

Forest Certification in Malaysia

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ABSTRACT

Forest certification emerged in Malaysia through direct initiatives of the States Forestry Departments as trustee of PFEs, bilateral projects for sustainable forest management between the State Forestry Departments with international bodies, and direct interest from individual forest concessionaire. Currently, certification is very much market driven and is serving as a tool towards promoting sustainable forest management. Two certification programs obtained are from the Forest Stewardship Council (FSC) and the Malaysian Timber Certification Council (MTCC). Certification receives support from various stakeholders, including in the Government and the private sector. Support from the local community is growing in strength particularly for the FSC. The MTCC is working towards gaining the trust from the indigenous community, constrained by the issue of the native customary rights over forestland. This issue is within the domain of the State Constitution and beyond that of the MTCC. Various parties including national and international NGOs, governmental agencies, and international markets play their synergistic roles towards garnering domestic support for certification and in streamlining the national MTCC certification in its phase approach towards global acceptance. MTCC is continuing its attempt to obtaining international recognition of its program by attempting to comply to FSC's principles and Criteria. Certification has provided a new dimension in forest management. Forest management is no longer principally the domain of the State Forestry Department or gravitating around the sole issue of sustainable timber production. Social considerations have emerged and indigenous peoples' concerns have to be taken on board. There are various environmental, economics and social impacts of certification and these are discussed. Certification is at the growth stage in the country and some thoughts as to the future roles of both the FSC and MTCC programs are provided.

TABLE OF CONTENTS

I. INTRODUCTION.....	5
II. BACKGROUND FACTORS.....	6
Ownership and Tenure	
Markets	
III. THE EMERGENCE OF FOREST CERTIFICATION.....	8
Initial Support	
Institutional Design	
Standards	
Forestry Problems	
Roadblocks and Challenges	
IV. THE REACTION TO CERTIFICATION.....	21
Forest Policy Community and Stakeholders	
Forest Owners	
Current Status of Forestland Certification	
Current Status of the Certified Marketplace	
V. EFFECTS OF FOREST CERTIFICATION.....	23
Power	
Social	
Economic	
Environmental	
VI. CONCLUSION.....	27
VII. REFERENCES.....	29

ACRONYMS

AAC	Annual Allowable Cuts
C&I	Criteria and Indicators
CMSTFM	Criteria for the Measurement of Sustainable Tropical Forest Management
EMS	Environmental management system
FMP	Forest management plan
FMU	Forest management unit
FSC	Forest Stewardship Council
FSCNWG	FSC National Working Group
HCVF	High Conservation Value Forests
ITTO	International Tropical Timber Organization
KPK	Kumpulan Perakayan Kelantan
KPKKT	Kumpulan Pengurusan Kayu-Kayan Terengganu
MC&I	Malaysian Criteria and Indicators
M-GSFMP	Malaysian-German Sustainable Forest Management Project
M-NJWG	Malaysia-Netherlands Joint Working Group
MR	Mutual recognition
MTCC	Malaysian Timber Certification Council
MTIB	Malaysian Timber Industry Board
NCR	Native customary rights
NGO	Non-governmental organization
NTCC	National Timber Certification Council
NTTA	Netherlands Timber Trade Association
P&C	Principles and Criteria
PFE	Permanent Forest Estate
PITC	Perak Integrated Timber Complex
RAP / CoC	Requirements and Assessments Procedures of Chain-of-Custody Certification
SFM	Sustainable Forest Management
SMS	Selective Management System
SoP	Standards of Performance
STA	Sarawak Timber Association
TI	Tropenwald Initiative
WPSNFM	Working Party on Sustainable Natural Forest Management
WWF	World Wide Fund for Nature

I. INTRODUCTION

Timber certification in Malaysia began on three fronts coinciding with the three regions of the country. In Peninsular Malaysia, certification was initiated through the Malaysia-Netherlands Joint Working Group's (M-NJWG) Pilot Study on timber certification. The Malaysian Timber Industry Board (MTIB) and the Netherlands Timber Trade Association (NTTA) were the focal points for the study. Under the initial planning, three timber products - namely, sawn timber, plywood and moldings - were subjected to the certification process, following which the 'certified' timber products would enter the Keurhout Hallmark System implemented in the Netherlands to track these products to the final end-users. In Sabah it was initiated by the Sabah Forestry Department-German Sustainable Forest Management project at Daramakot Forest, which was certified with the Forest Stewardship Council (FSC). In Sarawak, certification efforts were initiated by the State Forestry Department with support from the Sarawak Timber Association. The Malaysian Government and Forestry Departments in the three regions of Malaysia were keen on the benefits of certification and set up the Malaysian Criteria and Indicators (MC&I) following that of the International Tropical Timber Organization (ITTO) Criteria and Indicators (C&I) on Sustainable Forest Management (SFM). The Malaysian Timber Certification Council (MTCC) was formed to oversee the implementation of the MC&I. There was a move to obtain mutual recognition (MR) of the MC&I from FSC but to date this has not been successful, as endorsement from social non-governmental organizations (NGOs) has not been obtained. Eventually, efforts were placed on improving the MC&I by complying with the FSC's Principles and Criteria (P&C) in a final effort to get the MC&I recognized globally. The MTCC considers the transition of its certification program as part of its phased approach of certification.

The different groups in Malaysia were interested in pursuing certification for various reasons. The government is relying upon certification to promote the sustainability of its forest resources and together with the private sector they are reacting to the fear of the loss of international markets particularly European. In the domestic scene, environmental and community NGOs and indigenous people are looking to certification as a potential tool for promoting more transparent decision making involving forest management and its impact upon the livelihood of indigenous people.

MTCC certification program is motivated by the country's commitment to ITTO's Guidelines for Sustainable Management of Natural Tropical Forests and its Criteria for the Measurement of Sustainable Tropical Forest Management (CMSTFM). Malaysia took action to build on and operationalize this guideline for two reasons. Certification is seen as a step toward ensuring the production of a continuous flow of desired forest products and services from the forest reserves. In doing so, it also commits to ensuring that production be conducted without undue reduction of the forest's inherent values and future productivity, and without undue undesirable effects on the physical and social environment.

Further, certification is being actively pursued to ensure continued market access of Malaysian timber products, particularly in the environmentally sensitive market.

Certification is seen as critical for long term access to key markets in Europe, United States and Japan since the market is being undercut in less green-sensitive markets like China, Taiwan and South Korea by low-cost producers like Indonesia and Cambodia.

In Peninsular Malaysia, all the major forest-endowed states were successful in getting forests certified with the MC&I by the end of 2003. However, MC&I certified forests did not gain full recognition in several western economies where Malaysian wood products were exported. An independent effort to achieve FSC certification was done by a local company, Perak Integrated Timber Complex (PITC), enabling it to gain access to international markets for certified forest products. This move has encouraged other forest concessionaires to follow suit and obtain FSC certificates in addition to the MC&I certificate.

Several social issues have remained as stumbling blocks in getting FSC recognition of the MTCC certification program. In particular, indigenous communities' claims of land ownership in forest reserves are preventing the negotiation with FSC from moving forward. State legislation on forestland prevents recognition of indigenous peoples' land claims. According to the legislation, the State has been vested as the trustee of public forestland. Indigenous communities living in the forest have usufruct use over the forestland.

II. BACKGROUND FACTORS

Malaysia is a tropical country located north of the Equator within latitudes 1° to 7° north and longitudes 100° to 119° east. The country is separated into Peninsular and East Malaysia by the South China Sea. The total land area is approximately 32.8 million hectares with 13.1 million hectares in Peninsular Malaysia, which comprises eleven states and the Federal Territory of Kuala Lumpur, and 19.7 million hectares in East Malaysia, which consists of two large states, Sabah and the Federal Territory of Labuan (7.4 million hectares), and Sarawak (12.3 million hectares).

Ownership and Tenure

At the end of 2002, the total area of forests in Malaysia was estimated to be 19.01 million hectares or 57.9% of the total land area, with the proportion of forested land being higher in Sabah and Sarawak than in Peninsular Malaysia. Malaysia has a total area of 16 million hectares of natural forest, of which 14.19 million hectares are designated as Permanent Forest Estate (PFE) or forest reserve. Approximately 10.53 million hectares of the PFE are production forests with the remaining 3.66 million hectares being protection forests. 1.8 million hectares located outside the PFE are designated as national parks and wildlife sanctuaries.

In Malaysia, there is a separation of power over land matters. Under Article 74(2) of the Malaysian Constitution, forestry comes under the jurisdiction of the respective state governments. As such, each state is empowered to enact laws on forestry and to formulate forestry policies independently. Each state has power of decision over resource

use and allocation. It has its own forestry department and other institutions to implement forestry policies. The executive authority of the federal government only extends to the provision of advice and technical assistance to the states, training, research, and in the maintenance of experimental and demonstration stations. The constitution does give the federal government powers to establish departments or ministries for resource conservation. State forestry departments are obliged to refer to their federal counterparts on certain matters. Nevertheless, in practice contradictions between federal and state policies do occur from time to time. State governments have been known to pursue their own forest policies, even when they appear to contradict federal policies.

There are two potential conflicting views of the forests. The first one is that forests are a physical and economic resource, controlled by the state government, private logging companies and individuals whose main concern is in commercial value of trees to generate revenue and income. The second one is that forests are a physical, social, cultural and spiritual resource, for livelihoods as well as the basis of beliefs, identity and survival, by indigenous and forest dependent peoples. These different visions clash and conflicts around forest use have been well documented, especially in the state of Sarawak.

Currently all forestlands in Malaysia are owned by the government, except for a few thousand hectares of plantation forests which are privately owned. Although the management of all natural forests is under the purview of the respective state departments of forestry, state governments do lease forestlands out, at various lengths of long-term concessions, to integrated timber companies. Such timber companies include the Kumpulan Pengurusan Kayu-Kayan Terengganu (KPKKT) with 128,720 hectares in the state of Terengganu, Perak Integrated Timber Complex (PITC) with 9,000 hectares in the state of Perak and Kumpulan Perkayuan Kelantan (KPK) with 92,500 hectares in the state of Kelantan. The management of leased forestland has to be guided by their forest management plans approved by the State Department of Forestry.

Indigenous communities living in the forest have usufruct rights over forest goods and services. They do not own the forestland. In East Malaysia, there are larger forestlands classified as native customary rights (NCR) land. Given this situation, no forest harvesting agreements involving local communities in co-management responsibilities are practiced in the country.

Markets

In Malaysia, the forest sector primary production base is composed of 3.2 million metric tons of wood fuel and 17.9 million metric tons of industrial round wood in 2002. The country encourages secondary and tertiary processing of timber. In the same year, 4.6 million metric tons of sawn wood, 6.8 million metric tons of wood-based panels, 123.7 thousand metric tons of pulp for paper and 851.0 thousand metric tons of paper and paperboard were manufactured.

The forest sector total export (not inclusive of furniture) was 13.8 million metric tons valued at US\$2.7 billion in 2002. The main export contributors were industrial round wood with 37.5% in volume but 18.0% in value, sawn wood with 20.7% in volume but 13.9% in value and wood-based panel with 40.8% in volume but 60.3% in value. It is interesting to note that for both industrial round wood and sawn wood the percentage contributions to the forest sector export were higher in volume over value in contrast to the case of wood-based panels. This is an indication of low value per unit volume for industrial round wood and sawn wood than for wood-based panels. The major export destinations of Malaysian forest products were China (31.2%) and Japan (25.1%). Other important destinations were Korea (5.6%), U.S.A. (4.3%) and Netherlands (3.5%).

The forestry sector contributes significantly towards the country's socio-economic development. This can be highlighted from the following statistics for 2002:

- (i) The forestry sector contributed US\$3.7 billion in gross value added which accounted for about 4.7% of the country's Gross Domestic Product in the year 2000.
- (ii) The total export of the forest sector (excluding furniture) was valued at US\$2.8 billion or 2.8% of the country's total export earnings in 2002. Imports were valued at US\$1 billion making the country a net exporter of US\$1.8;
- (iii) In 1998, the total forest revenue collected by the various states in Malaysia amounted to US\$368.8 million based on a production of 21.7 million m³ of round logs; and
- (iv) The forestry sector (excluding furniture) also provided employment of about 2% of the country's labor force.

Given the above performance, the timber and timber products industry is an important contributor to the economy of the country, in terms of foreign exchange earnings, employment and value added creation. Throughout the first and second Industrial Master Plan (1985-1995 and 1996-2005), the timber and timber products sector has been earmarked to provide domestic and export growth for the economy. Hence, the declining trade seemingly caused by importing countries' perception that Malaysian products do not come from well-managed forests is taken seriously by the Federal Government (Yong 2002).

Various efforts have been undertaken to confront this challenge, including ascribing to timber certification and developing a system that can provide assurance that the timber products have been manufactured using timber from sound forest management practices.

III. THE EMERGENCE OF FOREST CERTIFICATION

Initial Support

Government

Given the long-term prospect of a limited supply of forest, the government has to approach development efforts judiciously. The future patterns of forest resource management and use in Malaysia would have to be restructured by adopting strategies of sustainable management that treat the environment as an integral part of management in order to ensure that maximum economic and social benefits are derived. Any environmental changes have to be guided through proper long-term management of the forest resource by maintaining an optimum equilibrium between resource utilization and the need to protect the environment as a prerequisite for the sustainable production of forest goods and services. Adherence to forest management regulations and its certification is taken as one move to ensure that this end is met.

In general, the government stand is that timber certification should be consumer-driven, market-based and done on a voluntary basis. But in the case of forest management certification, the Malaysian Government took leadership in the drive for certification. Its involvement was meant to allay doubts in the minds of consumers about forest sustainability in a country whose forestland is overwhelmingly owned by the government. The government's heavy involvement was also due to the financial requirements of forest management certification schemes that are mostly yet to be self-financing. The Malaysian Government involvement in forest management certification schemes has some advantages in ensuring:

- (i) a consistency of criteria and indicators applied;
- (ii) a balance the views of the different parties involved;
- (iii) a greater accountability to the public;
- (iv) a greater transparency in the schemes used; and
- (v) an additional channel for presenting their interest to labeling authorities.

Initial leadership was provided by the Ministry of Primary Industries, which initiated approval at the federal cabinet level, set policy to adopt timber certification and established a national committee to oversee its implementation. The government agencies initially involved were the Forestry Department Headquarters for Peninsular Malaysia, Sabah and Sarawak, and the Malaysian Timber Industry Board, to mention a few.

There is also a view that since the forestlands are managed by the Forestry Department, certification ought to be based on a Malaysian certification program that takes into account the established Selective Management System and local land laws (pers com. Forestry Department officers). It is not an effort to forestall the development of FSC and introduce a weaker, less rigorous scheme into Malaysia.

Certification is seen as a step toward ensuring the production of a continuous flow of desired forest products and services from the forest reserves. In doing so, it also

commits to ensuring that production be conducted without undue reduction of the forest's inherent values and future productivity, and without undue undesirable effects on the physical and social environment.

Further, certification is being actively pursued to ensure continued market access of Malaysian timber products, particularly in the environmentally sensitive market. Certification is seen as critical for long term access to key markets in Europe, United States and Japan since the market is being undercut in less green-sensitive markets like China, Taiwan and South Korea by low-cost producers like Indonesia and Cambodia.

Private Sector

The industry and its associations appeared to agree with the government drive. Forest harvesting rights were getting scarcer and there were excess demands to obtain these privileges. The timber industry and the private sector were also seeking certification as a method of demonstrating and informing consumers that their timber products came from well-managed forests, thereby ensuring their products' continued popularity and sale.

The private sector was realistic on the certification requirement and its willingness to seek certification. This stand can be gauged from the following excerpt from Barney Chan, the Chief Executive Officer of the Sarawak Timber Association (STA). Sarawak is the largest state in Malaysia with the largest forest resources.

“STA must be prepared for the inevitable: eco-labeling will be introduced, it is only a question of time. However, I feel that this move is not necessarily bad for us. If we are indeed looking after our forests in the correct way, we should have not much difficulty in getting appropriate certification for our timber products. Such being the case, we should look at the positive side and use eco-labeling as a marketing tool so that we can maintain the European market for our timber. Here I want to report to members that STA is still in consultations with the state and federal authorities on this eco-labeling matter.”

The private sector in response to the market has sought certification programs that will satisfy its client, both the state government and timber product importers. The government who provides the forest concession, has interest on certification and seeking MTCC certification is an approach of satisfying the government. Timber product importers demand certified timber, obtaining FSC or MTCC certification is to satisfy particular importer request. For instance, Golden Pharos, a company exporting wooden doors to the United Kingdom and Europe has to import certified eucalyptus and pine sawn timber from New Zealand for further processing into doors. The firm is seeking FSC certification of its tropical forest concession.

NGOs

Environmental non-governmental organizations (NGOs) and indigenous peoples' organizations actively involved in timber certification include the World Wide Fund for Nature (WWF) and the Malaysian Nature Society. These organizations have all along been wary of the state of forest harvesting in the country, both environmentally and socially. They actively participated in the formulation of policies and implementation procedures of the Malaysian scheme on certification, in the hope of influencing and incorporating their conservation and social interests. NGOs like WWF looked upon certification as a tool to demonstrate good forest management. While indigenous peoples' organizations looked upon certification as a means of gaining recognition of native rights to forestland, particularly the NCR land.

The NGOs set several criteria to ensure certification meets the intended objectives. The certification systems should be institutionally and politically adapted to local conditions, cost effective, accepted by all involved parties and compatible with generally accepted international principles. To be accepted, the systems should be transparent and credible to consumers and based on objective and measurable criteria, reliably assessed by independent parties that are uninfluenced by parties with vested interests (pers com. Ng of WWF Malaysia 2004).

From the above observations, it can be concluded that the government, through the forestry departments, initially has more influence over the industry by virtue of its institutional function of allotting concession rights to the industry. As the deliberations on consensus building proceeded, the strong influence of the NGOs emerged, particularly on social issues which Malaysian forestry has traditionally not emphasized as much as the objective of sustaining the timber resource.

Institutional Design

There are two timber certification programs adopted in Malaysia: the government-sanctioned MTCC program and the FSC. The first is driven directly by the government by formulating the MTCC certification, initially guided by the ITTO's C&I in the first phase followed by further attempts to comply with the FSC's P&C in the second phase. The adoption of the MTCC certification program is spearheaded by the forest departments of various states who are acting as trustees of the PFEs and a few timber firms who gained long-term concessions from the state. The adoption of the FSC is a proactive move by the Malaysian-German Sustainable Forest Management Project (M-GSFMP) in Sabah and the private sector in response either to obtaining internationally acclaimed best practice acknowledgement or in meeting requirements set by international consumers.

Firms are free to adopt either FSC and MTCC or both. The forestry departments in the states of Peninsular Malaysia, Sabah and Sarawak ascribe to the MTCC program while having an attitude open to new approaches and permitting the industry to make its own choice on which certification scheme to adopt, including that of FSC and ISO

14,000. In Sarawak, the Samleng Group has undergone a FSC pre-assessment while the KTS Group has begun developing its Environmental Management System (EMS) under the ISO14,000 scheme. In Peninsular Malaysia, FSC-certified PITC has also begun EMS activities in its attempt to obtain ISO14,000 scheme while the MTCC certified KPKKT has opted to seek FSC certification as well.

MTCC Certification Program

MTCC certification program is motivated by the country's commitment to ITTO's Guidelines for Sustainable Management of Natural Tropical Forests and its Criteria for the Measurement of Sustainable Tropical Forest Management (CMSTFM). Typical of the decision-making exercise adopted in the country, the nation has formed two levels of committee: (i) National Committee on Sustainable Forest Management (NCSFM), comprised of representatives from relevant government agencies and universities, with the task of setting the elaborated ITTO's CMSTFM for implementation, and (ii) Working Party on Sustainable Natural Forest Management (WPSNFM) comprising of State Forestry Departments in Peninsular Malaysia, Sabah and Sarawak with the undertaking to operationalize the ITTO's C&I on SFM at both national and forest management unit levels.

In order to ensure that the agreed activities are implemented in the field by the respective State Forestry Departments in Malaysia, a task force was formed to develop an effective mechanism and procedures for the periodic monitoring on the implementation of all the activities, and produce reports on their progress to the higher authorities in Malaysia for their information and further action. This task force was comprised of representatives from the Ministry of Primary Industries, Malaysia; the Forestry Departments of Peninsular Malaysia, Sabah and Sarawak; the Forest Research Institute, Malaysia; the Malaysian Timber Industry Board; the Malaysian Timber Council and the Faculty of Forestry, Universiti Putra, Malaysia, and was established in May, 1995. To complement this effort, Peninsular Malaysia also formed a Technical Monitoring Committee at the Forestry Department Headquarters, Peninsular Malaysia in October 1995 to monitor the implementation of all the activities undertaken by the respective state forestry departments.

To enhance the implementation of the certification scheme, the National Timber Certification Council, Malaysia (NTCC) with representations from academic or research and development institutions, timber industry, non-governmental organizations (NGOs) and government agencies was incorporated as a company limited by guarantee in October, 1998. NTCC was later renamed as Malaysian Timber Certification Council (MTCC).

The academic institution selected was the Faculty of Forestry, Universiti Putra Malaysia, while the R&D institution is the Forest Research Institute, Malaysia. Representatives from the timber industry are from the timber product associations while those from the NGOs are from WWF. The activities being undertaken by the MTCC, among others, include the following:

- (i) development and implementation of a timber certification system in Malaysia to ensure sustainable forest management, as well as to facilitate the trade in timber from Malaysia;
- (ii) development and implementation of training programs in all aspects related to timber certification;
- (iii) development and implementation of standards related to timber certification;
- (iv) establishment and implementation of a system to oversee and monitor the implementation of the certification system, including appeal mechanisms;
- (v) establishment of networks and cooperation with national and international bodies related to timber certification to facilitate cooperation and mutual recognition arrangements; and
- (vi) collection, processing and dissemination of data and information related to timber certification and sustainable forest management.

Standards

The standards for the FSC program are well developed and specified in its principles and criteria (P&C). The FSC's P&C for forest management are applicable to all FSC-certified forests throughout the world. There are 10 Principles and 57 Criteria that address legal issues, indigenous rights, labor rights, multiple benefits, and environmental impacts surrounding forest management. Specifically these principles include:

- (i) **Principle 1: Compliance with laws and FSC principles**
Forest management shall respect all applicable laws of the country in which they occur, and international treaties and agreements to which the country is a signatory, and comply with all FSC Principles and Criteria.
- (ii) **Principle 2: Tenure and use rights and responsibilities**
Long-term tenure and use rights to the land and forest resources shall be clearly defined, documented and legally established.
- (iii) **Principle 3: Indigenous peoples' rights**
The legal and customary rights of indigenous peoples to own, use and manage their lands, territories, and resources shall be recognized and respected.
- (iv) **Principle 4: Community relations and worker's rights**
Forest management operations shall maintain or enhance the long-term social and economic well being of forest workers and local communities.
- (v) **Principle 5: Benefits from the forest**
Forest management operations shall encourage the efficient use of the forest's multiple products and services to ensure economic viability and a wide range of environmental and social benefits.
- (vi) **Principle 6: Environmental impact**
Forest management shall conserve biological diversity and its associated values, water resources, soils, and unique and fragile ecosystems and landscapes, and, by so doing, maintain the ecological functions and the integrity of the forest.

- (vii) Principle 7: Management plan
A management plan -- appropriate to the scale and intensity of the operations -
- shall be written, implemented, and kept up to date. The long-term objectives
of management, and the means of achieving them, shall be clearly stated.
- (viii) Principle 8: Monitoring and assessment
Monitoring shall be conducted -- appropriate to the scale and intensity of
forest management -- to assess the condition of the forest, yields of forest
products, chain of custody, management activities and their social and
environmental impacts.
- (ix) Principle 9: Maintenance of high conservation value forests
Management activities in high conservation value forests shall maintain or
enhance the attributes which define such forests. Decisions regarding high
conservation value forests shall always be considered in the context of a
precautionary approach.
- (x) Principle 10: Plantations
Plantations shall be planned and managed in accordance with Principles and
Criteria 1 - 9, and Principle 10 and its Criteria. While plantations can provide
an array of social and economic benefits, and can contribute to satisfying the
world's needs for forest products, they should complement the management
of, reduce pressures on, and promote the restoration and conservation of
natural forests.

Each of the above principle has several sets of indicators and activities.

The MTCC program is new. As in the institutional arrangement, the formulation of criteria, indicators, activities and management specifications is done at both national and forest management unit (FMU) levels. The C&I at the national level provide a common framework for monitoring and evaluating progress towards sustainability nationally. However, they do not specify requirements for sustainable forest management practices in the field. In this context, the C&I at the FMU level assess directly the sustainability of forest resource management, conservation and development in practice. It should also be noted that no single C&I is alone an indication of sustainability. Rather, the set of criteria and indicators should be considered as an integral system to assess the practice of sustainable forest management.

In formulating the activities the NCSFM had reviewed the P&I for forest management of the FSC and those of the Tropenwald Initiative (TI), and had also taken into account the principles and recommendations as enshrined in ITTO's Guidelines on the Conservation of Biological Diversity in Tropical Production Forests. TI was founded in 1992 as a joint effort by the German Timber Workers Union (GHK), the Central Federation of the Timber Processing Industry (HDH) and the German Timber Importers Federation (VDH). The main aim of ITW was to develop a system for certification and labeling of tropical timber, originating from sustainably managed sources. ITW developed a very detailed set of criteria and indicators of sustainable forest management at the forest level. These were subsequently tested by CIFOR at five different test sites:

Forstamt Bovenden (Germany), P.T.Kiani Lestari (Indonesia), Haut Sassandra (Côte d'Ivoire), Bossematié (Côte d'Ivoire) and CEMEX, Santarem (Brazil).

The standards for the MTCC were developed at two levels: the national level and the Forest Management Unit level.

a. National Level

A total of 206 management specifications and 92 activities were formulated to operationalize the ITTO's 5 criteria and 27 indicators to be implemented at the national level. The criteria cover the forest resource base, continuity of flow, level of environmental control, socio-economic effects and institutional framework. Two additional indicators were added while omitting two of the proposed ITTO indicators. The two additional indicators were the indicator on Plantation Establishment of Non-wood Forest Produce and Annual Planting Targets under the ITTO's criterion on the Forest Resource Base, and the indicator on Expenditure Budgets for Forest Administration under the ITTO's criterion on Socio-Economic Effects. The indicators omitted were on the Availability of Environmental Assessment Procedures under the criterion Socio-Economic Effects and the indicator on the Relationship of National Policy to ITTO Guidelines under the criterion on Institutional Frameworks. The former was omitted since this indicator was already included under the criterion on the Level of Environmental Control, which the Committee deemed to be more appropriate. The latter omission was made because the National Forestry Policy of Malaysia had adequately met the objectives of the ITTO guidelines in terms of sustainable forest management.

b. Forest Management Unit Level

To ensure effective monitoring and evaluation of the criteria and indicators in the field, Malaysia has set activities at the FMU. FMU is defined as an area of forestland that is managed by an organizational entity, which decides on, and subsequently implements forest activities to ensure the economic, ecological, biological and socio-cultural sustainability of the area. The unit consists of forest districts having a number of forest reserves, which are further divided into compartments and sub-compartments for the purpose of effective management, conservation and development of the forest resources.

In Peninsular Malaysia, each individual state is defined as an FMU in view of legal and administrative requirements for managing forests, with the State Forestry Director being responsible to the State Authority for the preparation and implementation of the state forest management plan, reforestation plan and programs relating to amenity forests. The allocation of Annual Allowable Cuts (AACs) for the production forests of the PFE by the National Forestry Council is determined on a state-by-state basis. In Sabah and Sarawak, FMU is defined differently and is at the concession level.

A total of 84 activities have been identified that must be implemented at the FMU level under the 6 criteria and 23 indicators, covering resource security, the continuity of

timber production, conservation of flora and fauna and other forest resources, an acceptable level of environmental impact, socio-economic benefits, and planning and adjustment to experience. Of the 84 activities identified for implementation on a state basis, a total of 70 activities or 83% are identical to those identified at the national level. In its development, 7 additional indicators from those identified at the national level have been added to the FMU level. These are as follows:

- (i) the length of cutting cycle;
- (ii) areas of Protection Forests and Production Forests within the PFE;
- (iii) establishment of forest plantations for wood production,
- (iv) establishment of forest plantations for non-wood production;
- (v) availability of environmental assessment procedures;
- (vi) expenditure budgets for forest management; and
- (vii) expenditure budgets for forest administration.

A total of 191 management specifications have been formulated at the FMU level, of which a total of 161 or 78% of these specifications are identical to those formulated at the national level. This set of criteria, indicators, activities and management specifications for forest management certification formed the first phase of MTCC certification. They were initially used for certifying three forest management units in Peninsular Malaysia, namely, the states of Selangor, Pahang and Terengganu, under the Malaysia-Netherlands Joint Working Group's (M-NJWG) Pilot Study on timber certification in mid-1996.

For the next three years, several series of revisions were conducted upon the MC&I. Under the coordination of the MTCC, the Forestry Departments of Peninsular Malaysia, Sabah and Sarawak agreed on a common set of C&I both at the national and FMU levels for the whole country in July 1999. Standards of Performance (SoP) for each of the activities were identified at the regional level by the respective forestry departments of Peninsular Malaysia, Sabah and Sarawak in their respective regions in August, 1999. In the case of Peninsular Malaysia it entails the refinement and/or addition to the Management Specifications of the MC&I formulated earlier in 1994. These regional SoP were then integrated into the draft MC&I for the whole country under the coordination of the MTCC in September, 1999.

The draft MC&I was then tabled at the national-level consultation held in October, 1999 where a total of 85 organizations and companies, representing interested parties such as the timber industry, social and environmental non-governmental organizations, trade unions, women's organization, academic/research institutions and government agencies, were invited to attend. In this regard, a total of 111 participants representing 58 organizations, including two representatives from the FSC participated. Through this open and transparent process, Malaysia adopted a set of MC&I that were to be used in assessing forest management practices in all forest management units for the purpose of certification under the MTCC's scheme.

MTCC started operating its certification scheme in October 2001. Under the timber certification scheme, MTCC as the timber certification organization receives and processes applications for certification, arranges for assessments to be carried out by registered independent assessors, and decides on all such applications based on the reports of the assessors. MTCC also provides an appeals procedure, should there be parties not satisfied with its decisions.

The launching of the program was not supported by all parties. WWF Malaysia, which accepted an invitation to serve on the board of MTCC to help formulate a scheme that could improve forest management, encourage conservation of biodiversity, solve social conflict or provide a credible guarantee of good forest management, resigned from the board a day prior to the launching date. The concerns were that (WWF Malaysia 2002):

- The standard used in the MTCC scheme is derived from agreements between the Malaysian Timber Industry Board (MTIB) and the Netherlands Timber trade Association (NTTA) under the Malaysia-the Netherlands Ad-Hoc Working Group. This standard was not developed through a multi-stakeholder, consultative process, and emphasizes economic considerations while failing to adequately safeguard social values and environmental conservation.
- MTCC sees its scheme as being transitional but WWF Malaysia is concerned that this was not clearly demonstrated due to the lack of a work plan and timeline to progress from the current scheme to a standard compatible with the Forest Stewardship Council's requirements of process and substance.

Nevertheless, NGOs like WWF are of the opinion that the MTCC label is able, in principle, to provide a verification of legal compliance and a verification of legal origin. MTCC's requirement for CoC needs to strengthen the product supply chain to prevent the mixing of MTCC labeled products with products from unknown sources. Thus there is a concern that non-transparent tracking will not allow the detection of the movement of illegal Indonesian logs into Malaysia. Specifically WWF Malaysia is concerned about the product classified under the Minimum Average Percentage System (MAPS) (WWF Malaysia 2003b). An example of a product coming under the MAPS is the specification that solid wood being 70% from MTCC source and 30% from non-MTCC source. There are no clauses or requirements to ensure that the non-MTCC source does not come from contentious sources such as converted High Conservation Value Forests (HCVF) and illegal materials. It is felt the absence of this requirement will dilute MTCC's purpose of providing a credible market label on the legality of the MTCC labeled product.

MTCC has approached the implementation of its scheme phase by phase. Relevant concerns tabled by various stakeholders are adopted and MTCC has planned to use a new standard that has been developed based on the P&C of the FSC. The development of this new MC&I involved broad-based consultation and consensus between social, environmental and economic stakeholder groups through several meetings of the multi-stakeholder National Steering Committee (NSC) and regional consultation held separately in Peninsular Malaysia, Sabah and Sarawak. These

consultations were held in October 2002 where the representatives of all the stakeholder groups from the three regions met to finalize and adopt the national standard.

An action plan has also been adopted towards the formation of an FSC National Working Group (FSCN WG) as a new body to advance the work of the NSC. The FSCN WG will develop a standard that will be submitted to the FSC for endorsement. This will be sponsored by the MTCC and environmental and indigenous communities NGOs with the intention of identifying requirements for meeting and obtaining FSC endorsement of the MTCC program.

Applicants for chain-of-custody certifications will have to comply with the requirements as specified in the document *Requirements and Assessments Procedures of Chain-of-Custody (RAP/CoC) Certification*.

Seeking Mutual Recognition from FSC

The timber industry in the country has a choice to either apply for a FSC certificate that is perceived to be highly credible in Europe or apply for an MTCC certification. Since the majority of the forest areas in the country are under trust of the State Forestry Department, the MTCC certification was selected. The timber industry utilizing logs for conversion into value added products for the export market would require a certificate that is credible and recognized internationally. Hence, to meet the credibility demands for these markets, the MTCC need to develop a working relationship with the FSC, which is perceived to be the most credible scheme in Europe. As the FSC requires the participation of environmental NGOs and indigenous peoples' organizations in the working groups, representatives of these NGOs and indigenous peoples were invited to participate, and provided comments and critiques in the building of the MTCC scheme for over a year. Various issues were thrown in and demands put forth at the regional workshops covering Peninsular Malaysia, Sarawak and Sabah. These issues and demands will be discussed in a later section. However, there was insufficient response from MTCC and in July 2001, the indigenous peoples' organizations and most NGOs withdrew from the process. The differences in vision were too wide. The MTCC is structured to find ways to sell timber while the Indigenous Peoples' Organizations and NGOs are mandated to protect the forests and to secure the livelihoods and interests of indigenous peoples and local communities who live in, depend on and derive their spirituality and cultural identity from the forests (POASM, et al 2001 as quoted in Yong 2001).

Consequently the cooperation between the MTCC and FSC collapsed. The FSC is said to have a strong social commitment. The MTCC felt that seeking the recognition of community land rights was beyond the scope of its function. Recognition of such rights would require changes to the State Constitution on land rights. MTCC felt that the Social Principle should not stand alone but instead has to comply with the Principle on Legal Framework of Local Conditions. In Sarawak there are 28 ethnic groups staking upon customary land. The Sarawak Forestry Department takes a stand that 'custom' is not a law unless enacted in the State Constitution. The Majlis Adat Istiadat or Native Code

Body recognizes that each ethnic group has a Native Code or ‘adat’. According to the State Constitution, the Native Code is below the State land code. Local headman or ‘penghulu’ will resolve any land dispute at the community level. If this is not resolved, land disputes have to be resolved at the higher level State Land Code. Accordingly, as long as land conflicts are not resolved, FSC certification is at jeopardy.

Forestry Problems

Forestry in Malaysia faced various problems. Small scale and isolated illegal logging, deforestation, and loss of biodiversity in harvesting activities are typical grievances being faced by a rapidly developing nation. The occurrence of illegal logging within certified FMUs has a better chance of being checked. Monitoring the use of imported illegal logs by domestic processors proved more challenging. Despite the federal government placing a ban on the importation of illegal logs, there are suggestions that Malaysia’s wood-based industry is utilizing illegal Ramin logs (Telapak 2003). Ramin was listed by Indonesia in Appendix III of CITES (the Convention on International Trade in Endangered Species). Malaysia responded by arguing that it is illogical and unfair to draw the conclusion that proof of illegal Indonesian Ramin import is evidenced by the steady export of Ramin of Malaysia. There is selective logging in the Ramin rich production forest of the Permanent Forest Estate in South East Peninsular Malaysia. Malaysia put up a partial reservation to the Convention for Ramin parts & derivatives as a step to ensure that the trade that had arduously been built up over the years is not jeopardized by unnecessary procedures and misidentification.

Despite certification making some headway with regard to illegal logging, it does not address the problem of conversion of forests (especially outside the PFE) to non-forest uses, which is happening to meet the demands of development.

In terms of market opportunities, for the few forest concessionaires having FSC certification, access to export markets has been a brisk - so much so that some orders could not be met. Although the door of opportunity is opened, the limited annual allowable cut means only a limited volume of wood material can be processed and exported. For the moment, the surplus demand for certified material is fetching a price premium. This experience is being felt by concessionaires like PITC and Daramakot DFM project. This situation is noticed by other concessionaires. Despite having an MTCC certification, KPKKT is seeking FSC certification as well, as a means of getting more access to markets that demand it.

Roadblocks and Challenges

There are various roadblocks and challenges to certification. The main ones gravitate around the recognition of the rights of the indigenous peoples, land and forest disputes, the lack of consensus among the social groups and inability of the MTCC certification program to obtain mutual recognition from the FSC.

Indigenous People

In the process of formulating the management specifications, activities, criteria and indicators, and in trying to obtain mutual recognition (MR) from other certification bodies like the FSC, the involvement of NGOs and representatives of stakeholders is crucial. This has also opened up an avenue of access by indigenous people and NGOs to forest policy processes with regard to the guidelines on certification. But many NGOs who had agreed to participate found that during the process they felt that the MTCC was not able to resolve critical “stakeholders” main issues and various meetings and workshops gave little room for real dialogue. They felt that their presence might be used to make it appear that legitimate indigenous and local forest community participation had occurred.

The lack of NGO approval forms the biggest roadblock and challenge to MTCC certification. The NGOs have withdrawn their involvement in the MTCC/MC&I process until their concerns and demands are on the way to being met. These NGOs, community-based organizations and indigenous peoples’ organizations do not endorse the MC&I as currently proposed by MTCC.

The main issues of contention included:

- The encroachments of FMUs, Protected Areas and logging concessions into the community’s forest areas takes away or restricts the community’s ownership rights, user rights and access to resources. Many of these areas are still being disputed because they are either part or the whole of the NCR lands/forests of the communities and individuals within the community.
- The concept and process of SFM as enforced through legislation and forest management plans are different from communities who see SFM as a means to ensure the continuity of forest resources for food, medicines, other daily needs and inheritance to the future generations.
- Indigenous peoples have particular rights to land and use of forestland, which is different from other forest users. There must be due recognition and respect for indigenous values, knowledge and practice related to land forest.
- Indigenous peoples, particularly forest-dwellers (e.g. Penans and Bhukets of Sarawak or the Orang Asli Batek and Jahai), are not “just another stakeholder” in forest management. They are the rightful stewards of the forest and thus there must be protection of their way of life.
- Involuntary relocation of villages in the FMU results in the loss of ownership and user rights. Further, Governments and development agencies often make decisions to move the communities without consulting them first, resulting in further impoverishment of the communities.
- Participation of indigenous and local forest communities must not be limited to just a few appointed leaders or members of the community. The entire village must be informed, consulted and involved in decision-making processes in order to have meaningful participation before they give their informed consent to the planning or implementation of development on their land or forest areas.

Land and Forest Disputes

Land and forest disputes between the communities on the one hand, and the government, logging concessionaires and licensee on the other hand, are serious, especially in Sarawak where there are a greater number of communities living in the forests (Malaysian NGOs Position statement, October 1999). Workshops on Community Consultations on Forest Certification February-April 2001 proposed that the way to obtain legal recognition and protection to native customary rights (NCR) over land for the Sarawak indigenous peoples is to amend the laws on land, in particular Section 5 of the Sarawak Land Code. The concern is about the full recognition of NCR over land of the Orang Asal (indigenous peoples) of Sarawak as well as Sabah and Peninsular Malaysia, in accordance with the native laws and customary practice of the particular native community occupying that land and that NCR over land shall not be extinguished or terminated without the consent of the natives or unless the natives have voluntarily surrendered, after full-informed information, such rights.

Lacking Consensus within Social Group

The formation of a Multi-Stakeholder National Working Group into 3 or 4 different sectors is not working well since they are not working towards a common goal of SFM but instead promoting their own interests. There has been no consensus on proceeding with four ‘chambers’ involving social, environment, economics and an additional direct resource manager. Yet the MTCC and NSC are currently proceeding along this path. This is a source of major disagreement.

There is also a rift between the aspirations of members of the Social Group. The potential for the Social Group to reach consensus is difficult as the worker’s union has conflicting interest with community organizations within the group. According to the NGOs, the union representatives have demonstrated inflexibility and lack of openness to indigenous peoples’ concerns. To make matters worse, representatives of community organizations question the union’s legitimacy to be within this group and thus need clarification on their position and interests.

Mutual recognition of MC&I

Malaysia through the NTCC approached the FSC as early as 1999 to work together on timber certification scheme. FSC does not support mutual recognition of MC&I. Instead Malaysia has to adopt the FSC’s P&C to obtain FSC endorsement/certification. The constitution of FSC does not permit MR of C&I among certification organizations.

IV. THE REACTION TO CERTIFICATION

Forest Policy Community and Stakeholders

Owing to the inability of MTCC certification scheme to meet their demands, indigenous people fear that their tribal lands were signed off to logging concessions without their consent. They wanted their right to prior informed consent and to be able to

use their customary laws. To them ‘prior informed consent’ means being told – with consent obtained – before national governments move in to delineate protected areas around sacred lands. They felt that they must do whatever is necessary to protect their resources at the local level, as they are not going to be recognized at the state, national or international level. The modern laws and competing private sector interests are alien to their traditional ways (Loh 2004).

Further FSC has several reservations on the MTCC’s MC&I for SFM (Synnott as quoted by Gilley 2000), which are (Gilley 2000):

- (i) the rights for workers and indigenous peoples; and
- (ii) the need for better forest management.

The rights of workers and indigenous peoples are the foundation of the environmental groups that make up the FSC, many of which started by protecting people dispossessed by the forestry industry in Central and South America. The FSC wants Malaysia to entrench more legal rights for workers and indigenous peoples on issues such as compensation and consultation. The Malaysian agencies felt that their own system is adequate and like other timber-producing countries, see such demands as an encroachment on its national sovereignty.

Despite the lengthy and repeated explanations by MTCC, the indigenous community rejected the MTCC’s with endorsements from 59 communities, 80 villages in Sabah and 114 longhouses in Sarawak (John 2004).

Further, some FSC members want changes in areas such as removing felled logs from forests using overhead winching to on-the-ground dragging and efforts at protecting ecological diversity.

Forest Owners

ITC whose interests are to produce certified timber that is accepted internationally have begun to seek additional certification other than MTCC. FSC program seems to be alternative certification program being sought after. PITC even go a step further by seeking ISO 14,000 environmental management system standards.

Current Status of Forestland Certification

As of December 2003, MTCC has certified seven FMUs, namely Pahang State FMU, Selangor State FMU, Terengganu State FMU, Perak State FMU, Negeri Sembilan State FMU, Johor State FMU and Kedah State FMU with a total of 2,310,567 ha. However, it should be noted that Terengganu State FMU was a reassessment and recertification case after being suspended in November 2002. All these certified forests are ‘government-owned’. One concession area under Perak Integrated Timber Complex (PITC) with an area of 9,000 hectares, has also applied for a FSC certification and was assessed to comply and obtained its FSC certificate at the end of July 2002. Another concession area receiving a FSC certificate is the Deramakot Forest Reserve, Sabah

involving an area of 55,000 hectares in September 1997. This forest reserve was certified as being a "well-managed forest" adopting a management concept and practices in full compliance with the MC&I and hence the ITTO's criteria and indicators for sustainable forest management as well as the FSC P&C (Gilley 2000).

None of the FMU in Sarawak has been certified yet. But there are two bi- and multi-lateral SFM projects being established. One is the Malaysian-German SFM project involving the bilateral cooperation between the Sarawak Forestry Department and GTZ undertaken by the Samleng Group at Ulu Baram involving 170,000 hectares of hill forest, where a FSC certificate is being sought. Another is the MTCC-ITTO SFM project undertaken by the Ta Tau Group at Ulu Anap involving another 170,000 hectares where the MTCC certification program is underway. Enabling conditions for both FSC and MTCC certification program have already been met with the enactment of the Sarawak Forest Ordinance, National Parks and Wildlife Ordinance and the establishment of the Permanent Forest Estate (PFE).

Current Status of the Certified Marketplace

The first shipment of MTCC-certified timber was exported in July 2002 to The Netherlands. According to MTCC, at the end of February 2004, 9,217 cubic meters of MTCC-certified sawn timber products have been exported to The Netherlands, Germany, Belgium, France and the United Kingdom. A number of authorities and companies have shown interest in accepting MTCC-certified timber products. For example, the Danish Ministry of Environment and Energy has included the MTCC scheme as one of the accepted schemes in its document entitled *Purchasing Tropical Timber: Environmental Guidelines* (Iamail 2004). As of January 2004, 38 companies have received the MTCC Certificate for Chain-of-Custody (CoC) (Ismail 2004).

Certified sellers usually boost their market share because of the cachet of certified timber in eco-sensitive markets. Innoprise Corp, the state company in charge of logging the FSC certified Deramakot Forest has seen better efficiency and booming sales of its garden furniture to Germany since the project started in 1994 with German aid. Another concession, PITC is producing 12,000 cubic meters per year on average of FSC certified timber from an annual allowable cut of 300 hectares. The small volume is due to its relatively small concession area. According to its chief executive officer, market order is a brisk and the company is facing difficulty in meeting demand (pers. comm. Tan 2004).

V. EFFECTS OF FOREST CERTIFICATION

Power

The advent of certification has obviously shaken the power dynamics among forestry circles. Forest policy, authority and decision over practices have always been the domain of the government and the Forestry Department. The entry of FSC and other certification programs have introduced a 'threat' to this domination. The government is intent on achieving SFM at its own determination, but certification has hastened the

urgency. Hence, among other things on grounds of patriotism, the country established the MTCC to certify that the timber with the MTCC logo comes from sustainably managed forest. Despite the focus and determination to improve forest management practices, the MTCC scheme has found that NGOs have a strong influence on market endorsement. NGOs have often questioned MTCC's ability to establish the necessary credibility to be an assurance of SFM. The issue of smuggling of timber from Indonesia has been raised as one of the major concerns for importing countries. The inability to reassure importing consumers despite Malaysian Government log import ban on June 25, 2002 and subsequent announcement of efforts to increase its effectiveness is a further indication of the dynamics of the influence of global issues and of NGOs upon trade. The NGOs have demanded a higher level of transparency about the extent of illegal wood movement between Malaysia and Indonesia. It is a certainty that the Malaysian Government and MTCC in particular, have to accept this power shift.

The concerns by NGOs are in relation to the process by which the standards have been developed, in particular on (WWF Malaysia 2003):

- The lack of openness or transparency in its development process particularly on non-inclusive public policy decision-making. Although community NGOs have been invited in stakeholders consensus hearings, the NGOs question decisions made by NSC on 4 versus 3 chambers in the run up to MC&I seeking the adoption of FSC principles.
- The lack of environmental and social benchmarks within the standards;
- The lack of consultation with stakeholders in the development of the standards; and
- The lack of incorporation of stakeholder concerns (e.g. the indigenous people's groups concerns and issues)

The local community power structure is clearly demonstrated in the negotiations and stakeholders consensus deliberations with community NGOs stating vehemently their point of views on indigenous forest land rights. This power struggle is also leading to conflicts between the indigenous communities cum forest dependent communities and private firms receiving harvesting rights. Private firms do complain of lack of formal authority of local community 'owners' having at times needing to make compensations to different parties for rights of way on the same piece of land. At times, delays in harvesting activities do occur over overlapping forestland belonging to local community and assigned logging compartments. This misunderstanding often occurs in Sarawak. But it should be noted that these problems might not necessarily occur as a consequence of certification.

Social

Limited evidence of social effects of certification is available. Certified concessions have an obligation to take care of the interest of local residence. For instance, PITC has created two social programs in its effort to fulfill the third FSC principle on financial, socio-economic and legal considerations. These programs were created to fulfill the

elements of community and public involvement particularly on the employment from within the local and regional workforce and involvement of employees in community affairs.

The Orang Asli or Indigenous People Program involves getting the Orang Asli people employed as logging workers, even though there were no Orang Asli in the forest concession area initially, but living nearby. The Orang Asli proved to be the firm's most stable workforce. They were employed in various activities including in pre-felling activities such as timber tree survey and tagging, felling and post-felling silvicultural activities. Eleven Orang Asli workers perform multi-function tasks involving logging road maintenance and tree surveying including reading using measuring equipments such as clinometers to determine tree heights. Another eight workers perform specific felling operations like chain saw attendance and pulling of cable to facilitate skidding operations. This program required on-the-job training of these Orang Asli workers including inculcating a more disciplined work attitude. There was no discrimination against the Orang Asli workers and there was no wage difference from Malay and Chinese workers. The daily wage rate for a worker is RM30/day* [US\$1 = RM3.8]. An Orang Asli worker could obtain a monthly salary of about RM700 plus an amount for employment providence funds.

PITC also supports the government program to promote the involvement of local small and medium scale entrepreneurs in the wood-based processing industry. Under its Bumiputra Entrepreneur Development program, three bumiputra entrepreneurs involved in the manufacturing of furniture components were given priority in obtaining FSC accredited sawn timber supplies from PITC sawmills. Indigenous people are a subset of the Bumiputra (sons of the soil) citizen status that the Malaysian Government deems as requiring support in socio-economic development. This has enhanced the international trade opportunities of these firms.

Economic

There are definitive indications that firms obtaining FSC accreditation have received an economic benefit. Peninsular Malaysia has imposed a ban on the exportation of logs in a bid to encourage domestic processing and to meet local demand under a log supply deficit situation. Any export of timber has to be processed. Hence, PITC is involved in the sawmilling industry and in sawn timber exporting. PITC exports sawn timber to niche markets requiring FSC labeled supplies. It has receiving sawn timber orders at prices with an average premium of 37%. These higher prices occurred due to direct ordering by international manufacturing firms. Hence, not all of the premium should be attributed to certification. The higher premium was possible due to a transfer of the marketing margin that normally goes to traders or middlemen direct to PITC. Prices quoted by buyers vary by destination. PITC has exported to Germany, U.K. and Holland, of which the German market has offered 20% higher prices than the UK market.

Currently PITC has an annual allowable cut of 300 hectares producing an average yield of 40 cubic meters per hectare, much lower than the normal production of more

than 80 cubic meters per hectare from virgin forest and 60 cubic meters per hectare from previously logged forest. PITC has computed that at its increased production cost, the break-even point for production has to be 30 cubic meters per hectare. The breakdown log production is 40% Shorea sp., 20% other popular or known species such as keruing, merbau, kledang and kelat and the rest from lesser-known species. The average price range from RM1,100/ton (RM611/m³) for shorea sp., RM700/ton (RM389/m³) for other known species and RM500/ton (RM278/m³) for the LKS.

As expected, firms obtaining forest certification have to incur incremental costs owing to compliance to additional forest management activities. PITC has reported an average increase in direct production cost of about 15% to RM160/ton or RM89/m³. This is not inclusive of cost of pre-felling and post-felling activities. An International Tropical Timber Organization-Forest Research Institute Malaysia research conducted in the MTCC forest certified compartment belonging to Kompleks Pengurusan Kayu-Kayan Terengganu (KPKKT) found that overall log production cost inclusive of pre-felling, felling and post-felling activities increased 50% to RM167/m³ (Mohd Shahwahid et al. 2002). But of course, this higher proportion is due to the comprehensive cost elements included such as on forest management and harvesting plans, pre and post-felling inventory activities, incremental training to adhere to certification SOPs and management activities including greater supervisions and inspections, not only by the contracted harvesting team and concessionaire but also by the Forestry Department as trustee of forest reserves. The computed shares of the incremental costs are 11.9% by the Forestry Department, 23.5% by the concessionaire and 64.7% by the harvesting contractor. The incremental costs incurred by the contractors during pre-felling and felling activities are for salaries and wages, material and machinery rental for excavators needed in road construction. The Forestry Department would incur incremental costs for supervisory and monitoring costs during tree marking and mapping operations and road design. The concessionaire's cost was mainly on salary and wages for supervision and monitoring.

In complying with forest certification, there is limited evidence of changing effects upon annual allowable cut area but annual allowable volume did reduced. There is that despite certification, the Selective Management System (SMS) is not sustainable at a 30-year rotation/cutting cycle. It should be noted that provisions existed in the Guideline on the Determination of Cutting Limit from Pre-felling Inventory Information, to lengthen the cutting cycle in areas with less than 32 residual trees from 30-45cm class by using the equivalent concept of trees in the 15-30 cm class. The cutting cycle can in fact be longer from 30 to 44 years to ensure sufficient economic cut in the next cutting cycle.

Environmental

Certification has led to a greater planning and monitoring of the environment. This assertion can be concluded from reviews of certification audits of forest concession and responding comments from state forestry departments. Taking the case of the certification audit for the state of Trengganu that seek MTCC certification program, several activities would be conducted taking on-board environmental concerns. (Terengganu State Forestry Department 2002). While various forest plans are normally

prepared, in response to certification audits such reports have to be redrafted to incorporate environmental and social concerns. For instance, the Forest Management Plans (FMP) have to be prepared following a new format whereby information related to the environment, community participation and social have to be considered as well. Mother trees and threatened or endangered trees are marked in areas to be felled. The requirement is that 4 mother trees are to be marked for every hectare of felling area. The 1:50,000 resource map will be updated with markings of all illegal logging areas if such activity do in fact occurred in or outside active logging licenses from information recorded in the Forest Offence Record Book. Although previously buffer zones were reserved for primary rivers with free flowing water, the State Forestry Department is willing to include buffer zones for seasonal rivers as well. To minimize environmental damage during road construction due to bull-dozers, excavators are now being used to replace these tractors in cutting earthworks at sloping areas. Further, the state forestry departments have committed to revise the License Closing Report to incorporate information related to environmental monitoring including information on area lost or destroyed after logging, number and length of secondary/skid trails and area of log yards.

Similar observation on a greater environmental planning and monitoring activities are also observed in FSC certified PITC concession.

VI. CONCLUSION

Forest certification emerged in Malaysia through several initiatives, including from direct initiatives of the state forestry departments as trustee of PFEs, bilateral projects for sustainable forest management between the state forestry departments with international bodies, and direct interest from individual forest concessionaire. The FSC certification of Deramakot Forest Reserve is a typical bilateral project case while the MTCC certification of forest management units in seven Peninsular Malaysian states is an illustration of direct support from the state government. The FSC certification of PITC forest concession is the case of a direct private sector initiative.

As it stands certification is still at the growth stage in the country. The state government and the forestry departments of the three regions are all committed to supporting the MTCC certification program with a view that that the program is voluntary and market driven. The belief is that the program could serve as a tool towards achieving SFM and in gaining market access. More and more concessionaires are seeking certification in line with meeting the requirements of the customers. It is not appropriate to single out any particular group as championing certification in Malaysia. Various parties including national and international NGOs, governmental agencies, and international markets play their synergistic roles towards garnering domestic support for certification and in streamlining the national MTCC certification in its phase approach towards global acceptance. MTCC is continuing its attempt to obtaining international recognition of its program by attempting to comply with FSC's P&C.

Market forces for FSC certification, particularly from international customers' demand, have provided the necessary interests in forest certifications among

concessionaires. The positive impacts of the certification drive can be seen from the primary stakeholders' acceptance and willingness to comply with SFM practices, albeit, with appropriate supervision and regular inspection. It has provided hope that SFM or well managed forests are attainable. Certification has provided a new dimension in forest management. Forest management is no longer principally the domain of the State Forestry Department or gravitating around the sole issue of sustainable timber production. Social considerations have to be taken into the picture and indigenous peoples' concerns have to be taken on board.

The negative impacts of certification pertain to the difficulty of resolving issues on NCR land. It has been perceived that certification is encroaching into sovereignty rights of independent nations. Compliance with certification also proved to be costly, despite the price premiums obtained by FSC certified concessions that are currently trading certified timbers on a limited scale. It is not certain that such advantage in price premium could be sustained once sizeable areas are certified. Further, price premiums are being enjoyed mainly by FSC certified concessions. Similar circumstances for MTCC certified FMUs have not been reported.

Owing to the need to comply with principles, criteria, indicators and standards of performance, forest management of PFEs has become more systematic, transparent and sensitive to accepted international trade practices. The requirements of the CoC have made the country more conscious on controlling illegal logging. Certification has made concessionaires more aware of international customers' requirements for timber from well-managed forests. This has indirectly disciplined harvesting crews in certified concessions. Certification has not tackled the conversion of state land forests that are earmarked for development projects. It is not appropriate in this paper to make any conclusion on this specific matter as the government has its own development master plan.

The above chain of events particularly on land issues that fall beyond MTCC's jurisdiction and despite the MTCC's willingness to comply to FSC's P&C, it is difficult to anticipate on the future of MTCC's attempts at mutual recognition with the FSC. But given that forestlands are entrusted upon the state forestry departments, it is anticipated that MTCC certification would continue to be seek by forest concessionaires and the Forestry Department owing to the licensing arrangement and the fact that the whole state's forest being a FMU in Peninsular Malaysia. There is a higher confidence of the future development of FSC in Malaysia. Private firms being client oriented are likely to react to increasing customer's requirement for this certification program. Even firms with MTCC certificates, are likely to obtain FSC certificate in their move to satisfy both parties, state forest owners and wood product importers. If MR occurs, there is a greater likelihood that a single certificate from the MTCC would suffice, particularly in Peninsular Malaysia. The situation would be open for both certification programs in Sabah and Sarawak owing to the definition of FMU being a single forest concession there and not the whole state.

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