Background to the research

This country note presents Chatham House’s assessment of the likelihood of illegality in the supply chains of the main wood-based products exported by Malaysia. It was prepared to inform our analysis of illegal trade at the international level which has been published as part of the report ‘Establishing fair and sustainable forest economies: lessons learned from tackling illegal logging’. This is the most recent in a series of reports on governance and legality in the forest sector, an issue that Chatham House has been monitoring since 2008.

The country note has been published as a background document to explain how the international estimates of illegal trade were made. Thus, it is not intended to provide a comprehensive review of all the available data and information on forest sector legality for Malaysia. International and national experts in Malaysia’s forest sector provided feedback on preliminary versions of the country note.

Overview of imports

Responsibilities for forestry are divided between the federal and state governments of Malaysia, and the forest sector varies significantly across the country. For this evaluation, the country is assessed as three regions: Peninsular Malaysia, Sabah and Sarawak.¹

Malaysia and the EU began negotiating a Voluntary Partnership Agreement in 2007. Negotiations were complex because of the devolved responsibilities for forestry, and they stalled in 2014.²

Figure 1 summarizes statistics for the country’s exports of all wood-based products. Figure 2 shows exports of the four main groups of wood-based products from tropical timber by the three subnational regions.

Figure 1: Exports of wood-based products from Malaysia\(^3,4\)

\(^3\) Standard conversion rates to estimate roundwood equivalent volume have been adopted for all countries, because of a lack of published data for many countries. The rates adopted are as follows, m\(^3\) per m\(^3\): 1.4 particleboard, 1.8 fibreboard and sawnwood, 1.9 mouldings and veneer, 2.3 plywood; and m\(^3\) per tonne: 1.6 chips, 2.8 wooden furniture, 3.5 paper, 4.5 pulp.

\(^4\) Where necessary, volume has been estimated from weight by assuming 1.4 m\(^3\) per tonne.

Destinations: China, EU-28, India, Indonesia, Japan, Korea, South, Middle East, Taiwan, Thailand, USA, Vietnam, Rest of world

Overview of exports

The majority of Sarawak’s exports, by volume, are of plywood, the main market for which is Japan, and logs, for which the main markets are India (from natural forest) and Indonesia (from plantations). In addition, Sarawak supplies roughly 20 per cent of the total volume of Malaysia’s exports of particleboard and fibreboard. The raw material for this comes primarily from natural forest, in particular residues from milling.\(^5\)

Sarawak’s log export quota has steeply declined since about 2014. This is in part a reflection of the state government’s policy to expand forest management certification\(^6\) and to develop the domestic manufacturing industry. However, pulp and paper mills were not established as had originally been intended,\(^7\) and so Sarawak has been supplying Indonesia with large volumes of plantation-grown logs since 2013.\(^8\)

Peninsular Malaysia is the origin of almost all the remainder of Malaysia’s exports of timber sector products. The majority of these derive from plantations.

Most of the tropical timber (i.e. from natural forest) that is exported from Peninsular Malaysia derives from state forest concessions that have been certified under the Malaysia Timber Certification Scheme (MTCS). The volume having MTCS chain of custody certification has been increasing. During the period 2012–2018, the EU accounted for approximately two-thirds of MTCS-certified exports. Most of that total comprises sawnwood, plywood and mouldings.\(^9\)

Thailand accounted for between 20 and 30 per cent of Peninsular Malaysia’s exports of tropical sawnwood during the period 2000–2018 (see Figure 2). China accounted for about 90 per cent of Malaysia’s imports of sawnwood from Peninsular Malaysia during this period.\(^10\)

The majority of Sabah’s exports, by volume, are of plywood, the main market for which is Japan, and more recently, the US. Much of the tropical timber that Sabah exports derives from ‘salvage logging’ and deforestation.\(^11\) In 2018, the export of logs was banned.

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\(^7\) Under Sarawak’s plantation policy, launched in 1997, it was intended to establish pulp and paper mills in the state, but this did not take place.
Tropical timber is defined herein as logs, sawnwood, mouldings, veneer and plywood of non-coniferous species deriving from natural forest (but excluding mill residues).

Standard conversion rates to estimate roundwood equivalent volume have been adopted for all countries, because of a lack of published data for many countries. The rates adopted are as follows, m$^3$ per m$^3$: 1.4 particleboard, 1.8 fibreboard and sawnwood, 1.9 mouldings and veneer, 2.3 plywood; and m$^3$ per tonne: 1.6 chips, 2.8 wooden furniture, 3.5 paper, 4.5 pulp. Where necessary, volume has been estimated from weight by assuming 1.4 m$^3$ per tonne.

Methodology for estimating illegal logging and trade

The analysis considers five categories of illegal practices common across all countries. These categories are listed below, with examples given of the types of illegal activity that they can include in different countries and regions:

- **Customary tenure & resource rights**
  - FPIC not obtained from any affected people or communities
  - The rights of any affected people or communities not adequately taken into consideration and addressed in the process of allocating permits or developing management plans; and any loss of rights not adequately compensated

- **Award of permits**
  - EIAs not conducted in accordance with legal requirements
  - Decision-making process for the award of permits does not follow legally required process; e.g. calls for tenders not published; technical requirements for selection of bids not followed; evidence of corruption in the process
  - Use of proxies where the beneficiary would be ineligible

- **Forest management & harvesting**
  - Management plans not developed or implemented; e.g. plans do not meet legal requirements; logging in restricted areas; overharvesting of particular species; etc.
  - Health & safety and/or labour laws not complied with; e.g. no provision of safety equipment; employment of illegal immigrants; non-payment of salaries or of minimum legal wage
  - Environmental legislation not complied with; e.g. logging of protected areas or species; non-compliance with requirements for protection of wildlife; pollution of water courses

- **Forest sector payments & financing**
  - Relevant royalties, fees, taxes and fines not paid
  - Benefit-sharing agreements with local communities not complied with
  - Fraudulent financing / money laundering by concessionaires or in relation to mills
  - Transfer pricing

- **Transport & trade**
  - Export bans or quotas for certain species or products are breached or exceeded
  - False declarations made; e.g. misdeclarations of species, value, source
  - Non-compliance with CITES

Based on a review of the available data, the likelihood of each of the five categories of illegal practice was assessed for the main exported products of the main producer countries. This was classified either as low (<10 per cent), low to medium (10–30 per cent), medium to substantial (30–60 per cent) or substantial (>60 per cent).

For the earlier years (2000, 2008 and 2013), the likelihood of illegality was determined based on Chatham House analyses in 2010 and 2015, with updates where additional data have since become available. The assessment for 2018 builds on this analysis, using available data and information to assess changes in legal compliance in the last five years of the study period. This included recent Chatham House research into governance reforms, analysis of trade data and the results of perception surveys, as well as a review of reports and data from other organizations.

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15 This analysis focuses on a limited number of products, these were selected according to three criteria: the scale of trade and rate of change in this, trade flows in which high proportions of illegal timber have been documented, and examples of particular types of illegality.

Summary of estimates of illegal exports

Levels of illegality in the forest sector vary across the three regions; they are low in Peninsular Malaysia, while in Sabah and Sarawak (particularly the latter) levels are higher. Forest governance and levels of legal compliance have improved across the country over the last two decades. Illegal practices do persist, however, particularly in relation to non-respect of native customary rights and high-level corruption in the allocation of logging rights. These issues are most prevalent in Sarawak.

Efforts to tackle illegal logging have been ongoing. These have included the development of legality verification systems in the three regions. Efforts to tackle corruption have also intensified since 2014, including investigations by the Malaysian Anti-Corruption Commission. In Sabah, after the arrival of a new chief minister in 2018, enforcement was strengthened, and investigations were launched into illegal activities by the previous government. A new chief minister in Sarawak in 2014 also prompted increased efforts to tackle illegal logging in 2014 with the introduction of stronger penalties and new powers for enforcement agencies.


For a summary, see UNEP-WCMC (2020), Malaysia. Country overview.

The following table presents an overview of the likelihood of illegal practices in the production of the country’s main exported wood-based products. The ‘overall likelihood’ column reflects all the types of illegal practice and is thus the most pessimistic assessment of the categories for a given year.

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<th>Tenure and resource rights</th>
<th>Award of permits</th>
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Likelihood of illegality in the supply chain

- Low (<10%)
- Low to medium (10-30%)
- Medium to substantial (30-60%)
- Substantial (>60%)

Table 1: Estimated likelihood of illegality for Peninsular Malaysia’s main exported wood-based products
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Likelihood of illegality in the supply chain
- Low (<10%)
- Low to medium (10-30%)
- Medium to substantial (30-60%)
- Substantial (>60%)

Table 2: Estimated likelihood of illegal practices for Sarawak's main exported timber products
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**Likelihood of illegality in the supply chain**
- ☢️ Low (<10%)
- 🟢 Yellow to medium (10-30%)
- 🟠 Medium to substantial (30-60%)
- 🟡 Substantial (>60%)

Table 3: Estimated likelihood of illegal practices for Sabah’s main exported timber products