

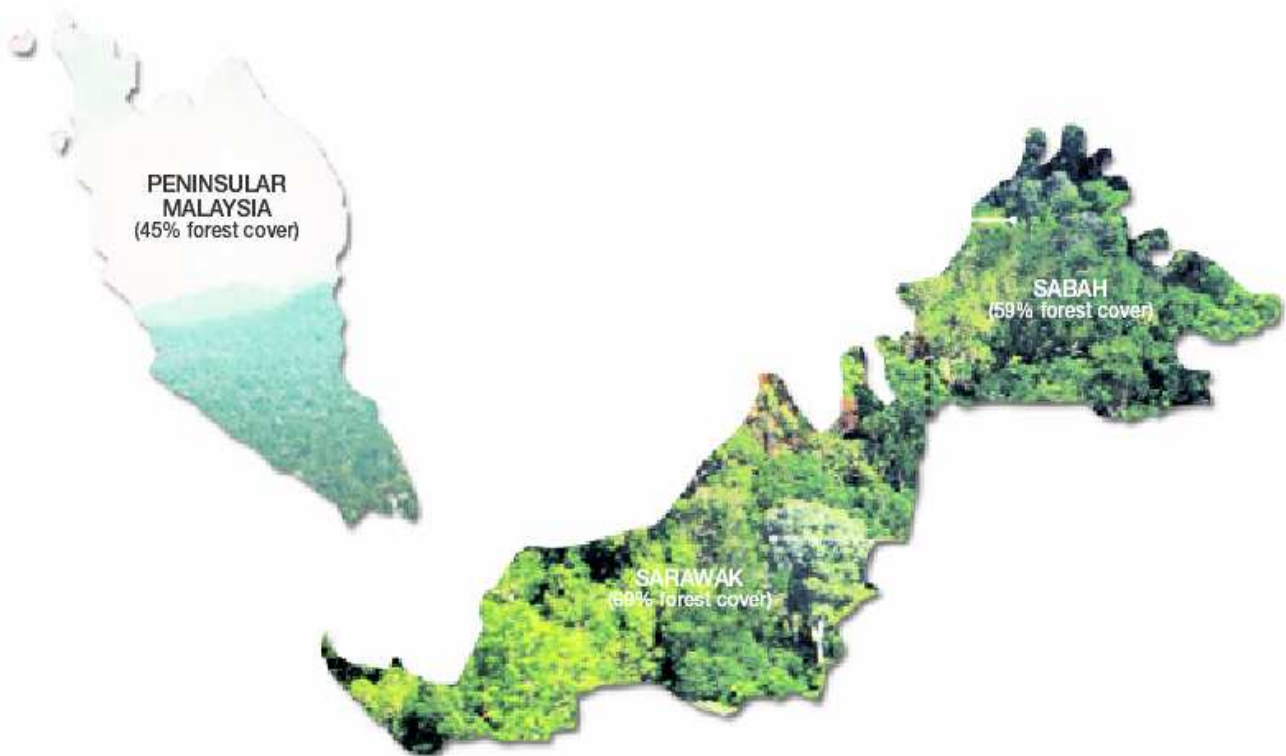
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# INTRODUCTION

This paper summarises Malaysia's practices in **Sustainable Forest Management (SFM)** and provides greater clarity of her policies and procedures with regard to utilisation of forest resources and timber production. As a leading exporter of tropical timber and timber products with a legacy of orderly growth based on a sound foundation of environmental management, Malaysia has always subscribed to international best practices that ensure protection and conservation of its environment.

# BACKGROUND ON MALAYSIA AS A MAJOR TIMBER PRODUCER



## FORESTED LAND

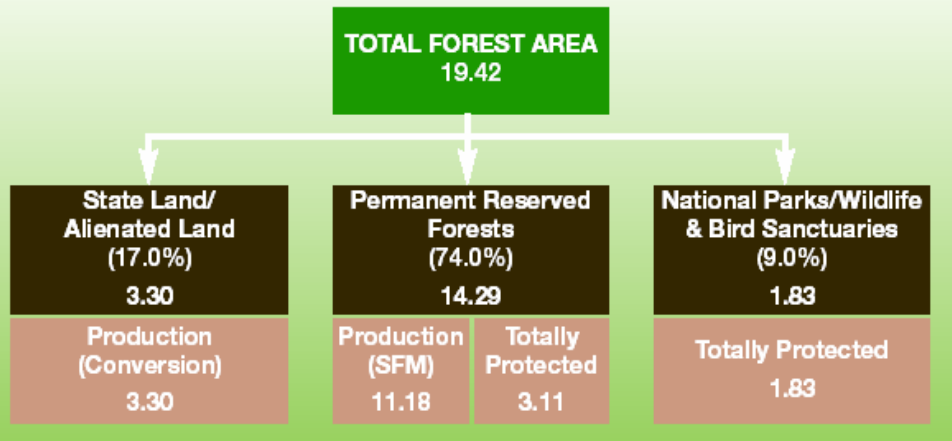
With a land area of more than 32.83 million hectares, Malaysia is a federation of 13 states and three Federal Territories; 11 of these states and the Federal Territories of Kuala Lumpur and Putrajaya covering 13.16 million hectares are located in Peninsular Malaysia, while the states of Sabah, together with the Federal Territory of Labuan covering 7.37 million hectares and Sarawak covering 12.30 million hectares, are located on the island of Borneo.

Malaysia enjoys one of the highest percentages of forested land among developing countries such as Brazil, Indonesia, Philippines and Thailand (FAO, 2005). A well-forested country, more than 59% (19.42 million hectares) of its land area is under forest with 5.88 million ha in Peninsular Malaysia, 4.30 million ha in Sabah and 9.24 million ha in Sarawak. The tree cover increases to more than 76% (25.90 million hectares) if crops such as rubber, oil palm, cocoa and coconut are taken into consideration. Other land usage amounts to a mere 24%.

Of the total 19.42 million hectares of forested land, 74% or 14.29 million hectares are gazetted as Permanent Reserved Forests (PRFs) under the National Forestry Act 1984 and relevant state enactments and ordinances. Another 1.83 million hectares outside the PRFs are gazetted as National Parks and Wildlife Sanctuaries under various legislations. These 16.12 million hectares are forests to be maintained in perpetuity by law. This is a fundamental pillar of Malaysia's commitment to SFM.

Within the PRF, 3.11 million hectares (22%) are designated as protection forest while the remaining 11.18 million hectares (78%) constitute production forest, where commercial harvesting of timber on a predetermined rotational cycle is permitted. Production forest represents only about 57% of the total forested area in Malaysia.

## FOREST LAND USE IN MALAYSIA - 2005 (MILLION HA)



SOURCE: FORESTRY DEPARTMENTS OF PENINSULAR MALAYSIA, SABAH & SARAWAK.

Beyond this, forested areas that are not gazetted as PRF, ie stateland or alienated land, can be converted to other uses in the context of balanced long-term development; however, this amounts to not more than 17% or 3.3 million hectares (2005 figures) of the total forested area.

## MAIN PRODUCTS

Malaysia has been producing tropical hardwood products for more than a century. Today, it remains one of the world's leading exporters of tropical hardwood products (logs, sawntimber, plywood, medium density fibre board, chipboard, veneer and other panel products, mouldings, builders' carpentry and joinery, wooden furniture as well as rattan products).

According to FAO statistics (2006), Malaysia's export value of timber and timber products in 2004 was USD3.53 billion, compared to Canada (USD29.4 billion), Germany (USD15.91 billion), the USA (USD15.69 billion), Finland (USD13.54 billion), Sweden (USD12.9 billion), Austria (USD6.21 billion) and China (USD5.2 billion). The Malaysian timber industry in 2005 contributed not more than 4% of Malaysia's Gross Domestic Product (GDP).

Over recent years, production of logs from Malaysia's natural forests has been decreasing steadily. This is attributed mainly to effective implementation of SFM practices, including the imposition of tighter laws, policies and regulations governing forest harvesting. To promote value-added production and downstream processing, an export ban on logs originating from natural forests in Peninsular Malaysia was implemented in 1987.

Correspondingly, log export quotas have been imposed by Sabah and Sarawak.

## MAIN MARKETS

The key importers of Malaysian timber products include Belgium, China, Germany, Hong Kong, India, Italy, Japan, the Netherlands, Pakistan, Saudi Arabia, Singapore, South Korea, Taiwan, Thailand, United Kingdom, USA and Viet Nam.

## FOREST MANAGEMENT POLICIES

Historically, land matters came under the jurisdiction of the respective state governments which were therefore empowered to enact laws and regulations for forest management.

The coordination of a common approach to forest management was facilitated through the National Forestry Council (NFC) which was established by the National Land Council (NLC) in 1972. Since then, the NFC has been at the helm of harmonization of policies between Federal and State Governments in respect of forest management, particularly to ensure continuing SFM. The NFC is chaired by the Deputy Prime Minister and its membership comprises the Chief Ministers of the 13 states, along with representation by the heads of all forestry departments in Peninsular Malaysia, Sabah and Sarawak as well as relevant Federal Ministers responsible for Natural Resources and the Environment, Finance, Trade, Agriculture and Agro-based Industries, Plantation industries and Commodities, Science, Technology and Innovations.

The NLC is responsible for formulating forest sector policies along with the promotion and control of utilisation of land for mining and agriculture. The NLC endorses all decisions of the NFC while the responsibility to implement these decisions lies mainly with the respective state governments.

Various forest enactments and ordinances had been formulated and enforced by the respective state authorities since the early 1900's to ensure effective forest management. In 1978, the NFC formulated the National Forestry Policy (NFP) by consolidating existing forestry policies of the various states. The NFP, which contains a significant number of salient provisions to ensure SFM, was subsequently approved and adopted by the NLC. Since then, several common policies and procedures have evolved at federal and state levels to reflect SFM requirements and international best practices.

The main objectives of the NFP are two-fold:

- Conserve and manage the nation's forests based on the principles of sustainable management
- Protect the environment, to conserve biological diversity, genetic resources and to enhance research and education

In 1992, the NFP was revised to address in greater depth the requirements for SFM, and included references to conservation of biological diversity, sustainability, and recognition of the role of local communities in forest development.

These provisions reflected the commitments of the United Nations Conference on Environment and Development (UNCED) on SFM including:

- Conservation for biological diversity
- International technical collaboration aimed at fostering closer international co-operation in the quest to achieve SFM
- The involvement of local communities, especially those living near forest fringes in agroforestry through the planting of forest fruit trees to conserve forest resources
- The development of additional forest recreation facilities for ecotourism

- e. The establishment of forest plantations, including high-quality timber plantations, with the active participation of the private sector.

The NFP dedicates sufficient areas of PRFs strategically located throughout the country in accordance with the concept of rational land use. The PRFs are managed and classified under four major functions:

**a. Protection Forest**

for ensuring favourable climatic and physical conditions of the country, for safeguarding of water resources, soil fertility and environmental quality, preservation of biological diversity and the minimisation of damage by floods and erosion to rivers and agricultural lands

**b. Production Forest**

for the supply in perpetuity, at reasonable rates, of all forms of forest produce which can be economically produced for domestic use and export

**c. Amenity Forest**

for the conservation of adequate forest areas for recreation, ecotourism and public awareness

**d. Research & Education Forest**

for the conduct of research, education and the conservation of biological diversity

In 1984, a key milestone was reached when the Malaysian Parliament approved the National Forestry Act and Wood-based Industries Act, replacing the Forest Enactment of 1934, for the purpose of promoting uniformity of the laws of the States of Malaysia with respect to the administration, management and conservation of forests and forestry development.

In tandem with the revised NFP, and to further safeguard forest resources from illegal logging and timber theft, the National Forestry Act 1984 was amended in 1993 to incorporate additional provisions for SFM, by way of including more stringent penalties for forest offences including, for example, the illegal felling of trees and to provide for mandatory imprisonment for convicted illegal loggers. The police and armed

forces were given new powers of surveillance in the forestry sector, with the aim of curbing illegal logging, encroachment into forest areas and timber theft.

Sarawak amended its Forests Ordinance 1954 on several occasions. With the latest 2003 amendment, provisions were made for planted forests, to strengthen enforcement powers of Forest Officers and to introduce stiffer penalties for infringement of the Ordinance. The Sarawak Forestry Corporation Ordinance was also introduced in 1995 to help strengthen the management of the state's forest.

The Sabah Forest Enactment 1968 was formulated to regulate and control activities related to removal of forest produce. Subsequently, Forest Rules 1969 were adopted in Sabah to support the implementation of the Enactment. The Forest Rules govern the extraction, transportation, licensing and taxation of forest produce. Since then, further amendments were made in 1984, 1992 and 1994 to strengthen the provisions related to enforcement activities.

Yet another milestone was reached in 1994, when Malaysia established a National Committee on Sustainable Forest Management to coordinate the implementation of all forestry activities, the objective being to ensure that the forest resources in the country are managed to international best practices. This committee formulated the Malaysian Criteria & Indicators for Sustainable Forest Management (MC&I), based on the Criteria & Indicators (C&I) of the International Tropical Timber Organisation (ITTO), first adopted in 1992. Malaysia's standards also evolved from the work under the aegis of Malaysia and The Netherlands Joint Working Group which in 1996 undertook a pilot study on timber certification. The MC&I finally provided a basis for the first set of standards used by the Malaysian Timber Certification Council (MTCC) scheme. The creation of the MTCC in 1999 to develop and operate a voluntary and independent national timber certification scheme was a significant achievement in the evolution of good forest management practices in Malaysia.

Indeed, over the years, a number of forestry programmes, projects and activities were institutionalised in Malaysia to raise the bar on SFM. These include the National Forest Inventory instituted in the 1970's, and carried out every 10 years on all forested lands to determine the status and composition of Peninsular Malaysia's forest resources and to facilitate better management and planning. Forest mapping is also undertaken using the Geographic Information System (GIS) and remote sensing techniques to monitor changes that occur within the forests. Malaysia's research into forest management includes growth, yield and mortality studies under the various cutting regimes.

The NFP and other administrative policies and institutions are revised from time to time to meet prevailing challenges and requirements and to improve the management, conservation and sustainable development of Malaysia's natural forest resource. In addition to the National Forestry Act 1984, Sabah Forest Enactment 1968 and Sarawak's Forests Ordinance 1954, related laws which augment SFM include, among others:

- Water Act 1920
- Aboriginal Peoples Act 1954
- Land Conservation Act 1960
- Protection of Wildlife Act 1972
- Environmental Quality Act 1974
- National Parks Act 1980
- Sarawak Rivers Ordinance 1993
- Water Ordinance 1994 (Sarawak)
- Water Resources Enactment 1998 (Sabah)
- Biodiversity Enactment 2000 (Sabah).

Malaysia has also ratified several international and regional conventions and protocols. These include United Nations Framework Convention on Climate Change (UNFCCC), United Nations Convention on Biological Diversity (CBD), Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), Convention on Wetlands of International Importance Especially as Waterfowl Habitat (RAMSAR), Cartagena Protocol on Biosafety, Convention Concerning the Protection of the World's Cultural and Natural Heritage (UNESCO) and International Tropical Timber Agreement (ITTA).

All these developments have reinforced Malaysia's position as a responsible producer and supplier of quality logs, sawn timber and wood products. Additionally, Malaysia is a member of the International Tropical Timber Organization (ITTO), an intergovernmental organization promoting the conservation and sustainable management, use and trade of tropical forest resources. Malaysia is also active in various initiatives such as the Asia Forest Partnership which promotes sustainable forest management in Asia through addressing such issues as control of illegal logging, control of forest fires, rehabilitation and reforestation of degraded lands, good governance and forest law enforcement as well as developing capacity for effective forest management.

Malaysia has also been active in the following:

- European Union Action Plan on Forest Law Enforcement, Governance and Trade (EU FLEGT) - which aims to combat illegal logging and reduce trade in illegally harvested timber through a proposed voluntary partnership agreement (VPA)
- EU FLEGT Timber Trade Action Plan (TTAP) - a private-sector initiative for sourcing of legal timber which is undertaken on a voluntary business to business basis; and
- The East Asian FLEG Process - Malaysia participates in periodic meetings of the East Asian FLEG Task Force which looks into national and regional initiatives for forest law enforcement and governance
- Bilateral meetings as well as regional cooperation to foster legal and responsible trade in timber products e.g. the ASEAN Wood-Based Industry Integration (ASEAN Roadmap) Meetings, TREATI Workshop on Trade in Wood Products and Pan-ASEAN Timber Certification Initiative.

As a responsible global player, Malaysia regularly participates in key international forums, thereby contributing to stakeholder dialogue and debate on forestry issues while benchmarking herself against best practices.

## REGULATORY AND OTHER BODIES

### FORESTRY DEPARTMENT PENINSULAR MALAYSIA (FDPM)

The FDPM is under the Ministry of Natural Resources and Environment. It has its headquarters in Kuala Lumpur with 10 State Forestry Departments and 33 District Forest Offices located throughout Peninsular Malaysia. The FDPM's headquarters is responsible for formulating policies and providing advice and technical assistance to the State Forestry Departments in forest management and development, forestry sector planning and related industries, forest operational studies, training, human resource development, and maintenance of experimental and demonstration stations.

Article 74 (2) of the Federal Constitution provides that land and natural resources are matters under the jurisdiction of the respective state governments. The states are empowered to enact laws and policies on forestry independently and a State Forestry Director is appointed to manage the administration and regulation of forest harvesting; revenue collection which includes premiums, royalties, deposits, cess and other charges; the management and development of forest resources; as well as planning and coordination of the development of forest-based industries.

States, through their respective Forestry Departments, constitute PRFs and classify them for timber production and protection purposes such as water catchment areas, wildlife reserves and bird sanctuaries, virgin jungle reserves (VJR), state parks and amenity forests. All forest produce from PRFs or state land remain the property of the state and all exploitation of forest produce must be licensed and administered by the state. State Forestry Directors have the power to arrest, search, seize and investigate forest-related offences, and impose fines and prosecute offenders.

PRFs are managed under 10-year state Forest Management Plans (FMPs), while the respective District Forest Office (DFO) prepares the five-year working plan. Harvesting plans for each



FORESTRY DEPARTMENT WORKERS MEASURING LOGS FOR ROYALTY CALCULATION.

licensed area, prepared by the licence holder and approved by the DFO, is a pre-requisite for the issuance of a harvesting licence.

In accordance with the requirement of the National Forestry Act 1984, the State Forestry Departments are expected to submit annual reports to both the State Authority as well as the FDPM. The Director General of Forestry exercises a degree of supervision with respect to forest sector planning and management over the State Forestry Departments, including annual management audits for quality assurance.

### SABAH FORESTRY DEPARTMENT (SABAH FD)

The Sabah FD, with its headquarters located in Sandakan, is tasked with the implementation of laws relating to forest conservation, constitution of forest reserves, management and regulation of forest harvesting, collection of revenue and issuance of long-term Sustainable Forest Management License Agreements (SFMLAs).

These SFMLAs, with a tenure of 100 years, were first introduced in 1997 on the basis that long-term security of land tenure provides licensees with the incentive to build up forest resources over time. Sabah uses the SFMLA to control the management of its PRFs. SFMLAs specify obligations of the licence holders with regard to native rights, local community development, forest development and conservation, monitoring and reporting, including preparation and submission of annual workplans and quarterly progress reports. To date, some 18 SFMLAs have been issued; however, two have been withdrawn on the grounds of non-compliance with the terms and conditions of the licence agreements.



TIMBER CERTIFICATION AUDITORS CHECKING ON THE MARKING OF A SEED TREE

#### **SARAWAK FOREST DEPARTMENT (SARAWAK FD)**

Since the establishment of the Sarawak Forestry Corporation (SFC) (see below), the Sarawak FD now concentrates on statutory and regulatory functions. The separation of powers provides an additional level of supervision and control over forestry matters and is seen as a devolution in the interest of greater efficiency in Sarawak.

#### **SARAWAK FORESTRY CORPORATION (SFC)**

SFC is a statutory body incorporated under the Sarawak Forestry Corporation Ordinance, 1995, passed by the State Legislative Assembly. Under this Ordinance, the SFC is assigned and gazetted with the functions, assets and legal authority to perform and enforce the Forests Ordinance, Wild Life Protection Ordinance 1998, and National Parks and Nature Reserve Ordinance, 1998.

#### **THE MALAYSIAN TIMBER INDUSTRY BOARD (MTIB)**

The MTIB was established in 1973 as a statutory body under the Ministry of Plantation Industries and Commodities (formerly known as the Ministry of Primary Industries) and its jurisdiction covers Peninsular Malaysia and Sabah. Taking its cue from the MTIB Act, the MTIB has for the past 30 years played an important role as the authority to regulate and develop the timber industry. It has responsibility for the registration of timber exporters and importers, suppliers, processors and graders, the issuance of timber export and import licences, and the inspection of export/import procedures and physical products.

The MTIB also acts as the CITES Management Authority for timber and, together with certain

authorities such as the Royal Malaysian Customs Department, the Marine Police, the Maritime Malaysia Enforcement Agency and Port Authorities, conducts enforcement activities at all exit and entry points along the Malaysian coastline and elsewhere. It is important to note that the MTIB enforces regulations pertaining to the international Harmonised Standards (HS) coding system for a broad spectrum of timber products to monitor and ensure legal trade, thereby playing a key role in the continuing sustainable development of Malaysia's timber industry.

#### **SARAWAK TIMBER INDUSTRY DEVELOPMENT CORPORATION (STIDC)**

The STIDC was established in June 1973 under the Perbadanan Perusahaan Kemajuan Kayu Sarawak (PUSAKA/STIDC) Ordinance 1973, following the recommendation of the Food and Agriculture Organisation (FAO) of the United Nations, which conducted a comprehensive forest inventory in the state from 1968 to 1972. STIDC's duties, as governed by the STIDC Ordinance of 1973, which was amended in 2006, are to regulate and control the manufacture of timber and timber products, their sale, distribution and marketing. STIDC plays a role in planning, co-ordinating and developing timber industries in Sarawak towards the optimum and efficient utilisation of timber resources by encouraging downstream processing and product diversification. Included in its remit are the determination of standards and quality through third-party verification, the regulation of export and import trade practices through an export licensing scheme, registration and grading, and the issuance of permits for timber exports and imports under the Customs Act 1967. As one of its assurances of SFM, the STIDC issues a Sustainable Forest Management and Legality Statement to exporters who have passed its stringent requirements.

#### **MALAYSIAN TIMBER COUNCIL (MTC)**

The Malaysian Timber Council (MTC) was founded in January 1992 to promote the development of the Malaysian timber-based industry and the marketing of associated products worldwide. The MTC's activities are managed through its headquarters in Kuala Lumpur and regional centres located in London, Dubai and Shanghai. Representing the interests

of the Malaysian timber industry, its mission is to ensure the sustainability of the Malaysian timber industry by improving its competitiveness, maintaining its continuing viability, enhancing market access and creating trade opportunities.

The Council's main objectives are:

- expand market opportunities for timber products
- To nurture Malaysia's timber industry by conducting industrial studies and supporting skills development
- To supplement and complement raw material supply to the local timber industry through off-shore sourcing
- To provide information services to the timber trade and industry

The Chairman and Board of Trustees determine the policy directions and oversee the management of the MTC. There are 10 members consisting of a representative each from the following, along with an independent member from the timber industry:

- Malaysian Wood Industries Association
- Timber Exporters' Association of Malaysia
- Malaysian Panel-Products Manufacturers' Association
- Malaysian Wood Moulding and Joinery Council
- Malaysian Furniture Industry Council
- Ministry of Plantation Industries and Commodities
- Malaysian Timber Industry Board
- Forestry Department Peninsular Malaysia
- Association of Malaysian Bumiputera Timber and Furniture Entrepreneurs

The MTC has played a significant role in managing perceptions of the Malaysian timber industry internationally and in engaging with stakeholder communities in ongoing dialogue.

### MALAYSIAN TIMBER CERTIFICATION COUNCIL (MTCC)

MTCC is an independent organisation which began operations in January 1999 to develop and operate a voluntary national timber certification scheme in Malaysia to ensure continued viability and sustainability of Malaysia's forest industry. It is governed by a Board of Trustees comprising representatives from the timber industry, academic and research institutions, non-governmental organisations and government agencies.

The MTCC Certification Scheme began in October 2001 using a phased approach - necessary because of the challenges faced in managing and assessing the complex tropical forest. The current standard used is the Malaysian Criteria, Indicators, Activities and Standards of Performance for Forest Management Certification, also known as MC&I (2001). From 2006, the MTCC has started to use a new standard [MC&I (2002)], which uses the Principles & Criteria of the Forest Stewardship Council (FSC) as its template.

The present institutional arrangement for the MTCC Scheme involves not only the issuance of certificates but also dealing with appeals, and working with independent assessors and peer reviewers to ensure proper checks and balances. Meanwhile, the MTCC collaborates with the Programme for the Endorsement of Forest Certification (PEFC) to gain its endorsement under the PEFC mutual recognition framework.

In line with efforts to benchmark to international market expectations, in 2001, a multi-stakeholder National Steering Committee (NSC) was established which subsequently formulated the MC&I (2002) through a transparent and

participatory process involving regional and national-level consultations amongst relevant stakeholders in Malaysia.

MTCC issues two types of certificates - a Certificate for Forest Management to Forest Management Units (FMUs) and a Chain-of-Custody (COC) Certification to timber-product manufacturers or exporters which provides assurance to buyers that MTCC-certified timber products supplied by these companies originate from certified FMUs. So far, 33% of the PRFs in Malaysia have been certified, providing assurance that the permanent forests within the FMUs are sustainably managed to the requirements of the certification standard.

The MTCC scheme has been accepted as providing assurance of legal or sustainable timber in many countries. Wherever traceability and legality are in question, buying MTCC-certified timber is the solution. The authorities and organisations that have given recognition to the MTCC scheme include the Danish Ministry of the Environment; the UK Department of Environment, Food & Rural Affairs (DEFRA); the Royal Horticultural Society of the UK; the New Zealand Ministry of Agriculture & Forestry; the French Ministry of Environment and Sustainable Development and the Ministry of Agriculture, Food & Rural Affairs; and the Forestry Agency, Ministry of Agriculture, Forestry & Fisheries of Japan. Meanwhile, a conditional recognition was accorded by the Hamburg City Authority of Germany for a two-year period beginning June 2006.

# KEY FOREST INDUSTRY ISSUES

## SUSTAINABLE FOREST MANAGEMENT (SFM)

Tropical rainforests help assure global environmental balance along with temperate forests, oceans etc. According to the Food and Agriculture Organization (FAO), the world's forests decrease annually by 12 million hectares. The average annual forest loss in Malaysia during the 1990s was an estimated 237,000 hectares or only 1.2% according to the FAO in a 2005 Report. This loss is largely attributable to planned land-use changes in line with national development policies.

The cornerstone of Malaysia's forest management is the setting aside of vast forested areas as PRF. The PRF is gazetted to ensure greater security for protection and strong measures of surveillance, enforcement and deterrent punishment are in place to ensure the integrity and security of the PRF area. It is universally accepted that land designated as PRF is considered land under sustainable management. This was a finding of an ITTO report Status of Tropical Forest Management, released in 2005. ITTO studies have continually stressed the need for countries to establish PRFs.

The ITTO is an intergovernmental organisation promoting the conservation, sustainable management and trade of tropical forest resources. The 2005 report affirms the fact that Malaysia's forests are well-managed in its review of the status of SFM in producer member countries, as a follow-up to ITTO's initial survey carried out in 1998.

In 1989 a mission from the ITTO visited Malaysia to assess the sustainable utilisation and conservation on tropical forests. Another mission went to Sarawak in 1992 after which recommendations were provided by ITTO experts to further enhance SFM including those pertaining to an annual production of 9.2 million m<sup>3</sup> from the Permanent Forest Estates (PFE) of Sarawak. This recommended production of 9.2 million m<sup>3</sup> per annum, is not to be confused with the average total figure of around 12 million m<sup>3</sup>, which includes harvests from stateland. Since the last 10 years, the annual production from Sarawak's PFE has dropped below 9 million m<sup>3</sup>.

International organisations have repeatedly stated the fact that Malaysia's forests are well-managed, and the ITTO has recognised Malaysia as foremost amongst the tropical timber-producing countries in achieving ITTO Year 2000 Objectives, whereby producer countries are expected to strive to install the necessary processes to achieve SFM.

According to the ITTO, SFM is defined as: **"The process of managing permanent forest land to achieve one or more clearly specified objectives of management with regard to the production of a continuous flow of desired forest products and services without undue reduction in its inherent values and future productivity and without undue undesirable effects on the physical and social environment".**

Malaysia also continues to be transparent in its efforts to sustainably manage its forest resources by:

1. Improving the investment climate for plantations as a supplementary source of wood supply
2. Diversifying wood products markets to reduce commercial risk to the industry
3. Increasing utilisation of lesser-known wood species and biomass from perennial agricultural cash crops such as rubber and oil palm.

Malaysia's forest policies have always emphasized the balance between protection and production. Regulations are in place with regard to forest management operations; these specify in detail harvesting guidelines, codes of best practices, forest inventory, silviculture and construction of forest roads. All harvesting and related operations are carried out by contractors operating on the basis of licenses and legally-binding agreements. These licences stipulate intensity of extraction, harvesting sequence, tree size limitations, transport routes, standards of road construction and methods of treatment. In areas under selective logging, there are standards for the protection of water courses, construction of bridges and water crossings and the establishment of stream buffers. Logging is not allowed in sensitive and water-catchment areas. The use of chemicals for the poison girdling of trees has also long been discontinued. Malaysia's forest policies have always emphasized the balance between protection and production.

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In regard to post-harvest treatments, guidelines specify the need to assess the condition of the crop after logging, and measures for rehabilitation and enhancement of the crop according to its condition at the time. The ITTO reports independently that by the end of 2003, 2.1 million hectares of logged-over forests had been treated silviculturally, and another 50,000 hectares had been enriched with native species.

Outside the PRF, other protected areas that have been gazetted include national parks, wildlife and bird sanctuaries which amount to an estimated 1.83 million hectares. In all, the totally protected forest area of 4.94 million hectares constitutes 15.0% of Malaysia's total land area. Under the aegis of the ITTO, management of wildlife sanctuaries such as the Lanjak-Entimau Wildlife Sanctuary and the Pulong Tau National Park in

Sarawak have been given a boost, with additional co-operation by the management of adjacent transboundary national parks on the Indonesian (Kalimantan) side. In terms of protected forest areas, over and above the 4.94 million hectares already set aside, some 115,000 hectares within the PRF have been set aside as Virgin Jungle Reserves (VJR) to preserve samples of the full range of forest types found within the country.

Malaysia's SFM practices extend to the protection of the livelihoods of the indigenous communities. The rights of indigenous communities who depend on the forest for their livelihood have been officially recognised, as have the rights of local people regarding the use of forest resources for their sustenance. These are recognised by the Land Ordinance 1930 (Sabah), Aboriginal Peoples Act 1954, Land Code 1958 (Sarawak), National Land Code 1965, National Forestry Act 1984 and other related laws.

In a recent paper presented by Mr. Moctar Toure, the Team Leader, Land and Water Resources, Global Environment Facility (GEF) of the World Bank, he said:

**"Malaysia offers a vivid example of a country that has developed an effective and sound policy and legal framework for the management of its tropical forest resources. Key to its success is the statement of a clear vision and political commitment to ensure the continuity of forest product flow, while conserving complex ecosystems, rich and varied in flora and fauna."**

MALAYSIAN DELEGATES AT MEETING ON ILLLEGAL LOGGING IN YOKOHAMA, NOVEMBER 2006.



Malaysia continues to solicit and receive feedback from global agencies with regard to its SFM practices, which provides invaluable input towards enhancing its best practices. Malaysia also recognises the need for continuing dialogue with the international community in order to further strengthen stewardship of its tropical forest resources and help advance the cause of SFM. Nevertheless, Malaysia recognises that SFM is at different stages of development in different parts of the world, particularly in developing tropical countries, and that regular dialogue and exchange are necessary for better understanding of, and response to, the changing expectations of the international stakeholder community.

#### **VERIFICATION AND CERTIFICATION**

The Malaysian timber industry is comparatively well-developed and managed. There is a proper documentation and identification system in place for forest harvesting. A rigorous tree-tagging system is implemented where trees to be felled are systematically identified, measured, tagged and recorded. Under this system, each log produced from the PRF can be traced to its forest of origin. It can even be traced to the original stump. Other measures to further enhance verifiability for legality of source include making the transition towards 100% tagging of all trees to be felled and retained in harvesting concessions. Use of Geographical Information System (GIS) and other computer technology including the use of barcode readers further improves the legality of the verification process and allows for systematic tracking of timber from the forest under the chain-of-custody system.

These systems of checking and double checking, export licensing, monitoring and control are all in place. In 1996, Malaysia and The Netherlands under a Joint Working Group (JWG) began experimental studies in timber certification. A set of criteria and indicators (C&Is) for forest management certification was developed based on the ITTO criteria and indicators for SFM. These C&Is were used in the pilot study that was implemented under the JWG.

To further enhance the implementation of SFM and to meet the market demand for certified timber products, it was agreed that a national timber certification body should be established. This led to the establishment of the National Timber Certification Council (NTCC) Malaysia in 1998, which subsequently became the MTCC. Its mission was to develop and implement a national timber certification scheme in Malaysia to ensure SFM and to develop and implement the standards related to timber certification.

By the end of 2006, eight forest management units (FMUs) in Peninsular Malaysia covering 4.67 million hectares and one FMU in Sarawak covering 55,949 hectares had been certified under the MTCC timber certification scheme. Sabah began experimenting with forest management certification in its model forest, the Deramakot Forest Reserve, which obtained certification in 1997 against the Malaysian Criteria and Indicators for Forest Management Certification (MC&I) and the FSC-accredited SGS QUALIFOR Programme. The Deramakot Forest Reserve was reassessed in 2002 and had its certificate renewed for a second five-year term expiring in 2008.

With timber certification, there is legality and acceptability that the product comes from a sustainably-managed forest. The Malaysian certification standards are based on internationally agreed criteria and indicators for SFM. In its effort to further enhance and seek recognition of its scheme, MTCC continuously engages in consultations with other international certification schemes and forestry related bodies. One of the measures being taken is the streamlining and consolidation of the role and responsibilities of the key players within the MTCC scheme. A new institutional arrangement is currently being implemented, where MTCC will continue to play the role of a National Governing Body (NGB), while independent assessors will become the Certification Bodies (CBs) accredited to the Department of Standards Malaysia (Standards Malaysia) which is the national Accreditation Body (AB) in Malaysia. Under this arrangement, all certificates under the MTCC scheme will be issued by the accredited CBs.

Under a country case study undertaken by VERIFOR (a project under the UK Overseas Development Institute's Forest Policy & Environment Programme) published in 2006, Malaysia's verification and certification process is summarised in these words:

**"Malaysia's systems for legal verification constitute complex, multi-agency structures providing oversight of domestic production and timber imports. Existing systems straddle mandatory public-sector audits as well as voluntary third-party certification."**

Standards cannot be developed overnight nor agreed overnight. There are many stakeholders whose views have to be taken into consideration such as social and environmental NGOs, government agencies, academic/research organisations and timber industry players worldwide. Sustainability is a journey. Along with its stakeholders, Malaysia as a leading tropical timber producing country continues to push the boundaries of international best practice. Malaysia recognises the need to meet the demands of all stakeholder groups while balancing economic viability, environmental responsibility and social conditions.

Malaysia is well ahead of other producing countries in tropical forestry management. The timber industry is an important export earner for Malaysia, therefore Malaysia will not compromise its efforts at tropical forestry management because it would be detrimental to the industry if it did so. Besides certification, Quality Management System audits under the ISO 9000 family of standards have also been applied to routine timber administration systems. The reality is if Malaysia cannot make certification work, it would be difficult for any other tropical timber producing country to do so.

**ILLEGAL LOGGING IN THE SOUTH EAST ASIAN REGION**

In a 2001 country report covering East Malaysia as well as a companion report covering Pen In a 2001 country report covering East Malaysia as well as a companion report covering Peninsular Malaysia by the World Bank and WWF, it is stated that the level of illegal logging in Malaysia is small (in the order of 1% or less) compared to the legal wood products trade. The study also reported that the average number of forest crimes in Peninsular Malaysia dropped from 223 for the period 1987 - 1993 to about 28 for the period 1994 - 1999.

In Malaysia as elsewhere, it is true that as supplies of domestic timber decline in response to demand, a growing proportion of exports consist of timber originally sourced from a variety of neighbouring countries including Thailand, Indonesia, Papua New Guinea and Myanmar as well as South Africa, Solomon Islands, USA, New Zealand, Australia and Canada.

**Import ban on Indonesian logs with immediate effect**

The government has imposed a ban on the import of Indonesian logs with immediate effect. This decision is a significant step towards ensuring the sustainability of the timber industry in Malaysia. The ban is expected to reduce the volume of illegal logging in Indonesia, which has been a major source of timber for Malaysia. The government has also announced that it will continue to monitor the situation and take further action if necessary. This move is seen as a positive step towards promoting responsible timber trade and protecting the environment.

Historically, Malaysia and Indonesia have had close trading relations. Barter trade particularly in rice, sugar and other agricultural produce existed for centuries. Some quantities of low quality timber may have been similarly traded although, given the present situation, traders of timber banned by Malaysia are turned back and refused permission to land. Cross-border trade is regulated through two bilateral agreements - the Border Crossing Agreement and the Border Trade Agreement, 1967. According to these agreements the Malaysian government will designate an area close to Indonesia for barter trade activities where all products traded are subject to customs and import-export procedures. Under the Customs Act, the site is also specified as a legal landing place. There are two types of jetties serving as legal landing places - one approved by the Ministry of Finance, known as a Barter Trade Centre (BTC) and the other approved by the State Government. The BTC is allowed to handle all types of goods for import and export whilst the State-approved private jetty is allowed to handle selected products approved by the committee under the State Government. From this, it will be noted that border trade between Malaysia and Indonesia is well-regulated. Products brought into the country must be accompanied by 'good manifest' from the country of origin. The 'manifest' is a document that is used by the forwarding agent in Malaysia to prepare the Custom Import Declaration form (CD No. 1). All importers are required to use the services forwarding agents registered with the Customs.

The control of trade in Ramin has been a subject of interest to environmental NGOs. In 2001, following these concerns, Ramin was placed on CITES Appendix III to ensure protection of the

species as well as instituted an export ban on the timber. The CITES listing helped to increase transparency in Ramin trade.

In efforts to enhance transparency with all its stakeholders, Malaysia initiated in April 2004, a Tri-National Task Force on Trade in Ramin between Malaysia, Indonesia and Singapore which has met twice and has drawn up a draft Action Plan. The Terms of Reference for the Task Force includes enhancing information, data sharing and monitoring of CITES implementation to help manage illegal trade and to frame long-term cooperative actions. They have also been designed to improve the existing mechanisms for rapid exchange of information on interdiction of infractions and to encourage law enforcement regarding trade in Ramin. Malaysia has conducted courses on Ramin identification for the customs officers of a neighbouring country in an effort to build enforcement capacity in line with the Task Force's proposed Action Plan.

Further, in October 2004 when Ramin was listed on Appendix II of CITES, Malaysia put in place and implemented the procedures in January 2005 to correspond with the tighter trade control. Additionally, Malaysia under the auspices of the Tri-National Task Force on Trade in Ramin, hosted an ITTO experts meeting in May 2006 on the effective implementation of the CITES decision to list Ramin on Appendix II.

Malaysia participates in regular symposia to strengthen bilateral and regional co-operation for forestry law enforcement. For example:

#### **JUNE 1999**

Regional Symposium on Forestry Law

#### **AUGUST 2000**

Conference on Illegal Logging in East Asia, Indonesia

#### **NOVEMBER 2003**

Forest Partnership Meeting in Tokyo, Japan

#### **JANUARY 2004**

First Informal Meeting of the Malaysia-Indonesia Joint Committee on Forestry in Jakarta, Indonesia

#### **MARCH 2004**

Second Informal Meeting of the Malaysia-Indonesia Joint Committee on Forestry in Kuala Lumpur, Malaysia

#### **NOVEMBER 2005**

Customs and Forestry Enforcement Workshop in Cebu, the Philippines

#### **NOVEMBER 2005**

Second Discussion on Indonesia-Malaysia MoU (Cooperation in Combating Illegal Logging and Trade in Timber and Timber Products), in Sarawak, Malaysia

#### **MARCH 2006**

Second Working Meeting of the Asia FLEG Task Force & Advisory Group in Manila, the Philippines

These efforts notwithstanding, the challenge remains to be transparent, to exchange information to enhance customs policing and data capture systems, to harmonise customs codes and to strengthen bilateral cooperation between Malaysia and Indonesia.

Free Trade Zones (FTZ's) or Free Commercial Zones of Free Zones are areas designated by the government under the Free Zones Act for

purpose of entrepot trade and manufacturing

industries producing goods essentially for export. These zones are under special control by Customs, where activities such as cargo trans-shipment, consolidation, packing, sorting, grading, trading and resale take place unimpeded. Goods and such services may be brought into or provided in a free zone without payment of any customs duty, excise duty, sales or service tax. To strengthen enforcement in the free zones, statutory amendments were made to the Import Prohibition Order 1998 (Customs Act 1967) in June 2006. With this amendment, logs and large scantlings and squares (LSS) from Indonesia were emplaced on the First Schedule, meaning they are absolutely banned from entry, even into the FTZ's (although FTZ's are considered places outside Malaysia). The amendment also required that logs and LSS having a cross section exceeding 60 square inches (from countries other than Indonesia) be accompanied by import permits issued by both the Director General of MTIB and a person authorized by him. This amendment also applies to the import of Ramin parts and derivatives, which also requires the CITES Import Permit as well as an Import Declaration .

The following tables are indicative of the enforcement activities that are being carried out:

#### CONFISCATION OF INDONESIAN TIMBER IMPORTS 2004-2006

REGION	NO. OF CASES		
	2004	2005	2006
Peninsular Malaysia	49	40	98
Sabah	71	42	159
Sarawak	12	6	6
<b>Total</b>	<b>132</b>	<b>88</b>	<b>265</b>

#### BREAKDOWN OF CONFISCATION CASES OF INDONESIAN TIMBER IMPORTS IN PENINSULAR MALAYSIA IN 2006

	PENINSULAR		SABAH		SARAWAK		TOTAL
	RAMIN	OTHER SPECIES	RAMIN	OTHER SPECIES	RAMIN	OTHER SPECIES	
Total cases	1	97	0	159	0	6	263
Compound (RM)	1,500	133,810	0	173,594	0	3,000	311,904
Logs (m <sup>3</sup> )	0	1,358	0	0	0	0	1,358
LSS (m <sup>3</sup> )	9	644	0	994	0	549*	2,196
Total volume (m <sup>3</sup> )	9	2002	0	994	0	549	3,554

\* A volume of 193 m<sup>3</sup> are LSS sizes, while the rest are baulks

One of the major steps taken by Malaysia to address genuine problems of illegal logging is through its active involvement in the European Union's Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan which aims to tackle the problem of illegal logging and associated trade. The Action Plan sets out a process and a series of measures through which the EU proposes to address these problems. A key component of the FLEGT Action Plan is the conclusion of Voluntary Partnership Agreements (VPAs) with timber producing countries.

The proposal for a VPA was first discussed between the EU and the Government of Malaysia at a meeting on 12 May 2004 in Kuala Lumpur. During subsequent meetings, Malaysia has reiterated its interest in the possibility of a VPA with the EU. On 25 September 2006, Datuk Peter Chin, the Minister of Plantation Industries & Commodities met with the EC Commissioner of Development, Mr. Louis Michel and Mr. Stavros Dimas, the Commissioner of Environment in Brussels. As a result of this high-level meeting, a "Joint Statement on a Voluntary Partnership Agreement (VPA) on Forest Law Enforcement, Governance and Trade (FLEGT) between Malaysia and the European Community (EC)" was issued, in which both sides agreed to start formal negotiations on the FLEGT Voluntary Partnership Agreement (VPA).

Malaysia was the first country to officially enter into formal negotiations with the European Commission. Subsequently, the first formal negotiations began in January 2007, with discussions focussing on a mechanism to independently verify legal timber under a licensing scheme.

OPENING CEREMONY OF 1ST MALAYSIA-EUROPEAN COMMISSION SENIORS OFFICIALS MEETING FLEGT, 19 JANUARY 2007, MRJ.



# MALAYSIA'S STAND ON THE ENVIRONMENT

Malaysia's efforts to promote sustainable development has resulted in her being ranked number 38 among 146 countries worldwide by the Environmental Sustainability Index Study 2005, Yale University. In addition, a follow-up 2006 study ranked Malaysia ninth among 133 countries in terms of efforts taken to reduce environmental stress on human health and protecting ecosystem vitality.

Malaysia's environmental stewardship has been embraced by its government in line with the declared principles of Islam Hadhari which stress continuing balance between development needs and environmental management.

The Malaysian Government in its 9th Malaysia Plan has allocated a sum of US\$0.54 billion of the National Budget for the implementation of environmental preservation projects. Malaysia promotes environmental stewardship to maintain the balance between development needs and the environment, emphasizing on the placement of preventive measures to mitigate negative environmental effects at source,

intensifying conservation efforts and sustainably managing natural resources. In addition, the government aims to boost closer cooperation between stakeholders in addressing environmental concerns.

Malaysia is an active proponent of SFM and places great weight on the conservation and sustainable use of forest products, watersheds and water catchments with strong regard for the promotion of sustainable forest products such as herbal and medicinal products, eco-tourism and bioprospecting activities. A National Physical Planning Council was established in 2003 and a National Physical Plan (NPP) 2005 - 2010 was adopted to further enhance integrated land use planning. The NPP envisages further development of capacity in environmental and natural resources management, methodology to improve land use planning and the use of hyperspectral remote sensing technology. Other strategies include monitoring, management and protection of Environmentally Sensitive Areas (ESAs) and the use of Strategic Environment Assessment (SEA).

# OUR COMMITMENT

## COMMITMENT TO SFM GOVERNANCE

SFM is a serious commitment as evident in Malaysia's century-old track record in respect to forestry policy and regulation, systems of licensing, harvesting and forest management, enforcement, monitoring and inspection as well as continuous improvement. These systems have been institutionalised and entrenched and lend credibility to Malaysia's governance over its legacy of tropical forests. To facilitate continuous improvement, development allocations under the 9th Malaysia Plan (2006-2010) to forestry departments in the three regions have been increased. For example, the FDPM has a RM90 million development allocation, up from RM44 million under the 8th Plan.

## BENCHMARKING

Malaysia continues to benchmark its position against international best practices by participating actively and openly in various fora and dialogues eg those spearheaded by UNFF,

FAO, ITTO, CITES, ASEAN Experts' Groups and other international agencies. Additionally, Malaysia's forest industry operates to ISO and other technical standards.

## REGIONAL & BILATERAL COOPERATION/ THOUGHT-LEADERSHIP

Malaysia cooperates closely with other tropical-timber producers and trading countries eg Singapore and Indonesia as well as within ASEAN. Platforms such as the ASEAN Senior Officials on Forestry (ASOF) ensures that information is exchanged and issues raised for discussion and action. Its forestry department and agencies such as the MTC and MTCC have frequent dealings with their counterparts in the region. In this way, Malaysia champions SFM practices and demonstrates its thought-leadership initiatives.

multilateral groupings, trading blocs and

organisations from time to time to discuss issues and to take note of changing requirements of the marketplace.

## OPENNESS & TRANSPARENCY

In line with the national agenda which prizes good governance, Malaysia upholds a policy of openness and transparency and is ever willing to dialogue with stakeholders who wish to ascertain the extent of its SFM practices, to make presentations to stakeholders around the world as well as to open up its industry to visitors. From time to time, Malaysia publishes information on forest industry developments on its various websites.

## R&D

Research and development continues with a strong commitment from the Ministry of Natural Resources and Environment, under whose purview lies FRIM. Under the 9th Malaysia Plan (2006-2010), FRIM's development allocations almost doubled to RM70 million, from RM42 under the previous Plan. The level of development expenditure allocated to FRIM has been growing steadily, from about RM37 million under the 7th Plan (1996-2000). Through this commitment, Malaysia keeps abreast of SFM challenges and identifies ways and means to optimise its forest resources for wealth creation.

## CAPACITY BUILDING

Malaysia regularly raises the bar on quality of its staff. It also recognises that forestry staff and all industry personnel need continuing training to upgrade their skills and keep them in touch with global developments and stakeholder expectations. Year upon year, training budget allocations grow and more quality staff are also trained through technical assistance received through bilateral assistance, as well as multilateral sources, to deliver better results.

## LEADERSHIP

Malaysia's forest management is governed by the National Forestry Council which is a high-level forum chaired by the Deputy Prime Minister himself. It is important to recognize that a governing body such as this exists to whose attention current issues and SFM dilemmas can be raised and presented. Prominent leaders and industry leaders also participate in various other Malaysian fora, under the framework of

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- Sarawak Forestry Corporation (SFC)
- Malaysian Timber Industry Board (MTIB)
- Sarawak Timber Industry Development Corporation (STIDC)
- Malaysian Timber Council (MTC)
- Malaysian Timber Certification Council (MTCC)

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## LIST OF ABBREVIATIONS AND ACRONYMS

AB	Accreditation Body	MTCC	Malaysian Timber Certification Council
BCSDM	Business Council for Sustainable Development Malaysia	MTIB	Malaysian Timber Industry Board
BTC	Barter Trade Centre	NFC	National Forestry Council
C&I	Criteria & Indicators	NFP	National Forestry Policy
CB	Certification Body	NGB	National Governing Body
CBD	United Nations Convention on Biological Diversity	NLC	National Land Council
CD No.1	Customs Import Declaration Form	NPP	National Physical Plan
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora	NSC	National Steering Committee
CPET	Central Point of Expertise on Timber, UK	NTCC	National Timber Certification Council
COC	Chain of Custody	PEFC	Programme for the Endorsement of Forest Certification Schemes (formerly Pan-European Forest Certification)
DEFRA	Department of Environment, Food & Rural Affairs, UK	PFE	Permanent Forest Estates
DFO	District Forest Office	PRF	Permanent Reserved Forest
ESA	Environmentally Sensitive Area	PUSAKA	Perbadanan Perusahaan Kemajuan Kayu Sarawak (the STIDC)
EU FLEGT	European Union Action Plan on Forest Law Enforcement, Governance and Trade	Sabah FD	Sabah Forestry Department
FAO	Food and Agriculture Organization of the United Nations	Sarawak FC	Sarawak Forestry Corporation
FDPM	Forestry Department Peninsular Malaysia	Sarawak FD	Sarawak Forest Department
FMP	Forest Management Plan	SEA	Strategic Environment Assessment
FMU	Forest Management Unit	SFM	Sustainable Forest Management
FSC	Forest Stewardship Council	SFMLA	Sustainable Forest Management License Agreement Standards Malaysia Department of Standards Malaysia
FTZ	Free Trade Zone	STIDC	Sarawak Timber Industry Development Corporation
GDP	Gross Domestic Product	TREATI	Trans-Regional EU-ASEAN Trade Initiative
GIS	Geographic Information System	TTAP	EU Timber Trade Action Plan
GTZ	German Agency for Technical Cooperation	UNCED	United Nat Conference on Environment and Development
HCVF	High Conservation Value Forest	UNFCCC	United Nations Framework Convention on Climate Change
HS	Harmonised Standards	VJR	Virgin Jungle Reserve
ITTA	International Tropical Timber Agreement	VPA	Voluntary Partnership Agreement
ITTO	International Tropical Timber Organisation	WWF-M	World Wide Fund for Nature, Malaysia
JWG	Joint Working Group		
LSS	Large Scantlings and Squares		
MC&I	Malaysian Criteria & Indicators for Sustainable Forest Management		
MNS	Malaysian Nature Society		
MTC	Malaysian Timber Council		



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