is recognized that forest plantations that can yield a higher volume of timber per unit area and in a shorter period of time will relieve pressure from over-harvesting the natural forests, as well as encourage private sector’s investment in forest plantation development to supplement future wood supply of the country, the Government of Malaysia granted full tax exemption under the Pioneer Status for ten years or 100% tax exemption under the Investment Tax Allowance for five years, effective from 29 October, 1993 for forest plantation establishment undertaken by the private sector. To further encourage the private sector to establish and develop forest plantations, additional incentives were granted in 1999 under Schedule 4A of the Approved Agricultural Projects for 75 ap-

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\(^1\) US Dollar (USD) 1.00 is equivalent to Ringgit Malaysia (MYR) 3.1370.
proved species with rotation cycles varying from a minimum of 6 years to a maximum of 50 years depending on the type of species planted, while the minimum area planted had to be at least 50 hectares.

In May 2003, further incentives were also granted under the “Group Relief” where a company is allowed to reduce its tax burden by offsetting its losses from profit of another company within the same group. In addition to the qualifying capital expenditures as allowed under Schedule 4A of the Approved Agricultural Projects, companies are also allowed to include expenses incurred in pre-operating activities, such as:

(i) preparation of the Forest Management Plan, EIA report, etc.;

(ii) fees related to the procurement of timber certification;

(iii) surveying work; and

(iv) enrichment planting, silviculture, pest and diseases control and fire management.

4. FOREST RESOURCES

At the end of 2005, total land under forests in Malaysia was estimated to be 18.31 million hectares (55.8%) of its total land area; lands under perennial agricultural tree crops such as rubber, oil palm, cocoa and coconut, and those under other land usage such as for settlements and infrastructural development totalled 5.55 million hectares (16.9%) and 8.97 million hectares (27.3%) of its total land area respectively. Hence, at the end of 2005, Malaysia had a total tree cover of 23.86 million hectares (72.7%) of its total land area. The details by regions are as in Table 1.

<table>
<thead>
<tr>
<th>Region</th>
<th>Land Area</th>
<th>Natural Forest</th>
<th>Forest Plantation</th>
<th>Agricultural Tree Crops</th>
<th>Other Land Uses</th>
<th>Total Forest Area</th>
<th>Percentage Total of Forest Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peninsular Malaysia</td>
<td>13.16</td>
<td>5.81</td>
<td>0.07</td>
<td>3.32</td>
<td>3.96</td>
<td>5.88</td>
<td>44.7</td>
</tr>
<tr>
<td>Sabah</td>
<td>7.37</td>
<td>4.16</td>
<td>0.20</td>
<td>1.50</td>
<td>1.51</td>
<td>4.36</td>
<td>59.2</td>
</tr>
<tr>
<td>Sarawak</td>
<td>12.30</td>
<td>7.94</td>
<td>0.13</td>
<td>0.73</td>
<td>3.50</td>
<td>8.07</td>
<td>65.6</td>
</tr>
<tr>
<td>Malaysia</td>
<td>32.83</td>
<td>17.91</td>
<td>0.40</td>
<td>5.55</td>
<td>8.97</td>
<td>18.31</td>
<td>55.8</td>
</tr>
</tbody>
</table>

*Source: FAO (2009)*

In terms of major forest types, it was estimated that Malaysia in 2005 had 15.97 million hectares of dry inland forest, 1.36 million hectares of swamp forest and 0.58 million hectares of mangrove forest, with the balance of 0.40 million hectares being forest plantation. The distribution of these major forest types by regions is as shown in Table 2. It is evident from the Table 2 that the proportion of forest is much higher in Sabah and Sarawak than in Peninsular Malaysia which is more developed.
Table 2: Distribution and extent of major forest types by regions in Malaysia, 2005 (million ha)

<table>
<thead>
<tr>
<th>Region</th>
<th>Land Area</th>
<th>Natural Forest</th>
<th>Forest Plantation</th>
<th>Total Forested Land</th>
<th>Percentage Total of Forested Land</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Dry Inland Forest</td>
<td>Swamp Forest</td>
<td>Mangrove Forest</td>
<td></td>
</tr>
<tr>
<td>Peninsular Malaysia</td>
<td>13.16</td>
<td>5.41</td>
<td>0.30</td>
<td>0.10</td>
<td>0.07</td>
</tr>
<tr>
<td>Sabah</td>
<td>7.37</td>
<td>3.70</td>
<td>0.12</td>
<td>0.34</td>
<td>0.20</td>
</tr>
<tr>
<td>Sarawak</td>
<td>12.30</td>
<td>6.86</td>
<td>0.94</td>
<td>0.14</td>
<td>0.13</td>
</tr>
<tr>
<td>Malaysia</td>
<td>32.83</td>
<td>15.97</td>
<td>1.36</td>
<td>0.58</td>
<td>0.40</td>
</tr>
</tbody>
</table>

Source: FAO (2009)

Of the total forested areas, Malaysia has designated 15.30 million hectares as Permanent Reserve Forests (PRF) which is under sustainable management. Approximately 12.19 million hectares are Production Forests with the remaining 3.11 million hectares being Protection Forests. The details by regions are summarized in Table 3.

Table 3: Permanent Reserved Forests (PRFs) by regions in Malaysia, 2005 (million ha)

<table>
<thead>
<tr>
<th>Region</th>
<th>Protection Forest</th>
<th>Production Forest</th>
<th>Total Land Area Under PRFs</th>
<th>Percentage of Total Land Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peninsular Malaysia</td>
<td>1.52</td>
<td>3.18</td>
<td>4.70</td>
<td>35.7</td>
</tr>
<tr>
<td>Sabah</td>
<td>0.59</td>
<td>3.01</td>
<td>3.60</td>
<td>48.8</td>
</tr>
<tr>
<td>Sarawak</td>
<td>1.00</td>
<td>6.00</td>
<td>7.00</td>
<td>56.9</td>
</tr>
<tr>
<td>Malaysia</td>
<td>3.11</td>
<td>12.19</td>
<td>15.30</td>
<td>46.6</td>
</tr>
</tbody>
</table>

Source: FAO (2009)

Malaysia has also designated 2.44 million hectares of conservation areas which are totally protected by legislation as shown in Table 4. Of these, 2.05 million hectares are located outside the PRFs, whilst another 0.39 million hectares are located within the PRFs. Hence, with the Protection Forests of the PRFs of 3.11 million hectares, the totally protected areas in Malaysia are now estimated to be 5.16 million hectares, representing 28.2% of its total forested areas or 15.7% of its total land area.
Table 4: Area under National and State Parks, and Wildlife and Bird Sanctuaries by regions in Malaysia, 2005 (million ha)

<table>
<thead>
<tr>
<th>Region</th>
<th>National Park/State Park</th>
<th>Wildlife and Bird Sanctuary</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peninsular Malaysia</td>
<td>0.62*</td>
<td>0.31**</td>
<td>0.93</td>
</tr>
<tr>
<td>Sabah</td>
<td>0.25</td>
<td>0.16#</td>
<td>0.41</td>
</tr>
<tr>
<td>Sarawak</td>
<td>0.80*</td>
<td>0.30**</td>
<td>1.10</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1.67</td>
<td>0.77</td>
<td>2.44</td>
</tr>
</tbody>
</table>

Source: FAO (2009)
+ A total of 0.18 million hectares is located within the PRFs of Peninsular Malaysia.
++ A total of 0.08 million hectares is located within the PRFs of Peninsular Malaysia.
# A total of 0.13 million hectares is located within the PRFs of Sabah.
* Includes 0.40 million hectares of proposed national parks.
** Includes 0.03 million hectares of proposed wildlife sanctuaries and nature reserves.

Based on the forested areas in 2005, the total growing stock in the natural forests for all trees of 10 cm diameter at breast height (dbh) and above in Malaysia was estimated to be 4426.77 million m$^3$ while the total merchantable volume of all trees having 45 cm dbh and above, excluding mangrove forests, was estimated to be 2332.60 million m$^3$ as shown in Table 5. In addition, the total growing stock of the current 0.40 million hectares of forest plantations in Malaysia which are planted mainly with Acacia mangium, Gmelina arborea and Paraserianthes falcataria is estimated to be 58 million m$^3$, based on a weighted average of 145 m$^3$ per hectare, with 50% of the growing stock in Sabah.

Table 5: Total growing stock and merchantable volume by regions and major forest types in Malaysia, 2005 (million m$^3$)

<table>
<thead>
<tr>
<th>Region</th>
<th>Dry Inland Forest</th>
<th>Swamp Forest</th>
<th>Mangrove Forest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>≥10 cm dbh</td>
<td>≥45 cm dbh</td>
<td>≥10 cm dbh</td>
<td>≥45 cm dbh</td>
</tr>
<tr>
<td>Peninsular Malaysia</td>
<td>1,357.91</td>
<td>898.06</td>
<td>81.60</td>
<td>18.30</td>
</tr>
<tr>
<td>Sabah</td>
<td>869.50</td>
<td>432.90</td>
<td>13.20</td>
<td>6.48</td>
</tr>
<tr>
<td>Sarawak</td>
<td>1,859.06</td>
<td>926.10</td>
<td>103.40</td>
<td>50.76</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4,086.47</td>
<td>2,257.06</td>
<td>198.20</td>
<td>75.54</td>
</tr>
</tbody>
</table>

Source: FAO (2009)

For the PRFs in Malaysia, the total growing stock, at the end of 2005, for all trees having 10 cm dbh and above was estimated to be 3833.09 million m$^3$ with 780.42 million m$^3$ and 3052.67 million m$^3$ in the Protection and Production Forests, respectively. It was further estimated that the total merchantable volume for all trees having 45 cm dbh and above and excluding mangrove forests was 2041.57 million m$^3$ with the protection and Production Forests having 434.93
million m³ and 1606.64 million m³ respectively. The details of the total growing stock and merchantable volume in the PRFs in Malaysia by regions and functions are as shown in Table 6.

Table 6: Total growing stock and merchantable volume of the Permanent Reserved Forests (PRFs) by region and function in Malaysia, 2005 (million m³)

<table>
<thead>
<tr>
<th>Region</th>
<th>Protection Forest</th>
<th>Production Forest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>≥10 cm dbh</td>
<td>≥45 cm dbh</td>
<td>≥10 cm dbh</td>
</tr>
<tr>
<td>Peninsular Malaysia</td>
<td>383.68</td>
<td>240.16</td>
<td>802.70</td>
</tr>
<tr>
<td>Sabah</td>
<td>145.26</td>
<td>71.74</td>
<td>741.09</td>
</tr>
<tr>
<td>Sarawak</td>
<td>251.48</td>
<td>123.03</td>
<td>1,508.88</td>
</tr>
<tr>
<td>Malaysia</td>
<td>780.42</td>
<td>434.93</td>
<td>3,052.67</td>
</tr>
</tbody>
</table>

Source: FAO (2009)

Based on the estimated growing stock in the natural forests for all trees of 10 cm dbh and above for Peninsular Malaysia, Sabah and Sarawak, and using the Tier 1 estimated default values from the Intergovernmental Panel on Climate Change-Good Practice Guidance for Land Use, Land-use Change and Forestry, 2003, the total carbon stock in the natural forests in Malaysia at the end of 2005 was estimated to be 3442.33 million tonnes, with the Peninsular, Sabah and Sarawak having 1138.71 million tonnes, 751.63 million tonnes and 1551.99 million tonnes respectively as shown in Table 7.

The latest Malaysia Country Report of the FAO Forest Resources Assessment report (FAO FRA) 2010 (FAO, 2010) reported that Malaysia in 2010 had a total of 20.46 million hectares, inclusive of 1.13 million hectares of rubber plantation, or 62.3% of its total land area under forests. Of this total, 12.74 million hectares (62.3%) were for production; 2.69 million hectares (13.1%) for protection of soil and water, 1.95 million hectares (9.5%) for conservation of biological diversity, and 3.08 million hectares (15.1%) for multiple use.

In terms of forest status, the Malaysia Country Report of the FAO FRA 2010 further estimated that Malaysia in 2010 had a total of 3.82 million hectares (18.7%) of primary forests; 14.83 million hectares (72.5%) of naturally regenerated forests; and 1.81 million hectares (8.8%) of planted forests. It has also been reported that 14.30 million hectares or 69.9% of the total forests in 2010 were designated as Permanent Forest Estate, with 4.64 million hectares within protected areas. The country, in 2010, still has 0.58 million hectares of mangrove forest, as in 2005.

Based on the forest area in 2010, the Malaysia Country Report of the FAO FRA 2010 estimated that Malaysia in 2010 had a total growing stock of 4,239 million m³ for all trees with 10 cm dbh and greater. Based on this available growing stock, the total forest carbon in Malaysia has been estimated at 3,255 million tonnes comprising 2,590 million tonnes of carbon in above-ground biomass; 622 million tonnes of carbon in below-ground biomass; and 43 million tonnes of carbon in litter (Table 7).
Table 7: Carbon stock of the natural forests by region in Malaysia, 2005 (million tonnes)

<table>
<thead>
<tr>
<th>Region</th>
<th>Carbon in Above-ground Biomass</th>
<th>Carbon in Below-ground Biomass</th>
<th>Carbon in Dead Wood</th>
<th>Carbon in Litter*</th>
<th>Total Carbon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peninsular Malaysia</td>
<td>790.56</td>
<td>189.74</td>
<td>147.05</td>
<td>11.36</td>
<td>1,138.71</td>
</tr>
<tr>
<td>Sabah</td>
<td>521.64</td>
<td>125.19</td>
<td>97.03</td>
<td>7.77</td>
<td>751.63</td>
</tr>
<tr>
<td>Sarawak</td>
<td>1,078.25</td>
<td>258.78</td>
<td>200.55</td>
<td>14.41</td>
<td>1,551.99</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2,390.45</td>
<td>573.71</td>
<td>444.63</td>
<td>33.54</td>
<td>3,442.33</td>
</tr>
</tbody>
</table>

Source: FAO (2009)
* For Dry Inland Forest only.

Currently, under the Ninth Malaysia Plan, 2006-2010, the annual allowable coupe for the natural Production Forests of the PRFs in Malaysia is estimated to be 266,940 hectares with 36,940 hectares, 60,000 hectares and 170,000 hectares in Peninsular Malaysia, Sabah and Sarawak, respectively. This is expected to yield annually 15.18 million m$^3$ of round logs with 3.13 million m$^3$, 3.55 million m$^3$ and 8.50 million m$^3$ emanating from Peninsular Malaysia, Sabah and Sarawak, respectively.

The Federal Government of Malaysia has developed plans to establish 375,000 hectares of forest plantation in the next 15 years, at an annual planting target of 25,000 hectares which are expected to yield 5 million m$^3$, and at an estimated total cost of MYR 2.2 billion (USD700 million). Under this initiative, the Government provides MYR 5,400 (USD1700) and MYR 3,200 (USD1000) for companies to plant a hectare of *Hevea* species (rubber trees) and non-*Hevea* species respectively, and upon harvesting the matured trees the companies have to repay the government at 3.5% for the soft loans provided to them.

In addition, Sabah also has set a target to establish 500,000 hectares of forest plantation by the year 2020, while Sarawak is expected to have a total of 1.2 million hectares of established forest plantation that will be ready for harvesting from 2011 onwards, as currently it has awarded 39 Licences for Planted Forest, covering 2.4 million hectares, to the private sector to establish forest plantation, besides the Government’s forest plantation project covering another 500,000 hectares.

In Malaysia, all forestlands, except for an area of 836,240 hectares in Sabah which is owned by the private sector, are owned by the Government, mainly by the 13 State Governments. Of the privately owned area in Sabah, a total of 761,240 hectares is natural forest with the balance of 75,000 hectares being forest plantation. Sabah also has an area of 570 hectares of forest land owned by indigenous communities.

4.1 Forest Resources Outlook

According to the FAO’s Malaysia Forestry Outlook Study, 2009 (FAO, 2009), the area of forested land of 18.31 million hectares in Malaysia at the end of 2005 is expected to decline to 16.73 million hectares by 2020, while the total forest areas under the PRFs is envisaged to increase by a million hectares to 16.30 million hectares by the end of 2020, representing 49.6% of its total land area, based on past trends and the policy and thrusts as set out in the Ninth Malaysia Plan, 2006-2010.

Furthermore, the area under forest plantation would increase by 1.75 million hectares by 2020, in view of the government policy to provide soft loans to the private sector to establish 375,000 hectares of forest plantations in the next 15 years, the targeted establishment of 500,000 hectares by Sabah by 2020, and the envisaged 1.2 million hectares of forest plantations in Sar-
wak. Thus, at the end of 2020, forest plantations in Malaysia are expected to total 2.15 million hectares with 55.8% in Sarawak.

The average annual production of industrial logs in Malaysia is estimated at 24.63 million m$^3$ for the period under the Ninth Malaysia Plan, 2006-2010; 29.23 million m$^3$ for the next five years from 2011-2015, and 32.47 million m$^3$ for the period 2016-2020 as shown in Table 8.

Table 8: Projected average total annual log production by regions in Malaysia by five year periods from 2006 to 2020 (million m$^3$)

<table>
<thead>
<tr>
<th>Five Year Period</th>
<th>Source</th>
<th>Peninsular Malaysia</th>
<th>Sabah</th>
<th>Sarawak</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006–2010</td>
<td>Natural Forest</td>
<td>3.80</td>
<td>4.05</td>
<td>11.50</td>
</tr>
<tr>
<td></td>
<td>Forest Plantation</td>
<td>0.75</td>
<td>0.47</td>
<td>1.95</td>
</tr>
<tr>
<td></td>
<td>Rubber Plantation</td>
<td>2.10</td>
<td>0.01</td>
<td>*</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>6.65</td>
<td>4.53</td>
<td>13.45</td>
</tr>
<tr>
<td>2011–2015</td>
<td>Natural Forest</td>
<td>3.00</td>
<td>2.50</td>
<td>10.00</td>
</tr>
<tr>
<td></td>
<td>Forest Plantation</td>
<td>0.83</td>
<td>0.60</td>
<td>10.40</td>
</tr>
<tr>
<td></td>
<td>Rubber Plantation</td>
<td>1.85</td>
<td>0.05</td>
<td>*</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>5.68</td>
<td>3.15</td>
<td>20.40</td>
</tr>
<tr>
<td>2016–2020</td>
<td>Natural Forest</td>
<td>2.51</td>
<td>1.50</td>
<td>10.00</td>
</tr>
<tr>
<td></td>
<td>Forest Plantation</td>
<td>0.91</td>
<td>0.80</td>
<td>15.00</td>
</tr>
<tr>
<td></td>
<td>Rubber Plantation</td>
<td>1.67</td>
<td>0.08</td>
<td>*</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>5.09</td>
<td>2.38</td>
<td>25.00</td>
</tr>
</tbody>
</table>

* Negligible.

In this regard, Sarawak is projected to increase its average annual log production from 13.45 million m$^3$ during the period 2006-2010 to 25.00 million m$^3$ for the period 2016-2020, mainly from its aggressive forest plantation programmes, while in Peninsular Malaysia and Sabah the estimated average annual log production is expected to decline due to more stringent enforcement of the annual allowable cut (AAC) and the level of permissible cut under Sustainable Forest Management (SFM). The AAC is determined at a national level separately for Peninsular Malaysia, Sarawak and Sabah, and it is up to the States to determine the permissible cut for each of the harvesting coupe in line with the AAC. This will also enable the forests to be certifiable by independent third party assessors in the overall context of timber certification.

Hence, the total log production in Malaysia is expected to increase to 32.47 million m$^3$ by 2020 as a result of an additional 1.74 million hectares of established forest plantations, especially in Sarawak, while watershed management, especially in upland forested areas, would be better integrated into multiple-use forest management practices. This should mean greater protection given to more forest areas and a lesser area of natural forest available for logging.

For the PRFs which are under SFM, the average annual log production from the category of Production Forests has been estimated for the five-year periods 2006-2010, 2011-2015 and 2016-2020 as 18.10 million m$^3$, 24.12 million m$^3$ and 27.62 million m$^3$, respectively, with most of the production emanating from Sarawak as shown in Table 9. The decline in the average annual log production in Peninsular Malaysia and Sabah, especially from the natural forests, over the three five-year periods is mainly due to more conservational forest harvesting practices in the overall context of SFM. However, the substantive increase in log production in Sarawak is envisaged from its aggressive forest plantation programmes as mentioned earlier.
especially from 2011 onwards. This implies a combination of reduction in natural forests to timber plantation and greater conversion of State land forests to timber plantations.

Table 9: Projected average annual log production from the Permanent Reserved Forests (PRFs), by region in Malaysia and by five-year periods from 2006 to 2020 (million m$^3$)

<table>
<thead>
<tr>
<th>Five Year Period</th>
<th>Source</th>
<th>Peninsular Malaysia</th>
<th>Sabah</th>
<th>Sarawak</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006 -2010</td>
<td>Natural Forest</td>
<td>3.13</td>
<td>3.77</td>
<td>8.50</td>
</tr>
<tr>
<td></td>
<td>Forest Plantation</td>
<td>0.75</td>
<td>-</td>
<td>1.95</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>3.88</td>
<td>3.77</td>
<td>10.45</td>
</tr>
<tr>
<td>2011–2015</td>
<td>Natural Forest</td>
<td>2.51</td>
<td>2.38</td>
<td>8.00</td>
</tr>
<tr>
<td></td>
<td>Forest Plantation</td>
<td>0.83</td>
<td>-</td>
<td>10.40</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>3.34</td>
<td>2.38</td>
<td>18.40</td>
</tr>
<tr>
<td>2016 -2020</td>
<td>Natural Forest</td>
<td>2.01</td>
<td>1.50</td>
<td>8.00</td>
</tr>
<tr>
<td></td>
<td>Forest Plantation</td>
<td>0.91</td>
<td>0.20</td>
<td>15.00</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>2.92</td>
<td>1.70</td>
<td>23.00</td>
</tr>
</tbody>
</table>


Furthermore, in view of the current high profile of forest issues on the climate change agenda, Malaysia will take steps to develop and strengthen the institutional capacity and expertise to address and report on carbon sequestration arising from afforestation and reforestation activities, as well as Reducing Emissions from Deforestation and Forest Degradation (REDD) -plus activities, and on protecting forest carbon stocks, especially those in natural forests. Malaysia has not been involved in REDD-plus programmes but could be involved in the clean development mechanism (CDM) of the Kyoto Protocol post-2012 if carbon sequestered from reduced impact logging and enrichment planting activities are allowed under the CDM.

In accordance with Malaysia’s third Industrial Master Plan 2006-2020, the country’s National Timber Industry Policy 2009-2020 forecasts that the annual export value of wood-based products exported from Malaysia will increase to Ringgit Malaysia (MYR) 53 billion (USD 16.5 billion) by 2020 (Ministry of International Trade and Industry, 2006). This would require rates of growth in export value comparable to those achieved during the middle of the last decade. However, not only was the export value during 2009 about 20% less than the level forecast for the period 2006-2010, but increased concern about unsustainable consumption and reduced availability of credit will add to the expense required to achieve the 2020 target.

Further, logging at sustainable rates will tend to generate a smaller volume of logs than in the past. Consequently, production from natural forest is unlikely to increase but decrease. Excess milling capacity across Malaysia is likely to close—except perhaps mills located near ports where it might be financially viable to transform imported wood.

Projections based on greatly expanding the area of wood plantations in Malaysia are risky given the small area and past failures (and therefore limited experience) which Malaysia currently has. Malaysia has attempted timber plantations in the past with poor results. One advantage of Malaysia is the strong experience and expertise in other plantation sectors such as rubber and palm oil which may be transferable to timber plantations. Markedly increasing the proportion of plantation wood in total industrial roundwood production might affect the image which Malaysia (particularly Peninsular Malaysia) has sought to establish as a producer of high quality items made from forest-grown wood, particularly for niche markets. That image would also change if Malaysia were to seek to compete with Thailand and countries which
(currently) have lower de facto social and environmental standards, such as mainland China and Vietnam, as a processor of imported wood.

If Malaysia’s population continues to rise and the price of basic food increases, then it will become difficult to justify the cultivation of wood plantations on farm land. Competition from palm oil and the availability of suitable labour will also affect prospects for wood plantations.

5. THE FORESTRY INDUSTRY

5.1 Forest-based industry

Figure 1 shows that the volume of logs exported from Peninsular Malaysia, Sabah and Sarawak has declined a lot in the last decade from 2000-2009, in particular for the State of Sarawak which is the largest exporter of logs in Malaysia. Peninsular Malaysia has a log export ban in place for a number of years to support its forestry industry. Sabah had a much smaller volume of log export in comparison to Sarawak due to its depleted forestry resources. This is surprising given evidence which suggests that the volume of logs being smuggled into Malaysia from Indonesia during the first years of the last decade reached a peak of about five million cubic metres, with four million cubic metres from Kalimantan and one million cubic metres from Sumatra (Obidzinski et al., 2006) but, once Malaysia implemented legislation reciprocal to that in Indonesia prohibiting the export of logs in 2002 and 2003 (Hashim, N., 2004), the volume smuggled rapidly decreased. Further study is required on the loopholes that exists in this cross-border timber movement and recommend action to stop this from happening. Further, Figure 1 suggests that the volume of industrial roundwood production last decade seems to have been well in excess of the maximum specified to sustain the forest although this could be accounted in part from higher efficiency of conversion of mills in the States, in particular Sarawak, but also the statistics include logs from forest being converted to other land uses.

Figure 1: Regional account of industrial roundwood production from forest in Malaysia 2000-2009

The chart above also shows that logs extracted from forest in Peninsular Malaysia tend to be sawn locally whereas those from Sarawak are either exported or transformed into plywood. This implies that the industry in Peninsular Malaysia differs markedly from that in Sarawak. The latter is dominated by a small number of logging and plywood manufacturing groups
(most of which have expanded their businesses to become highly diversified conglomerates with interests which include the media). The licences granted in Sarawak are mostly long term, for up to 25 years, and for Sabah the Sustainable Forest Management Licence Agreement (SFMLA) is for 100 years.

In contrast, Peninsular Malaysia comprises two distinct segments, characterised either by smaller scale enterprises whose businesses (typically saw milling and/or joinery) are based on wood grown in forests or by enterprises which transform rubber wood or other plantation-grown logs (typically into fibreboard or furniture). The harvesting licence is short term, for up to a few years only, although a few States such as Terengganu and Perak have granted long-term licences to specific forests.

There is little declared trade between Peninsular Malaysia, Sabah and Sarawak.

The annual reports by a number of timber groups refer to recent investment in plywood milling equipment so as to obtain a greater volume of material for use in the manufacture of plywood—reflecting increased competition (from mainland China) and scarcity of large diameter trees. Several FMUs have now been logged for at least one rotation. FMUs in Peninsular Malaysia established after 1978 were granted for a 30-year term. There are very few private FMUs in Peninsular Malaysia, with the best known being Perak Integrated Timber Complex, and the Terengganu-based Kumpulan Pengurusan Kayan Kayan Terengganu (KPKKT) or the Wood Management Group, a private Malaysian company. Most other FMUs are managed by the State and encompass the forests of the State. Those established before then but subsequent to 1948 were granted a 55-year term. Some groups have expressed concern about access to raw material once concessions which connected companies had logged expired (Anon., 2004b; Anon., 2008a).

The annual reports of listed companies showed that these enterprises have business interests in more than one of region of Peninsular Malaysia, Sabah and Sarawak. Although many timber businesses outside the public sector are owned by Malaysian (ethnic Chinese) families, there is little foreign ownership. However, especially in Sarawak, some of the companies are majority-owned by Sarawakian bumiputras (local Malays) in conjunction with the Chinese families (Anon., 2012).

A number of logging groups (primarily those of Sarawak), have logging-related interests in other places such as the Congo Basin, Guyana, Liberia, Solomon Islands, Indonesia, Papua New Guinea and Brazil. Mainland China seems to be the destination for their output. Some

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2 For example: CHG (based in Peninsular Malaysia) was acquired by an enterprise linked to Rimbunan Hijau (based in Sarawak), Eksons (of Sabah has plywood mills in both Sabah and Sarawak), KTS (of Sarawak is managing the Segaluid-Lokan FMU in Sabah), NWP (has head office in Peninsular Malaysia but its operations are in Sabah), Timberwell (of Sabah) and Wijaya Baru (of Sarawak) share two senior directors.

3 The Tiong family, which controls Rimbunan Hijau, appears to have links to three such groups: Jaya Tiasa, Subur Tiasa and Wijaya Baru

4 Exceptions include Samling and Pacific Plywood (i.e. Manuply) both of which are listed on the Hong Kong stock exchange and registered in British Overseas Territories and Sabah Forest Industries which is owned by Ballarpur Industries of India. However, a number of timber companies in Sabah have links with Taiwan (e.g. Cymao).

5 Rimbunan Hijau is active particularly in the Congo Basin and Papua New Guinea. Others include Samling (notably in Guyana and, indirectly, Papua New Guinea and Liberia) and WTK (in Papua New Guinea, Brazil, Central African Republic, and Indonesia). A number of other logging groups which used to log overseas have now either formally withdrawn or collapsed financially—for example Kumpulan Emas in the Solomon Islands, Idris Hydraulics in Gabon.
groups have (or until recently had) timber businesses in mainland China. At least one is vertically integrated with flooring businesses in the EU and elsewhere.

Several timber groups listed on the Kuala Lumpur stock exchange declared post tax losses in more than one year over the last decade—not only during the recession of 2009. A substantial number had (or are in) more serious financial difficulty and either collapsed or were restructured. These listed companies are not necessarily representative of the industry as a whole—particularly those based in Sarawak.

Logging groups in Sarawak pay low fees and royalties at MYR 65 per m$^3$ (USD21) flat rate for all types of species, due to the low rates of rent capture and it seems strong State government support through the patronage system (Brown, 2001). This is less than 10% of FOB prices of Sarawak logs and in 2009 and 2010 the rate was MYR 50/m$^3$ after appeal from the Sarawak Timber Association (STA) citing the poor market situation.

The price at which some Sarawak-based enterprises have recently been selling plywood to markets in South Korea has led to anti-dumping allegations and imposition of Anti-Dumping duties by the South Korea Trade Commission (Anon., 2011).

The volume of logs extracted from converted forest in Malaysia is unclear. The export value per cubic metre of such logs would tend to be smaller than that extracted from permanent natural forest, partly due to previous shorter harvesting cycles of conversion forests.

5.2 Plantation-based production

Because products based on plantations are generally “low risk” from the point of view of legality and sustainability, if we use the Forest Stewardship Council (FSC) principle and criteria clause 10.6 (plantations formed before November 1994) their supply chains should be regarded separately from those which are based on wood raw material from natural forest. Products (predominantly furniture) whose wood raw material derived primarily or entirely from plantations accounted for half the export value of the timber sector products which were exported from Malaysia to the EU during 2009.

There do not appear to be robust statistics on the extent to which rubber wood is used in the manufacture of wooden furniture in Malaysia. However, it is assumed to have been roughly 80% of the total for many years (despite a substantial increase in the quantity of wooden furniture produced) (Anon., 2011b, Woon, W.C., and Haron, N. 2002). Further study is needed to determine the real market share of rubber wood as the shortage of rubberwood has oblied manufacturers to increase use of other wood (Shahwahid, M. Hj O. and Abdul Rahman, A.S., 2009). The RWE volume of wooden furniture exported from Malaysia was in the order of two million cubic metres during much of the second half of the last decade. Exports are said to account for about 90% of production. Much of this is marketed as “Malaysian oak”—implying that it is made of sawn rubber wood rather than wood-based panels made from rubber wood. Malaysia is said to import substantial quantities of sawn rubber wood, with approximately 300,000 cubic metres annually from Thailand alone according to Customs statistics of Thai-

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6 Including Cymao, Pacific Plywood, Rimbunan Hijau, Samling
7 TSH (through Alden in France and Ekowood in Luxembourg, Spain and the USA)
8 For example Aokam Perdana re-emerged as Java (during 2005), and Timberwell (loss making every year for the last nine years).
9 Pacific Plywood (which owns Manuply and, like Samling, is listed on the Hong Kong stock exchange and registered in British Overseas Territories) declared persistent losses.
10 Groups which manufacture plywood in Sarawak include Eksoms, KTS, Pacific Plywood, Rimbunan Hijau (which includes Jaya Tiasa and Subur Tiasa), Samling, Shin Yang, Ta Ann, Wijaya Baru, and WTK
land, in order to supplement its own supplies. The availability of rubber wood depends partly on the market for rubber and the renewal or conversion of rubber plantations. The export of most sawn rubber wood from Malaysia is prohibited.

Much of the engineered wood flooring which is exported from Malaysia comprises a rubber wood base and a surface layer of wood grown in natural forest. The surface layer of such flooring tends to be its primary marketing attribute. As such, its legality and sustainability determines whether the whole volume of the product should be deemed legality and/or sustainable.

Despite their share in the RWE volume produced in Malaysia, comprehensive statistics of the volume of logs extracted from plantations in Malaysia do not seem to be readily available. This is so particularly in relation to wood plantation species, notably acacia. Rubber wood production in Peninsular Malaysia has been particularly volatile, ranging from less than 100,000 cubic metres during 1999 to 1.8 million cubic metres during 1992 (Anon., 2008).

5.3 Paper industry

Raw material for Malaysia’s paper industry tends to derive from waste paper and imported pulp and paper. Indonesia and mainland China supply roughly one third of the paper which is imported into Malaysia. Packaging accounts for most of the paper which is made in Malaysia (Ministry of International Trade and Industry, 2006).

The enterprise which owns the country’s only substantial pulp (and paper) mill, near Sipitang, Sabah, and an associated FMU, have been acquired by a foreign group (Anon, 2007). The mill’s current owners alleged that paper from Indonesia is being dumped in the main markets for the mill’s output of uncoated paper, adversely affecting the commercial viability of the mill (Anon., 2009). Most of its pulpwod appears to derive from natural forest in the FMU giving rise to concern about sustainability (Roda, J.M. and Rathi, S., 2005). EU support has helped the FMU comply with the Forest Stewardship Council’s (FSC’s) controlled wood standard except for those raw materials coming from plantations on land which was forest after 1994 (Gunawan, I., and Yana Suryana, I., 2010).

A second pulp and paper project in Sabah, near Tawau, was proposed but never built. An area of plantations in the vicinity is now FSC-certified and appears to export much of its output as timber or wood chips to Japan and China (Anon., 2010; Anon., 2010a; Anon., 2011c).

Although plans by foreign interests to establish a major pulp mill in Sarawak, near the Tating river, have been resisted (Roda, J.M., and Rathi, S.S., 2005), a similar plan by logging groups in Sarawak appears to have the approval of the State government (Roda, J.M., and Rathi, S.S., 2006). Further study is warranted on the plans for pulp and paper projects in the country. The poor financial returns—to government and external investors—of similar such projects (in Indonesia) and the project’s social and environmental impact warrant consideration by potential investors and stakeholders. There may also be conflicting demands over the use of the wood grown on the planned plantations, including from the logging groups’ existing plywood and other panel manufacturing businesses.

6. STAKEHOLDER STRATEGY FOR ENGAGEMENT

Entities relevant to production and governance in the wood-based products industry, while not exhaustive should include:

- Ministry of Plantation Industries and Commodities;
- Malaysia Timber Certification Council—a government certification agency;
- Malaysia Timber Industry Board—co-ordinates the evolution of the industry;
- Malaysia Timber Council—represents the industry of Peninsular Malaysia;
- Malaysian Wood Moulding and Joinery Council—a trade association in Peninsular Malaysia;
- Malaysia Wood Industries Association—representing independent saw millers and State timber associations in Peninsular Malaysia;
- Timber Exporters’ Association of Malaysia—represents timber exporters particularly those in Peninsular Malaysia;
- Malaysian Furniture Promotion Council—a government agency;
- Malaysian Panel-Products Manufacturers’ Association—a trade association
- Sabah Timber Industries Association—a trade association;
- Sarawak Timber Industry Development Corporation “Pusaka”—a State agency whose remit includes the development of the timber industry and wood plantations;
- Sarawak Timber Association—a trade association;
- Sarawak Forest Corporation—a State agency;
- Malaysian Anti-Corruption Commission—a government agency which has given particular attention since 2008 to illegality in the forestry sector.

7. TRADE IN WOOD-BASED PRODUCTS

Malaysia is a net exporter of wood-based products (Figure 2). Malaysia’s imports is large and ranges from 2.3 to 3.3 million m$^3$ RWE between 2000-2009 for the timber sector and a substantially larger paper sector imports of between 5 and 8 million m$^3$ RWE in the same period. The timber imports were dominated by VPA core products of logs, sawn timber, veneer and plywood (Figure 3).

Malaysia imports a small volume of other timber sector products but exports a much greater volume of those products, in particular veneer and other panel products (other than plywood), furniture and mouldings and joinery in the last decade (Figures 2 and 3).

Figure 2: Overview of Malaysia’s trade in wood-based products from 2000-2009 in million m$^3$ RWE

However, the exports have been far larger in the same period from 2000-2009 amounting to between 24 and 31 million m$^3$ RWE, again dominated by VPA core products which ranges from 17 to 23 million m$^3$ RWE (Figures 2 and 3).

Figure 3:  Malaysia’s trade in wood-based products by product category from 2000-2009 in million m$^3$ RWE


7.1 Trade in wood-based products—Imports

Malaysia imports a substantial RWE volume of products from neighbouring countries which might subsequently, perhaps after further transformation, be exported to the EU. Indonesia, which has a similar mix of species as Malaysia, accounts for the great majority of those imports (Annex 1 Figure 15). The volume of logs which Malaysia declared as imports from Indonesia declined sharply between 2001 and 2002—reflecting the banning of exports of logs from Indonesia (Annex 1 Figure 17). Malaysia and Singapore declared a small volume of logs as imports from Indonesia (which prohibits the export of logs, except under special permission). Official imports of logs into Malaysia from Indonesia are small as Malaysia has a ban on log imports from Indonesia since the latter half of 2002.

Malaysia’s log imports are small. In terms of import value, Myanmar accounts for a substantial proportion (but still less than 5 000 m$^3$ in 2009) of the logs which Malaysia imports (Australia and New Zealand being the other main source of logs)(Annex 1 Figure 17). Due to current sanctions against Myanmar's government, the direct import of wooden products from Myanmar is prohibited in the EU and the USA, but once they have been further processed in a third country/territory they escape sanctions.

Indonesia prohibits the export of most sawn timber, but its trading partners (including Malaysia) do not have reciprocal regulations prohibiting such imports from Indonesia. Intra-regionally in the last decade, Indonesia declared a small volume (less than 10 000 m$^3$) of sawn timber

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11 Merbau (Intsia spp.)—used particularly in flooring and other joinery applications—is a significant exception given that most of the world’s supply of this species derives from Papua, Indonesia.
exported to Malaysia in the years from 2004 to 2009. However, Malaysia’s official statistics says the country imported a large volume of sawn timber from Indonesia in the last decade, particularly during the first half when it reached 820 000 m³ in 2004. By 2009, the volume had declined to 5% of the peak five years earlier at 40 000 m³ due to the export ban on HS4407 rough sawn timber from Indonesia (which excludes some categories of planed sawn timber) (Anon., 2004a) (Annex 1 Figure 18).

Singapore declared an export of between 10 000 and 30 000 m³ per year of sawn timber to Malaysia but a negligible volume to Indonesia and to the other countries in the sub-region from 2003 to 2009.

During the second half of the last decade, the small volume of plywood imported into Malaysia increased greatly from 20 000 m³ in 2000-2001 to 68 000 m³ in 2009 (Annex 1 Figure 20). Mainland China (62% in 2009) and, to a lesser extent, Vietnam (16% in 2009) accounted for nearly all of the increase. Singapore exported around 10–20 000 m³ per year of plywood to Malaysia from 2004 to 2008. Indonesia exported a small volume (between 10–50 000 m³) to Malaysia yearly during most of the last decade. Malaysia imported less than 20 000 m³ a year of plywood from Indonesia during the first half of the last decade and half of that again during the second half with only 10 000 m³ in 2009.

Although mainland China supplies Malaysia with a substantial RWE volume of veneer, plywood, mouldings, furniture and paper, it is likely that most of the two last-mentioned will enter end-use within Malaysia (Annex 1 Figure 16).

Malaysia imports a large volume of wood-based panels and a smaller quantity of sawn timber from Thailand. In 2009, the imports of other panels products from Thailand increased over 80% from the year before, reaching 760 000 m³ RWE, which is also about 83% of the total 2009 imports of ‘other panels’ imports of Malaysia (Annex 1 Figure 21). The great majority of this is likely to comprise rubber wood or to derive from wood plantations.

Between 2000 and 2009 Indonesia exported a small volume of mouldings and joinery to Malaysia, ranging from 20 000 to 120 000 m³ RWE yearly but for Malaysia, the imports from Indonesia comprises a significant portion between 36% in 2009 to 81% in 2000 of the country’s total mouldings and joinery imports (Annex 1 Figure 22). At least some of the mouldings and joinery which Malaysia imports from Thailand might have been supplied to Thailand from neighbouring countries as Thailand has a logging prohibition in natural forests. The majority of the imports by Malaysia from Thailand comprise mouldings and from 2006-2009 this has average around 510 000 m³ RWE.

Australia supplies a substantial volume (110 000 m³ in 2009) of veneer to Malaysia, predominantly to a plywood manufacturer in Sarawak (Annex 1 Figure 19) (Anon., 2010c).

The quantity of wooden furniture imported into Malaysia rose sharply between 2001 and 2007 from 10 000 tonnes to 880 000 tonnes and declined even more rapidly during 2008 and 2009 of 670 000 tonnes and 25 000 tonnes respectively (in particular, imports from Poland were 17 000 tonnes in 2007 before falling drastically to 726 tonnes in 2009) (Annex 1 Figure 23). For the EU, Poland was where the majority of Malaysia’s furniture imports came from, with Italy a distant second. Intra-regional furniture trade is small, with exports from Indonesia to Malaysia of between 10 000 to 30 000 m³ RWE annually in the last decade. There is only a little export of furniture from Singapore to Indonesia and Malaysia.

The import of pulp into Malaysia has increased drastically from 2000 to 2008, rising from 50 000 tonnes to 220 000 tonnes respectively, but has dropped significantly to 110 000 tonnes in
2009 (Annex 1 Figure 24). A negligible quantity (about 10 000 tonnes on average yearly) of pulp was imported into Malaysia from Indonesia over the last decade. For a few years from 2005 to 2008 Brazil came up tops in pulp exports to Malaysia from 80 000 tonnes to 122 000 tonnes respectively before dropping off drastically to 12 000 tonnes in 2009 (Annex 1 Figure 24). The USA has been consistent exporter of pulp to Malaysia, averaging 50 000 tonnes from 2006-2009.

Malaysia imports paper from a wider range of countries including from a number of EU member States, ranging from 1.5 million tonnes in 2000 to a high of 2.1 million tonnes in 2006 before steadily dropping on a yearly basis to 1.3 million tonnes in 2009 (Annex 1 Figure 25). However 20%-30% (1.3 million m³ in 2009) of the substantial quantity of paper amounting to 5.18 million m³ in 2009 which was imported into Malaysia was supplied from Indonesia.

7.2 Trade in wood based products—Exports

For the timber sector in 2009, Malaysia’s exports to the EU accounted for around 6.5% of total exports or 1.61 million m³ RWE. The product mix varies between Peninsular Malaysia, Sarawak and Sabah, with Peninsular Malaysia dominating exports.

For VPA core products of logs, sawn timber, veneer and plywood, Malaysia exports to a wide range of countries. In North America region, Mexico dominates imports with around 190 000 m³ RWE in 2009, in Africa; Egypt is the largest importer at 288 000 m³ RWE, in East Asia; it is Japan (3.926 million m³ RWE), followed by South Korea (1.998 million m³ RWE), Taiwan (1.574 million m³ RWE), China (1.397 million m³ RWE) and Thailand (1.086 million m³ RWE) in 2009. The Middle East in total imports around 1.457 million m³ RWE in 2009, with Yemen the largest importer at 489 000 m³ RWE and United Arab Emirates at 400 000 m³ RWE in 2009. Elsewhere, India dominates with 2.278 million m³ RWE in 2009, with Australia far behind at 131 000 m³ RWE (Annex 2 Figure 27).

For VPA core products export to the EU, this has ranged from a peak of 1.368 million m³ RWE in 2006, to a low of 809 000 m³ RWE in 2009 (Annex 2 Figure 27). The dominant EU importers are UK (peak of 627 000 m³ RWE in 2008 in the last decade), and the Netherlands which has been decreasing its imports in the last decade reaching 217 000 m³ RWE in 2009.

For other timber sector products exports other than VPA core products, Malaysia exported well over 7 million m³ RWE from 2005 to 2009, reaching a peak of 8.111 million m³ RWE in 2008 (Annex 2 Figure 28). The countries mostly differ to those that imports primary timber products from Malaysia. In North America region, USA dominates imports with around 0.985 million m³ RWE in 2009, in Africa; it is South Africa that is the largest importer at 47 000 m³ RWE followed by Egypt at 45 000 m³ RWE, in East Asia; it is Japan (944 000 m³ RWE), followed by Indonesia (540 000 m³ RWE), Vietnam (496 000 m³ RWE), and Singapore (435 000 m³ RWE) in 2009. The Middle East in total imports around 1.255 million m³ RWE in 2009, with United Arab Emirates the largest importer at 416 000 m³ RWE in 2009, with Syria following far behind at 245 000 m³ RWE and Saudi Arabia at 220 000 m³ RWE. Elsewhere, Australia is tops with 322 000 m³ RWE in 2009, with India next at 283 000 m³ RWE (Annex 2 Figure 28). For non-VPA core products export to the EU, this has seen a steady rise from 551 000 m³ RWE in 2000, to around 800 000-900 000 m³ RWE in the second half of the last decade (Annex 2 Figure 28). The UK was the largest importer at 289 000 m³ RWE in 2009 and the Netherlands and Germany farther behind at 102 000 m³ RWE and 105 000 m³ RWE respectively in 2009.
For the paper sector, Malaysia has seen a steady rise in exports from 2000-2009, from 320,000 tonnes in 2000 to 570,000 tonnes in 2009 (Annex 2 Figure 37). Majority of the exports are to countries in East Asia. EU was a small importer of only 21,000 tonnes in 2009.

7.2.1 Logs

In the sub-region of SEA excluding the Mekong region, only Malaysia exports logs as all the other countries in the sub-region have some form of log export ban in place. The exports of logs from Malaysia are from the States of Sarawak (with a quota of 40% of its log production from its forest estate), and Sabah. The export of logs from Peninsular Malaysia is prohibited.

See Annex 2 Figure 29 for the export volumes of logs of Malaysia from 2000 to 2009. Malaysia’s log export has seen a steady decline in the last decade from a high of 6.819 million m³ in 2000 to 4.181 million m³ in 2009.

In terms of intra-regional log trade, Malaysia exports only small quantities of logs to Indonesia, Thailand and the Philippines but a larger quantity to Vietnam (369,000 m³ in 2009) in the last decade (i.e. 2000–2009). The volumes imported by Indonesia decreased from 0.32 million m³ in 2001 to almost zero by 2009, and for the Philippines it was a much smaller volume of 0.04 million m³ in 2001, and almost zero by 2009 (Table 10).

Table 10: Malaysia’s log exports by country/territory and region, from 2000 to 2009 in million m³ RWE

<table>
<thead>
<tr>
<th>Malaysia to Destination</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
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<td>0.17</td>
<td>0.15</td>
<td>0.05</td>
<td>0.14</td>
<td>0.10</td>
<td>0.02</td>
<td>0.08</td>
<td>0.08</td>
<td>0.00</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.04</td>
<td>0.03</td>
<td>0.04</td>
<td>0.03</td>
<td>0.01</td>
<td>0.07</td>
<td>0.02</td>
<td>0.00</td>
<td>0.00</td>
<td>0.01</td>
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<tr>
<td>Other Asia:</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>mainland</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>1.95</td>
<td>1.49</td>
<td>1.29</td>
<td>1.44</td>
<td>1.19</td>
<td>1.65</td>
<td>1.23</td>
<td>1.21</td>
<td>0.71</td>
<td>0.70</td>
</tr>
<tr>
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<td>1.64</td>
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<td>1.04</td>
<td>0.71</td>
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<tr>
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<td>0.30</td>
<td>0.18</td>
<td>0.16</td>
<td>0.14</td>
<td>0.13</td>
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<td>0.06</td>
<td>0.07</td>
<td>0.07</td>
</tr>
<tr>
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<td>0.69</td>
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<td>0.59</td>
<td>0.58</td>
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</tr>
<tr>
<td>Thailand</td>
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<td>0.03</td>
<td>0.04</td>
<td>0.06</td>
<td>0.09</td>
<td>0.08</td>
<td>0.06</td>
<td>0.07</td>
<td>0.06</td>
<td>0.03</td>
</tr>
<tr>
<td>Vietnam</td>
<td>0.12</td>
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<td>0.13</td>
<td>0.33</td>
<td>0.44</td>
<td>0.43</td>
<td>0.30</td>
<td>0.35</td>
<td>0.35</td>
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<td></td>
<td></td>
</tr>
<tr>
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<td>0.00</td>
<td>0.03</td>
<td>0.00</td>
<td>0.00</td>
<td>0.01</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>EU</td>
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<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.01</td>
<td>0.00</td>
</tr>
<tr>
<td>World</td>
<td>6.82</td>
<td>5.02</td>
<td>5.15</td>
<td>5.51</td>
<td>5.21</td>
<td>5.76</td>
<td>4.77</td>
<td>4.64</td>
<td>4.18</td>
<td>4.19</td>
</tr>
</tbody>
</table>

Source: Department of Statistics Malaysia
Note: Countries and regions with insignificant export figures not in table

Malaysia exports logs mostly to markets in mainland China, Taiwan, Vietnam, Japan, South Korea, and Thailand, in order from the highest importer (mainland China) to the lowest (Thailand), totalling 1.94 million m³ in 2009 (Table 10). Malaysia’s total export of logs has been decreasing over the years from a high of 5.56 million m³ in 2000 to a low of 1.94 million m³ in 2009. This is partly a result of the policy of further value added processing in the country, as well as a decrease in the production of logs from State land forests which are exploited more
heavily than permanent forest estates which are earmarked for sustainable forest management. In the last two years, the economic crisis was also a factor, with lower demand for processed products leading to a reduced demand for raw logs for processing.

As can be seen in Table 10 and Annex 2 Figure 29, the main importer of Malaysian logs has been mainland China. Logs account for a significant RWE volume which Malaysia exports to mainland China, at least some of those logs are likely to be transformed for use as the outer ply of plywood which is subsequently exported from mainland China.

Malaysia’s export destinations have been dominated by countries/territories in Asia, with Japan continuing to account for a large volume, with around 2 million m$^3$ per year for the last decade but decreasing to 1.49 million m$^3$ in 2009. Japan used to be the largest importer, and was ranked second during the first half of the period 2000-2009 but has since been reducing its imports of logs from Malaysia and in 2009 was only in the top four. Last decade, India displaced Japan as the leading destination for the logs exported from Malaysia. By 2009, India accounted for more than half the total volume of 4.19 million m$^3$ exported. A further 20% were exported to mainland China.

South Korea is another important destination and Malaysia’s exports increased to around 0.7 million m$^3$ in 2009. Vietnam has increased its imports of Malaysian logs since the early 2000s, and in the years 2007 to 2009, consistently imported around 0.35 million m$^3$, and increased this slightly in 2009, to 0.37 million m$^3$. The Vietnam furniture industry has been the main consumer of the logs, in particular for outdoor furniture for export to the EU market. Some Malaysian logs are from the FSC-certified Deramakot Forest Reserve in the State of Sabah although Deramakot only produces about 15,000 m$^3$ per year. Taiwan has been a consistent destination with between 330 000 m$^3$ and 390 000 m$^3$ yearly from 2005 to 2009. Another significant destination has been Thailand with around 0.5 million m$^3$ per year for many of the years of the last decade. The other important regional destination has been the Middle East with exports of around 300 000 to 420 000 m$^3$ annually between 2005 and 2009. Malaysia’s exports to the USA have been decreasing through the last decade from around 0.5 million m$^3$ down to 120 000 m$^3$ in 2009.

Of note is the lack of supply of certified logs for the outdoor furniture market to the EU, especially by Vietnam (and to some extent, furniture manufacturers in Malaysia), as there is limited supply of certified logs in the market from SEA. Log production from Malaysia is not expected to increase drastically in future as demands locally from further value added manufacturing will continue as part of the government’s industrialisation policy.

During 2009, Sarawak supplied almost all the logs exported to India, Japan and Taiwan, while mainland China accounted for half of Sabah’s exports of logs.

### 7.2.2 Sawn Timber

Malaysian exports have ranged from 3.19 million m$^3$ in 2000 to 1.98 million m$^3$ in 2009 (Annex 2 Figure 30). Malaysia exports substantially more sawn timber than any other country in SEA (Figure 4). Malaysia’s main Asian competitors as sawn timber exporters are Thailand (rubber wood) and mainland China (sawn timber from imported logs).
Within the SEA region, Malaysia (mainly Peninsular Malaysia and to a lesser extent Sarawak) supplies a large majority of Singapore’s sawn timber imports ranging from a high of 230 000 m³ RWE in 2000 to 151 000 m³ RWE in 2009 (Annex 2 Figure 30).

Singapore declared sawn timber imports of between 0.31 million m³ RWE (2000) and 0.19 million m³ RWE in 2009 from Malaysia. It is uncertain what factors led to this discrepancy. The origin of the small volume of sawn timber which Singapore exported to Malaysia towards the end of last decade is unclear—but, given the quantities and sources of Singapore’s imports of sawn timber, it was probably Indonesia.

The Philippines declared a substantial volume (over 280 000 m³) of imports from Malaysia at the beginning of the last decade, but the volume had declined almost 70% to 93 000 m³ by the end of the decade. Nevertheless, Malaysia (predominantly Sarawak) remained the Philippines’ leading supplier of sawn timber.

The volume of sawn timber exported from Malaysia during the second half of the last decade declined (Table 11). The mix of destinations changed little, Thailand accounting for a quarter of the total (517 000 m³ RWE in 2009), followed far behind by China, the next highest importer at 188 000 m³ RWE in 2009.

Table 11: Malaysia’s export of sawn timber to countries/territories and regions from 2000 to 2009 in million m³ RWE

<table>
<thead>
<tr>
<th>Malaysia to Destination</th>
<th>Volume (million cubic metres)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2000</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.00</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.29</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.23</td>
</tr>
<tr>
<td>Other Asia:</td>
<td></td>
</tr>
</tbody>
</table>
Last decade, Peninsular Malaysia and Sarawak each supplied roughly 40% of the volume of sawn timber exported. The proportion of tropical sawn timber supplied from Malaysia to the EU tended to vary between 10% and 20% of total EU imports (Figure 5) — a similar proportion to that supplied by tropical South America (predominantly Brazil). Tropical Africa accounted for
roughly two thirds of the total sawn timber imported by EU—which has declined steeply since 2008.

The EU, which imported a negligible quantity of sawn timber from Sarawak, accounted for 20%-30% of the total exported from Peninsular Malaysia and 10%-20% of that exported from Sabah. In 2009, Malaysia’s exports to the EU totalled 209 000 m$^3$ RWE with main destinations being the Netherlands (94 000 m$^3$ RWE), followed well behind by Germany (29 000 m$^3$ RWE), Belgium (26 000 m$^3$ RWE), the UK (24 000 m$^3$ RWE), Italy (15 000 m$^3$ RWE), and France (12 000 m$^3$ RWE), in order of the highest importer to the lowest.

Japan and South Africa tended to procure their sawn timber from Sabah while Sarawak was the preferred source of supply for the Middle East and the Philippines. Singapore was supplied from Peninsular Malaysia and Sarawak, but not Sabah. Thailand was the leading destination for each of the three regions of Malaysia.

This was significantly lower than that imported by the Middle East, 345 000 m$^3$ RWE in 2009, which has been steadily rising over the last decade from a low of 210 000 m$^3$ RWE in 2001. United Arab Emirates and Yemen were the main importers at 116 000 m$^3$ RWE and 113 000 m$^3$ RWE in 2009. Mainland China’s imports of sawn timber from Malaysia varied from a high of 667 000 m$^3$ RWE in 2005, but dropped to 188 000 m$^3$ RWE in 2009. Japan imported an average of around 140 000 m$^3$ RWE of sawn timber annually from Malaysia throughout the last decade, except in 2009 when the volume decreased to 73 000 m$^3$ RWE. South Korea has been consistently importing around 60–80 000 m$^3$ of sawn timber yearly from Malaysia in the last decade. Taiwan imported between 160 000 m$^3$ RWE and 240 000 m$^3$ RWE of sawn timber from Malaysia yearly throughout the last decade except for 2009 when there was a substantial reduction to 114 000 m$^3$ RWE. Surprisingly, Thailand has been a major importer of sawn timber from Malaysia, with between 520 000 m$^3$ RWE (2001) and 0.85 million m$^3$ RWE (2005) a year in the last decade, declining to 517 000 m$^3$ RWE again in 2009.

The Middle East is an important and growing market for timber from the insular SEA sub-region. There are no restrictions or barriers to imports of timber, and Indonesia and Malaysia have been developing trade networks and relations to increase trade flows of timber to the region (Malessa, U., and Chen, H.K. 2010).

7.2.3 Veneer

Of the six countries in the SEA sub-region, only four; Indonesia, Malaysia, the Philippines and Singapore, exported veneer between 2000 and 2009 (Table 12 and Figure 6). The total veneer exports over the period ranged between 0.9 million m$^3$ RWE in 2000 and 0.3 million m$^3$ RWE in 2009. By far, the dominant exporter was Malaysia, with volumes varying between the highest at 0.89 million m$^3$ RWE in 2000, and the lowest at 0.28 million m$^3$ RWE in 2009, with the total export over the period of 4.82 million m$^3$ RWE.
Figure 6: Veneer exports from Indonesia, Malaysia, the Philippines and Singapore from 2000 to 2009 in million m$^3$ RWE

Source: Badan Pusat Statistik Indonesia, Department of Statistics Malaysia, Tradeline Philippines, UN Comtrade for Singapore

Table 12: Veneer exports from Indonesia, Malaysia, the Philippines and Singapore from 2000 to 2009 in million m$^3$

<table>
<thead>
<tr>
<th>Country</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>0.00</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
<td>0.02</td>
<td>0.02</td>
<td>0.01</td>
<td>0.01</td>
<td>0.17</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.89</td>
<td>0.64</td>
<td>0.66</td>
<td>0.46</td>
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<td>0.42</td>
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<td>0.41</td>
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<td>4.82</td>
</tr>
<tr>
<td>Philippines</td>
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<td>0.01</td>
<td>0.00</td>
<td>0.01</td>
<td>0.01</td>
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<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.05</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.01</td>
<td>0.01</td>
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<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.04</td>
</tr>
<tr>
<td>Total</td>
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<td>0.67</td>
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<td>0.49</td>
<td>0.44</td>
<td>0.36</td>
<td>0.36</td>
<td>0.43</td>
<td>0.30</td>
<td>5.08</td>
</tr>
</tbody>
</table>

Source: Badan Pusat Statistik Indonesia, Department of Statistics Malaysia, Tradeline Philippines, UN Comtrade for Singapore

Malaysia’s exports of veneer declined substantially from 885 000 m$^3$ RWE in 2000 to 281 000 m$^3$ RWE in 2009 during the last decade, primarily due to a decrease in exports to mainland China (which was developing its own veneer industry—based on similar logs) (Table 13, Annex 2 Figure 31). Taiwan and South Korea together accounted for almost three quarters of the volume exported during 2009.

South Korea imported just over 100 000 m$^3$ per year in the last decade, and Taiwan, with slightly less than 100 000 m$^3$ per year between 2000 and 2009. Mainland China and Japan import small amounts and in recent years their imports were less than 40 000 m$^3$ and 30 000 m$^3$ respectively annually, with the lowest volume of around 20 000 m$^3$ each in 2009. Exports of veneer to the other regions are very small or insignificant. Of the other regions, Australia imports the largest amount of Malaysian veneer with about 3 000 m$^3$ each year in 2008 and 2009 (Table 13).
Africa supplies almost all the EU's tropical veneer imports. Malaysia only supplied 1000 m$^3$ of veneer to Germany for each of the years between 2005 and 2009. The main competitor to Malaysia for the export of veneer in Asia is mainland China.

As technology progresses and the veneer can be made thinner, a lower volume of logs may be needed to produce a given volume of veneer. Value added products locally produced should see an increase in production of downstream products using veneer and fewer exports of veneer as a product. The furniture analysis later seems to bear this reasoning out.

Table 13: Malaysia's export of veneer to countries/territories and regions from 2000 to 2009 in million m$^3$

<table>
<thead>
<tr>
<th>Destination</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
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<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.02</td>
<td>0.03</td>
<td>0.04</td>
<td>0.01</td>
<td>0.02</td>
<td>0.00</td>
</tr>
<tr>
<td>Philippines</td>
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<td>0.12</td>
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<td>0.05</td>
<td>0.06</td>
<td>0.03</td>
<td>0.02</td>
<td>0.04</td>
<td>0.02</td>
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<td>Singapore</td>
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<td>0.00</td>
<td>0.01</td>
<td>0.00</td>
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<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
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</tr>
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<td>0.04</td>
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<td>0.02</td>
</tr>
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<td>0.03</td>
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<td>0.02</td>
</tr>
<tr>
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<td>0.10</td>
<td>0.11</td>
<td>0.13</td>
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<tr>
<td>Taiwan</td>
<td>0.11</td>
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<td>0.08</td>
<td>0.09</td>
<td>0.09</td>
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<td>0.10</td>
<td>0.13</td>
<td>0.09</td>
</tr>
<tr>
<td>Thailand</td>
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<td>0.00</td>
<td>0.00</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Vietnam</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Other destinations:</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>0.00</td>
<td>0.00</td>
<td>0.01</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>USA</td>
<td>0.00</td>
<td>0.00</td>
<td>0.02</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>World</td>
<td>0.89</td>
<td>0.64</td>
<td>0.66</td>
<td>0.46</td>
<td>0.40</td>
<td>0.42</td>
<td>0.34</td>
<td>0.33</td>
<td>0.41</td>
<td>0.28</td>
</tr>
</tbody>
</table>

Source: Department of Statistics Malaysia

Over the last decade, a negligible volume of veneer was exported from Peninsular Malaysia—two thirds of the total was supplied from Sarawak. South Korea tended to account for two thirds of the volume exported from Sabah. South Korea and Taiwan each accounted for a third of the volume exported from Sarawak.

7.2.4 Plywood

In the insular SEA sub-region, the dominant plywood exporters have been Indonesia and Malaysia (Table 14 and Figure 7). The total volumes exported by each of the two countries between 2000 and 2009 have been quite close, with Indonesia's total being 44.51 million m$^3$ RWE, and for Malaysia it is slightly less at 41.79 million m$^3$ RWE. However, while Indonesia's exports have been declining over the period, Malaysia's have been increasing and from 2005 to 2009 have exceeded Indonesia's exports significantly, on average by over 1.4 million m$^3$ RWE annually. However, the total plywood export of Malaysia increased during the first half of the last decade and then decreased during the second (Annex 2 Figure 32).
Figure 7: Export of plywood from Indonesia, Malaysia, the Philippines and Singapore from 2000 to 2009 in million m³ RWE

Table 14: Export of plywood from Indonesia, Malaysia, the Philippines and Singapore from 2000 to 2009 in million m³ RWE

Malaysia’s intra-regional trade is much less, and is mostly focused on Singapore, the Philippines and Thailand, with a volume of 78 000 m³ RWE, 61 000 m³ RWE and 48 000 m³ RWE respectively in 2009.

Japan dominates the exports of plywood from Malaysia (and from Malaysia’s competitor Indonesia) (Table 15, Annex 2 Figure 32). Japan accounted for 40% of the volume exported during 2009 at 1.485 million m³ RWE. Plywood accounted for two thirds of the RWE volume of wood-based products exported from Malaysia to Japan.

South Korea accounted for a further 20% at 699 000 m³ RWE in 2009.

Plywood (and wooden furniture) accounted for most of the RWE volume of wood based products which were exported from Malaysia to the USA.
The scale and dominance of Japan as a market for plywood exported from Sarawak has certainly facilitated Japan’s shaping of the logging and business practices of Sarawak’s plywood industry. Over the last decade, Japan accounted for well over half of Sarawak’s (and almost half of Sabah’s) exports of plywood. Sarawak supplied almost all the plywood which Malaysia exported to the EU during the period, but the EU almost ceased procuring plywood from Sarawak during 2009. It is likely that most if not all the decline during 2009 is attributable partly to the response of one UK-based timber merchant to the failure of its supplier to comply with the requirements of the MTCS certification scheme. The volume exported to the USA from Sarawak during 2009, partly offsetting the decline from Indonesia to the EU in the same period.

Imports from Malaysia to the EU for plywood increased to about 15% of the total EU imports for plywood, partly offsetting the decline from Indonesia to the EU in the same period (Figure 8). Although the EU (predominantly the UK) accounted for only 5% of the total plywood export of Malaysia in 2009, plywood was exported from Malaysia to the EU in greater RWE volume...
than any other product group. The volume exported to the UK rose steeply mid-decade, offsetting a decline (attributable to concerns about legality) in the quantity exported to the UK from Indonesia. The EU’s imports of hardwood plywood from Brazil declined steeply towards the end of the last decade. Between 2001 and 2009, the EU’s imports of hardwood plywood from tropical countries declined by two thirds. This decline was more than offset by a very large increase in imports of plywood from mainland China between 2002 and 2007. The total declined by about 40% between 2007 and 2009. By 2009, Malaysia and mainland China respectively accounted for roughly 20% and 60% of the total. Malaysia’s share of the EU market was reduced, to around 180 000 m$^3$ in 2009, following an increasing trend in volumes from 170 000 m$^3$ in 2005 to 320 000 m$^3$ in 2008.

Figure 8: The EU’s imports of plywood from mainland China, tropical Africa, tropical South America and tropical countries elsewhere in million m$^3$ RWE (2000-2009)

Source: Eurostat

Malaysia (primarily Sarawak) is the world’s second largest exporter of plywood after mainland China. Indonesia used to be the leading producer but has dropped to third place since the middle of last decade.

The Middle East is the leading destination for Malaysia’s exports of wood-based panels other than plywood, with 1.02 million m$^3$ RWE shipped in 2009. The total volume exported doubled mid-decade. Peninsular Malaysia supplied a large majority of the total. Sabah supplied a negligible quantity.

Plywood production in the SEA sub-region including Malaysia is expected to remain stable in future. This is influenced by constraints in log production, competition from other producers like mainland China, and substitution due to concerns about illegal timber trade. Other factors include higher production costs, which have an impact on pricing competition, due to new application of health criteria by countries like the EU and Japan. These are related to adhesives (previously) based on urea formaldehyde and phenol formaldehyde which are carcinogenic in very high concentrations.

7.2.5 Mouldings and Joinery

The insular SEA sub-region is a large exporter of mouldings and joinery totalling over 49 million m$^3$ RWE between 2000 and 2009 (Table 16). The largest exporter has been Indonesia,
followed by Malaysia, the Philippines, and the smallest exporter, Singapore (See Figure 9). Malaysia has been a steady exporter of mouldings and joinery from 2000-2009, ranging from 1.056 million m$^3$ RWE in 2003 to the highest in 2000 at 1.478 million m$^3$ RWE (Annex 2 Figure 34).

Figure 9: Exports of moulding and joinery from Indonesia, Malaysia, the Philippines and Singapore from 2000 to 2009 in estimated RWE of million m$^3$.

![Figure 9: Exports of moulding and joinery from Indonesia, Malaysia, the Philippines and Singapore from 2000 to 2009 in estimated RWE of million m$^3$](image_url)

Source: Badan Pusat Statistik Indonesia, Department of Statistics Malaysia, Tradeline Philippines, UN Comtrade for Singapore

Table 16: Exports of moulding and joinery from Indonesia, Malaysia, the Philippines and Singapore from 2000 to 2009 in estimated RWE of million m$^3$

<table>
<thead>
<tr>
<th>Country</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>3.53</td>
<td>3.46</td>
<td>3.82</td>
<td>4.14</td>
<td>4.14</td>
<td>4.12</td>
<td>2.95</td>
<td>2.05</td>
<td>1.79</td>
<td>1.37</td>
<td>31.36</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1.48</td>
<td>1.28</td>
<td>1.11</td>
<td>1.06</td>
<td>1.36</td>
<td>1.42</td>
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<td>1.32</td>
<td>1.39</td>
<td>1.12</td>
<td>12.90</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.28</td>
<td>0.13</td>
<td>0.20</td>
<td>0.23</td>
<td>0.19</td>
<td>0.22</td>
<td>0.81</td>
<td>0.94</td>
<td>1.01</td>
<td>0.84</td>
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<tr>
<td>Singapore</td>
<td>0.06</td>
<td>0.05</td>
<td>0.08</td>
<td>0.02</td>
<td>0.02</td>
<td>0.02</td>
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<td>0.02</td>
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<tr>
<td>Total</td>
<td>5.35</td>
<td>4.91</td>
<td>5.22</td>
<td>5.45</td>
<td>5.70</td>
<td>5.78</td>
<td>5.15</td>
<td>4.33</td>
<td>4.20</td>
<td>3.35</td>
<td>49.45</td>
</tr>
</tbody>
</table>

Source: Badan Pusat Statistik Indonesia, Department of Statistics Malaysia, Tradeline Philippines, UN Comtrade for Singapore

In the ASEAN region, Malaysia exported a small volume (primarily joinery) to Singapore of around 40 000 to 70 000 m$^3$ RWE yearly from 2003 to 2009 and much less to Indonesia (7–20 000 m$^3$ RWE yearly from 2005 to 2009). Its exports to the Philippines were less than 10 000 m$^3$ RWE annually from 2004 to 2009. It imported a substantial volume from Indonesia (primarily as mouldings). Thailand imported around 30 000 m$^3$ RWE yearly in the last decade.

Malaysia’s exports of mouldings and joinery to Asia have been dominated by Japan with between 130 000 m$^3$ RWE and 280 000 m$^3$ RWE from 2000 to 2009, followed by South Korea with between 30 000 m$^3$ RWE and 50 000 m$^3$ RWE, and mainland China, which has seen decreasing trade from a high of 140 000 m$^3$ RWE in 2001 down to 30 000 million m$^3$ RWE in 2009 (Table 17). Pakistan imported from Malaysia 47–49 000 m$^3$ RWE in 2008-2009 respectively, and India imported slightly less at 43-45 000 m$^3$ RWE in the same years.
Malaysia's exports to other destinations focus mostly on the EU, followed by the USA, Australia, and the Middle East although the exports to the latter has been increasing rapidly in the last few years, reaching 80 000 m$^3$ RWE in 2009, from a low of 10 000 m$^3$ RWE for much of the previous decade. The EU accounted for a quarter of the total throughout the decade. A further 10%-20% was supplied to each of mainland China, Japan and the USA. The Netherlands, Germany and the UK were the leading destinations in the EU accounting for 73 000 m$^3$ RWE, 68 000 m$^3$ RWE and 59 000 m$^3$ RWE respectively in 2009. The USA was a much larger market for Malaysian mouldings and joinery with between 220 000 m$^3$ RWE to 390 000 m$^3$ RWE yearly in the last decade but this decreased significantly to 136 000 m$^3$ RWE in 2008 and 98 000 m$^3$ RWE in 2009.

Peninsular Malaysia accounted for roughly 60% of the volume of mouldings which were exported from Malaysia during the second half of the last decade. Sabah tended to supply a further 30%. The EU accounted for about 30% of the volume exported from each of Peninsular Malaysia and Sabah (and a small proportion of that from Sarawak).

Table 17: Malaysia’s export of mouldings to countries/territories and regions from 2000 to 2009 in million m$^3$ RWE

<table>
<thead>
<tr>
<th>Malaysia to Destination</th>
<th>Estimated RWE volume (million cubic metres)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2000</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.05</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.00</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.08</td>
</tr>
<tr>
<td>Other Asia:</td>
<td></td>
</tr>
<tr>
<td>mainland China</td>
<td>0.11</td>
</tr>
<tr>
<td>Japan</td>
<td>0.21</td>
</tr>
<tr>
<td>South Korea</td>
<td>0.04</td>
</tr>
<tr>
<td>Taiwan</td>
<td>0.19</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.04</td>
</tr>
<tr>
<td>Vietnam</td>
<td>0.00</td>
</tr>
<tr>
<td>Other destinations:</td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>0.13</td>
</tr>
<tr>
<td>New Zealand</td>
<td>0.00</td>
</tr>
<tr>
<td>Canada</td>
<td>0.06</td>
</tr>
<tr>
<td>USA</td>
<td>0.26</td>
</tr>
<tr>
<td>Middle East</td>
<td>0.00</td>
</tr>
<tr>
<td>EU</td>
<td>0.28</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>0.03</td>
</tr>
<tr>
<td>Denmark</td>
<td>0.03</td>
</tr>
<tr>
<td>France</td>
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<td>Italy</td>
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<td>Netherlands</td>
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<tr>
<td>UK</td>
<td>0.08</td>
</tr>
<tr>
<td>World</td>
<td>1.48</td>
</tr>
</tbody>
</table>

Source: Department of Statistics Malaysia

© EU FLEGT Facility, Kuala Lumpur: Scoping baseline information for Forest Law Enforcement, Governance and Trade, April 2011.

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7.2.6 Wooden Furniture

The major exporter of furniture from the insular SEA sub-region is Indonesia, followed far behind by Malaysia, and even further behind by the Philippines and Singapore (See Figure 10).

Figure 10: Furniture export from Indonesia, Malaysia, the Philippines and Singapore from 2000 to 2009 in million tonnes

Malaysia has been increasing its furniture exports from a low of less than 500 000 tonnes yearly in the early years of the last decade to an increase to 885 000 tonnes yearly from 2005 until 2009 (Annex 2 Figure 35). Those exports were dominated by the USA, the EU (primarily the UK) and Japan, which accounted for roughly one third, 20% and 15% respectively of the total during 2009. Peninsular Malaysia supplied the bulk of those furniture exports. Sabah and Sarawak export small quantities of wooden furniture, primarily for outdoor use.

Intra-regionally, Malaysia exported 10 000 tonnes to both Indonesia and the Philippines and an average of 33 000 tonnes to Singapore annually during the last decade, with a high of 48 000 tonnes in 2003, and low of 23 000 tonnes in both 2005 and 2006. Malaysia had some exports to Brunei of less than 10 000 tonnes in 2000, 2008 and 2009 only.

Japan has been Malaysia’s main export destination in Asia for furniture with around 82 000 tonnes yearly and a large increase to 117 000 tonnes in 2009. Much smaller volumes have been exported to mainland China (8 000 to 19 000 tonnes yearly).

The USA is by far Malaysia’s largest destination for furniture and with volumes increasing in recent years from a low of 195 000 tonnes in 2001 increasing to close to 300 000 tonnes yearly in the latter part of the last decade. Wooden furniture (and plywood) accounted for most of the RWE volume of wood-based products which were exported from Malaysia to the USA. In terms of export value, those furniture exports accounted for 80% of the total.

This was followed by the EU which received about 145 000 to 180 000 tonnes yearly between 2004 and 2009; the Middle East and Australia which each received about 50 000 to 76 000 tonnes in the same period. The UK has been by far the largest EU market for Malaysian furniture with 59 000 to 77 000 tonnes from 2003 to 2009, followed by France and Germany both
with imports of around 4 000 to 19 000 tonnes in the same period, and the Netherlands, Belgium and Denmark with smaller quantities.

The volume of wooden furniture imported into the EU from tropical countries (including Brazil) and mainland China increased threefold between 2002 and 2007, due predominantly to supplies from mainland China (Figure 11). The volume supplied by Indonesia changed little during the last decade and was similar to that imported from Malaysia with around 180 000 tonnes, though that declined to 128 000 tonnes in 2008 for Indonesia. There was a smaller decline for Malaysia to 167 000 tonnes a year after a steady increase from the year 2000 when Malaysia only exported 86 000 tonnes. The share in the total attributable to each fell from 15% to 5% between 2000 and 2009. Vietnam and, to a rather lesser extent, Thailand accounted for most of the volume supplied from “other tropical” countries. Mainland China supplied almost two thirds of the total during 2009. The EU imports a negligible quantity of wooden furniture from tropical Africa (Figure 11).

Figure 11: The EU’s imports of wooden furniture from East Asia, South America and tropical Africa in million tonnes (2000-2009)

Mainland China dominates the exports of wooden furniture from Asia with 14.8 million m³ (5.28 million tonnes) per annum, while Vietnam’s exports are now similar to Malaysia’s—about 880 000 tonnes in 2009.

Much of the wooden furniture exported from Malaysia is made primarily from particleboard or fibre board. Most of that made in Malaysia is likely to be legal, deriving either from long established rubber wood plantations (including those in Thailand—which supplies large quantities of such panels to Malaysia) or from the wood residues of mills in Peninsular Malaysia.

Revenue from the sale of such wood residues to panel manufacturers (a number of whom have links to the owners of the mills which supply the wood residues) tends to make the milling of the original logs more profitable than if the wood residues were abandoned, thereby making the logging more commercially attractive. If the logs (or the mill) are associated with illegality, then resulting wood residues would warrant being described as illegal timber and vice-versa.
The remainder of Malaysia’s furniture is made from sawn timber (particularly rubber wood). Rubber wood furniture from Malaysia competes in the EU market primarily with similar products from Thailand—and perhaps also mainland China, judging by the very large volume of sawn rubber wood which Thailand exports to mainland China.

Indoor furniture other than that made from rubber wood is likely to be made from either teak or mahogany—both of which are derived from plantations on Java—usually by small businesses. Malaysia probably does not export substantial volumes of indoor furniture made from natural forest wood. However, both Malaysia and Singapore export small quantities made from Burmese teak.

Vietnam is the main competitor of Indonesia and Malaysia for outdoor furniture. Indonesia also competes with Thailand in the supply of plantation teak furniture. It is likely that a small proportion of the wooden furniture which is exported to the EU from Indonesia and Malaysia comprises indoor furniture made from natural forest-grown wood.

The volume of logs and panels other than plywood which Malaysia exports to Vietnam is sufficiently large for one to conclude that a substantial proportion of Vietnam’s wooden furniture exports derive from Malaysian raw material. Although Malaysia and particularly Indonesia supply mainland China with a much smaller RWE volume than mainland China exports as wooden furniture, because those supplies are likely to be made into composite products in mainland China before being further exported, it may be that a substantial proportion of mainland China’s exports of wooden furniture derives partly from wood from Malaysian forests.

7.2.7 Wood Chips

Overall, the quantity of wood chips and residues exported from Malaysia changed little during the last decade with around 300 000 tonnes annually (Annex 2 Figure 36). Japan accounted for almost all the total at 240 000 tonnes, probably from Sabah. EU imports very little from Malaysia in the early part of the last decade but this increased from 2006 to 11 000 tonnes, before increasing further to between 13 000 and 25 000 tonnes in 2007 to 2009.

7.2.8 Paper

The largest exporter of paper in the insular SEA sub-region is Indonesia by far, followed way behind by Malaysia, Singapore and Philippines (Figure 12). During the last decade Malaysia exported 4.6 million tonnes of paper in total. Singapore was the destination for between half and one third of the quantity of paper exported from Malaysia over the last decade, of around 140 000 tonnes annually (Annex 2 Figure 37). Total paper exports from Malaysia averaged 457 000 tonnes annually. Mainland China and Thailand each accounted for a further 10% and smaller amounts of less than 30 000 tonnes per year each to Vietnam, Australia, the Middle East, the EU (to the UK specifically around 10 000 tonnes per year), Japan and Taiwan.

There is some intra-regional trade in paper between the four insular SEA countries with quantities tending to increase slowly during the last decade. Indonesia exported over 380 000 tonnes to Malaysia in 2009, Indonesia has imported between 20 000 and 40 000 tonnes per year from Malaysia. Singapore has exported about 60 000 tonnes per year to Malaysia. The Philippines paper exports to the sub-region were between 10 000 and 20 000 tonnes to Malaysia. Malaysia exports about 140 000 tonnes per year to Singapore.
8. CERTIFICATION

A small volume of Forest Stewardship Council (FSC)-certified wood-based products is derived from forest in Peninsular Malaysia and Sabah (specifically Deramakot Forest Reserve). The annual allowable cut (AAC) of the 9,000 hectares of FMU certified in Terengganu is 18,000 m³; more than 60,000 m³ of logs is likely to have been extracted during 2007 from the 109,000 hectares of forest management units (FMUs) certified in Perak (31 m³/haaree on annual coupe of net area 2000 hectares). A larger volume derives from timber plantations of Sabah Softwoods in Sabah which is FSC certified.

Roughly 150,000 m³ of logs are extracted annually from forest which is certified under the Malaysia Timber Certification Scheme (MTCS). Large areas of forests in Peninsular Malaysia are variously classified as protected, including for watershed protection, and not available for harvesting. Timber is mostly harvested from a few States with a larger extent of forests, such as Johor, Pahang, Perak, Kelantan and Terengganu. The MTCS was endorsed by the Programme for the Endorsement of Forest Certification (PEFC) during 2009 (Anon., 2010e).

As at the end of July 2010, 4.8 million hectares of Permanent Reserved Forest (as nine FMUs) were MTCS-certified. Of this, over 4.6 million hectares (as nine FMUs) were PEFC-certified (Anon., 2011d). All except one of the MTCS-certified FMUs are in Peninsular Malaysia. Much the smallest FMU is in Sabah. It seems that all the 4.8 million hectares of Permanent Reserved Forest in Peninsular Malaysia is either MTCS- or FSC-certified. The MTCS is the only forest certification scheme to collate statistics on the quantity of certified timber which is exported under its brand. However, very little of the timber exported from Peninsular Malaysia is MTCS-certified. Reasons might include lack of demand from customers, poor supply chain management and other reasons which can only be speculated upon. However, more than one hundred enterprises in Malaysia have been certified as able to maintain chain of custody for MTCS-certified products. Most of these now hold PEFC chain of custody certificates (Anon., 2010b).

As Figure 13 below indicates, the EU accounts for almost all the timber exported from Malaysia with a chain of custody certificate under the MTCS brand. The Netherlands, the UK and
Belgium, respectively, were the destinations for roughly 55%, 25% and 10% of the total exported during the year up to the end of July 2010. Denmark, France and Germany accounted for most of the remainder.

Figure 13: Exports of Malaysia’s MTCS-certified products by destination and product 2007-2010

Source: MTCS News April 2010

There has been remarkably little change in the total exported during the last four years. However, the quantity exported directly to the UK declined while that to the Netherlands (including for onward trade) increased. During the three years 2007-2009, there was no clear trend in the percentage of MTCS-certified products to the total RWE volume of sawn timber and plywood which was exported from Peninsular Malaysia to the EU. However, it seems that share increased substantially to major EU destinations other than the UK.

Sawn timber and plywood each comprise roughly 50% of the RWE volume of MTCS-certified products exported from Peninsular Malaysia. During 2009, those products accounted for roughly 4% (150 000 m³) of industrial roundwood production of 4 million m³ in Peninsular Malaysia (Ministry of Plantation Industries and Commodities, 2010), 8% of that region’s plywood exports and 2% of its sawn timber exports.

MTCS-certification for one FMU in Sarawak has not been renewed since expiring during 2009—due particularly to its persistent failure to comply with conditions concerning Native Customary Rights. MTCS-certification for another FMU in Sarawak has been suspended since May 2010.

The FSC- and MTCS-certified FMUs are all managed by the public sector. However, the public sector tends to contract out the logging of those FMUs.

External assistance was provided under the Responsible Asia Forest and Trade Programme (RAFT) to at least one FMU (in Sabah) with a view to it becoming FSC-certified.

The supplies of a small but increasing number of timber enterprises have been verified for some aspects of legality, including in accordance with “Controlled Wood” standards (Gunawan, I., and Yana Suryana, I., 2010; Anon., 2011f).

Japan appears recently to have agreed to regard as legal all timber exported from Sarawak, provided that its supply complies with the Sarawak Chain of Custody scheme (Anon., 2010d). However, that scheme could be further strengthened by taking into account numerous aspects of concerns which have been raised by some stakeholders; awarding concessions and other
licenses to log as a result of political patronage, respect for indigenous peoples’ rights as defined in law and upheld by the Malaysian courts, special payments for timber, laundering of timber from outside of licensed area and across from Indonesia’s border and illegal logging in prohibited areas within licence areas (Anon., 2011a; Yong, C., 2010; Chan, T. 2007; Wells, A., et al. 2008; Lawson, S. and MacFaul, L., 2010).

9. CROSS BORDER TRADE AND CUSTOMS

All international trade of countries that are members of the World Customs Organisation (WCO) has to go through Customs. All shipments through Customs have to complete the official Customs declaration forms, for export and import, according to the requirements of Customs. The goods have to be classified according to the HS (Harmonized System—the internationally standardized system of names and numbers for categorizing traded products) of the WCO. HS codes comprise a series of six-digit numerical codes. The first two digits represent the chapter of the commodity: Chapter 44, for example, is for “wood and articles of wood; wood charcoal”. Official statistics are then compiled from the Customs declaration forms. These trade statistics, coupled with resource statistics and other information, can inform and provide data and information on the implementation of government policies and regulations.

There is a key role to play for Customs in Malaysia in monitoring and controlling international timber trade. This is especially so due to the ease of border crossing for timber trade with Indonesia as Indonesia has a log and sawn timber export ban in place. Customs officials have the ability to monitor and control the trade through provisions in Customs legislation, and also the extensive enforcement capabilities to enforce Customs regulations and to support provisions in other legislation, as appropriate, when it comes to illegality in trade.

Discrepancies between the statistics of for example what Malaysia declares as exports (or imports) and what partner countries declare as imports from (or exports to) Malaysia have been assessed in numerous studies (Eastin, I. and Perez-Garcia, J., 2004; Goetzl, A., 2005). In this report, it is already noted about the discrepancy in data for logs and sawn timber among other timber products, between Malaysia and Indonesia. However, remedial measures, for example facilitating real time information exchange between relevant Customs authorities, do not seem to have taken place except for hazardous and toxic waste shipments. Further, it is likely that accounting for trade through Free Trade Zones in Malaysia remains problematic. That said, the extent to which mismatches (predominantly logs en route to mainland China) are attributable to smuggling or fraud has probably reduced considerably during the second half of the last decade.

The current systems in use for handling international timber trade and the basis for trade statistics compilation in each country or territory are similar, in that completion of Customs declaration forms (for both exports and imports) is mandatory. In many countries, access to the forms is mainly online and submission to Customs authorities principally electronic. In general, various documents endorsed by relevant government agencies, together with shipping and business documents, are obliged to be submitted to Customs together with the declaration form. Much of this documentation accompanies an exported shipment to its destination, but the official Customs export declaration form does not; yet it is the key official document recording export details with actionable information for enforcement authorities and, as such, should be the basis for comparison by importing countries.

Investigations by the Royal Malaysia Customs Department into the legality of wood-based products being exported from Malaysia are to some extent compromised by the policy of importing countries, which do not have requirements to exchange real-time information or enforcement actions to reciprocate local controls.
Factors involved in generating discrepancies in timber trade statistics between trading partners include, but are not limited to, differences in data reporting systems; units of measurement; conversion factors; codification; and scaling methods. Time lapses between export and import; combined shipment of mixed timber products; transhipments; and indirect trade routes can also cause discrepancies. These factors are not limited to timber commodities. Furthermore, many countries may have quite substantial discrepancies between sets of statistics published by different government sources and, in turn, between such sources and those used by the Food and Agriculture Organization of the United Nations (FAO) and the International Tropical Timber Organization (ITTO). Of particular interest are factors linked to illegal timber trade that contribute to discrepancies in international timber trade statistics, for example under-invoicing, mis-specified products, fraudulent trade data and smuggling—by proxy, significant discrepancies between export and import data for the timber trade are a strong indicator of the occurrence of illegal timber trade and, by extension, illegal logging.

Illegal logging and illegal timber trade can be further controlled by Customs through changes in documents submission requirements, control which should then be reflected in the narrowing of bilateral timber trade statistics discrepancies. Customs authorities have the required legislation to impose additional requirements for legality and controls, such as the requirement for forestry departments to verify and certify the legality of a shipment. However, this has to be activated through requests from other government agencies that would like to use Customs controls for additional verification and control.

The burden of enforcement in Malaysia presents a serious challenge to the enforcement infrastructure and political will of the government. While there are insufficient data to analyse how effective enforcement efforts have been, various statements have been made regarding Malaysia, including by the Sarawak Timber Industry Development Corporation (STIDC), on its enforcement efforts. STIDC has made more than 27 seizures from 2000 to October 2003 at various border checkpoints, including Serikin, Muara Tebas, Kota Samarahan, Sematan, seas off Satang and Talang-Talang islands, Tebakang near Serian, Tebedu and Jajoi Bambang. This was at the height of the external pressure on Malaysia from civil society and foreign governments. From 2000 until April 2004, STIDC seized 4,215 m$^3$ of timber products illegally entering Sarawak that were imported in violation of the State laws and regulations. The enforcement arm of Sarawak Forestry Corporation (SFC), Security and Asset Protection Unit (SAPU), supported by other agencies, has seized 9,129 m$^3$ of domestic illegal logs and rough sawn timber since its establishment in June 2003. SFC has also seized 77 m$^3$ of ramin timber that was smuggled into the State without CITES permits (Anon., 2004). The Malaysian Timber Industry Board (MTIB) in Peninsular Malaysia, in 2002, seized 107 m$^3$ of ramin from Indonesia without CITES permits, and 903 m$^3$ in 2003. See Tables 18 and 19 on seizures records for Peninsular Malaysia and Sarawak.

### Table 18: Confiscation of ramin from Indonesia entering Peninsular Malaysia 2002-2005

<table>
<thead>
<tr>
<th>Year</th>
<th>Cases</th>
<th>Logs (m$^3$)</th>
<th>L.S.S. (m$^3$)</th>
<th>Sawn timber (m$^3$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>6</td>
<td>107</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2003</td>
<td>21</td>
<td>234</td>
<td>76</td>
<td>593</td>
</tr>
<tr>
<td>2004</td>
<td>12</td>
<td>758</td>
<td>201</td>
<td>2 339</td>
</tr>
<tr>
<td>2005</td>
<td>2</td>
<td>26</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

- No record of confiscations of ramin from 2006 onwards.

Source: Malaysia MTIB statistics

© EU FLEGT Facility, Kuala Lumpur: Scoping baseline information for Forest Law Enforcement, Governance and Trade, April 2011.

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www.euflegt.efi.int
Table 19: Timber detained and cases handled by STIDC, Sarawak since 2000-2004

<table>
<thead>
<tr>
<th>Year</th>
<th>Case</th>
<th>Volume (m³)</th>
<th>Estimated value of timber detained (MYR)</th>
<th>Compound (MYR)</th>
<th>Compound/timber value (MYR) (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>5</td>
<td>518</td>
<td>368,498</td>
<td>2,500</td>
<td>0.006 (0.0017)</td>
</tr>
<tr>
<td>2001</td>
<td>3</td>
<td>598</td>
<td>364,240</td>
<td>4,000</td>
<td>0.011 (0.0029)</td>
</tr>
<tr>
<td>2002</td>
<td>13</td>
<td>1,712</td>
<td>872,419</td>
<td>13,200</td>
<td>0.015 (0.0040)</td>
</tr>
<tr>
<td>2003</td>
<td>11</td>
<td>891</td>
<td>483,350</td>
<td>9,000</td>
<td>0.018 (0.0049)</td>
</tr>
<tr>
<td>2004</td>
<td>6</td>
<td>125</td>
<td>94,685</td>
<td>7,000</td>
<td>0.07 (0.019)</td>
</tr>
<tr>
<td>2006</td>
<td>16</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>51</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>67</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>3,845</td>
<td>2,183,192</td>
<td>35,700</td>
<td>0.0164 (0.004)</td>
</tr>
</tbody>
</table>

* includes Papua New Guinea (PNG) timber - breakdown not available

Source: Malaysia STIDC statistics

The Malaysian process (applicable for Peninsular Malaysia and Sabah only, as Sarawak has had a log import ban since 1996) for controlling and administering the import of logs is quite detailed (Anon., 2003). The imports of all other timber products follow the process as outlined earlier in this section. The situation for Sarawak will be illustrated later. Any company that wishes to import logs has to obtain a log import approval from the Ministry of Plantations, Commodities and Industry (formerly the Ministry of Primary Industries). The log import permit is issued by MTIB on behalf of the Royal Customs Department. The permit has to be registered with MTIB, must state the species, volume, origin of the logs and the name of the port of entry into Malaysia. The licence must be presented to Customs before logs can be imported.

Various parts of the process have been exploited by importers. Firstly, there has been falsification of documents of origin from countries other than Indonesia, even where small boats bringing logs may noticeably not be ocean-going or made for long sea trips. In addition, the documented last port of call might state a boat was from Indonesia although the documentation stating origin may not tally. To tackle false declaration of log origin, MTIB requires a verification letter via the Malaysian Embassy/Trade Office from the relevant country/territory to check the validity of transactions for log imports at the ports. MTIB presently is called to check all shipments of timber into the country for specific infractions against CITES-listed species and the large square and scantlings import ban from Indonesia. Customs will only release the consignment after such MTIB inspection. In addition, the Forestry Department carries out inspection for the issuance of the removal pass. Secondly, the total quantity of logs imported could have been mis-declared, in the absence of computerised, online ability to detect if total volume approved and actual volume match. Imports could take place over several authorised ports of call in several different States, and irregularities only detected much later, once statistics were examined, if at all (Chen, H.K., 2004).

In addition to the log import permit, other import documentation is required by Malaysian Customs before landing of cargo. Timber from Indonesia can only be landed at designated jetties under the Customs Act and, for Peninsular Malaysia, these include Port Kelang jetties, of which there are 26, and Kuala Linggi in Melaka, Batu Pahat, Muar and Pasir Gudang in Johor State. A ship manifest listing the species and volume accompanies the Customs form. Once unloaded onto the jetties, which are Customs bonded areas, the timber can only be removed for onward journey to the mill if a removal pass has been issued by the State Forestry Department. Full documentation is required, including invoice, bill of lading, etc. for logs imported.
from most countries, except Indonesia, as those involve barter trade. The barter trade arrangement exists between many ASEAN countries. The traditional barter system of exchanging goods is now mainly a cash exchange although goods may be bought for the return journey to Indonesia. In discussion with the Indonesian authorities, no documentation is issued for those boats crossing into Malaysia from Indonesia. Barter trade system is in operation between Thailand, Malaysia, Singapore, Indonesia and Philippines.

The process in Sarawak, managed by STIDC, is more robust for tracking movement of sawn timber and rough sawn timber from Indonesia. There are only four land ports (Biawak, Serikin, Tebedu and Lubuk Antu) and one sea port (Semantan) for the entry of timber from Indonesia. The importer must be registered with STIDC. At the entry point, a Customs declaration form must be submitted. The Malaysia authorities at the border assume that all timber imports from Indonesia have passed through their Customs check-point. The sawn timber is checked by STIDC to ensure no ramin is mixed with the timber. STIDC issues an inspection note to Customs for release of the shipment to enter Malaysia. At the same time, at Tebedu entry point only, Customs also check to ensure the Indonesia forms PEB (Pemberitahuan Ekspor Barangan or Indonesian Customs Declaration form) and SKSHH (Surat keterangan sahnya hasil hutan or Indonesian royalty collection form) accompany each consignment. However, Customs have difficulty identifying falsified or fraudulent documentation from Indonesia. Harwood, a subsidiary of STIDC, then processes the timber. Harwood’s duty is only to process the timber, tally, and bundle and tag the timber. Harwood charges an administrative fee for processing the timber. Once Harwood issues a despatch note, then only STIDC will process the timber and issue a removal pass for onward journey. The timber will have both an STIDC hammer mark and STIDC tag. The STIDC tag is colour-coded according to entry point for ease of identification by enforcement staff. In addition, import of timber products via Lubuk Antu must obtain approval from the Sarawak State Secretary office. See Figure 14 for the procedural flow for Sarawak.
The little-known aspect of the illustrated procedure above is that imports of sawn timber and rough sawn timber at all the official entry points in Sarawak, Sabah and Peninsular Malaysia are recorded by Customs as well as by STIDC in Sarawak.

It is possible that timber crosses into Malaysia illegally as there is a long coast line and land border with Indonesia (Obidzinski, K., et al., 2007). STIDC, MTIB and various State agencies including SFC, the police and marine forces, army, Customs, road transport bodies, Harwood and forestry departments have co-ordination meetings and enforcement activities as required along the border areas. Any illegal road crossings into Sarawak will also be closed by excavation once detected.

In addition, remedial measures, for example facilitating real-time information exchange between relevant Customs authorities, do not seem to take place for all commodities, as far as can be ascertained from talking to Customs officials. Although customs Sarawak and Kalimantan have regular meetings as part of the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) in particular under the transportation and sector (Anon., 2011e).

There appears to be very little cross-referencing between countries and limited exchange, if any, between agencies in-country/territory regarding statistics declared on export and corresponding import forms. Cross-referencing of export information for a shipment with that supplied on import is sometimes possible if specific concerns arise, but such verification does not happen routinely. In other words, according to the status quo, Customs export information is not verified on import, except in so far as certain accompanying documentation allows. There is no standard designated documentation to use to double-check information in the Customs declaration forms in either exporting or importing countries.

Customs export declarations could contain fraudulent, inaccurate or misleading information which, if not detected at export, are by no means guaranteed to be picked up on import, unless protocols for cross-referencing exist. Customs are not expected to question official clearance from exporting countries but only use this as the basis for checking and to provide feedback to the Customs of exporting countries if the shipment differs from what was imported. Shipping protocols and documents thus provide an avenue for falsification of characteristics of an export, likewise business documents, although business importers are likely to go to some lengths to check the accuracy of shipment details. However, such checks during imports may not be the same as what was officially approved shipment for export.

Customs regulations in Malaysia has specific clauses that give authority to demand all invoices, bill of lading, certificates of origin or analysis and any other document which Customs may need to test the accuracy of any declaration made by the importer or exporter. Then it is the decision of Customs whether they will request the Customs export declaration form, to verify the details of the shipment. There is no requirement for any amendment to legislation for this to take place in many countries although this is not the case for EU member States.

The FLEGT VPA and the EU Timber Regulation, which require timber trade to the EU to be transparent and legal, can be further strengthened if Customs declaration forms from Malaysia are also monitored in conjunction with the timber legality licensing system of the VPA and the licensed Timber Regulation’s monitoring organisations. According to the Timber Regulation articles, the operators which first place the timber products in the EU market, have to capture the following information: description, including trade name and types of product and, where applicable, its full scientific name, country/territory of harvest, quantity, name and address of supplier, name and address of trader, documents and other information indicating compliance with applicable legislation. All this information resides with the operators and also independ-
ent monitoring organisations. But much of the information required under the Timber Regulation can be checked by the Customs authorities through their Customs import declaration form. The European Commission (EC) has been stressing that the Timber Regulation is not a border measure and hence there is no defined role for Customs, at least not when it comes to controlling the external border of the EU—however the designation of “competent authorities” is up to individual member States and some Member States might designate Customs, whereas others might designate administrative authorities under the Ministry of Agriculture, etc. There is an important role for Customs in supporting the implementation of the Timber Regulation by contributing important information and, also, under the VPA Customs will have to control imports of VPA-licensed timbers.

The VPA and monitoring organisations for the Timber Regulation would generate a lot of data captured from all shipments. The systems that govern and monitor the VPA and Timber Regulation implementation should be regularly monitored and evaluated. Experience with other paper-based permit systems, like the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), suggest that it is possible to monitor the trade through comparative analysis of the data captured during export and import, if there are similar datasets (Chen, H.K., 2006). However, this can be most effective if the analysis is carried out using near real-time data as far as possible. The Customs export declaration form, has the potential to mirror the relevant data in the VPA, and possibly to be used to verify data from the operators under the Timber Regulation. The statistics could be analysed quickly, as the data would be captured by Customs as a matter of course. If the Customs data were to differ from the VPA and Timber Regulation data of the operator, then it would be a cause for further inspection and investigation.

10. CONCLUSION AND RECOMMENDATIONS

Forestry comes under the jurisdiction of the respective State governments of Malaysia. There are three forest policies in operation; for Peninsular Malaysia, Sabah and Sarawak. The executive authority of the Federal government only extends to the provision of advice and technical assistance to the States, training, the conduct of research, and the maintenance of experimental and demonstration stations. In addition, at the State level, co-ordination of cross-sectoral policies that interface with the forestry sector is undertaken through the State Development Council/Committee and the State Executive Council/State Cabinet.

Malaysia’s total land under forests is still high; at over 55%, but faces competition for land use by other sectors, in particular agriculture, settlements and infrastructural development. Some of the forested State land will be converted to other use but those unalienated land is rapidly dwindling through intensive use by the States. It is estimated that permanent forest land will reduce from 18.31 million ha at the end of 2005 to 16.73 million ha by 2020.

Furthermore, the area under forest plantation would increase by 1.75 million hectares by 2020, in view of the government policy to provide soft loans to the private sector to establish 375 000 hectares of forest plantations in the next 15 years, the targeted establishment of 500 000 hectares by Sabah by 2020, and the envisaged 1.2 million hectares of forest plantations in Sarawak. Thus, at the end of 2020, forest plantations in Malaysia are expected to total 2.15 million hectares with 55.8% in Sarawak.

The unit price of sawn timber, mouldings and joinery from Malaysia will tend to increase if the EU VPA is signed and the Timber Regulation both are comprehensively implemented. The EU is a leading destination for the sawn timber, furniture and mouldings and joinery which are exported from Peninsular Malaysia. Given the probable legality of those supplies, Peninsular Malaysia is likely to face rather less competition once the VPA is in force. The export value of
Malaysia’s exports would tend to rise if the cost of transportation to destination markets reduces. Transportation tends to be a substantial component of the import value of tropical timber which major markets import. However, they have been very volatile during recent years—depending partly on mainland China’s foreign trade and the price of fuel oil.

The VPA would provide a strong boost for certification of forest operations in the country, in particular the MTCS. This is already implemented in Peninsular Malaysia, and Sabah, but still has some way to go towards greater acceptance in Sarawak, similar to all other certification schemes. Those products that are exported to the EU are mostly progressing towards a greater level of confidence in their legality, either via certification or greater due diligence by the companies, or because of the high use of rubber wood and plantation timber content. Increasing the volume and value of the trade to the EU is the challenge. A major problem for Malaysia in the context of timber trade legality is the suspect imports of timber from neighbouring countries, in particular Myanmar, Indonesia and Papua New Guinea, where there are concerns about the legality of timber products. Those products could become mixed and used in timber products destined for the EU. Indonesia has signed the VPA and is expected to ship legally assured timber in the near future, then imports from Indonesia would provide a secure chain of custody for legality, but the other countries are not considering the VPA and so will continue to be suspect unless the products are certified. If Malaysia were to have to follow the EU Timber Regulation provisions, then the exports of Malaysia to processing countries before destined for the EU would mean that some form of independent monitoring and chain of custody inspection would need to be followed, to provide buyers with the confidence that Malaysian timber was legal. Another important challenge for Malaysia in this context is the tenure conflicts with indigenous communities which could have an impact on timber legality if the courts decide for the peoples.

The trade data analysis shows that the log production in the insular SEA sub-region has decreased over the years, with Malaysia dominating the exports (across all timber products), as Indonesia, Brunei and the Philippines, have banned the export of logs in the last decade. The trend towards value-added processing in the sub-region has meant that log production has mostly been used in-country. Malaysia’s log exports have been from Sarawak and Sabah with Peninsular Malaysia effectively having a log export ban. Log exports from Malaysia have been decreasing and should plateau as logs from State-land forests will no longer be part of the production, as those forests are depleted, leaving only production from sustainably managed permanent forest and from plantations, as more such areas come on-line.

Malaysia’s logs are mostly destined for countries outside the sub-region. No logs are recorded as exported to the EU. Therefore the source of logs for downstream industry has to be from a combination of sources: natural permanent forests, private forest, community forests, and plantations and imports. The plantations source is controversial, partly due to potential for forest land conversion to plantations, but plantations also provide the best hope for sustaining the local timber industry. Malaysia aims for a significant increase in plantation forests, and this will require enabling policies, investment and strong monitoring and enforcement actions by the authorities to mitigate the issues related to the establishment of plantation forests. However, as the policies have only been recently formulated, and implementation of plantation strategies is still in an early stage, the production from local sources has yet to catch up with the installed capacity of the industry.

While Malaysia is the dominant exporter for sawn timber, veneer and plywood in the sub-region, Indonesia has dominated in the mouldings and joinery, furniture, pulp and paper sectors. It would appear, looking at the production trends, that Indonesia has been successful in promoting further downstream development, while Malaysia has some success in secondary processing, in particular plywood and furniture, which dominate its exports of timber products.
This has meant that imports of timber products play a role in Malaysia, although this has been small in comparison to the export of timber products across all the timber categories. Even so, these imported timber products could be used in further-processed timber or directly re-exported to the EU, in which case the EU Timber Regulation would apply. For Malaysia once the EU VPA is signed, products with a mix of imported materials without verified supporting legal documents may not be able to enter the EU market.

The push for certified furniture in the EU market has meant that manufacturers in the sub-region have had to source for sustainably managed timber products. However, the competition for such certified timber products is stiff as there are limited certified forests in Malaysia or the region, and there are more chain-of-custody certificates than sources of the products. The majority of the forest products will not be from certified forests. Hence in the short- to medium-term, the only option for securing market share is to aim for credible legality verification of the region’s forests and timber products, through effective, transparent and credible implementation of the regulatory framework in each country. Ambiguous and conflicting regulations should be removed or revised accordingly.

In general, it would appear that good forestry governance is still a challenge. However, great strides have been made to improve the situation, with the Malaysian Timber Certification Scheme (MTCS) leading the push for good governance in Malaysia. Transparency of the management, monitoring and enforcement of the forestry sector could be further improved, as illegally harvested logs are still suspected of entering the supply chain. Further clarification of the legal ownership, access and use rights to forests, and reducing conflicts with indigenous peoples and local communities could help to resolve some of the issues.

Malaysia’s forest resources are finite and have reached a plateau in terms of production after depletion due to harvesting from the majority of State-land forests, many of which have been logged and re-logged over the years. Permanent forest estates and plantations are the only significant sources of timber left. Plantations will take time to come on line with production of raw logs. For the Permanent Reserve Forests, which are under SFM, the average annual log production from the category of Production Forests has been estimated to be 18.10 million m³ for 2006-2010, 24.12 million m³ for 2011-2015 and 27.62 million m³ for 2016-2020, with most of the production coming from Sarawak. The decline in the average annual log production in Peninsular Malaysia and Sabah, especially from the natural forests in the future, is mainly due to more conservational forest harvesting practices using reduced impact logging in the overall context of SFM. However, the substantive increase in log production in Sarawak is envisaged to come from its aggressive forest plantation programmes, especially from 2011 onwards.

The long-term timber industry policy of increasing manufacturing of value-added timber products will only be sustainable if log production can be secured sustainably. Previously imports of logs and sawn timber, especially from neighbouring countries, have contributed to high production, but this has decreased dramatically in recent years. Excess milling capacity across Malaysia is likely to close—except perhaps mills located near the coast where it might be financially viable to transform imported wood.

Malaysia’s timber industry is organised through the timber associations for Peninsular Malaysia, Sarawak and Sabah. A few large integrated timber companies dominate production, especially those based in Sarawak. Any visible changes in their policy and implementation towards transparency, legality and sustainability would have a strong impact on the forestry sector of the country and abroad given their outreach to other countries.
Peninsular Malaysia’s permanent forest estates are independently audited by a third party certification scheme, the MTCS. The Sabah Forest Department has mandated the move towards certification and transparency of information related to all the forest concessions in the State. Both the Peninsular Malaysia and Sabah forestry sectors are increasingly becoming more transparent in their operations, management, and monitoring and enforcement activities, through the provision of statistics, information and data. Sarawak has not reached the same levels of transparency, although its government agencies have allowed selected stakeholders access to document and review parts of their operations (although these have not been made public). The most intractable challenge for Sarawak, but also to some extent for the rest of the country, is the legality of ownership, access and use rights related to indigenous groups and local communities which are in conflict with government-allocated concessions.

Cross border trade and Customs

Cross border timber trade can freely take place without much difficulty as long as proper procedures and documentation are submitted to Customs authorities. There are variations of procedures and documentation depending on location and type of products and category of trade. In the SEA region, there is the informal trade called barter trade for many goods, including timber. The barter system requires less documentation and the controls are less stringent in comparison to official ports. The most important authority at all border crossing is Customs, legitimising movements of goods across recognised border crossings, collecting revenue, controlling and enforcement against prohibited goods, and also ensuring that proper data are recorded. The volumes, values and other information found on the Customs import declaration form are captured in national statistics. Similarly, the data are captured in Customs export declaration forms by the country of origin. However, there is generally no adequate mechanism at present for the importing country to assist the exporting country in controlling illegal logging and illegal timber trade. Malaysia’s reciprocal log and large square and scantlings import ban from Indonesia is the only such arrangement currently in any part of the world, although the VPA will have similar arrangements once it is implemented. The efforts to combat illegal logging and illegal timber trade have to start from within the country of harvest. International arrangements could provide the additional measures to assist harvesting countries to ensure that illegal timber smuggling and laundering is not a significant driver of illegal harvest.

A very useful tool to help in the monitoring of cross-border trade and to address any potential impact of changing buyer demands and regulations, such as the EU Timber Regulation and Lacey Act, is to have real-time comparative analysis of Customs statistics. The more recent the data, the finer the scale of monitoring. The EC has been stressing that the Timber Regulation is not a border measure and hence there is no defined role specifically identified for Customs—at least not when it comes to controlling the external border of the EU. However, the designation of “competent authorities” is up to individual member States and some Member States might designate Customs, whereas others may designate more administrative authorities under the Ministry of Agriculture, etc. There is an important role for Customs in supporting the implementation of the Timber Regulation by contributing important information. Under the VPA, Customs will also have to control imports of VPA-licensed timbers. Directly cross-checking Customs export declaration and Customs import declaration forms can provide very accurate monitoring and controls, on volumes, species (where appropriate and required), values, shipper and exporter and importer. The Malaysian Customs regulations already have the appropriate articles that would allow Customs to demand any additional document to verify details of shipments, and there is nothing to preclude the Customs export declaration form as one such document. It is presumed that other countries’ Customs regulations except for the EU, may have similar provisions without the need to amend the law.
Comparative analysis of Customs data by HS categories can provide a simple tool and method to look at the impacts of external factors such as regulatory changes, procurement policies, and control mechanisms. This can only give an indication of trends. However, it can show changes in consumption, demand, and shifts in markets. A wood balance model (differences between all production, including imports against domestic consumption and exports) has been tried before with limited success, as data capture at the national and provincial levels varies by country and within country. The use of both the comparative statistical analysis and wood balance model together may provide some idea of the extent of illegal logging and illegal timber trade within a country and possible gaps and weaknesses of the governance system. Large discrepancies should be investigated immediately. Not all countries are able to provide monthly and recent statistics though, so the comparative monitoring for those countries may need to be at six monthly, or even yearly intervals. The longer the time frame, the more difficult it will be to determine the anomalies to the individual shipment level for detailed investigations and control. However, the analysis could still provide information that could be of use, when coupled with other data sets and analysis for monitoring, controls and enforcement.

The EU should consider the following recommendations to assist Malaysia to meet the VPA and EU Timber Regulation requirements:

- Enhancement of the awareness and knowledge of the VPA and the EU Timber Regulation, and their implications, among all stakeholders in the country. This is particularly important for those industries in the chain supplying EU markets, which will need to ensure they have clear evidence of the origin of their raw material and verification of its legality. It is recommended that more awareness, training and capacity-building among the industry, civil society and government agencies be conducted. A particular challenge with the Timber Regulation is that the legal requirements in the country for forestry and timber trade preclude the need to have a full traceability system. Since there is legal requirement to have a traceability system in place, it will be difficult for operators in the EU to obtain legal documents that are fully traceable back to the stump. Hence, the evidence that might be needed for operators and monitoring organisations under the Timber Regulation has to be from a combination of legal documentation and company systems, records and procedures.

- Encouragement to Malaysia to enhance its forestry governance and technical support to ensure that the legality framework of the country is robust and can meet the Voluntary Partnership Agreement (VPA) or the EU Timber Regulation requirements.

- Expand the scope of coverage in the VPA negotiations to include all timber products as Malaysia exports substantially more non-VPA timber products to the EU than VPA core products.

- Assistance in developing ways of capturing national data on domestic trade. The EU can assist Malaysia to develop a system for data collection, compilation and analysis to determine the scale and scope of domestic consumption. This information, coupled with production data, imports and exports, can give a good basis for evaluating and revising national policies, legislation and systems.

- Assist Malaysia in ensuring that transparent, fully informed stakeholders’ consultations are conducted regularly at all stages of the VPA negotiation and after, and ensure that recommendations made during the consultations are adopted and reported back.
• Assist NGO stakeholders in capacity building, awareness raising and other support as needed so that those organisations can assist to monitor and provide feedback on the implementation of mechanisms related to legality.

• Engagement with other countries and territories that import timber from SEA but which may not have comparatively stringent import requirements, including the East Asia markets (in particular South Korea), India and the Middle East. For countries such as China and Japan, which are already in dialogue with the EU, the EU should identify specific areas for collaboration, such as Customs co-operation.

• To look further into the movement of timber from Indonesia to Malaysia. And to look into the movement of round log from Indonesia, Papua New Guinea or Solomon Islands to Malaysia (including into Free Trade Zones) although covered by log supply contracts authenticated by the Malaysian embassies or consular offices on the country of origin.

• To look further into the Malaysia-Philippines timber trade, in particular Malaysia’s export since it is one of the main exporter of timber products to the Philippines to assist Philippines in clarifying its imports.
References


Annex 1: Malaysia’s imports of wood-based products from 2000-2009 in million m$^3$ RWE

Figure 15: Malaysia’s imports of VPA core products by supplying country from 2000-2009 in million m$^3$ RWE


Figure 16: Malaysia’s imports of other timber sector products by supplying country from 2000-2009 in million m$^3$ RWE

Figure 17: Malaysia’s imports of logs by supplying country from 2000-2009 in million m$^3$ RWE


Figure 18: Malaysia’s imports of sawn timber by supplying country from 2000-2009 in million m$^3$ RWE

Figure 19: Malaysia’s imports of veneer by supplying country from 2000-2009 in million m³ RWE


Figure 20: Malaysia’s imports of plywood by supplying country from 2000-2009 in million m³ RWE

Figure 21: Malaysia’s imports of other panels by supplying country from 2000-2009 in million m$^3$


Figure 22: Malaysia’s imports of mouldings and joinery by supplying country from 2000-2009 in million m$^3$

Figure 23: Malaysia’s imports of wooden furniture by supplying country from 2000-2009 in million tonnes


Figure 24: Malaysia’s imports of pulp by supplying country from 2000-2009 in million tonnes

Figure 25: Malaysia’s imports of paper by supplying country from 2000-2009 in million tonnes


Figure 26: Malaysia’s imports of mouldings by supplying country from 2000-2009 in million m³

RWE

Annex 2: Malaysia’s exports of wood-based products from 2000-2009 in million m\(^3\) RWE

Figure 27: Malaysia’s exports of VPA core products by destination country from 2000-2009 in million m\(^3\) RWE


Figure 28: Malaysia’s exports of other timber sector products by destination country from 2000-2009 in million m\(^3\) RWE

Figure 29: Malaysia’s exports of logs by destination country from 2000-2009 in million m$^3$ RWE


Figure 30: Malaysia’s exports of sawn timber by destination country from 2000-2009 in million m$^3$ RWE

Figure 31: Malaysia’s exports of veneer by destination country from 2000-2009 in million m³ RWE


Figure 32: Malaysia’s exports of plywood by destination country from 2000-2009 in million m³ RWE

Figure 33: Malaysia’s exports of other panels by destination country from 2000-2009 in million m$^3$ RWE


Figure 34: Malaysia’s exports of mouldings and joinery by destination country from 2000-2009 in million m$^3$ RWE

Figure 35: Malaysia’s exports of wooden furniture by destination country from 2000-2009 in million tonnes


Figure 36: Malaysia’s exports of chips and residues by destination country from 2000-2009 in million tonnes

Figure 37: Malaysia’s exports of paper by destination country from 2000-2009 in million tonnes

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