



Advancing a Sustainable Global Timber Trade through the EU FLEGT Action Plan

**Meeting the International Market
Requirements in Timber Sector**

**Le Meridien Hotel, Kota Kinabalu,
Sabah**

12th June 2014



Meeting the International Market Requirements in Timber Sector report

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12th June, 2014

By

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action plan

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Abbreviation

CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
EU	European Union
EUTR	European Union Timber Regulation
FLEGT	Forest Law Enforcement, Governance and Trade
FSC	Forest Stewardship Council
GFS	Global Forestry Services
GFTN	Global Forest & Trade Network
GTF	Global Timber Forum
IACC	Implementing Agency Coordination Committee
IGI	International Generic Indicators
IMM	Independent Market Monitoring
LTL	Long Term Licence
MTC	Malaysian Timber Council
NEPCon	Nature, Environment and People Consult
P & C	Principles & Criteria
SFD	Sabah Forestry Department
SFMLA	Sustainable Forest Management License Agreement
STIA	Sabah Timber Industries Association
TLAS	Timber Legality Assurance System
VPA	Voluntary Partnership Agreement
WWF	World Wide Fund for Nature

1.0 Introduction

Enticed by the recent final-round of VPA negotiation between Malaysia and the EU, WWF-Malaysia and STIA jointly organised a one-day seminar entitled “***Meeting the International Market Requirements in Timber Sector***” on 12th June 2014 at Le Meridien Hotel, Kota Kinabalu and it was attended by 56 participants. The seminar aimed to share knowledge and experience with stakeholders on the need of demonstrating legality and sustainability on wood and wood products to gain market access in the global timber trade.

Trade measures that call for legality and sustainability of wood and wood products in the industrialized markets are increasingly influencing the forest industries to revitalize forest law enforcement, forest management and, to a certain extent, forest governance. If legality and sustainability of forest management and forest products cannot be demonstrated, in future, importers and buyers may cease sourcing tropical forest products from this region. Therefore, it is crucial to equip the private sectors with the latest information on market requirements for timber legality and other national policies to help the private sectors to comply with them.

2.0 Workshop Agenda

Awareness Seminar on International Market Requirements in Timber Sector



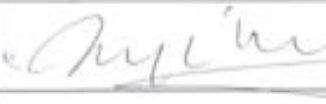

Date: 12th June 2014
Venue: Le Meridien Hotel
Time: 0800-1815hrs

Time	Programme	Speaker
0800 – 0900	Registration of Participants	STIA
0900 – 0915	Opening Remarks	SFD
0915 – 0945	Sabah Independent Auditing of SFMLA/LTL Areas and Mill/Exporters.	Hamidah Bujing Sabah Forestry Department
0945 – 1015	Q&A	
1015 – 1030	Coffee Break	
1030 – 1100	Presentation by Kimberly Clark Professional – Our Sustainability Journey	Dorin Yew Senior Product Manager Kimberly Clark Professional
1100 – 1130	Q&A	
1130 – 1200	GFTN Market Links	Elyrice Alim GFTN Officer WWF-Malaysia
1200 – 1230	Q&A	
1230 – 1345	Lunch @ Circle Restaurant	
1345 – 1415	International market requirements in the timber sector	Chen Hin Keong Timber Trade Programme Leader TRAFFIC
1415 - 1445	Q&A	
1445 - 1500	Coffee Break	
1500 - 1530	LegalSource approach to due diligence	Christian Sloth Verification Services Manager NEPCon
1530 - 1600	Q&A	
1600 - 1630	Opportunities for Sabah	Rachel Butler Technical Advisor European Timber Trade Federation (ETTF)
1630-1700	Q&A	
1700-1730	FLEGT VPA Independent Market Monitoring	Rupert Oliver Forest Industries Intelligence Ltd
1730-1800	Q&A	
1800-1815	Concluding Remarks	WWF







3.0 Attendance

SEMINAR : MEETING INTERNATIONAL MARKET REQUIREMENT IN TIMBER SECTOR
DATE : 12 JUNE 2014 (THURSDAY)
TIME : 8.00AM TO 5.00PM
VENUE : LE MERIDIEN HOTEL, KOTA KINABALU (KENINGAU ROOM, LEVEL 3)


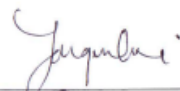





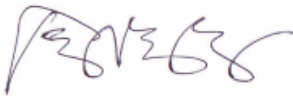
STIA Members:-

No	Name of Company	Name	Signature
1.	Akil Jutamas Sdn Bhd	Mr. Peter Liew Voon Hin	
2.	Anfasar Sdn Bhd	Mr. Kevin Wong Kung Neng	
3.	Antekad Sdn Bhd	Ms. Vanessa Anne Marcus	
4.	Antekad Sdn Bhd	Mr. Fung Chee Keong	
5.	Anrobois (S) Sdn Bhd	Mr. Richard Yong Swee Lin	
6.	Bidasari Sdn Bhd	Mr. Alfred Yong Chin Keong	

STIA Members:-

No	Name of Company	Name	Signature
7.	Borneo Benar Sdn Bhd	Mr. Lau Swee Cheong	
8.	Borneo Benar Sdn Bhd	Mr. Irwan Syah Bin Mohd Razak	
9.	Carl Ronnow (M) Sdn Bhd	Ms. Augusta Ng	
10.	Carl Ronnow (M) Sdn Bhd	Mr. Dick Anning	
11.	Elite Destiny Sdn Bhd	Mr. Ricky Lim Keck Hwa	
12.	Focus Lumber Berhad	Mr. Yang Sen	
13.	Fungsi Hebat Sdn Bhd	Mr. Mark Dune Cheng	

STIA Members:-

No	Name of Company	Name	Signature
14.	Hijauan Bengkoka Plantations S/B	Ms. Jennifer Phang	
15.	Hijauan Bengkoka Plantations S/B	Ms. Jacqueline Stephen	
16.	Java Industries Sdn Bhd	Ms. Yuen Sook Ngan	
17.	JQ Timber Sdn Bhd	Mr. Michael Tsen Kim Ho	 
18.	Kilang Papan Hiong Tiong Sdn Bhd	Mr. Sia Mee Kuong	
19.	Kalabakan Plywood Sdn Bhd (Tawau)	Mr. Quek Siew Wah	
20.	Kalabakan Plywood Sdn Bhd (Tawau)	Mr. Alex Seah Axel AXEL SEAH	





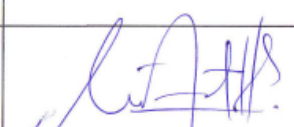

STIA Members:-

No	Name of Company	Name	Signature
21.	Nobel Mascot Sdn Bhd	Mr. Loy Chun Hong	
22.	Sabah Timber Industries Association (STIA)	Mr. Stephen Chaw Zie Shing	
23.	Sabah Timber Industries Association (STIA)	Ms. Brenda Wong	
24.	Sabah Timber Industries Association (STIA)	Ms. Eaxie Madius	
25.	Sabah Timber Industries Association (STIA)	Ms. Jane Chee	
26.	Sabah Forest Industries Sdn Bhd	Ms. Nancy Chia Tau Kin	
27.	Sabah Forest Industries Sdn Bhd	Ms. Tee Judy	
28.	Sabah Forest Industries Sdn Bhd	Encik Mohd Nur Hafiz Bin Yusop	


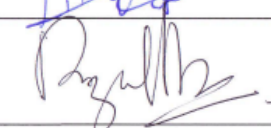
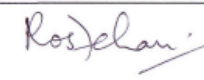
STIA Members:-

No	Name of Company	Name	Signature
29.	Samawang Sawmill Sdn Bhd (Sandakan)	Mr. Chung Ying Ting @ Thomas Chung	
30	Samawang Sawmill Sdn Bhd (Sandakan)	Ms. Leung Kam Ying @ Jenny Leung	
31.	Superwood Industries Sdn Bhd	Ms. Tan Siew Ling	
32.	Superwood Industries Sdn Bhd	Mr. Tan Peng Juan	
33.	Uni-Lumber Sdn Bhd	Mr. Loo Lip Liong	
34.	Tropical Timber & Trading (S) Sdn Bhd	Mr. Bernard Tiong Chuang Shik x Lu KEN BONG ✓	
35.	Veracity Corporation Sdn Bhd	Ms. Linda Chin	
36.	Zenova (M) Sdn Bhd	Ms. Rachel Wong	
37.	Zenova (M) Sdn Bhd	Ms. Winnie Au	

Others Agencies:-




No	Name of Company	Name	Signature
38.	Consular Office of Japan	Mr. Kenro Takahashi	高橋 建邦
39.	Erickson Air-Crane (M) Sdn Bhd	Mr. Paul Farrer	
40.	Idris Hydraulic (M) Bhd	Encik Wan Ahmad Firdaus	
41.	Kementerian Perdagangan Antarabangsa Dan Industri (MITI)	HAIRUL HAMDAN	
42.	Lembaga Kemajuan Perhutanan Negeri Sabah (SAFODA)	Encik. Zainal Bin Saridi	
43.	Malaysia External Trade Development Corporation (Matrade)	Encik Faizal Haris	
44.	Malaysian Timber Industry Board Sabah Region (MTIB)	Puan Umami Ainul Hafizah Bt. Mohd Ismail Ali	
45.	Sabah Furniture Association	Mr. Ng Choong Hoo	

Others Agencies:-

No	Name of Company	Name	Signature
46.	Universiti Malaysia Sabah – Faculty of Science and Natural Resources	Encik Awang Ahmad Mohd Yunus	
47.	Universiti Malaysia Sabah – Faculty of Science and Natural Resources	Dr. Berhaman Ahmad	
48.	Universiti Malaysia Sabah – Faculty of Science and Natural Resources	Prof. Dr Mohd Hamami Sahri	
49.	Universiti Malaysia Sabah – Faculty of Science and Natural Resources	Encik Musri Ismenyah	
50.	Universiti Malaysia Sabah – Faculty of Science and Natural Resources	Puan Roziela Hanim Alamjuri	
51.	Universiti Malaysia Sabah – Faculty of Science and Natural Resources	Dr. Hamimah Talib	
52.	Universiti Malaysia Sabah – Faculty of Science and Natural Resources	Puan Maznah Mahali	
53.	Universiti Malaysia Sabah – Faculty of Science and Natural Resources	Dr. Roszehan Mohd Idrus	

Others Agencies:-

No	Name of Company	Name	Signature
54.	Wood Industry Skills Development Centre (WISDEC)	Encik Reza Faizal Mohd Daud	
55.	Wood Industry Skills Development Centre (WISDEC)	Encik Hamdi Mawardi	
56.	Senior Product Manager Kimberly Clark Professional	Ms. Dorin Yew (Speaker)	
57.	Timber Trade Programme Leader, TRAFFIC	Mr. Chen Hin Keong (Speaker)	
58.	WWF-Malaysia	Ms. Elyrice Alim (Speaker)	
59.	WWF-Malaysia	Mr. Nicholas Fong	
60.	WWF-Malaysia	Mr. Han Kwai Hin	
61.	WWF-Malaysia	Ms. Lydia Ayog	
62	Sabah Forestry Department	Encik Andurus Abi (Speaker)	
63	Sabah Forestry Department	Puan Hamidah Bujing (Speaker)	

No	Name of Company	Name	Signature
	ATKIMBERLY - CLARK	MERRY K YONG	
	u	KOLT YEN TEONG	
	a	Lian Haw Yuen	

The workshop was attended by 56 participants –19 women and 37 men – comprising representatives from various timber companies, academia, and government agencies. They were:

1. Sabah Forestry Department
2. Akil Jutamas Sdn Bhd
3. Anfasar Sdn Bhd
4. Antekad Sdn Bhd
5. Bidasari Sdn Bhd
6. Borneo Benar Sdn Bhd
7. Carl Ronnow (M) Sdn Bhd
8. Elite Destiny Sdn Bhd
9. Focus Lumber Berhad
10. Fungsi Hebat Sdn Bhd
11. Hijauan Bengkoka Plantation Sdn Bhd
12. Java Industries Sdn Bhd
13. JQ Timber Sdn Bhd
14. Kilang Papan Tiong Sdn Bhd
15. Kalabakan Plywood Sdn Bhd (Tawau)
16. Nobel Mascot Sdn Bhd
17. Sabah Timber Industries Association (STIA)
18. Sabah Forest Industries Sdn Bhd
19. Samawang Sawmill Sdn Bhd (Sandakan)
20. Superwood Industries Sdn Bhd
21. Uni-Lumber Sdn Bhd
22. Tropical Timber & Trading (S) Sdn Bhd
23. Veracity Corporation Sdn Bhd
24. Zenova (M) Sdn Bhd
25. Consular Office of Japan
26. Erickson Air-Crane (M) Sdn Bhd
27. Idris Hydraulic (M) Bhd
28. Kementerian Perdagangan Antarabangsa Dan Industri (MITI)
29. Lembaga Kemajuan Perhutanan Negeri Sabah (SAFODA)
30. Malaysian Timber Industry Board Sabah Region (MTIB)
31. Sabah Furniture Association
32. Universiti Malaysia Sabah
33. Wood Industry Skills Development Centre (WISDEC)
34. Kimberly Clark Professional
35. TRAFFIC-SEA
36. WWF-Malaysia

4.0 Session Summaries

Overall, six presentations were delivered in which three were webinars presented by Christian Sloth (NEPCon), Rachel Butler (Global Timber Forum) and Rupert Oliver (Forest Industries Intelligence Ltd). The presentations covered the performance of industries in the aspect of legal compliance, the importance of due diligence, opportunities for Sabah as a timber producer in the international markets and the impact of European Union Timber Regulation (EUTR) on timber trade at the global level. These presentations were:

1. Hamidah Bujing (Sabah Forestry Department)
Topic: *Sabah Independent Auditing of SFMLA/LTL Areas and Mill/Exporters.*
2. Dorin Yew (Kimberly Clark Professional)
Topic: *Our Sustainability Journey*
3. Elyrice Alim (WWF-Malaysia)
Topic: *GFTN Market Links*
4. Chen Hin Keong (TRAFFIC-SEA)
Topic: *International market requirements in the timber sector*
5. Christian Sloth (NEPcon)
Topic: *Legal Source approach to due diligence*
6. Rachel Butler (ETTF)
Topic: *Opportunities for Sabah*
7. Rupert Oliver (Forest Industries Intelligence Ltd)
**Topic: - *FLEGT VPA Independent Market Monitoring*
- *Trade & economic context of FLEGT VPAs & EUTR***

Opening Remarks

Andurus Abi, Head of Economy, Industry and Statistics Division of Sabah Forestry Department (SFD) delivered the opening remarks, emphasizing that the seminar was aimed at sharing knowledge and learning experience with all stakeholders on the need of demonstrating legality to gain access in the global timber trade. He congratulated WWF-Malaysia and STIA for this timely seminar as there has been an increase in demand from established markets such as Europe, Australia, Japan and other new emerging markets for timber and timber products that demonstrate compliance with legal requirements. He highlighted that Sabah's earnings generated from timber products exported to countries implementing the legality and sustainability initiative was quite significant contributing to 35% of Sabah's total export. This may increase as more countries are adapting the approach to tackle the issue of timber legality and prepare the stakeholders to meet the various market requirements.

The evaluation undertaken by NEPCon recognizes that the current Sabah TLAS system is well thought through and that it only has a short way to go as its legality scope covers almost all relevant issues. The Sabah TLAS system does not just fulfil the Forest Law Enforcement, Governance and Trade (FLEGT) legality scope, but it also fulfils the scope defined under the EUTR. Sabah has taken various steps to work towards developing a Timber Legal Assurance System (TLAS) in the preparation of signing the Voluntary Partnership Agreement (VPA) under the EU FLEGT programme through a series of stakeholders' consultation. TLAS spells out the rules and requirements that will be used to monitor whether applicable laws are met and whether timber can be traced through the supply chain.

Until a TLAS system is approved, the timber industry of Sabah still faces the challenge of providing the European Union (EU) timber importers with information and assurance of legality to meet the requirements for the EUTR. Because the formal VPA process may take some time to conclude, an interim measure is needed before Sabah could export FLEGT licensed timber, and it will be coordinated with the other implementing agencies through the formation of a committee known as Implementing Agency Coordination Committee (IACC). This interim measure allows Sabah to implement an independently verified timber legality verification system that is in line with FLEGT and EUTR requirements – though not formally approved by the EU.

In the global timber market, importers are increasingly under pressured to demonstrate legality and sustainability of timber source to their consumers, and in turn, making a similar demand from the supply-side. Andurus pointed out that the industry has significant role to play to address the legality and sustainability of timber and continue to participate in the development of TLAS.

Discussion

Sabah's independent auditing of SFMLA for Principle 5 & 6 by Sabah Forestry Department

Hamidah Bujing, FLEGT Officer of SFD, gave an introduction on TLAS in her presentation, followed by Phase 1 and 2 of Sabah TLAS auditing for Principles 1 to 4. The first phase of the audit covered 16 Sustainable Forest Management License Agreement (SFMLA) and was extended to cover eight more licensees' area of approximately 1.7 million hectares. In the first phase of the Sabah TLAS audit, the average scoring for Round 1 was 85% but dropped to 83% in Round 2. The average scoring for Round 3 and 4 were 85% and 90%, respectively. The overall compliance has increased by 5% in the fourth round as compared to the first round of audit. Two FMUs did not pass the audit due

to non-compliance to “critical” criteria or failing to achieve the minimum passing marks of 70%.

In the second phase of audit, the overall compliance increased by 12% with an average scoring of 82% in Round 1 to 94% in Round 2 of audit and seven FMUs passed the overall compliance in Round 2 as compared to three FMUs in Round 1. The analysis has shown a good performance score for Principle 3 (Statutory Charges) whilst the lowest score was recorded for Principle 4 (Other users’ right). This was probably due to the fact that the issue of land dispute over the communities’ historical claim to land ownership might take many years to resolve. In addition, most of the issue raised were related to forest security system, occupational safety and health requirements and forest fire management.

Upon completion of the EU funded project in 2011, the field audits were carried out continuously by a third party, GFS (M) Sdn. Bhd., since 2012. The total licensed area audited in 2012 and 2013 were 16 and 26, respectively. In 2013, the average compliance score increased by 4.93% resulting in 93.56% as compared to 88.63% in the previous year (June to December 2012). Overall, the levels of compliance were high with improvements over time. Since the beginning of 2014, Global Forestry Services (GFS) revised the TLAS auditing procedure whereby all criteria are treated equally and performance-based scoring system is no longer in use. Non-compliance to the Principles and Criteria has now been classified into major and minor. The next steps to take are: 1) To table the compliance audit findings for Principle 5 and Principle 6 to the IACC meeting; 2) Issuance of compliance certificate; 3) Comprehensive audit to cover other source of timber for short-term licenses and alienated land; 4) Auditing will be continued regardless of whether VPA being signed or not, and with or without EU support, and 5) Internal auditing to monitor the performance of SFMLA and Long Term License (LTL) holders and mill operations as well as to assist the licensees to address issues of non-conformance.

No.	Question/Comment/Suggestion	Answer
1.	What is the follow up action required to close the gaps?	For major issues, it must be rectified within two months followed by an internal audit by Sabah Forestry Department to close the gap.
2.	Ricky from STIA asked on why Principle 4 (Other users’ rights) obtained the lowest score?	Hamidah clarified that for Principle 4, there are three indicators in which one of them involved third party claim. SFMLA needs to conduct a proper discussion with villagers and social NGOs and carry out social development programme for the

		<p>community. This was difficult to deal with as it involved land claims, which is beyond their capability to resolve the dispute. A community officer is required to handle community affairs.</p> <p>Andurus added that most of the issues involved new claims and looking at the situation, it is difficult for the department to identify whether it is a new claim or not.</p>
3.	Land ownership still belongs to the Forestry Department. Is it not SFD's responsibility to take it out?	The final say would have to come from the government, but if you look at the license itself, the main responsibility to determine new claim falls under the responsibility of FMU.
4.	What have you done so far to rectify issues regarding factories that have not been visited by the relevant authorities?	<p>Issues concerning human resources will be brought up to the IACC as it does not fall under the jurisdiction of the Forestry Department. It has been observed that there was a lack of awareness among companies whereby they need to notify the Department of Safety and Health (DOSH).</p> <p>Based on the recent audit, it is evident that any issues related to human resources would have the lowest compliance score. There is a need to conduct awareness raising programme targeted at the timber industry. We will also propose to various agencies to carry out joint audit with regards to the issues raised because based on previous experience, they were low on staff. Another approach is to have a joint audit on the ground.</p>
5.	To what extent will there be no additional requirements for the industry to comply?	At this point in time, we are steered by the PROTEM Secretariat for the Malaysia-EU FLEGT VPA in Kuala Lumpur. In the meantime, we do not include new criteria made during our negotiation with the EU official. PROTEM highlighted that there will be a period of time that it is required to comply with the timber regulation. Awareness raising and capacity building are essential.
6.	Hafiz of SFI asked on what would be the major concern if we are not able to comply with the system in the next five years.	The main issue is how would the timber gain market access? The regulation had been enforced since

		March 2013 whereby any timber or timber products entering the EU will need to go through due diligence to give assurance of legality.
7.	Will TLAS eventually be accepted in the market?	Based on various responses from other countries, TLAS would likely be accepted in the market. Timber and timber products would be considered legal if you have TLAS put in place but it may vary from country to country.

Our Sustainability Journey by Kimberly Clark Professional

Dorin, in her presentation, described their journey towards sustainability and how it affected the environment. Kimberly Clark Global is ranked among “World’s Most Ethical Companies” and they are working hard to ensure all of the wood pulp they use comes from responsibly managed forests. Their goal is to source 100% of their wood pulp from suppliers whose forests or fibre procurement activities had been credibly certified. Kimberly Clark is committed to continually reduce the environmental impacts of their products at all stages of the lifecycle -- ranging from product design, raw materials, manufacturing, transportation, usage of product to the final disposal. It is this focus on reducing consumption of resources at every stage of the product lifecycle that helps offer high-performing, environmental choices. Kimberly Clark’s extensive efforts allowed them to demonstrate the competitive advantage that could be provided for sustainability. This had been achieved by having the sustainability strategy process to be part of the company’s total global business planning process. One of the achievements toward sustainability is the investment on water treatment plant whereby they have achieved zero landfill for the past three years. Dorin pointed out that it is important to work with the government authority as they could help shape better policies while ensuring policies are consistently implemented with regards to sustainable products.

No.	Question/Comment/Suggestion	Answer
1.	Yong asked on how Kimberly Clark managed the environmental devastation and social conflict in the Kenogami Forest, Canada.	That was a turning point for us whereby we pledged to make a change. We have a tracking system to update the shareholders on our sustainability performance.
2.	What is your advice to encourage landowners to adopt Forest Stewardship Council (FSC) certification?	WWF to continuously recommend the FSC system to consumers, forest managers, policymakers and businesses as it is the most credible certification system to ensure

		environmentally responsible, socially beneficial and economically viable management of forests. Also, for FSC to propose to the government.
	The main problem here is that there is no FSC National Standard which is still in development.	Nicholas informed that it is still at the stage of development. Currently, they adhere to the International Generic Indicators (IGIs) in Malaysia. The purpose of the IGIs is to ensure consistent application of the global principles and criteria (P&C) so that the intentions of the P&C are shared across all countries. Where national standards are not currently established, the IGIs will take the place of Certification Body “Interim Standards”.
3.	What is Kimberly Clark’s stand in defining legality?	<p>For Malaysia, the top-level management took a very painful step to take up FSC. Legality is often presented as a necessary first step towards sustainability.</p> <p>International market requirements do not recognize any certification. However, FSC scheme helps to comply with the due diligence system requirements, relating to the FSC certified products or Controlled Wood materials.</p>
4.	Rozila of UMS asked about the community outreach programme that has been done by Kimberly Clark.	We have gotten the FSC certification last year. We educate and spoke to our customers on their responsibility toward sustainability. We are interested to collaborate with WWF to organize community outreach in order to educate the public.

Global Forest & Trade Network (GFTN) Market Links by WWF-Malaysia

Elyrice of WWF-Malaysia presented on GFTN which is WWF’s initiative to eliminate illegal logging and drive improvements in the global forest sector. Its goal is to mainstream responsible forest management and trade so that it would become the standard practice in the global forest products industry by

2020. GFTN drives market demand by facilitating trade linkages and partnerships within a business-to-business framework via providing market assistance. The benefits of GFTN include its ability to find new buyers and suppliers that meet participant's responsible purchasing commitments as well as gaining new market access. GFTN also provides the advantage of strengthening the existing supply chains and increasing participant's market information whereby a guide has been developed to provide details on alternative species as well as information on all GFTN participants supplying those species. Based on the outcomes from the market networking, the enquiries and links from the participants will lead to a partnership and market profit by connecting the forest and primary processor trade participants. Elyrice mentioned that there are no active trade participants in Malaysia at the present moment as some of the past participants may have achieved their goal or ceased their businesses. To join the GFTN, participant must be operating legally under a credible forest certification system. Currently WWF considers the FSC certification as the only credible certification system to ensure environmentally responsible, socially beneficial, and economically viable management of forests. The well-established stepwise approach developed by GFTN is an excellent framework within which companies can find guidance on tools and systems helpful for meeting requirements of the EUTR.

No.	Question/Comment/Suggestion	Answer
1.	Do you think FSC certification is feasible in Sabah? What are the challenges of doing FSC certification in Sabah for the suppliers? What is the success story that you can share with us?	FSC certification is very challenging in Sabah due to the conversion rule. However, it is relatively easier for traders to get CoC if it came from a credible source. From my point of view, GFTN and FSC can help with the market but it's a big challenge for Sabah.
2.	Dick commented that it is quite easy to obtain the CoC but difficult to include the forest measures in FMP. He further said that it is better to concentrate upstream in Malaysia and try to find ways to help them attain FSC certification. At the moment, they have to import the pulp from overseas as it is very hard to get certified natural forest to prove legality. The real issue here is how we could help the forest managers to get their forests certified so that everything would fall into place.	Agreed. Usually the GFTN trade participant recruitment is opportunistic upon request by their client.

Introduction to International Policies & Conventions Impacting Timber Trade by TRAFFIC

Chen Hin Keong presented on timber trade issues such as illegal logging and its challenges. Chen highlighted that it is crucial for the industry to be aware of issues involving illegal timber trade and supply chain and they should be taken seriously. There are three approaches to tackle the problem which are 1) governance and supply-side -- the approach would be revising and strengthening forest policies and legislations by working together with other countries and stakeholders; 2) behaviour change of producers -- to achieve legality and assuring the product is legal, for example, by improving forest harvesting practices, chain-of-custody certification, to join the “stepwise” programme such as GFTN and many more. and 3) demand-based approach -- the actions taken by importing markets to inhibit illegal timber and timber products from entering their territory are through responsible consumption, public procurement and import regulations. Chen explained on the international policies and conventions which comprised of Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), EUTR and VPA, Australian Illegal Logging Prohibition Act and Lacey Act.

No.	Question/Comment/Suggestion	Answer
1.	We have been getting questions from our counterpart in Vietnam and a particular hotel in Thailand that is committed to upholding sustainability in business. They are looking to source for FSC products. When we help them to check from the website, it does not fall under CITES, but under the IUCN, it is considered as threaten or endangered species. So, what sort of advice should we give to them?	First and foremost, if you are talking about legality, most governments are heading towards that direction. How can I meet the legal compliance of the species? Vietnam is perfectly fine but in other countries, it is bad. Due diligence is required in certain countries.

NEPCon LegalSource approach to due diligence by NEPCon

Christian Sloth is the Timber Legality Programme Manager of Nature Ecology and People Consult (NEPCon). He presented on the approach of due diligence called LegalSource programme which NEPCon has developed in coordination with FSC. The system can be coordinated and integrated in other legislations such as the EUTR, Lacey Act and Australian Illegal Logging Act. NEPCon has also developed dynamic tools for due diligence implementation which included an actual due diligence system and guidelines to use the system. Other than that, they developed a range of different codes and templates that can be used by companies that have LegalSource system in place. In addition, NEPCon offers other services whereby they support companies and forest managers to exercise due diligence by organising training programmes with

different types of training courses and levels of expertise. It is important to underline that LegalSource is a global scope and applicable to operators, forest managers, logging contractors, primary and secondary processing, traders as well as the importers and exporters. LegalSource standard contains similar requirements as other legality standards but it includes due diligence for importers. Risk-based approach may allow reducing the sampling rate for audits and reducing the number of criteria and indicators being evaluated. LegalSource due diligence guidelines outlines a stepwise approach that can be used by industry as well as auditors. There are four steps:

- 1) Meet quality system requirements
- 2) Manage the supply chain
- 3) Assessing and rating risk
- 4) Risk mitigation.

Opportunities for Sabah by European Timber Trade Federation

Rachel Butler briefed on the development of work relationship with STIA and the opportunities in Sabah as well. It is being discussed, among others, the domination of Small Medium Enterprises (SME) in the timber industry sector and the capacity to engage with international organization which has been lacking especially in getting funding to support capacity building and wood promotion. Therefore, the Global Timber Forum (GTF) was established in 2013 with more than 80 participants from 40 different countries to share expertise and collaborate as an international trade. A lot of effort was put into wood promotion and market information. The next issue is to maximize opportunities for using wood example e.g., Green building, value added products as well as developing the supply chain projects from forest to end users. The funding to develop GTF through the UK government started in June 2014 to create a communications hub to bring together timber trade federations and national and regional umbrella bodies around the globe for discussion and awareness-raising on “higher levels of legislative and operational policy and practice”. Rachel highlighted that it is important for the industry to identify their supply chain whereby it is an area that most companies can minimize their business costs. In terms of implementation, confusion is leading to unrealistic information requests and it is a common scenario in Malaysia. Enforcement has been slow but it will happen. The rewards are high with better image of tropical timber and gaining market access. Ultimately, the timber industry will need to balance out the effort and work needed with the level of risk. Rachel mentioned that they are currently working with STIA to help support the industry with regards to buyers’ demands. Their plan is to collaborate with STIA, SFD and WWF-Malaysia to look into the communications strategy and implementation plan hopefully to be developed in the next coming months. The strategies will consist of conducting perception survey with stakeholders and assessing current messages and claims along with the existing modes of communication.

FLEGT VPA Independent Market Monitoring by Forest Industries Intelligence Limited

Rupert Oliver gave a presentation on FLEGT-VPA Independent Market Monitoring (IMM) and trade and economic context of FLEGT VPA. IMM is required by FLEGT VPA for impact assessment of the VPA licensing system. There is also annual reporting of the assessment which requires recommendations for improvement that does not lead to negative impacts specifically on trade and the commotion of liability in the timber industry. It acts as a monitoring correspondence and is working closely with GTF to ensure the participation of private sectors in the independent market monitoring process. One of the requirements of IMM is the documented methodology which involves indicators against assessment of marketing plan by looking at changing customers, activities, trade and many more. In the recent years, there has been a major shift in timber trade specifically in tropical hardwood. In 2007, there was a large flow of trade between Malaysia and Japan but otherwise the trade were fairly distributed among Asia, Africa, South America and Europe with about 25% respectively. The recent decline in the western markets for tropical wood were caused by a few factors such as the falling consumption during global finances crisis, supply diversion to emerging markets, substitution by non-wood products, competition from Chinese wood materials and finished goods as well as the erosion of production capacity and trade infra-structure. Rupert mentioned that Malaysia has the highest success to retain a large share in the emerging market. He further informed that there are 35 private sector organizations that will serve as the EUTR monitoring organization. The change in policy now is more focused on the risk of legal wood entering the supply chain in all product lines.

No.	Question/Comment/Suggestion	Answer
1.	One term that is very important for the whole process is about legality in the context of EU FLEGT VPA. We are very interested in the market access that we want to protect. As a general comment, it would be a good tactic in the import tariff area whereby it should be an important factor to encourage legality. We believe with the effort put into EU FLEGT VPA there is an aspect of reward given to the industry as an encouragement. This is the area we wish NGOs in the EU would look into. My point is to look at the encouragement factors such as tariff to show reward instead of just enforcement only	I agree that it is extremely good. The EUTR actually provides a lot of incentives and benefits to any countries dealing with VPA. The tariff issue could also be a significant additional incentive.

	because legality is an issue between the exporters and the importers. So the action must be even.	
2.	In Sabah, in terms of log supply for the market side, we didn't get any premiums by complying with the standards such as TLAS. How do we showcase to other markets that we are doing a good job here?	There is low level of awareness as well as the level of commitment by the producers in the timber producing countries. The need of value is much more a concern of communication and promotional efforts, recognition in the market, and commitment by all stages of supply chain. There is powerful narrative that has been told about the process.
3.	In the absence of the FLEGT license as we are all aware and the fact that timber stock is depleting, do you foresee that there will be a steady increase in the FSC certified timber in the global market?	Yes. It would increase significantly for a large consuming market. There are significant obstacles to certification in many parts of the world. The EUTR, the Lacey Act Amendment will progressively increase in demand for CoC and certified products. I think that now the economic condition is improving, the demand of supply should continue to increase as well.

Way Forward

From the one-day seminar, it was informed that the issue concerning labor will be brought up to the Implementing Agency Coordination Committee (IACC). Andurus proposed to conduct a joint audit on the ground with various agencies such as DOSH. Rachel pointed out that it is important to build a strategy and for the stakeholders to participate in terms of communications which would be developed in the next coming months. Suggestions were made to conduct capacity building workshops and awareness raising activities targeted at the timber industry in order to prepare them for the Sabah TLAS and VPA implementation.

5.0 Concluding Remarks

The workshop discussed issues on the global timber trade with the private sectors so that they would be able to prepare themselves to meet the legal compliance of the national and state laws. The participants requested for a follow-up seminar with the participation of more international speakers and representative from Malaysian Timber Council (MTC). MTC was suggested because they are responsible to

promote Malaysian timber in the global market and presumably they should have more information on international market response towards the on-going trade between Malaysia and the various importing countries that have passed the regulations prohibiting the import of illegal timber. In this case, WWF-Malaysia's role was to bring in expertise and to facilitate knowledge sharing among the private sectors so that they are aware of the development in relation to FLEGT and other associated regulations that are being enforced elsewhere.

Through this capacity-building workshop, the private sectors were kept abreast of the up-to-date information that impacted their trade as well as preparing them for the evolving global timber trade which has become more complicated with various regulations prohibiting the trade of illegal timber, and also the need to ascertain the legal status of timber from the forest floor up to the point of export. Han of WWF-Malaysia concluded that the Sabah TLAS is moving well ahead than other regions in Malaysia in addressing timber legality. It is essential to rigorously step up the effort in raising awareness and capacity building among the stakeholders as well as the general public. He hoped that through the seminar, the participants will be able to contribute in raising awareness through experience and knowledge sharing. Having no other matters to be discussed, the seminar ended at 6.15 p.m.

6.0 Plates



Image credit: **WWF-Malaysia/Nicholas Fong**