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**MALAYSIA-EU FLEGT VPA
NEGOTIATIONS**

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Scope

- Malaysia in Brief
- SFM & Certification
- Timber Legality & Sustainability
- Voluntary Partnership Agreement (VPA) & Process
- Market Study, Benefits & Promotion
- Timber Legality Assurance System (TLAS)
- Implementation & Monitoring of VPA
- Inputs by Stakeholders
- Further Work & Conclusions

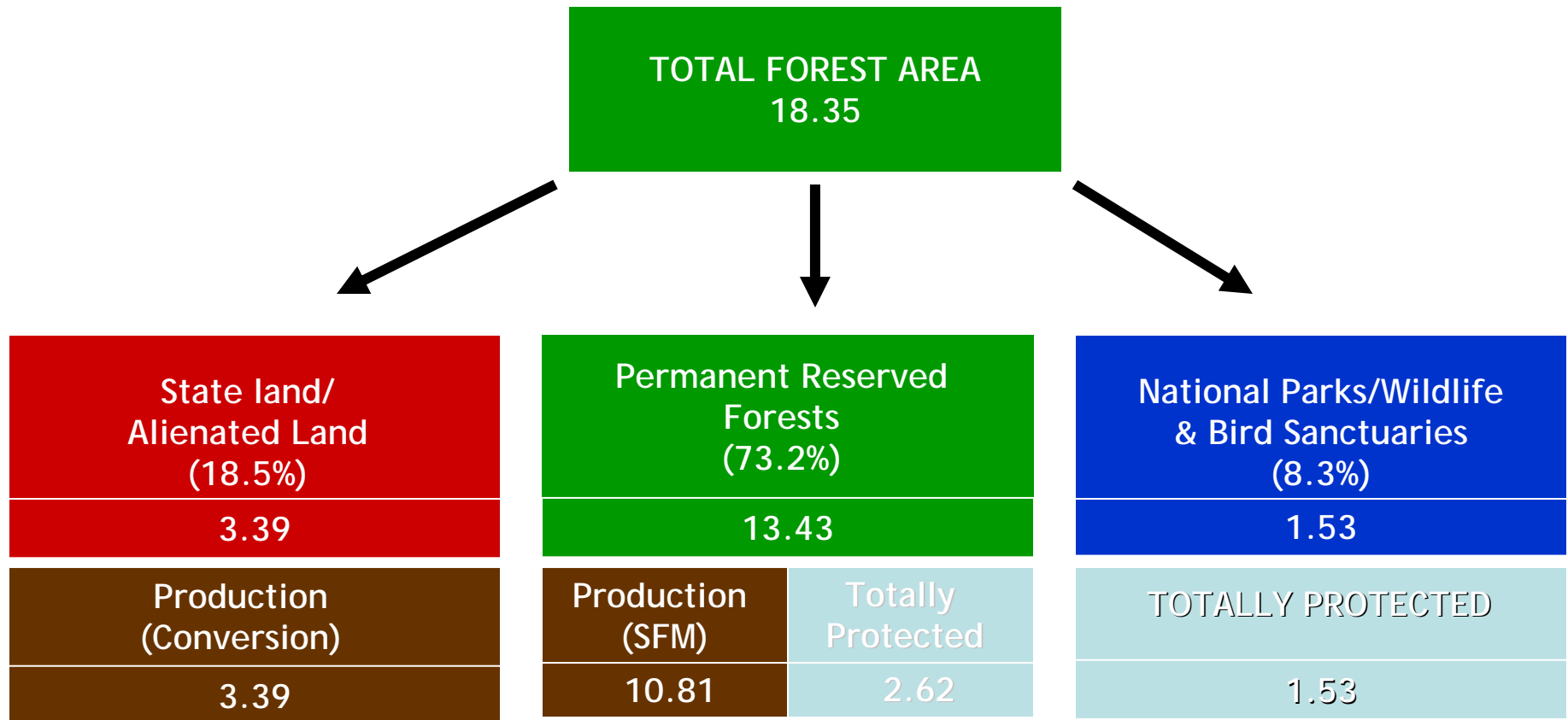
Malaysia in Brief



Malaysia in Brief

- Land area - 32.95 million ha
- Multiethnic population of about 24.8 million
- Federation of 13 States & 3 Federal Territories
- Forestry - State responsibility
- Coordination by NFC

Forest Land Use in Malaysia, 2006 (million ha)



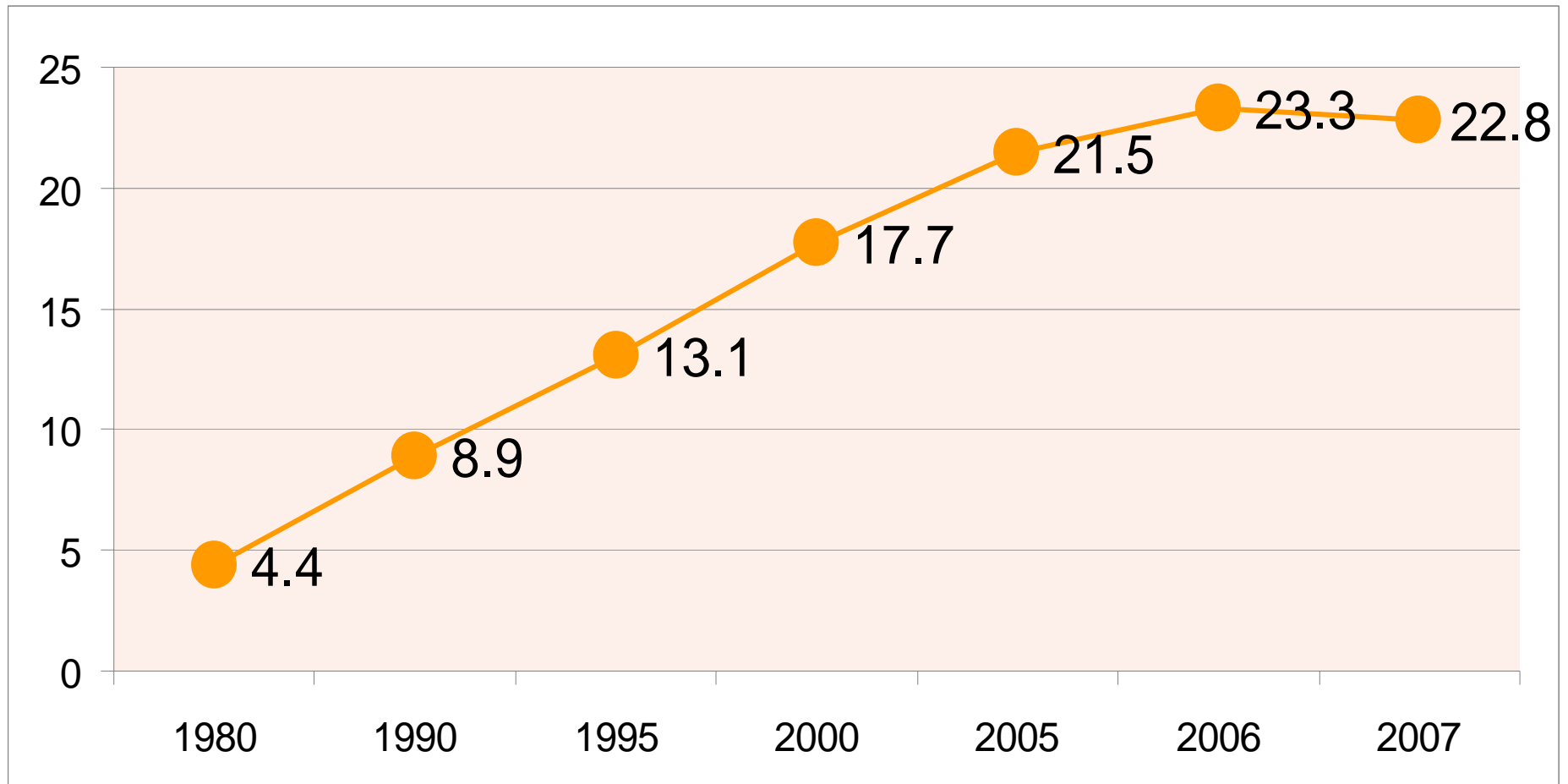
Source: Forestry Departments of Peninsular Malaysia, Sabah & Sarawak
Ministry of Plantation Industries & Commodities

Projected Ave. Annual Log Production 2006 - 2020 (million m³)

Five year period	Source	Peninsular Malaysia	Sabah	Sarawak	Total
2006-2010	Natural F	3.80	6.20	11.50	21.5
	Forest P	0.75	1.00	1.63	3.38
	Rubber P	2.10	*	*	2.10
	Total	6.65	7.20	13.13	26.98
2011-2015	Natural F	2.50	4.86	10.00	17.36
	Forest P	0.83	1.20	10.40	12.43
	Rubber P	1.85	*	*	1.85
	Total	5.18	6.06	20.40	31.64
2016-2020	Natural F	2.00	3.69	10.00	15.69
	Forest P	0.91	1.44	15.00	17.35
	Rubber P	1.67	*	*	1.67
	Total	4.58	5.13	25.00	34.71

Source: FDs Peninsular Malaysia, Sabah & Sarawak

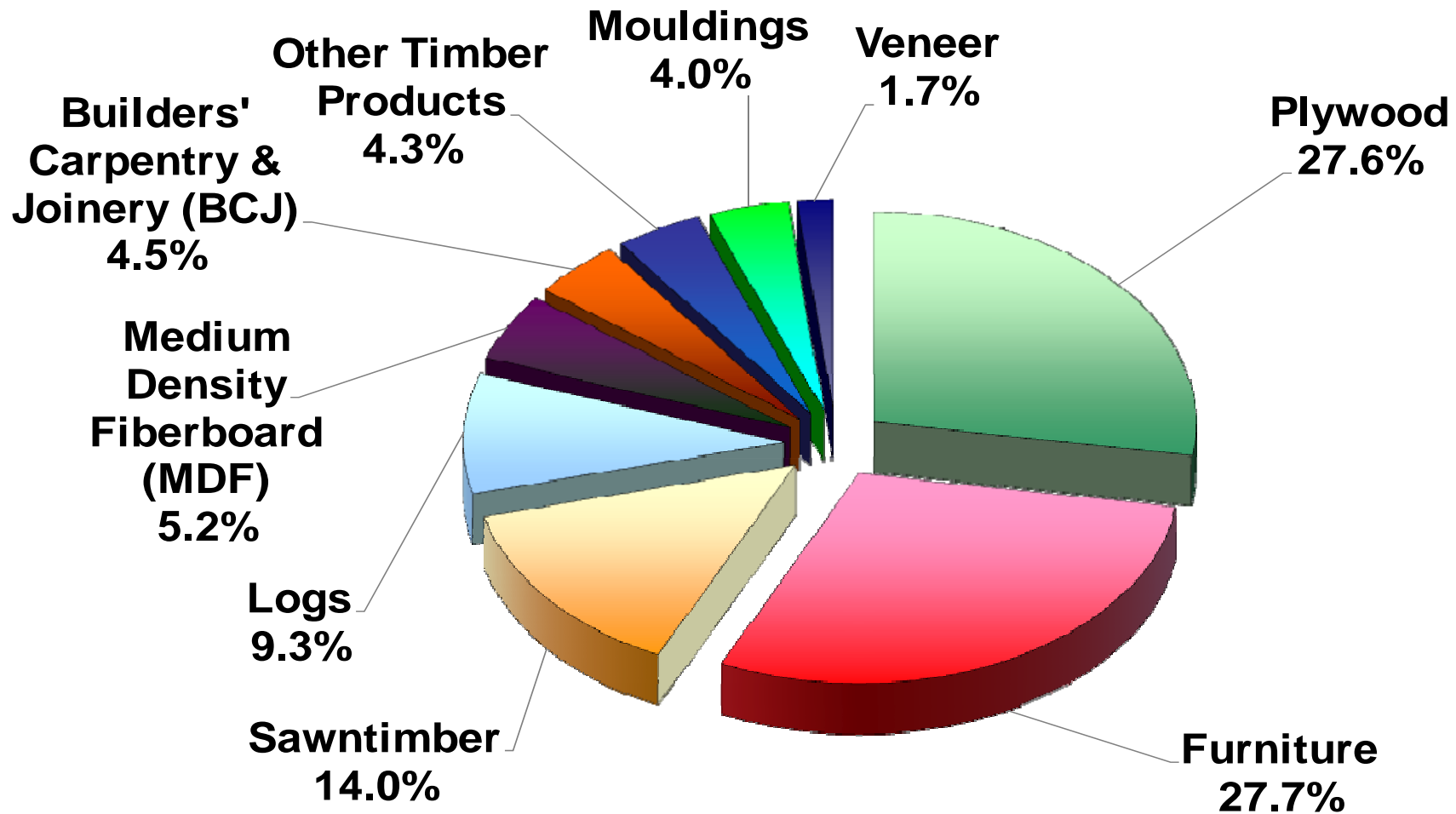
Value of Exports (RM billion)



(RM22.8 billion = USD6.3 billion)

Source: MTIB

Malaysia's Export of Timber Products(2007)



** furniture includes wooden & rattan only*

Total : USD 6.3 billion

Source: MTIB

Social Contribution

- A major player in Malaysia's economic growth, revenue earnings and employment
- Total export of RM22.8 billion in 2007 (US\$ 6.3 billion)
- Accounts for 30% of total export earnings in the commodity sector and 3.6% of the country's total export earnings (2007)
- Accounts for 3.9% of GDP (2007)
- Total employment: 337,000 people

Sustainable Forest Management & Certification

- Permanent Reserved Forest's (PRF) under various stages of SFM
- One third of PRF's certified mainly under Malaysian Timber Certification Scheme (MTCS) and Forest Stewardship Council (FSC)
- MTCS accepted by various authorities for Public Procurement
- MTCS recognition by Central Point of Expertise for Timber (CPET) for legality
- MTCS submitted for Programme for the Endorsement of Forest Certification (PEFC) endorsement

Illegal Logging

- Global concern - loss of assets and revenue, environmental impact, biodiversity loss
- Illegal logging estimated at \$23 billion annually
- Recent study by WWF of illegal timber in EU market (July 2008):
 - 16 - 19% illegal
 - Largest quantity from Russia
 - 10 top exporters of illegal wood into the EU: Russia (10.4), Indonesia (4.2), China (3.7), Brazil (2.8), Belarus (1.5), Ukraine (1.5), Bosnia H (1.2), Lithuania (?), Cameroon (0.645), Gabon (0.590) million m³ RWE
 - Malaysia 0.28 million m³

Timber Legality & Sustainability

- Sustainable timber product of SFM (social, environmental & economic factors)
- Sustainable timber assured through certification schemes, e.g., FSC, LEI, MTCS, PEFC etc.
- SFM / certification long-term goal
- Legal timber milestone on journey to attain SFM / sustainable timber
- Legal timber embraces relevant legislation dealing with social, environmental & economic aspects with lesser number of criteria and indicators
- Verification of legal timber through TLAS

Voluntary Partnership Agreement (VPA)

- 2003 EU FLEGT Action Plan
- Bilateral Partnership Agreements between EU and Timber Exporting countries
- VPA focus on legal timber
- Legality definition based on existing laws of exporting country
- TLAS based on existing control and licensing system
- Market benefits
- Capacity building assistance

VPA Process

- Formal negotiations announced September 2006
- Negotiations through SOM supported by TWG; 2 SOMs and 8 TWG meetings held
- Preparations by Malaysia
 - NSC - Mandate to the Negotiating Team
 - WG I - Legal drafting & General provisions
 - WG II - TLAS
 - WG III - Market Benefits and Capacity Building
- Major issues subjected to Stakeholder Consultations
 - TLAS
 - Market Benefits

VPA Process

Malaysia-EU Negotiations

Senior
Officials
Meeting
(SOM)

Technical
Working
Group
(TWG)



Negotiating
Team

National

National
Steering
Committee
(NSC)

3 Working
Groups
(WGs)

Stakeholder
Consultations



Market Study

- Market study on impact of a FLEGT VPA between Malaysia and the EU by Forest Innovation Investment Ltd.
- Undertaken in 6 major EU markets
- Analysis of trade data and structured interviews
 - 80 Timber trade and industry companies
 - 21 Trade associations
 - 29 Government departments
 - 21 NGO's

Market Study

- NGO's supportive of VPA but some concerns on Malaysian forestry
- Little willingness by EU private sector to pay premium for VPA timber
- Public procurement 25% of overall trade
- Potential for premiums

Market Benefits & Promotion

- Malaysia's request for market benefits and independent market monitoring
- Measures by EU
 - Communication on public procurement
 - Due diligence legislation
 - Initiatives with other major markets
 - VPA product visibility campaign
 - Capacity building assistance
- Mid-term review of VPA

Timber Legality Assurance System (TLAS)

- Development of TLAS involved extensive discussions and consultations
- Components
 - Product coverage
 - Definition of Legal Timber
 - Principles and Criteria of Legal Timber (Annex A)
 - Control Procedures (Annex B)
 - Sources of Timber (Annex C)
 - Third Party Monitoring (Annex D)

Structure of TLAS

- Regional basis; Peninsular Malaysia, Sabah to Sarawak
- Annex A lists relevant legislation throughout the production chain to be complied clustered under 6 principles; Right to harvest, forest operations, statutory charges, other users' rights, mill operations, trade and customs; divided into criteria
- Annex B provides control procedures for each criterion in a tabulated manner indicating principle and legislation addressed, enforcement agency and means of verification
 - Peninsular Malaysia 18, Sabah 18 & Sarawak 16 tables
 - Annex C legal definition of forest lands
 - Annex D gives TOR of Third Party Monitor

Joint Technical Evaluation of TLAS

- 3 International & 3 Malaysian Consultants;
2 Sept - 9 Oct 2008
- Assess auditability, adequacy, capacity building needs, effectiveness TPM and cost implications
- Based on Consultants' Report, EU raised some issues to be addressed
- Malaysia in general agreement; the issues raised clustered into:
 - Issues addressed before signing VPA
 - Issues to be addressed with EU assistance for capacity building and agreed time-frame
 - Issues for further reflection

Implementation & Monitoring of VPA

- Licensing of VPA timber by existing authorities
- TPM to verify implementation of TLAS
- IMC to monitor market benefits
- Roles of RB and JIC
- VPA a 'living document'

Further work

- Finalisation of TLAS
- Capacity building projects
- Market benefits
- Legal drafting
- Administrative & funding arrangements

Conclusions

- Malaysia fully committed to objectives of VPA
- Strategic and catalytic role of VPA to achieve timber legality and SFM in the long-term
- EU approach; consultations, assistance for capacity building, market benefits
- VPA is on legal & not sustainable timber
- VPA unprecedented and legally binding; steep learning curve, TLAS a living document
- Stakeholder concerns on VPA
- VPA cannot solve all problems; some outside scope of VPA/forestry sector
- Success depends on stakeholder cooperation; enforcement agencies and market benefits

THANK YOU!

