

Timber Certification in Malaysia



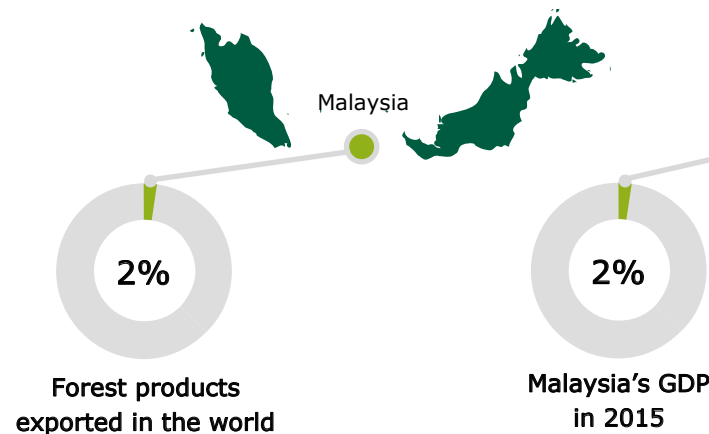
Forestry is important to the Malaysian economy, with timber products making up 2% of the country's GDP in 2015¹. In fact, 2% of all forest products exported in the world come from Malaysia².

Yet timber has been getting a bad press in the last few decades, especially in western countries. In consumers' minds, it is associated with environmental and human rights issues, such as rainforest destruction and land grabbing. The EU, US and Australia all now have legislation that requires companies in those countries to carry out checks to minimise the risk that they are selling timber that was illegal in its country of harvest. In addition, more and more retailers are making 'zero deforestation' commitments.

If you have a timber concession, sawmill or manufacturing business, what you should do about this?

One answer is to get your business certified as being sustainable. The main way of doing this is via FSC or PEFC certification (see box for details).

This leaflet examines the business case for getting certified, using insights gained from a study of certified Malaysian companies.



What is FSC and PEFC certification?

Sustainability certification involves an independent third party evaluating your company (or parts of your company) to see if it meets predetermined sustainability standards. There are typically two sorts of assessment: one for companies producing the natural resource, such as forest management units, and one for companies using the natural resource, such as sawmills, manufacturers and retailers. If your company passes the assessment, you will be allowed make claims about the sustainable origin of your products to your buyers.

Sustainability certification for timber and paper products has been around longer than for other commodities, such as palm oil, and its logos are fairly widely recognised by consumers in a lot of countries.

The Forest Stewardship Council (FSC) standard one of the main forestry sustainability schemes. FSC certificates are issued by FSC-accredited auditors. Approximately 195 million hectares of forest are FSC-certified around the world³.

The Programme for the Endorsement of Forest Certification (PEFC) scheme is another forestry sustainability schemes. It assesses national sustainability standards to see if they meet PEFC requirements. The Malaysian Timber Certification Scheme has been assessed and is endorsed by PEFC. That means that under the MTCS, PEFC certificates are issued by PEFC-accredited auditors. Approximately 300 million hectares of forest are PEFC-certified around the world⁴.

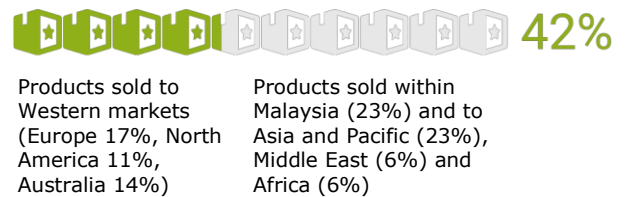
Just over a quarter of Malaysia's forests are currently certified, most of it under the MTCS⁵.



What are the benefits of getting certified?

Getting certified costs money. You might need to make changes to your business to ensure you meet the standards, and you'll have to pay an independent auditor to assess whether you meet the criteria. So what are the benefits of doing this?

To answer this question, we conducted in-depth interviews with 17 Malaysian companies from the timber and pulp and paper sectors. The companies included forest managers, primary and secondary manufacturers, traders and a printing house. Here's what the companies told us about the benefits of getting certified.



Getting certified...

Getting certified increases your market access. The most common benefit to certification that companies told us about was that it enables you to sell your products to a wider range of customers. 77% of the companies we interviewed said that certification had increased their market access. This was particularly true of companies that export to Europe, US and Australia, all of which have legislation in place that requires the western companies to minimise the risk of buying illegal timber. This means that the demand for certified products is likely to grow in these markets.



Getting certified can increase your price premiums. 61% of the companies we interviewed said that they were able to sell their certified products at a premium. Companies selling timber products mostly estimated the premium to be around 10%, though some were 3% or 5%. Companies selling paper and printed materials estimated the premiums to be up to 20%, with one company claiming premiums of 20% to 100% due to the scarcity of certified printed materials.



Getting certified can reduce your operating costs. Some companies stated that getting certified had helped them improve their management systems and staff capacity which, in turn, had reduced their operating costs.



Getting certified can help forestry companies increase their yield. One company told us that getting certified had improved the quality of their forest management which had increased their yield.



Getting certified can help forestry companies reduce conflicts with local communities. One company told us that getting certified meant they now engaged more with local communities, which meant that relations had improved and conflicts were minimized. In addition, the local community now helps protect the forest from intruders.



Getting certified can strengthen your brand. Just over half of the certified companies told us that getting certified helped strengthen their brand and boosted the confidence of buyers. One company even stated that getting certified had increased sales of their non-certified material – perhaps through establishing the company as a premium brand and helping distinguish it from other companies.



Getting certified can increase your access to funding. A number of major banks will not lend money to companies linked to deforestation. [HSBC](http://data.worldbank.org) has a 'no deforestation, no peat and no exploitation' policy for palm oil companies. [Standard Chartered](http://www.fao.org/forestry/statistics/80938/en/) and [JPMorgan Chase](https://ic.fsc.org/en/facts-and-figures) will not finance palm oil plantations on forested land. Getting FSC-certified is one way of demonstrating compliance with these requirements. A pulp and paper company told us that when they lost their FSC certification, they lost access to finances, which heavily impacted the company. A non-certified company told us that an international bank withdrew its loan from them as it could not demonstrate it complied with the bank's forest policy.



1. World Bank open data, <http://data.worldbank.org>
 2. FAO, Forest products statistics, <http://www.fao.org/forestry/statistics/80938/en/>
 3. FSC, Facts and figures, May 2017, <https://ic.fsc.org/en/facts-and-figures>
 4. PEFC home page, <https://www.pefc.org/>

5. NEPCon, on behalf of WWF-Malaysia, Supply chain mapping of Malaysian timber and wood-based industries, http://awsassets.wwf.org.my/downloads/final_supply_chain_mapping_report_18jan16.pdf