MALAYSIA-EU FLEGT VPA NEGOTIATIONS

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24 March 2009
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)

TOTAL FOREST AREA
18.35

State land/ Alienated Land (18.5%)
3.39

Permanent Reserved Forests (73.2%)
13.43

Production (SFM)
10.81
Totally Protected
2.62

National Parks/Wildlife & Bird Sanctuaries (8.3%)
1.53

Source: Forestry Departments of Peninsular Malaysia, Sabah & Sarawak
Ministry of Plantation Industries & Commodities
## Projected Ave. Annual Log Production 2006 - 2020 (million m³)

<table>
<thead>
<tr>
<th>Five year period</th>
<th>Source</th>
<th>Peninsular Malaysia</th>
<th>Sabah</th>
<th>Sarawak</th>
<th>Total</th>
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<td>2006-2010</td>
<td>Natural F</td>
<td>3.80</td>
<td>6.20</td>
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<td><strong>Total</strong></td>
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<td>2011-2015</td>
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<td><strong>Total</strong></td>
<td><strong>5.18</strong></td>
<td><strong>6.06</strong></td>
<td><strong>20.40</strong></td>
<td><strong>31.64</strong></td>
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<td>2016-2020</td>
<td>Natural F</td>
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<td>10.00</td>
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<td><strong>Total</strong></td>
<td><strong>4.58</strong></td>
<td><strong>5.13</strong></td>
<td><strong>25.00</strong></td>
<td><strong>34.71</strong></td>
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*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)

- Plywood: 27.6%
- Furniture: 27.7%
- Sawntimber: 14.0%
- Logs: 9.3%
- Mouldings: 4.0%
- Veneer: 1.7%
- Other Timber Products: 4.3%
- Medium Density Fiberboard (MDF): 5.2%
- Builders’ Carpentry & Joinery (BCJ): 4.5%
- Other Timber Products: 4.3%

Total: USD 6.3 billion

* furniture includes wooden & rattan only

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
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
• 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!