

**Raw Material Supply, Timber Legality
Implementation
And Wood-Based Industries Licensing Requirements
In Sabah**

**Andurus Abi
Sabah Forestry Department
23 January 2018**



Policy Update

- **Log Export ban since 23 May 2018.**
- **Emphasis is more on value-adding.**
- **Generation of employment and other economic activities**



The presentations

- 1) The supply and demand of raw material for the wood based industry in Sabah.**
- 2) Sabah's Timber Legality implementation.**
- 3) Wood-based industries licensing requirements in Sabah.**



Forest Resource - Natural Forests

Forest Area and Resources -2017

FOREST RESERVES CLASSES		
Class I	Protection Forest Reserves	1,353,677.66
Class II	Commercial Forest Reserves	1,668,272.95
Class III	Domestic Forest Reserves	4,673.00
Class IV	Amenity Forest Reserves	11,386.45
Class V	Mangrove Forest Reserves	256,009.27
Class VI	Virgin Forest Reserves	107,013.914
Class VII	Wildlife Forest Reserves	139,240.97
Subtotal Forest Reserves		3,540,274.214
PARKS & WILDLIFE SANCTUARY		
Sabah Parks		245,172.00
Wildlife Sanctuary & Birds Sanctuary		28,957.00
Total		274,129.00



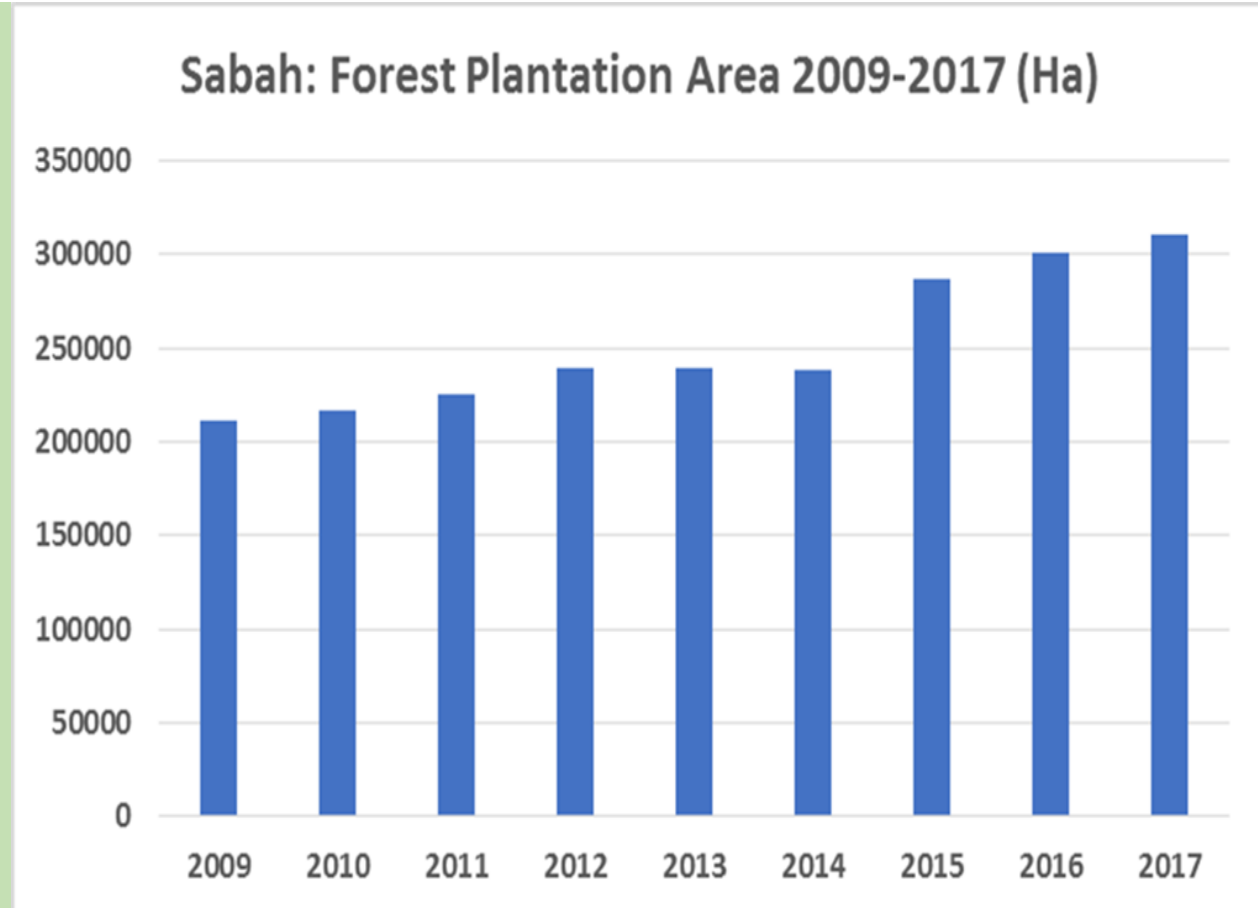
Forest Classifications

- **Protected Forests (Class I, Class IV, Class VI, Class VII): 1.61 million ha (45.50%)**
- **Production Forests (Class II, Class III & Class V): 1.93 million ha (54.50%)**

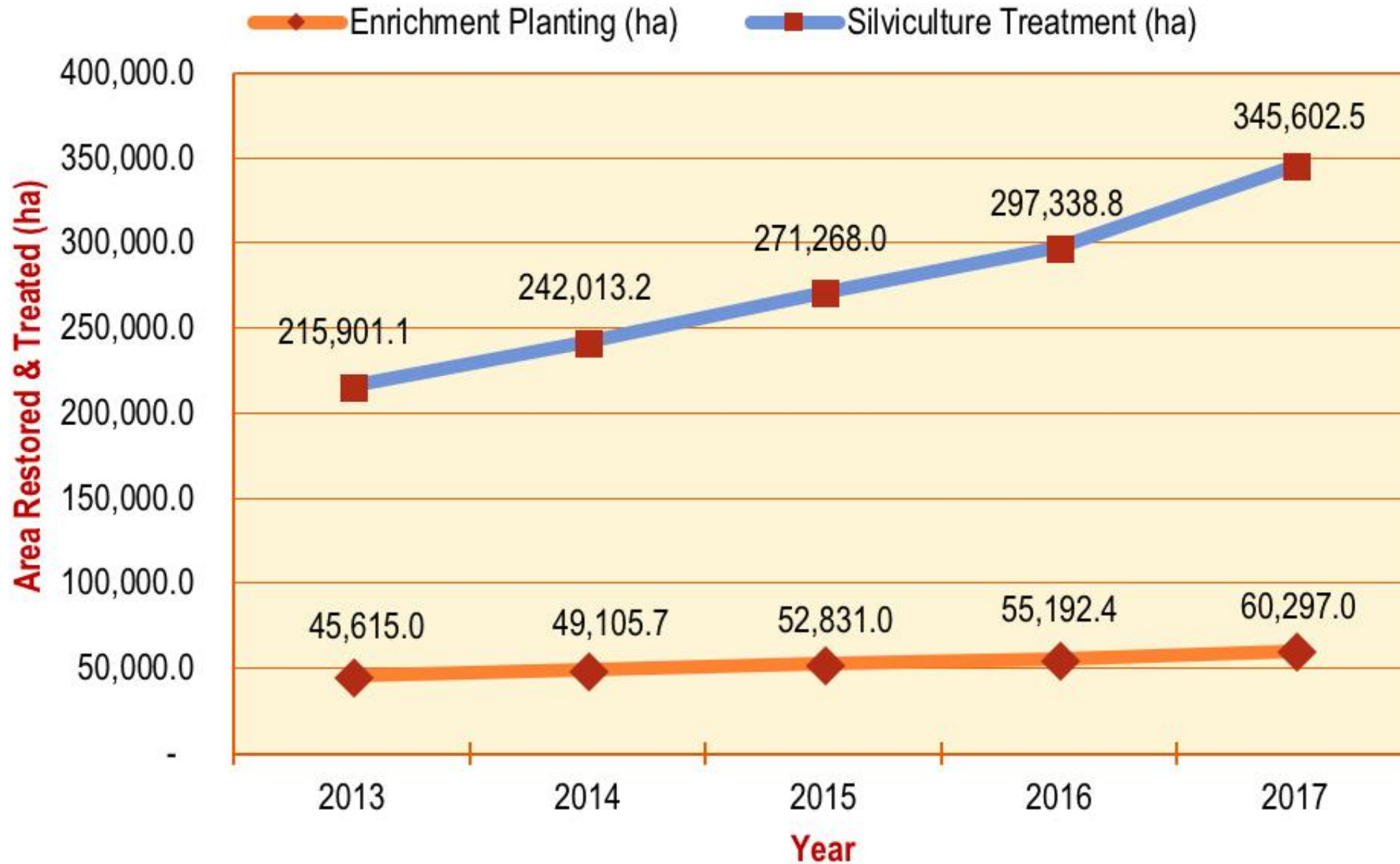


Forest Plantation

- **Total area planted - 2017: 310,799 ha.**
- **Future supply: 2.5 million m³ per annum.**
- **Large area earmarked for forest plantation & area may increase with availability of fund.**



Enrichment Planting & Silviculture Treatment (In hectare)





Forest Plantation-Species

Species Produced (2017)

- ✓ ***Acacia* : 66 %**
- ✓ ***Albizia Falcataria* : 16%**
- ✓ **Rubber: 11%**
- ✓ **Teak: 4%**
- ✓ **Others: 3%**

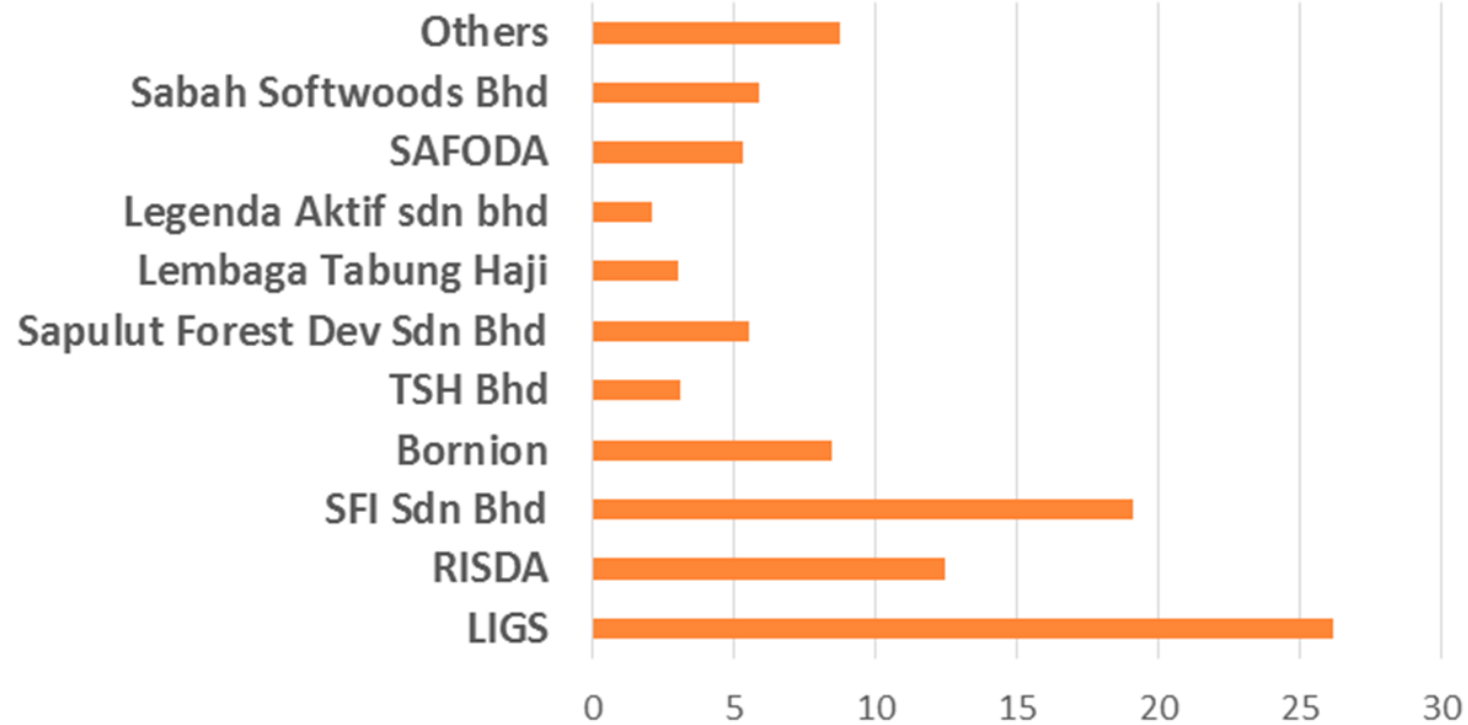
Species Planted (2017)

- Rubber: 180,498 ha [56%]**
- Acacia mangium*: 53,796 ha [17 %]**
- Eucalyptus grandis*: 18,870 ha [6%]**
- Albizzia falcataria*: 13,902 ha [4%]**
- Eucalyptus pelita*: 16,184 ha [5%]**
- Others: 27,594 ha[12%]**



Forest Plantation Ownership

Sabah: Forest Plantation Ownership 2017 (%)





Other Potential Sources

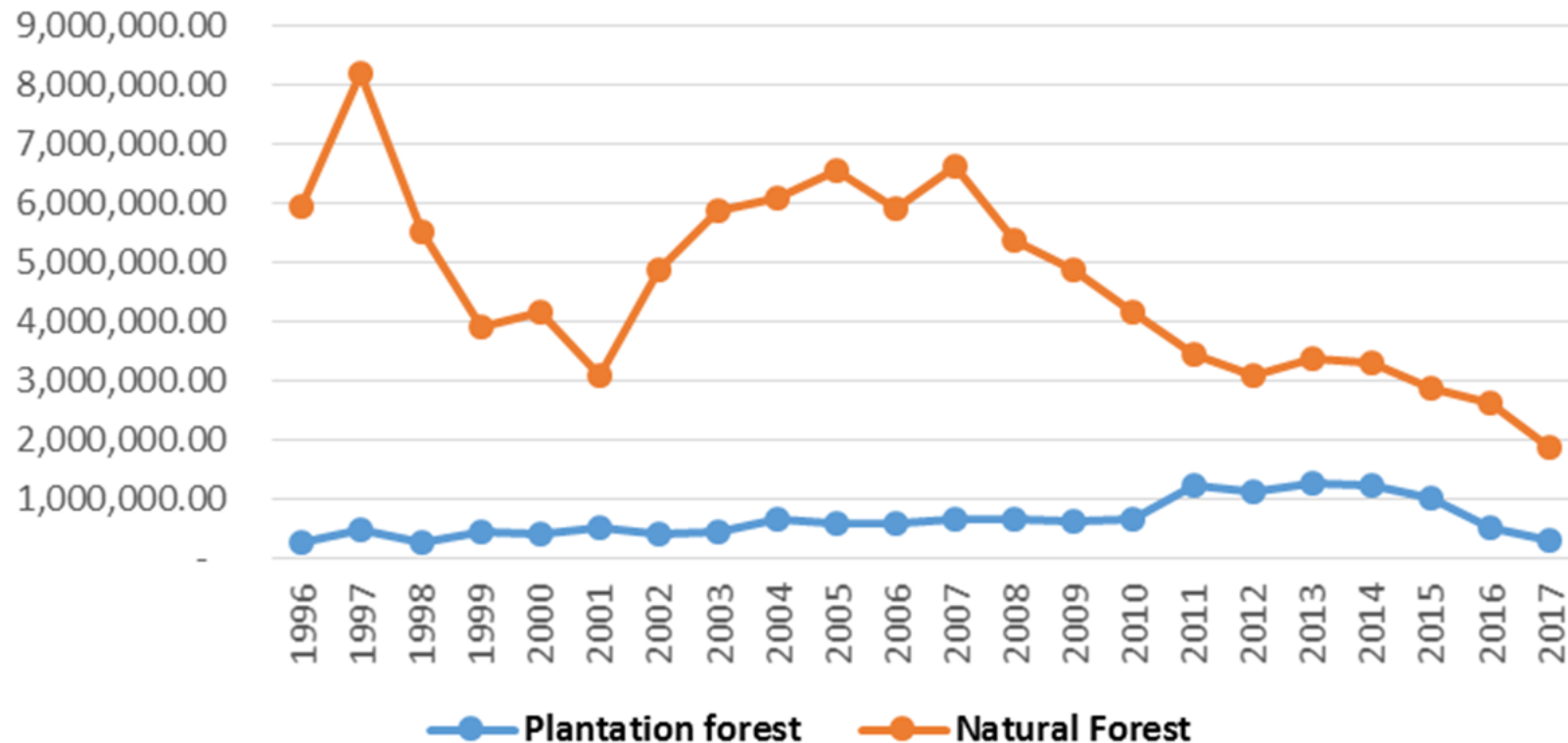
(Study By Jakko Pory for Agensi Inovasi Malaysia)

- **Amongst the 3 regions (Pen. Malaysia, Sabah and Sarawak), Sabah has the biggest biomass potential (FFB/Oil Palm Trunk)**
- **The potential for utilization depends on the location of mill/infrastructure and what products to be produced.**
- **Competing usages: Example oil palm trunk/FFB is also competing with other usages (pellets/ power plant/Ethanol/Xylitol/Bio Meg/Bio N Butanol.**



Supply of Raw Materials

**Sabah: Log Production Trend From Natural Forest
& Plantation Forest (1996-2017) in M3**





Production Trend

Natural Forests: Declining but stabilizing at between 1.5 million to 2 million m³ per annum before slowly increasing to a reasonable volume in the future to approximately 3 to 4 million m³.

- ✓ **Badly degraded forest due to bad logging practices in the past.**
- ✓ **Implementation of Sustainable Forest Management (SFM)**

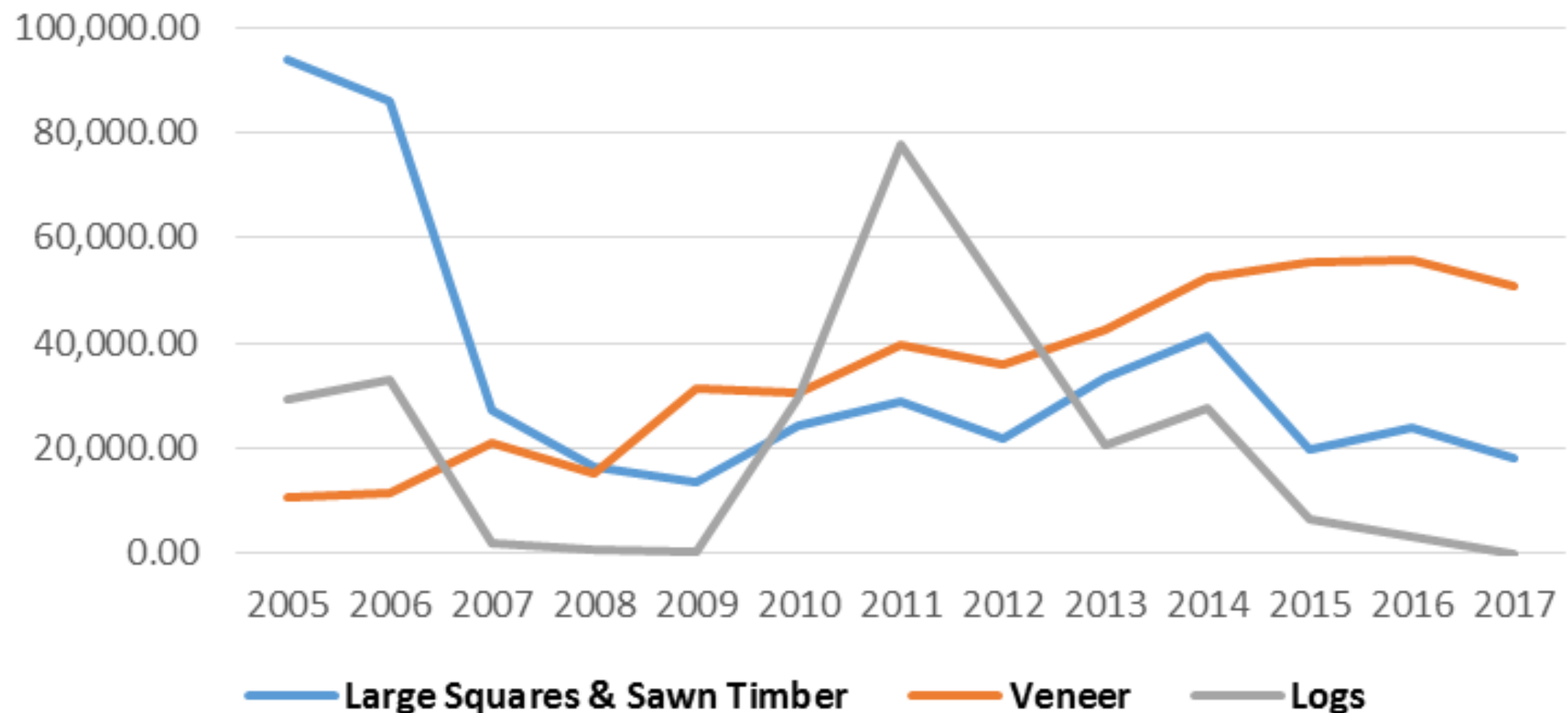
Plantation Forests: Increasing trend but then declined from 2015

- ✓ **In the past, SFI was the biggest producer of plantation timber. SFI Sdn Bhd- Inactive.**

**Sabah: Imports of Timber
(Logs,Veneer and Sawn timber) - 2005 to 2017
Volume (m3)**



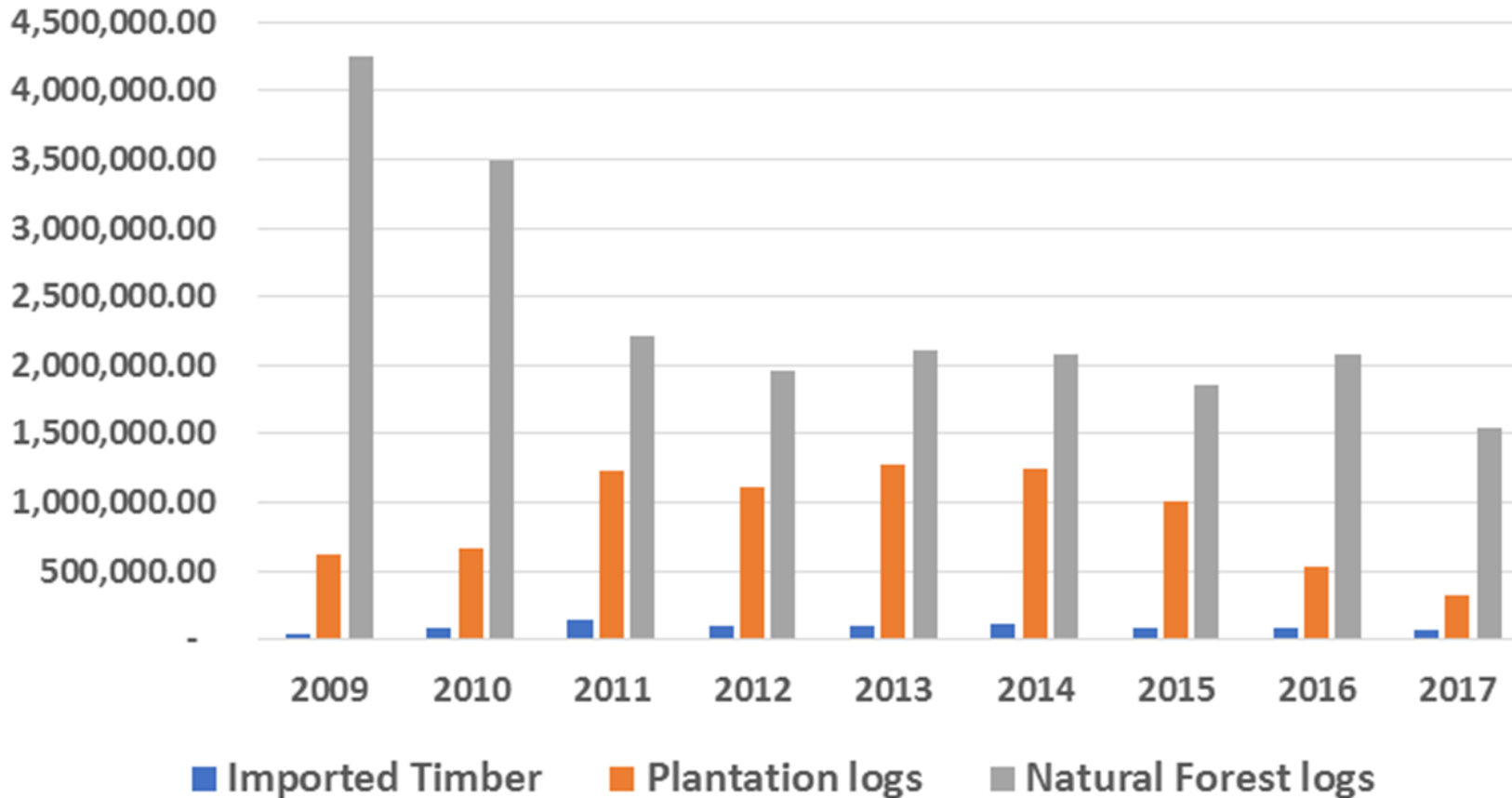
Sabah: Imports of Logs, Large squares/Sawn Timber & Veneer (2005 to 2017)





Total Log Supply

Sabah: Total Supply of Timber in M3 (2009-2017)



**Raw Material supply and domestic
manufacturing requirements - compared.**



Wood-based Industry Structure

Industry Structure:

Dominated by plywood, pulp and paper and sawmilling (Utilized 69% of log input).

Sabah: distribution of Log Input To Processing Mills

Type of Mill	2015 (%)	2016(%)	2017 (%)
Plywood/Veneer	65	63	65
Pulp & Paper	21	* 7	* 4
Sawmill	18	24	23
Chipmill	6	6	8
Total	100	100	100

* SFI Sdn Bhd – was not operating in most part of the year.

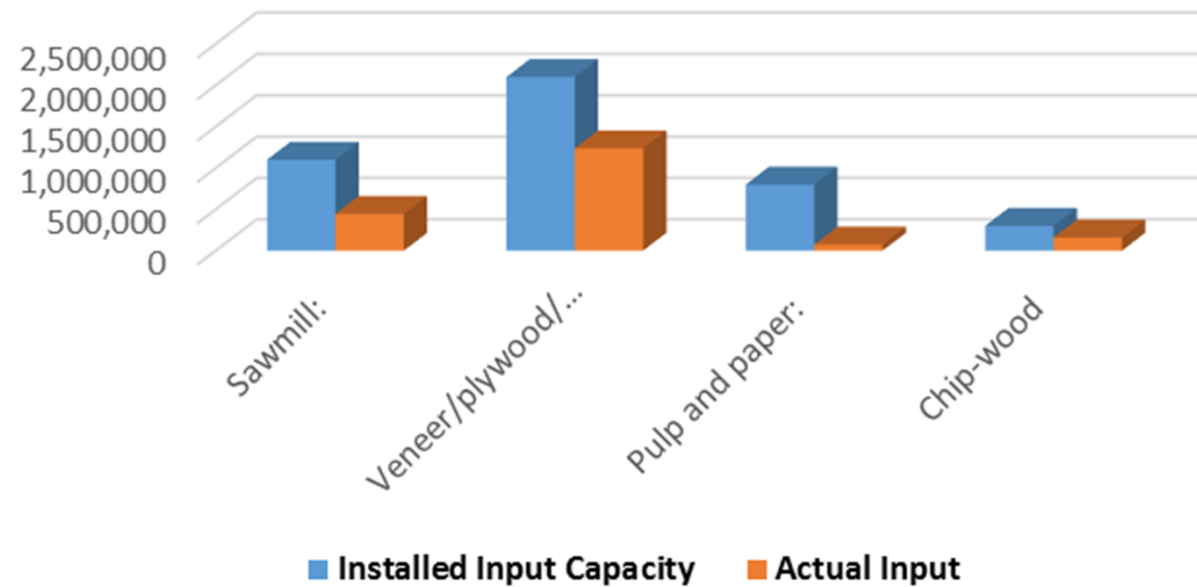
INSTALLED INPUT CAPACITY VS ACTUAL RAW MATERIAL UTILIZATION 2017

TYPE OF MILL	Estimated Installed Input Capacity (m3)	Actual Input (m3)	% of actual operation against Installed Capacity	Shortage in Volume (m3)
Sawmill	1.1 mil	445,512 or 0.4 mil m3	63%	0.7 mil
Veneer/Ply/ Blockboard	2.1 Mil	1,237,976 or 1.2 mil m3	42%	0.9 mil
Pulp & Paper	0.8 mil	73,300 or 0.07 mil m3	9%	0.727 mil
Chipmill	0.3 mil	158,009 or 0.1 mil	47%	0.14 mil
Total	4.3 mil	1.77 mil	41%	0.53 mil



Installed Input Capacity Vs Actual Input

Sabah: Installed Input Capacity of Mills Vs Actual Input In M3 (2017)





The Wood- Based Industry Structure

- **The structure not really changed over the years.**
- **Needs rationalization and consolidation of the existing structure.**
- **Investment: RM 3.9 Billion (Malaysian: 85 %, Non-Malaysian: 15 %).**
- **Totally dependent on domestic resources**



The Wood- Based Industry Structure

Why plywood dominates?

- **More adaptive and more resilient to changes in raw material (small diameter logs and plantation species) and able to import materials from other countries (Ex. veneer as core).**
- **Pulp and paper: Sourcing raw material supply from own concession and the same with chip mill.**



Some Positive Observations

- **A small volume of biomass products: wood pellets.**
- **Utilization of rubber wood is increasing though still small in volume.**

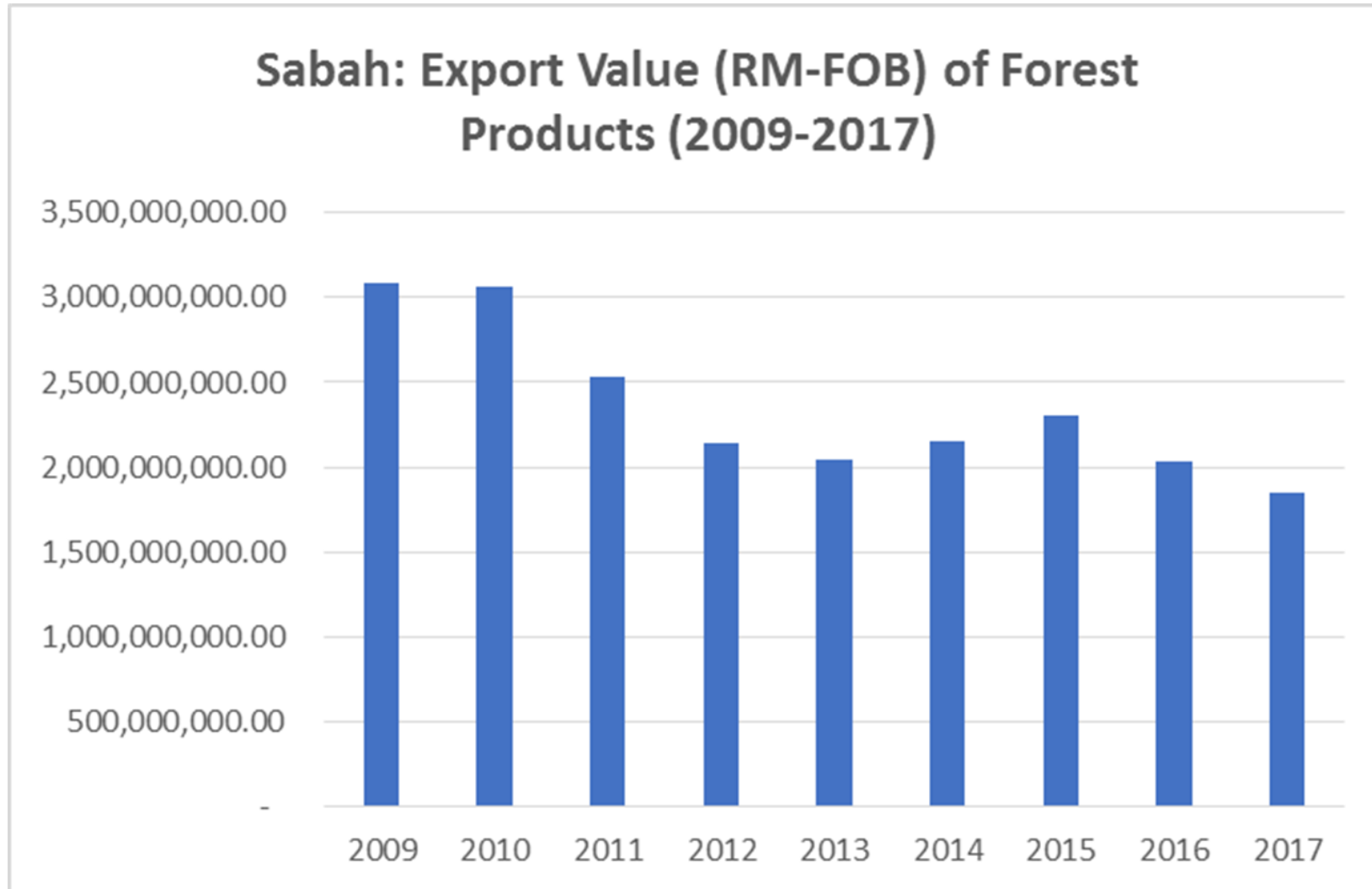


Export Value

- **Export sales/value: Declining partly due to low export of pulp and paper, but also due to limited export of timber products with high-value.**
- **Export value from timber in 2017: RM1.85 billion (small as compared to the two regions in Malaysia)**



Export Value (RM)

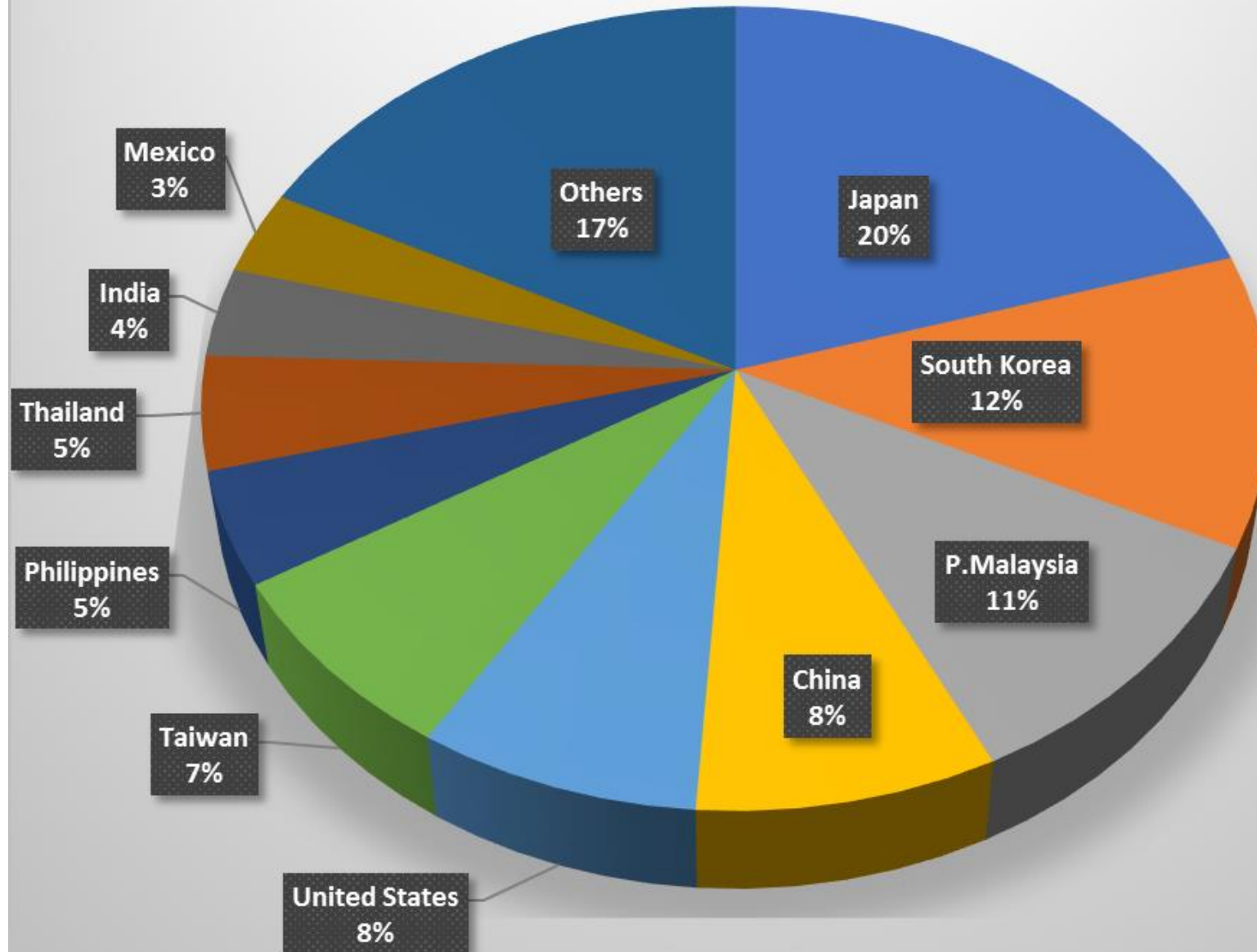




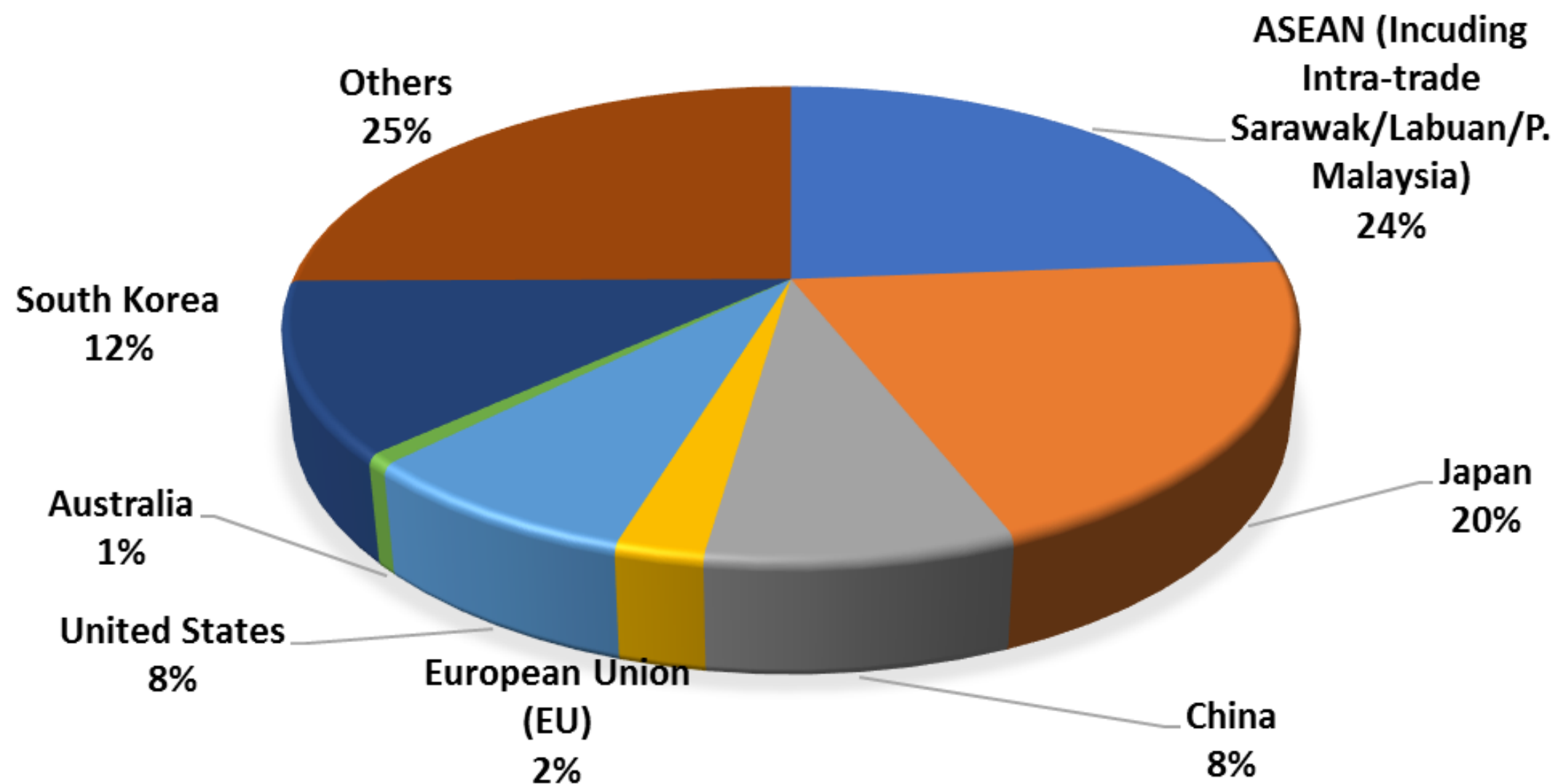
Sabah's Main Timber Export Markets 2017

Destination	Export value (RM-FOB)	%	Rank
Japan	375,474,998.76	20	1
South Korea	216,815,260.44	12	2
P. Malaysia	196,390,644.94	11	3
China	154,583,729.03	8	4
United States	145,031,519.48	8	5
Taiwan	138,407,217.83	8	6
Philippines	84,531,984.36	5	7
Thailand	84,370,123.95	5	8
India	65,967,028.69	4	9
Mexico	61,507,747.10	3	10
Others	323,505,947.12	18	
Total	1,846,586,201.70	100	

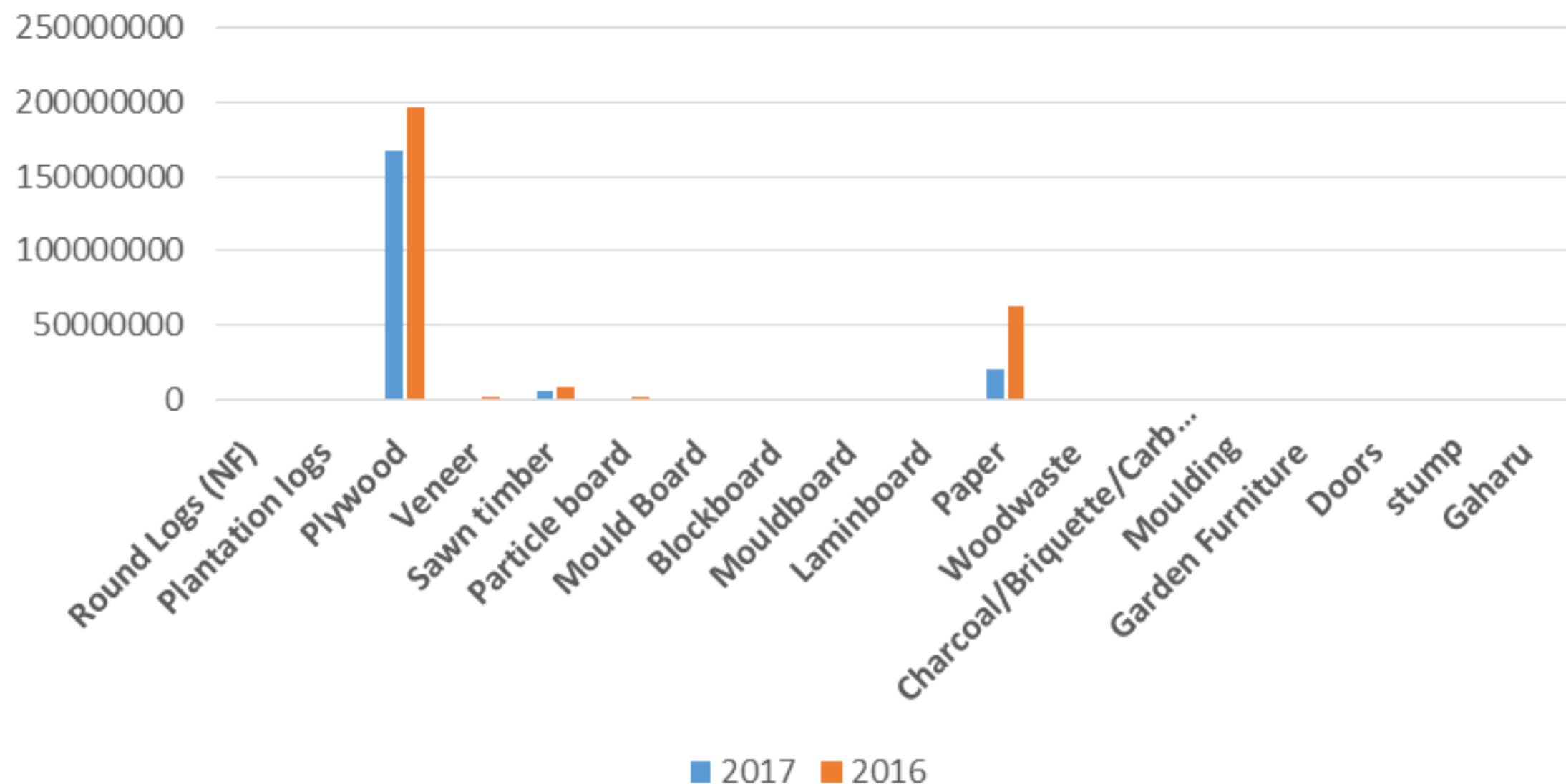
Sabah: Main Timber Trading Partners Based on Value (%) 2017



SABAH: EXPORT TO MAIN IMPORTING COUNTRIES INCLUDING COUNTRIES WITH LEGALITY LEGISLATION -2017



Sabah: Export Value of Timber Products to P. Malaysia (RM)





Issues & Challenges

- **Sustaining the industry in light of the declining & changing raw material?**
- **A challenge in changing the structure of the long established industry.**
- **How to make more from the less ?**
- **How to make use of Sabah's comparative advantage?**
- **No more incentives for forest plantation development (tax incentives discontinued in (2012))**



Issues and Challenges

- **Sabah is disadvantaged in infrastructure because of its vast size.**
- **Requires funding to facilitate the provision and establishment of the necessary infrastructure support to lower logistic costs.**
- **Change type of products to be produced to products with high value as SFM cost is expensive.**
- **How to make Sabah as an attractive location to invest?**



Prospects of The Timber Industry

- **Still there but needs to restructure the current structure. (How primary products could be value added?).**
- **Encourage horizontal integration of wood manufacturers towards manufacturing of high value-added products.**
- **Encourage the use of green technology in the wood-based industries and diversify production to include non-traditional timber products.**
- **Create “unique branding” for wood products produced in line with good forest governance.**



Prospects of The Timber Industry

- **Look beyond logs as main raw material.**
- **Example: Sawn timber and plywood as input for value added products.**
- **Policy Intervention?**
- **Explore potentials of other high value products.**



Pen. Malaysia's Case

(Source: Forestry Department's Forestry Statistics 2017)

- **High Mill capacity and declining raw material but yet wooden Furniture flourishes-Export value: RM8 billion.[Sawmill: 12 mil m³, Veneer/plywood: 3 mil m³].**
- **Industry is more diversified: Chipboard, MDF & Fiberboard.**
- **Plywood recorded as for domestic use (256,526 m³): 58.3% (10.30% for furniture)**
- **Sawn timber recorded as for domestic use (2,428,346):61% ; (8.11% for furniture)**



Explore the Same Potential for Sabah

- **May not necessarily furniture but other products with high value.**

Timber Legality Legislations around the world and Sabah's response to meet legality requirements.



TIMBER LEGALITY LEGISLATIONS

- **EU Timber Regulations (EUTR) 2013.**
- **US Lacey Act 2008.**
- **Australian Illegal Logging Prohibition Act 2012**
- **Japan Clean Wood Act 2016.**
- **South Korea's Act on the Sustainable Use of Timbers.**



Sabah: Export of Timber Products With Timber Legality Legislation -2017

Destination	% From The Total Export Value
ASEAN (Including intra trade to Sarawak/P. Malaysia/Labuan)	23.89
Japan	20.33
China	8.37
European Union(EU)	2.42
United States	7.85
Australia	0.72
South Korea	11.74
Others	24.68
Total	100



Definition & Applicable laws

“Timber harvested in contravention of applicable laws and regulations”-EU Definition

Applicable laws:

- **Legal right to harvest.**
- **Taxes/fees linked to harvesting**
- **Compliance with timber harvesting laws.**
- **Respect for third parties' tenure/use rights.**
- **Relevant trade and customs rules.**



Sabah's Response to Legality Requirements

Sabah Timber Legality Assurance System (Sabah TLAS)

- **Developed in part through the EU negotiation process.**
- **It is now considered as the main timber legality standard and system to determine timber legality compliance for Sabah**
- **In August 2016, certified under ISO 9001:2018 by Bureau Veritas.**
- **Timber products that comply with the Sabah TLAS standard are generally accepted in the markets as having complied with the due diligence requirements for legal timber.**



3rd Party Auditing

- **Third Party Auditing through Global Forestry Services (GFS):**
Credibility through certification and transparency-*you see what you get.*
- **Compliance Certificates for Principles 1 to 4 (upstream activities) are awarded to logging companies who have complied with the Sabah TLAS standard while Compliance Certificates for Principles 5 to 6 are awarded to manufacturers and exporters who have complied with the Sabah TLAS standard, upon recommendation by the third party auditor appointed by the Sabah Forestry Department.**



Sabah TLAS-Principles

Auditing checklist encompasses of 6 Principles :

- Principle 1: Right to Harvest
- Principle 2: Forest Operations
- Principle 3: Statutory Charges
- Principle 4: Other Users' Rights
- Principle 5: Mill Operation
- Principle 6: Trade & Customs



TLAS Operational Flow

FDS - Schedules Assessments - Annual



GFS – documents compliance – may identify gaps (major / minor) against each applicable indicator;

- Compliance is defined at the Criterion Level
- Major Gaps equates to a non-compliance to a criterion;
- Minor gaps against an indicator do NOT reflect non-compliance to a Criterion.
 - Gap Agreement at closing meeting
 - GFS issues a detailed Audit Report
 - Posts Summary Report on GFS Website

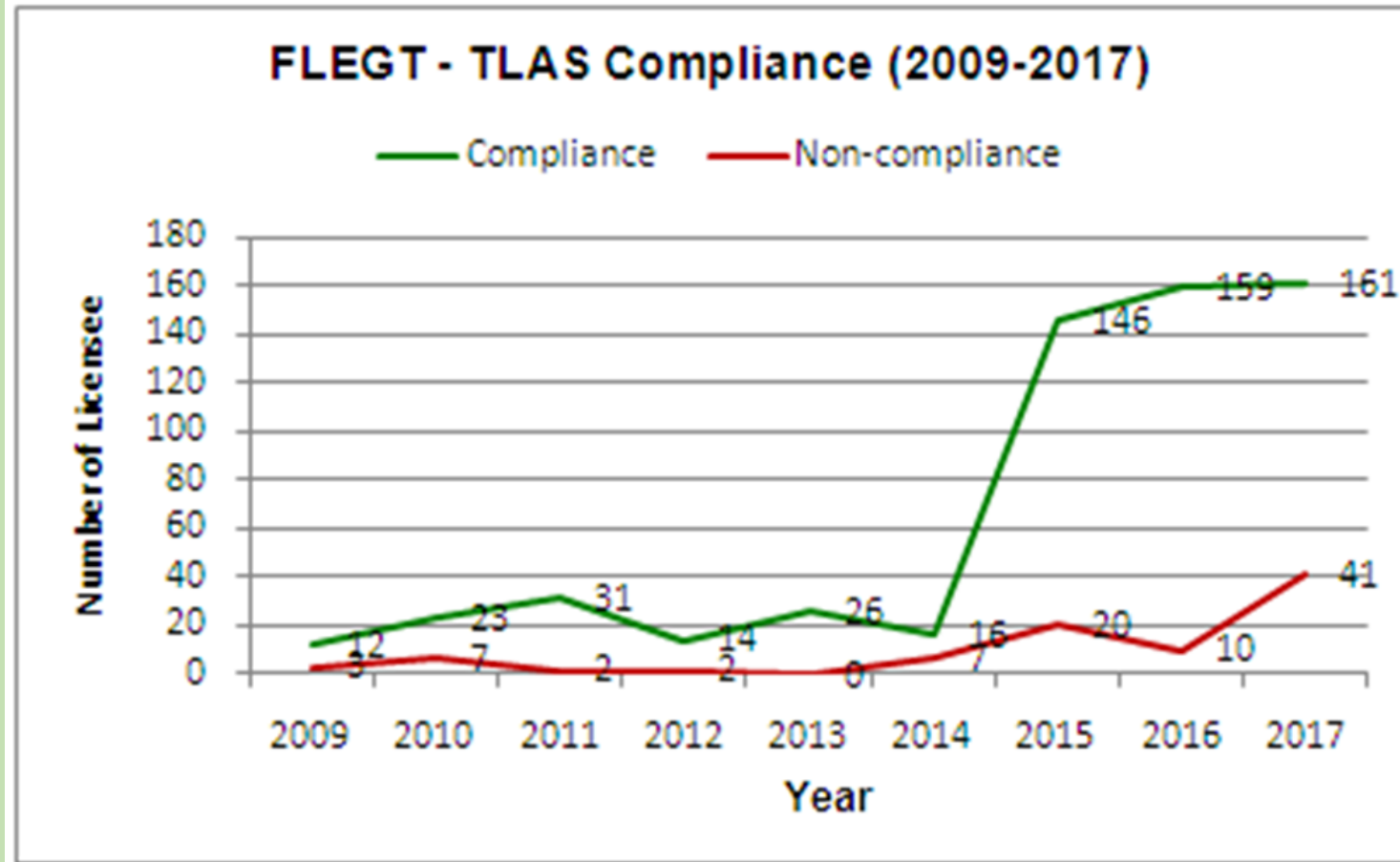


Compliance:

- GFS Issues an Audit Statement
- FDS issues a Compliance Certificate
- Minor gaps to be addressed by next assessment



TLAS Compliance (2009-2017)





Summary of TLAS Audit (Jan - Sept 2018)

MONTH	AUDITED		PASSED		FAILED		CLOSED-OUT		TLAS-CC	
	P1-P4	P5&P6	P1-P4	P5&P6	P1-P4	P5&P6	P1-P4	P5&P6	P1-P4	P5&P6
Jan	4	12	4	9	0	3	0	0	4	9
Feb	5	11	5	9	0	2	0	7	6	16
Mar	4	12	3	11	1	1	2	9	5	20
Apr	5	10	5	7	0	3	1	0	6	7
May	10	11	10	9	0	2	0	1	10	9
June	7	12	7	10	0	2	0	3	7	13
July	8	13	4	11	4	2	1	1	5	12
Aug	7	12	7	7	0	5	0	2	7	9
Sept	6	8	4	5	2	3	0	1	4	6
TOTAL	56	101	49	78	7	23	4	24	54	101

Notes: The number of closed-out gaps and TLAS CC issuance (2018) also covers the previous year (2017) gaps.



Inter Agency Coordination Committee (IACC) & Stakeholders consultation

- **Sabah TLAS is also assessed and monitored through internal audits conducted by other government implementing agencies.**
- **Establishment of the Inter Agency Coordination Committee (IACC): The IACC is a forum for consultation amongst all implementing agencies on matters related to the implementation of TLAS.**
- **IACC Functions: Establish linkages and coordination between TLAS implementing agencies with licensing authorities and to relay the feedback of inspection reports carried out by implementing agencies in the relevant TLAS tables to the licensing authorities.**
- **Regular consultations with stakeholders.**



Certificate of Compliance (Principle 1 to Principle 4)

 **Certificate of Compliance** 

This is to certify that

RAKYAT BERJAYA SDN. BHD.
Contractor: Usahawan Rara Berjaya Sdn. Bhd.
Level 9, Rara Indah
Jalan Rara, Teluk Rara
P.O. Box 128, 88117 Kota Kinabalu
Sabah, Malaysia

Has complied with the requirements of the Sabah TLAS (Timber Legality Assurance System) Principles 1 to 4, based on the assessment conducted by Global Forestry Services Sdn. Bhd. on 24th March 2017, reported in Document #G161-141 and Audit Statement #GHS-09-LVS.



Mill Licence	: SFMLA 09/97 - (KUP: TWU 01/15)
Certificate Issued	: 1 st April 2017
Expiry of Certificate	: 31 st March 2018
Location	: Gunung Rara Forest Reserve (FMU 23) Kalabakan, Tawau

DATUK SAM MANNAN
Chief Conservator of Forests

CERTIFICATE NO: FDS(SLS)009/2017



Certificate of Compliance (Principle 5 & 6)

 **Certificate of Compliance** 

This is to certify that

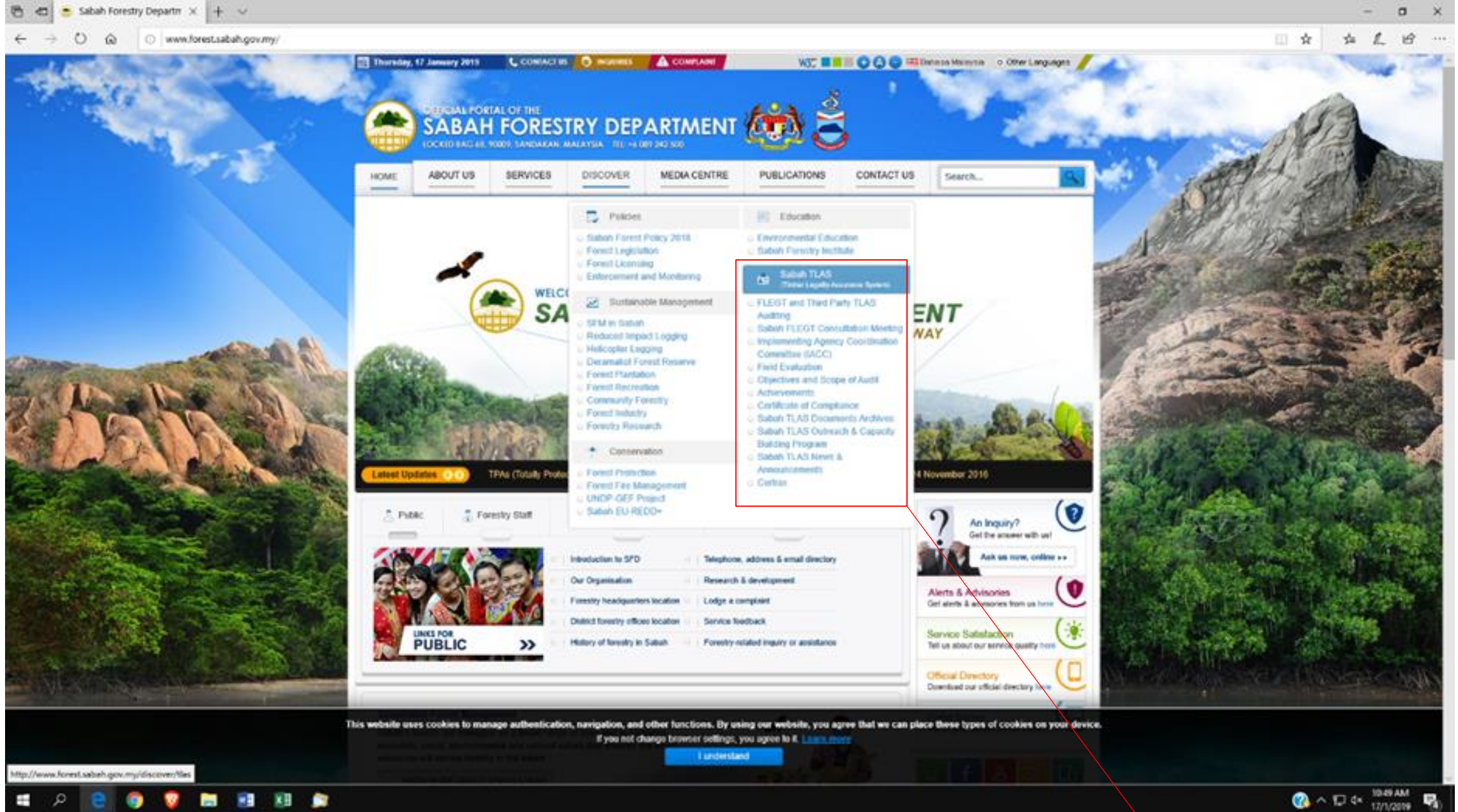
FOOK NGIAP SAWMILL SDN. BHD. (57963-H)
12KM, Jalan Sin San Sg. Imam
Pasir Putih, Tawau, Sabah, Malaysia

Has complied with the requirements of the Sabah TLAS (Timber Legality Assurance System) Principle 5 (Mill Operation) and Principle 6 (Customs and Trade), based on the assessment conducted by Global Forestry Services Sdn. Bhd. on 25 August 2015, reported in Document #G162-089 and Audit Statement #GFS 115 WTP.

Mill Licence	: JP(T)TW 002/00 (X17) R
	: JP(T)TW 011/01 (X07)
Export Licence	: JP(T) (PT) 012/00 (M) R
Certificate Issued	: 10 th September, 2015
Expiry of Certificate	: 09 th September, 2015
Location	: Tawau

 **DATUK SAM MANNAN**
Director
Sabah Forestry Department

CERTIFICATE NO: FDS(SCS)075/2015 **DATE :18th September 2015**



Wood-Based Industry Licening Requirements In Sabah (SFD).



Sabah Forestry Department's Legislations Governing Wood-Processing & Timber Trade

- **Forest Enactment 1968 & Forest Rules 1969 (Mill operation, royalty payment & Timber movement).**
- **Forest (Timber) Enactment 2015, Forest (Timber) (Registration) Regulation 2017 & Forest (Timber) (Compounding of Offences) 2017.**
- **Guidelines: Licensing Guidelines for Wood-Based Industry In Sabah-Version 2, 2012.**
- **Customs Order (Prohibition of Exports) 2017**
- **Customs Order (Prohibition of Imports) 2017**
- **(All covered in Sabah TLAS-Principles 5 & 6).**



Main Requirements:

- **Trading Licence.**
- **Application Form:**
- **Site Approval from DoE and EPD.**
- **Site Approval from Local Government**
- **Land-use approval on the site by Lands and Surveys.**
- **Building lay-out plan.**
- **Land Title/confirmation of Land status**
- **Form 24-Shareholders certificate.**
- **Form 49- Company's Directors**
- **Memorandum And Articles of Association.**
- **Paid-up capital:RM100,000**



State Level Approval

- **Industrial Coordination Committee (IACC)**
- **Coordinated by the Department of Industrial Development & Research (DIDR).**



Exports & Imports

- **Forest Enactment (Timber) 2015**
- **Forest (Timber) (Registration) Regulations 2017**
 - **Registration as an exporter.**
 - **Registration as timber supplier.**
 - **Registration as jetty operators.**
 - **Registration as an importer**
- **Exports licence – Issued on a per consignment basis.**
- **Imports licence – Issued on a per consignment basis.**



Application for Registration Certificates Forest (Timber) Enactment 2015)

- **Trading Licence.**
- **Application Form:**
- **Form 24-Shareholders certificate.**
- **Form 49- Company's Directors**
- **Memorandum And Articles of Association.**
- **Paid-up capital:RM100,000**

THANK YOU