

ITTO Project

Promoting and Creating Market Demand for Certified Tropical Wood and Verified
Legal Tropical Wood (PD391/06 Rev. 2(M))

Result of Questionnaire Survey on Suppliers in Indonesia and the States of Sabah and Sarawak, Malaysia

February 2009

*Original report was written in Japanese. English translation completed in September 2010

1. Questionnaires and Interviews

1.1. Objective and Background

Japan is one of the largest consumers of tropical wood products in the world. This is because there is a strong and persistent demand for tropical wood in sectors such as building and construction, RC architectures and furniture-making. ITTO's project "PD391/06 Rev. 2(M) - Promoting and Creating Market Demand for Certified Tropical Wood and Verified Legal Tropical Wood" aims to help establish market share in Japan of verified legal and certified wood. Its focus is on Indonesia and Malaysia, major producer countries of tropical wood products.

This survey was carried out in order to identify companies in Indonesia and Malaysia that are currently producing verified legal wood or certified wood and products, as well as companies that have the capabilities to do so. The aim of this survey is to facilitate the shift from unidentified wood to verified legal and certified wood by providing the result to purchasers of tropical wood in Japan.

This survey was implemented in collaboration with another research project, "Tackling Illegal Logging and Promotion of Goho-wood Project: Research of Cases for Legal/Sustainable Timber Supply" commissioned by Forestry Agency for the fiscal year of 2008. The cost of translation into English was covered under the ITTO project. The relevant activities were Activity 1-1-3 and Activity 2-1-1.

1.2. Survey Method and Contents

The survey focused on companies dealing in plywood, one of the major wood products exported to Japan. It contained questions for plywood manufacturers with regard to how they obtain raw materials, their production volume and type, and whether they have taken measures to prove the legality and sustainability of their timber.

The survey was distributed and collected in the following manner: First, local trade organizations selected the companies to be surveyed in their relevant regions since they have the most updated information on relevant issues. The survey was then distributed to individual companies through these trade organizations. Also, in order to encourage responses, cover letters written by government institutions of the regions, Forestry Agency of Japan, and ITTO were enclosed with the survey form. The form was sent and collected between December 2008 and February 2009 (except for companies in Sabah, where the local government distributed and collected it directly).

The results were collected and analyzed by the Executing Agencies (EA). In addition to the survey, the companies that agreed to a staff interview by the research team were visited in February 2009. (See Annex 1 for the questionnaire form.)

1.3. Companies Surveyed and Interviewed

Indonesia: With the help of Badan Revitalisasi Industri Kehutanan (BRIK), an organization that supports the wood industry, the form was distributed to 30 plywood companies approved under the Japan Agricultural Standard (JAS). These companies were also listed as Eksporir Terdaftar Produk Industri Kehutanan (ETPIK), the “registered exporters of forest products”. Nine companies that hold offices in Jakarta were interviewed.

Sarawak, Malaysia: With the help of Sarawak Timber Industry Development Corporation (STIDC), the form was distributed to 17 plywood companies approved under JAS. In order to cover all of the major players in Sarawak, nine companies from the following areas were interviewed: Miri, Bintulu, Tatau, Sibu and Kuching. The interview was attended by STIDC.

Sabah, Malaysia : With the help of Sabah Timber Industries Association (STIA), the state forestry bureau in the State of Sabah, the form was distributed to 26 companies. Unlike the other two regions where plywood is the main focus, the companies surveyed in Sabah are engaged in a wide range of other operations as well, including material production, lumber sawing, and veneer production. One company was interviewed.

See Annex 2 for the list of companies surveyed.

1.4. Survey Results

For Indonesia, 40% of the companies (12 out of 30) returned the form. For Sarawak, Malaysia, the collection rate was 94% (16 out of 17), and for Sabah, Malaysia, 96% of the companies returned the form (26 out of 27). The number of the returned forms with valid answers were: 11 for Indonesia, 14 for Sarawak, Malaysia, and 23 for Sabah, Malaysia.

The following sections analyze each question and the answers from the surveyed companies. For the purpose of this report, information listed below is limited to those concerning the following points: the level of awareness, the reality of forest certification and legality verification systems. Other less relevant information is omitted from this report.

Q1. What percentage of your products are exported to the Japanese market?

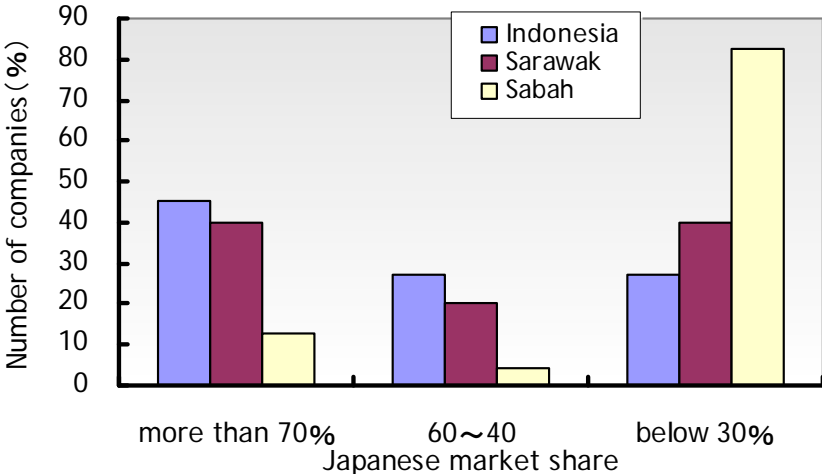


Chart 1-1 Percentage of products exported to the Japanese market by the companies surveyed

Chart 1-1 shows the percentage of products exported to Japan by the companies that were surveyed for this report. This includes 11 companies in Indonesia, 14 in Sarawak and 23 in Sabah that gave valid answers.

In Indonesia and Sarawak, more than 50% of the companies surveyed exported more than 40% of their products to Japan. This clearly indicates the high level of dependency on the Japanese market.

For the companies that export more than 20% of their products to Japan, other major markets include the following: mainland China, the Middle East, and the United States for Indonesia; mainland China, South Korea, Taiwan, and the Middle East for Sarawak; the European Union (hereafter EU), mainland China, Taiwan, Australia, and South Korea for Sabah.

Q2. What percentage of the company’s logs are from its own forest concession?

Table 1-1 Log Procurement Source for Companies Surveyed

Procurement Source	Indonesia	Sarawak	Sabah
100% from Forest Concessions	3	4	2
80% from Forest Concessions	1	1	1
60% from Forest Concessions	2	2	0
30% from Forest Concessions	1	2	0
30% from Forest Concessions	0	1	0
All Purchased from Elsewhere (0%)	4	4	19
Total	11	14	22

Note: One company from Sarawak and one in Sabah did not answer this question.

The following paragraphs summarize where the companies surveyed obtain their logs in each region (See Table 1-1):

In Indonesia, seven out of the 11 companies surveyed (64%) possess their own concessions and procure logs from the forests that they have secured the concession for, although the sizes of the forests vary between companies. With regard to the remaining four companies, two of them are a Korean group company and one of their group companies has concession rights. This implies that they may well be procuring logs from the forests that their group company has concession rights for. This will be relatively easy to verify, although it is unknown how much of their logs come from the forests that they have concession rights for. The other two companies do not have their own concession rights and procure logs from plantations.

In Sarawak, most of the companies surveyed are part of the six largest group companies in the forestry industry, except for two that are independent companies. Two of them answered that their logs are “all purchased from elsewhere”. It is likely that they are sourcing their logs from the forests which their group companies have concession rights for. This will be relatively easy to verify, although it is unknown how much of their logs come from the forests that they have concession rights for. The remaining two independent companies do not have their own concession rights and purchase 100% of their logs from the market.

In Sabah, unlike the other two regions, 19 companies (83%), which include all of the four plywood companies in this region, answered that their logs are “all purchased from elsewhere”. Here, it should be noted that these include secondary and tertiary processing companies. There are three companies that are sourcing more than 80% of their logs from their own concessions. When examined closely, two of them supply more than 80% to the domestic market, and one of them supplies more than 80% to the foreign market (none for the Japanese market). The two largest concession holders in Sabah are the provincial government and Yayasan Sabah, a government-affiliated company. Therefore, it is assumed that most of the downstream companies source their logs from the government and Yayasan Sabah.

Q4a. Can you supply verified legal timber / certified timber?

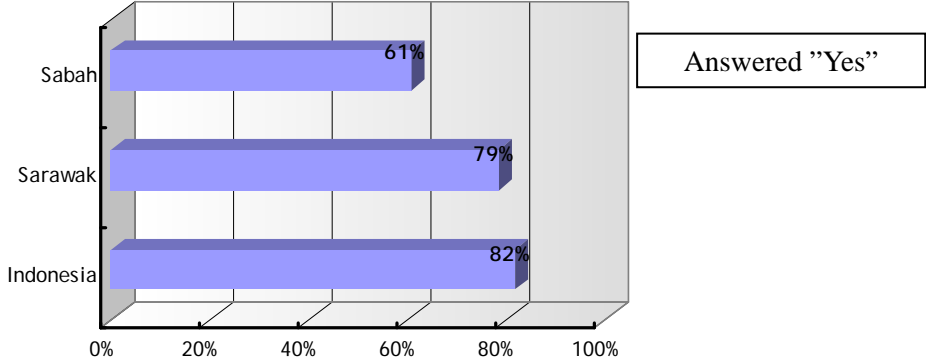


Chart 1-2 Capabilities to supply verified legal / certified wood

Note: The companies that did not answer this question are included in the group that said “No”. One in Sarawak and one in Sabah did not answer the question.

This section summarizes the capabilities of the companies to supply verified legal / certified wood (See Chart 1-2). A high percentage of the companies - 82% of the companies in Indonesia, 79% in Sarawak, and 61% in Sabah - answered that they “can supply”. The question was asked in order to identify which additional measures the companies are taking in order to eventually acquire certification for their products. Such measures include forest certification systems, Verified Legal Origin (hereafter VLO) and Reduced Impact Logging (hereafter RIL). This question was also asked in order to clarify the level of compliance with existing laws and regulations. With regard to this point, many simply answered that complying with laws and regulations was sufficient enough and saw no need for legality verification.

Still, overall, the result shows that the concepts of legality and sustainability are gradually being recognized.

Q4b. What type of legality verification / certification system?

Table 1-2 Conditions of legality verification / certification system

	FSC		LEI	MTCC / PEFC		VLO* ¹	RIL	System Mandated by the			
	FM	CoC		FM	CoC			Government			GFTN
			LPI			STIDC	MTIB				
Indonesia	3	7	4	/	/	5	4	5	/	/	0
Sarawak	0	2	/	1	4* ²	1	1	/	8	/	1
Sabah	0	6	/	0	1	2	0	/	/	2	0

*1 The executing organization of VL in Indonesia include PT. TUV International Indonesia. In Sabah and Sarawak, it includes GFS Malaysia Sdn. Bhd, for instance.

*2 One of the MTCC CoC certification is through PEFC.

Note: FSC: Forest Stewardship Council, LEI: Lembaga Ecolabel Indonesia, MTCC: Malaysian Timber Certification Council, PEFC: Programme for the Endorsement of Forest Certification Schemes, FM: Forest Management, CoC: Chain of Custody, VLO: Verified Legal Origin RIL: Reduced Impact Logging, LPI: Third party certification for natural forest, STIDC: Sarawak Timber Industry Development, MTIB: Malaysian Timber Industry Board, GFTN: Global Forest Trade Network

Table 1-2 shows the current condition of legality verification and certification system. The three regions are at different stages, and the certification systems are most widely adopted in Indonesia. Indonesia is gradually developing a system to supply certified timber. More processors and distributors of timber products are acquiring Forest Management (FM) certification and/or Chain of Custody (CoC) certification under Indonesia’s two predominant certification systems; Forest Stewardship Council (FSC) and Lembaga Ecolabel Indonesia (LEI). In addition to such certification systems, more companies are adopting VLO and RIL. Overall, it appears that the necessity of

additional measures to prove legality and sustainability are beginning to be recognized in Indonesia.

In Sarawak, many companies have acquired CoC certification under FSC and the Malaysian Timber Certification Council (MTCC) (which encompasses PEFC). On the other hand, FM certification is not as widely adopted. However, amongst the companies that are part of the six largest forestry industry groups mentioned earlier, one of them has adopted VLO and has joined the Global Forest Trade Network (GFTN). This means that there is a possibility that more FM certification may be expected in the future in Sarawak.

In Sabah, many companies have acquired CoC certifications (under FSC and MTCC). There is no company that has been certified for FM. As mentioned earlier in the section regarding Q2, the companies surveyed for this report are mainly downstream companies and it is not surprising that there is none certified for FM in Sabah (Under this survey, we did not include companies with FM certifications. However, Yayasan Sabah, which was included in the survey, is moving towards acquiring FSC for FM.). Still, there are two companies that have adopted VLO. It is therefore assumed that effort is being made towards FM certification not only by the government and Yayasan Sabah but also by the private sector.

Q4c. What was the motivation for acquiring certifications and/or other measures.?

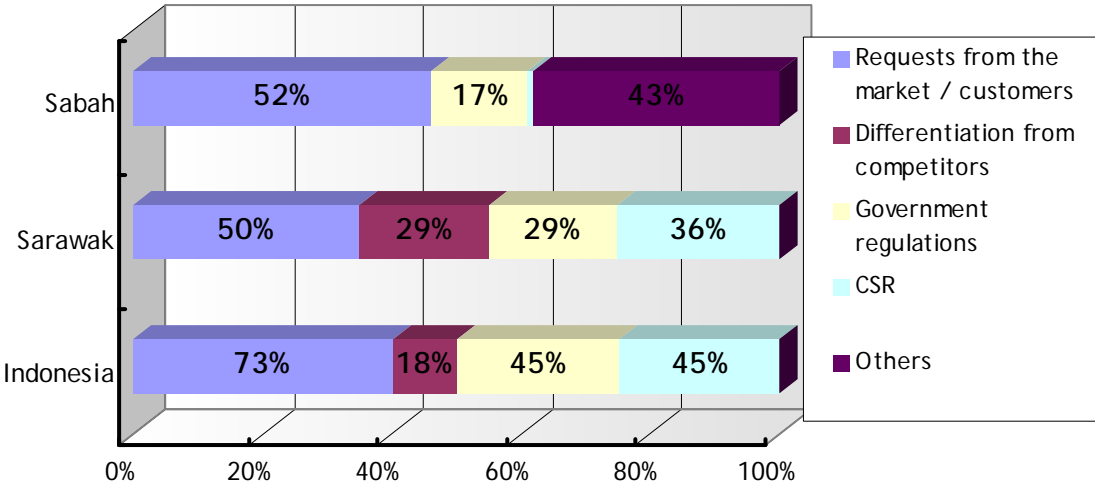


Chart 1-3 Reasons for acquiring certification etc.

Note: Multiple answers were allowed.

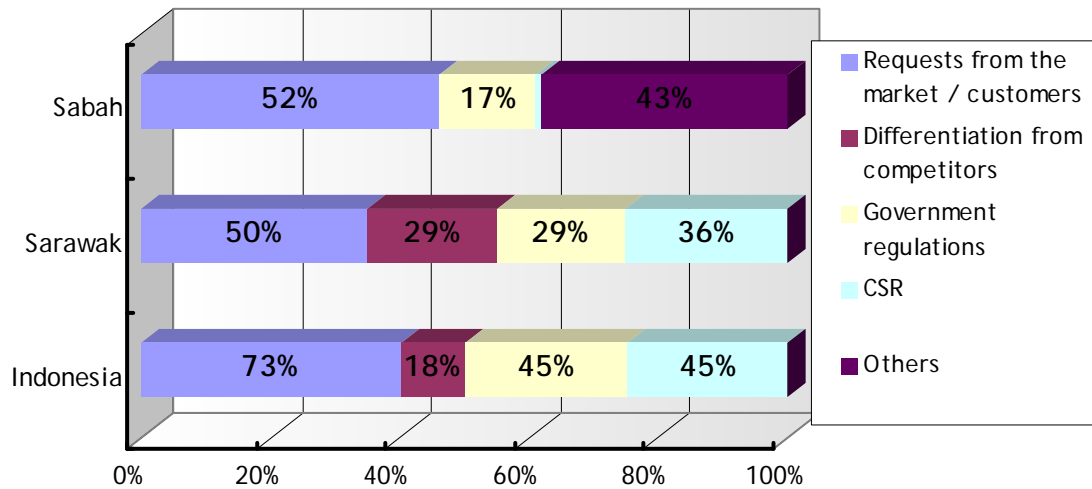


Chart 1-3 shows reasons why companies have taken additional measures such as certifications. According to this survey, “demand from the market / customers” came first for all regions, with 73% for Indonesia, 50% for Sarawak, and 52% for Sabah. The market / customer demand was placed higher than the “government regulation”, which 45% of the companies in Indonesia, 29% in Sarawak and 17% in Sabah listed as a reason for taking additional measures.

These survey results clearly indicate that positive market pressures as well as government regulations have a significant influence on companies in facilitating the improvement of forest management standards in these regions.

Q5a. Are you aware of the Japanese Green Purchasing Law?

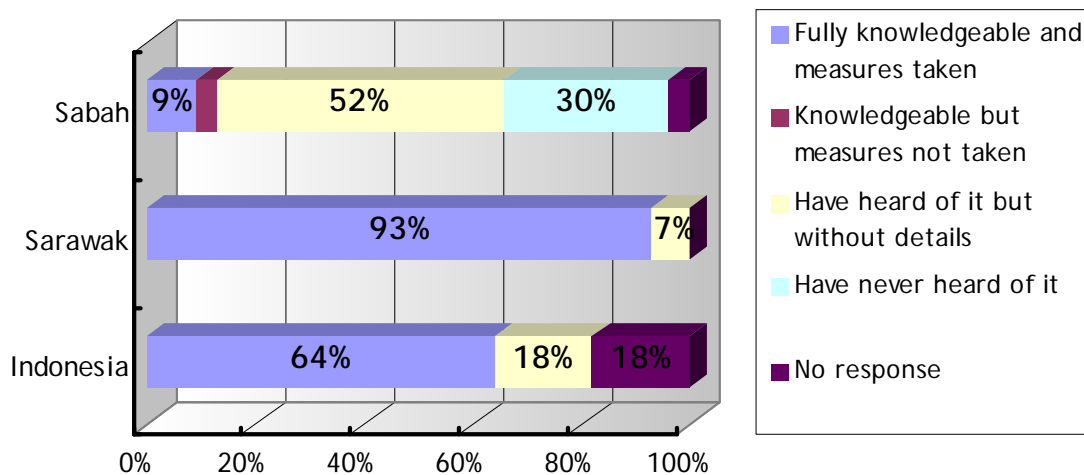


Chart 1-4 Level of awareness towards Green Purchasing Law

The question was posed to identify the level of awareness and measures taken regarding Law

Concerning the Promotion of Procurement of Eco-Friendly Goods and Services by the State and Other Entities (Green Purchasing Law) in Japan (See Chart 1-4). The percentage of products exported to the Japanese market for the companies surveyed is shown in Chart 1-1 above. Based on these results, it can be concluded that the level of awareness and measures taken regarding Green Purchasing Law are heavily influenced by the level of dependence on the Japanese market in each region.

In Indonesia and Sarawak, over 40% of the companies export more than 70% of their products to Japan, according to Chart 1-1. These two regions have a significantly higher level of awareness towards the Japanese legislation: 64% of the companies in Indonesia and 93% in Sarawak answered that they ‘fully understand and [have] taken necessary measures’ with regard to Green Purchasing Law.

On the other hand, 52% of the companies in Sabah answered that they “[have] heard of it but [do] not know any details”, and 30% of them have “never heard of it”. Only 9% answered that they ‘fully understand and [have] taken necessary measures’.

Q7 Do you know what the VPA is?

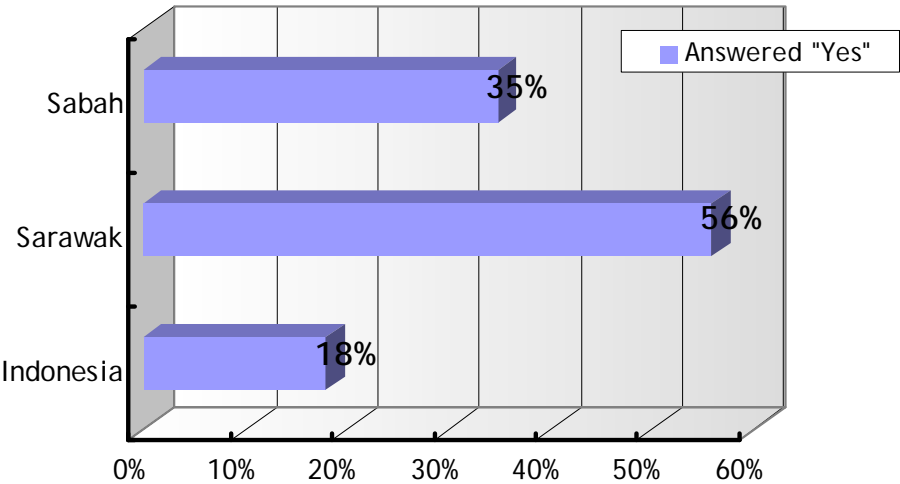


Chart 1-5 Level of Awareness Regarding FLEGT-VPA

Lastly, Chart 1-5 shows the level of awareness regarding the Voluntary Partnership Agreement (VPA) under the EU Forest Law Enforcement, Governance and Trade (FLEGT). EU FLEGT is one of the measures to tackle problems of illegal logging adopted by the EU. Within the FLEGT framework, the EU works with producer countries and forms a voluntary bilateral agreement with

them. The survey results show that 18% of the companies in Indonesia, 56% in Sarawak, and 35% in Sabah are aware of the VPA system.

Chart 1-4 shows that the level of awareness regarding legislative systems abroad is greatly influenced by each region's dependence on the relevant overseas market. However, this does not seem to apply in case of EU regulations according to the results of this survey, particularly in Sabah. Although Sabah is the biggest exporter to the EU amongst three regions, the companies in Sabah do not necessarily show the highest level of awareness towards EU regulations.

On the other hand, in Indonesia, the low level of awareness seemingly stems from the fact that the volume of plywood exported from Indonesia to the EU is not significant. This, however, does not mean that the level of awareness towards the overall issue of sustainable forest management is low in Indonesia itself; the Government of Indonesia has been actively focusing on measures to prevent illegal logging since 2001. It has since implemented a variety of measures in relation to its trade with the EU. Such measures include a tracking system based on the bilateral MOU with the UK and the establishment of timber legality standards and a guarantee system for the legality of wood under EU FLGT-VPA. Given that the measures described above are initiated solely by the government, the assumption is that the relevant information has not been correctly distributed to the industry.

For Sarawak, its major market is Japan and trade with the EU is comparatively insignificant. Therefore, it is likely that the high level of awareness in Sarawak is due to the history of VPA negotiation between the EU and Malaysia. Negotiation between the EU and Malaysia is progressing more smoothly than the negotiation between EU and Indonesia.¹ Still, the provincial government of Sarawak, which has always been critical towards the agreement with the EU, was not entirely cooperative, unlike others of the peninsula and Sabah. The negotiation for the VPA was highly controversial in Sarawak, as shown by an announcement of opposition made by its chief minister in a newspaper. The high level of awareness in Sarawak may be due to such history.²

Lastly, the result regarding Sabah was unexpected in that it was thought that Sabah would have a higher level of awareness since it has been exporting FSC wood to the European market earlier than other regions in Malaysia. However, the level of awareness in Sabah is lower than that of Sarawak. This may be because the companies surveyed in Sabah are downstream companies and their attitude towards matters concerning laws and regulations is passive. They consider these issues to be government matters. This attitude may be strengthened in Sabah where the power and authority of the provincial government in the area of forest resources management are particularly strong.

¹ It was reported that the negotiation with Malaysia would be completed and an agreement would be reached in the middle of 2009. http://www.bernama.com.my/bernama/v3/news_lite.php?id=388929 (March 2009)

² THE STAR, "Sarawak to resist pressure from Europe", 1 February 2009.

2. Conclusions

2.1. Indonesia

In Indonesia, plywood exported into Japan has drastically decreased since 2005, and the plywood industry itself is becoming smaller. According to a BRIK staff member, the companies surveyed for this report are the only 30 companies operating normally, and the operation rate in general is presently very low.

Amongst nine companies visited under this research, three of them that have already acquired FSC-FM certification are gradually increasing their sale of FSC-certified plywood³ which is imported into the Japanese market as well as others. The other six companies that have not acquired FM certification have started to improve their practices by implementing sustainable measures such as RIL and VLO. Amongst these companies, two of them have also acquired FSC-CoC. Therefore, it can be concluded that an overall trend in Indonesia is to move towards the promotion of sustainability.

During the interviews, whilst explaining the current situation of the Japanese market, the interviewer listed a few names of housing manufacturers that have established timber procurement policies. More companies in Indonesia than initially expected recognized the names of these Japanese companies. This reconfirmed our belief that Indonesian companies are aware of the preferences of Japanese housing manufacturers, who are their major customers, through their mediator, Japanese trading companies. The fact that their major customers prefer sustainable timber must be encouraging for local suppliers of sustainable timber. Indonesian companies will benefit from more requests from the Japanese market for sustainable timber.

Indonesia is also beginning to export more certified wood to China. Traditionally, the market for certified wood has been developed under strong European initiative. However, since the market for certified wood is growing worldwide, more companies in China, the factory of the world, are acquiring CoC certifications and trading in certified wood.

At the same time, dealers of non-certified wood are facing severer restrictions. As seen in case of some Japanese trading companies, certified wood is sold with a certain amount of premium included in the price, and the market largely accepts such premium. On the other hand, VLO wood, for instance, does not have the same market recognition since it is not certified, and therefore is forced to compete with low-cost wood from China, becoming subject to price pressure.

However, with regard to the premium for certified wood, the following point should be noted. A worker from a Japanese trading company dealing in construction materials considers the quality of Indonesian certified wood high. He considers that with the exhaustion of the tropical wood, high-quality logs can only come from well-managed forests, which often happen to be certified forests. This means that buyers of sustainable wood are prepared to pay for the premium for certified wood in

³ According to the official website of FSC, as of March 2009, the certified area for Indonesian FSC-FM is 1,089,941 ha. There are 8 FMUs and 6 of them are natural forests. In this research, three of the FMU-related companies were visited. (<http://www.fsc-info.org/>)

Indonesia. Based on this view, dealers of low-quality, affordable Malaysian wood may have to overcome many obstacles before they can put the premium on their wood even after becoming certified in the future. In other words, purchasers are prepared to pay for the premium for *better quality wood*, not for the fact that it is certified. Therefore, it will take some more time before the market becomes willing to pay for the premium for the idea of “certification” itself.

Overall, there is an urgent need for market recognition of the value of wood products obtained through improvement measures such as RIL and VLO. Without such market recognition and the premium to absorb the cost for these measures, incentives to adopt these measures will remain low and effort towards RIL and VLO will stall. If this happens, only forests that will be conserved will be certified forests, whilst other forests will continue to decrease and/or degrade, due to a pressure to create agricultural lands, for instance.

2.2. Sarawak, Malaysia

For Sarawak, Japan is a major consumer; Out of nine companies visited in Sarawak, six of them export more than 50% of their products to Japan. Also, although the export has slightly decreased in recent years, Sarawak is still a significant region for plywood production for Japan, and therefore measures have been taken in order to comply with Japan’s Green Purchasing Law. . In exporting products to Japan, the proof of verification of legality, required under Green Purchasing Law, is satisfied by a declaration form (CDF2) with an approval stamp affixed by STIDC.

With regard to situations surrounding certified wood, five out of nine companies have acquired CoC certification (one under FSC, one under PEFC and three under MTCC). However, with regard to FM, only two companies have MTCC certification. The total area for certified forests is 162,769 ha, therefore the wood supply from these forests is not enough to increase the low volume of certified wood in Sarawak.

However, there is still need for a stronger market pressure. The research team visited Zedtee Plywood, which acquired FM certification under the MTCC in February 2008. Zedtee told the team that there are no requests for certified timber from their buyers, many of whom are Japanese customers, and that they have not exported certified timber anywhere so far. Many hoped for more requests for legal / sustainable timber from the Japanese market.

With regard to measures such as VLO and RIL, there is one company that has adopted VLO in Sarawak. A certification committee has been established within the timber industry association participated by companies, and a wide variety of relevant information is exchanged through the committee. Such information varied from the objectives of acquiring certification to the technical methods necessary for acquiring certification. Given these initiatives, certified areas are expected to expand in the future.

Furthermore, during the interviews with companies that do not have certified forests, the team explained the importance of measures such as VLO. During this discussion, a problem was pointed

out with regard to a limited effective period for a concession license given by the state government of Sarawak. According to some interviewee, even if a company wants to implement sustainable forest management, the license must be renewed every 10 years, whilst a forest management and harvest plan is created with a 25-year rotation. This made it difficult for companies to establish a long-term management plan, since the risk of being refused renewal before the end of 25 years of the forest management plan still remains.

This limitation of the license period clearly demonstrates a certain political problem in Sarawak. Only a handful of politicians monopolize power and authority in the field of natural resources and land management in Sarawak, and this poses a great threat to forest owners who are concerned that their licenses may be taken away at the discretion of these politicians.

Ironically, however, this style of political system is effective in distributing information rapidly and there is strong mandatory power given to authorities. This allows Sarawak to accommodate requests from overseas markets following amendments to laws and regulations, such as these to Green Purchasing Law under the initiatives of relevant authorities. For instance, although the STIDC system requires complicated documentation processes, it has been implemented smoothly.

Lastly, situations surrounding plantations require careful monitoring. At present, Sarawak is promoting an expansion of plantations. Plantation licenses issued by 2008 cover 40 projects and a total area of 280,000 ha (150,000 ha available for plantations). Lands covered by the licenses consist of 30% of the forested area of the state.⁴ Since the state government also continues to promote oil palm plantations, areas to be covered by the plantation licenses are expected to continue to expand.

As the plantation is promoted by the government, the industry tends to consider: "If more fast-growing trees are planted, there will be more sustainable timber available". With this attitude, there is little effort being made for the protection of existing natural forests. Such an attitude is likely to present a problem for Sarawak in the near future, since forests in developing countries are considered to play an important part of discussions regarding Reducing Emission from Deforestation in Developing countries (REDD) under the United Nations Framework Convention on Climate Change.

2.3. Sabah, Malaysia

Two of seven plywood companies export more than 90% of their products to Japan. Other destinations for the surveyed companies include the EU, mainland China, Taiwan, Australia, South Korea, etc.

Amongst the surveyed companies, 9 companies (39%) have implemented additional measures to prove sustainability; Six of them have acquired CoC certification (five under FSC, one under MTCC), two of them have VLO (1 in application), and one of them has a third-party stepwise approach toward

⁴ Sahabat Alam Malaysia (2008) *Malaysian palm oil - green gold or green wash ?*

certification programme. With regard to FM certification, 81,058 ha have been certified under FSC.

The volume of sustainable wood on the market is not high in Sabah. Still, the demand for furniture and molding materials from the EU, Sabah's major market, has been consistent. Due to the importance of the EU market, a tracking system appears to be under development following the negotiation for EU FLEGT-VPA as part of the Timber Legality Assurance System (TLAS). Nevertheless, as mentioned in 4.3 above, the level of awareness towards VPA itself is low in this region.

The level of awareness towards sustainable forest management is also low because the state government dictates forest management issues and there is little room for direct stakeholder participation. There is a monopoly on Sabah's forest resources by the state government and a handful of state-owned companies. This limits information on the relevant policies from being widely available to the public.

Lastly, there is a delay in the preparation to purchase sustainable wood on the Japan side. For instance, Company S, whose major customers are Japanese companies, acquired FSC-FM in plantation forests. However, before the company can distribute plywood made from its certified plantation forests with a certification label on their products, their clients in Japan must acquire CoC certification.

Meanwhile, there is a shortage of sustainable wood on the market; "There is only 2,500m³ of verified legal / certified wood available per month in Sabah", according to a plywood company. Although it is difficult to identify the volume of sustainable wood that is available on the market, the area of certified forests within Sabah is by no means large. Even if the area of VLO is counted, the volume would still not be sufficient enough to meet the potential market demand. In addition, the plywood industry may be more affected since the volume of wood used by the industry is large compared to other types of products.

Meanwhile, with regard to the condition of the certified wood market in Japan, a trading company dealing in construction materials purchased approximately 1,200m³ of Indonesian FSC plywood in 2007. Certified wood from Indonesia is not suitable for bulk use, such as for a floor base, but is well-suited for usages that only require small amounts of wood, including furniture-making. This means that if the demand and the supply are matched, it is possible to see a deal established. In the future, detailed explanations of what is in demand to the supply side will be increasingly necessary.

2.4. Recommendations to Japanese Companies and Government Authorities

The following are our recommendations to Japanese companies and government authorities based on our 3-year research since 2006 on the transition in measures taken to verify legality and to promote sustainable wood in Indonesia and Malaysia.

Regarding Legality and Sustainability

The level of awareness towards illegal logging in Indonesia and Malaysia has dramatically increased for the last three years. The improvement is so prominent that it almost gives the impression that the anti-illegal logging campaign has fulfilled its role. Yet, there still exist environmental and social issues that fall outside of the realm of legislative regulations, whilst the key component of the improvement process, the awareness towards the relevant issues, certainly appears to have rooted in these regions.

On the other hand, although the market for certified wood in Japan is still significantly less developed than in the European market, trade in certified wood is showing signs of acceleration since the fiscal year of 2008. It is not certain whether the progress in Japan is due to improved private sector awareness or to the development of the market, however, it appears that the market indeed keeps growing.

There are many factors that have pushed the market for certified wood. These include the exhaustion of wood resources, drastic changes in the economic conditions worldwide, etc. However, one of the strongest factors may be a positive pressure by the consumer end to the producing end, with consumers requesting for certified wood. This is represented in various agreements formed between consumer and producing countries. The expansion of the market has been achieved by continuous engagement of consumer countries that have simply kept requesting for “legal timber instead of illegal timber”.

Regarding Future Effort

As mentioned above, Indonesia and Malaysia have made a significant improvement in terms of the level of “awareness”. Many of the wood producers have begun to improve their forest management standards, which may eventually lead them to acquire certification. However, ironically, the market appears to be focusing on certified products too fast. It may not recognize other important measures being taken before dealers are able to achieve the stage of certification, such as VLO and RIL. Once certified wood from these regions starts to appear on the market, there may only be a simple category of “certified” and “non-certified” wood. What should be noted is that the objective of “promoting certified timber” should be to secure sustainable forest management, as well as to promote the industry, and that it is by no means designed to be exclusive.

The system to supply certified wood in Indonesia and Malaysia has only just begun to be developed, especially for products exported to Japan. In order to increase the supply of certified wood in the future, companies in Japan need to encourage producers by continuing to purchase wood from these regions as a major traditional purchaser of their wood. Furthermore, in order for these regions to develop a strong system to supply certified wood, the market also needs to recognize the value of

products that are not necessarily certified but are produced under other measures such as RIL, VLO, tracking programmes and other stepwise approaches towards eventual certification.

The depletion and degradation of forest resources around the world is not slowing down, and conditions remain severe for the industries that rely on wood resources. Forest decrease and degradation are often due to pressures other than logging such as resource exploitation and agricultural land use. Under this condition, the forestry sector supplies wood to the market without differentiating wood from the ‘managed’ forests whether they are sustainable or not and wood procured as a result of land conversion for agricultural use, which is regulated by a different authority from the forest management authority. Forest resources must come from sustainably managed forests, regardless of which sector/authority takes the responsibility of its management.

Given this, it is critical for the Japanese market to differentiate wood resources from different sources in the future as described earlier (e.g. from forests cleared for the agricultural use, etc.), rather than simply promoting “procurement of certified wood”. In order to achieve this, Japanese companies are expected to not only comply with regulations imposed by the government but also establish procurement policies that have environmental and social integrity based upon clear and transparent standards. They are expected to act upon the concept of corporate social responsibility through responsible wood procurement.

Furthermore, the campaign to “send a simple message to producers”, which has been carried out so far, must be continued. This will help motivate producers in these regions to maintain their effort in the future. In sending the message, issues such as conversions of natural forests and considerations for indigenous people must also be verbalized, as they are at the center of discussions at the international level in the field of forest management. Since these issues fall outside of regulations in producer countries at present, sending a “simple message” from the private sector of the consumer end is considered necessary in order to complement a lack of government regulations in producer countries. It is expected that the “awareness” which has rooted in the relevant regions through the past effort will certainly respond to positive requests from the market.

Annex 1: Questionnaire (example for Indonesia)

Questionnaire on Potential of Supplying Certified and Verified Legal Wood

1. Profile of Your Company

Company Name	
Address (Headquarters)	
Name of Respondents	
Name of Department	
Phone	
FAX	
E-Mail	
Description of Business	<input type="checkbox"/> Logging, <input type="checkbox"/> Processing; <input type="checkbox"/> Lumber, <input type="checkbox"/> Veneer, <input type="checkbox"/> Plywood, <input type="checkbox"/> Fiberboard <input type="checkbox"/> Secondary processing (Product Name: _____) <input type="checkbox"/> Exporting
Volume of sales (m ³) (Annual or monthly)	Domestic: _____ (m ³) (A / M) Export: _____ (m ³) (A / M)
Number of Employees	Headquarters: _____ person Factory: _____ person
Distribution of Client (Country and Regions) and its Percentage of Trade (%)	<input type="checkbox"/> Domestic: _____ % <input type="checkbox"/> Japan: _____ % <input type="checkbox"/> USA: _____ % <input type="checkbox"/> EU: _____ % <input type="checkbox"/> China: _____ % <input type="checkbox"/> Other: (_____) _____ %

2. Source of Logs and its percentage of the total sourced volume

- a) Total volume of sourced timber (in round wood equivalent) _____ (m³)
- b) Buying from others: Yes / No (_____ %)
- c) Own concession area: _____ (ha) (_____ %)
- d) Species and its Percentage of Sourced Log/Timber (Please write in descending order of percentage in round wood equivalent):

Timber Species	(%)
1.	
2.	
3.	
4.	

5.	
6.	
7.	
8.	
9.	
10.	

3. Production

a) Product Line and Percentage:

Type of Products	(%)
Log	
Lumber	
Plywood	
Veneer	
Fiberboard	
Other	

4. Certified (including verified LEGAL) timber or timber products supply

a) Can you supply certified (including verified LEGAL) timber or timber products?

Yes

No (Please go to Question f)

b) What schemes do you use?(multiple answers allowed)

a forest certification either for forest management or CoC

Name of scheme: _____, Certificate Number: _____, Issue Date: (_____), Expiry Date: (_____)

Governmental mandatory verification

Name of certifier: _____, Issue Date: (_____), Expiry Date: (_____)

a private third party's verification such as VLO, VLC

Name of certifier: _____, Date of certificate: (_____), Expiry Date: (_____)

a stepwise approach for forest certification

Name of scheme: _____, Starting Date: (_____), Expected Completion Date: (_____)

Other (_____)

c) Motivation for acquisition of any of the certificate (including legality verification) mentioned above:

Demand from customers and markets

- Differentiation from other companies
- Government policy(_____)
- Corporate Social Responsibility
- Other(_____)

d) Variety and volume of certified (verified legal) timber and timber products that you can supply annually:

Species					
Type of products					
As of (fill in the date)					
Log(m ³)					
Lumber(m ³)					
Plywood(m ³)					
Veneer(m ³)					
Fiberboard(m ³)					
Other(m ³)					

- e) What changes have you experienced since acquiring certificate? (Multiple answers allowed)
- Awareness on forest management or wood procurement is improved in the company.
 - Inquiry from customers increased.
 - New business increased.
 - Management/production cost increased
 - Management Improved and production cost reduced
 - No particular change
 - Other(_____)

f) If you do not have any certificate (including legality verification), please select your reason from the list below:

- Feel no need for acquiring
- It is too expensive
- Cannot allocate human resources
- Do not know how to obtain
- Lack of information and support measures
- Other(In concrete terms:_____)

5. Green Purchasing Law in Japan

- a) Japanese government introduced Green Purchasing Law, which requires legality and promote sustainability on timber and timber products since April, 2006. Are you aware of this Law?
- Yes, we are aware and we have taken adequate measures. → Go to Question b)
 - Yes, we are aware, but have not done anything. → Go to Question c)
 - We have heard of it, but not in detail. → Go to Question 6
 - We have never heard of it. → Go to Question 6

b) How do you meet the requirement of GPL?

- i) What kind of document do you submit to clients?
- Export Permit
 - BRIK Endorsement
 - FA-KO
 - LMKO
 - FA-KB
 - LMKB
 - SKSKB
 - SKAU
 - Certificate of Forest Certification, VLO, VLC
 - Other (_____)

- ii) Do you have a dedicated staff for document control of the legality assurance?
- Yes (Name of the person in charge: _____)
 - No dedicated staff currently at present

- iii) How long do you keep these documents in storage?
- One year
 - Two years
 - Three years
 - Four years
 - Five years or longer. If so, how long? (_____ years)
 - We do not have any rules for storage of such documents.

- c) Please write any changes in business relation with Japanese market after introduction of Green Purchasing Law.

6. Are there any challenges in timber production and purchasing that you are facing? Please choose two answers that most suit your situation.

- a) Changes in market circumstances are fast and severe.
- b) Policies or legal systems change often and confusing.
- c) Degradation and decrease of forest resources
- d) Illegal logging
- e) Unexpected cost
- f) Other(_____)

7. Have you heard about formal negotiation regarding Voluntary Partnership Agreement between your government and EU?

Yes / No. Please write your opinion about it.

8. Please write freely about the sales point of products and management of your company.

Annex 2 List of the Companies Surveyed Using Questionnaires and Interviewed

Company Name	Region	Answer to Questionnaire	Interview
Indonesia (30 questionnaire forms sent, 12 answers (1 sent back company materials), 9 interviews)			
CV. Purbayasa	Central Java	○	
PT. Albasia Priangan Lestari	West Java		
PT. Daya Sakti Unggul Corp	South Kalimantan		
PT. Decorindo Inti Alam Wood	South Kalimantan		
PT. Erna Djulawati	West Kalimantan	○	○
PT. Harjohn Timber Limited	West Kalimantan	○	○
PT. Idec Abadi Wood Industries	East Kalimantan		
PT. Interacawood Manufacturing	East Kalimantan	○	○
PT. Katigan Timber Celebes	South Surawesh		
PT. Kayu Lapis Indonesia	Central Java	▲	○
PT. Korindo Abadi	West Irian Jaya	○	○
PT. Korindo Aiabima Sari	Central Kalimantan	○	○
PT. Kutai Timber Indonesia	East Java		
PT. Putra Sumber Kreasitama	Jambi		
PT. Putra Sumber Utama Timber	Jambi		
PT. Rimba Partikel Indonesiaq	Central Java		
PT. Sari Bumi Kusuma	West Kalimantan	○	○
PT. Segara Timber	East Kalimantan	○	
PT. Serayu Makmur Kayuindo	Central Java	○	
PT. Sukses Sumatera Timber	South Sumatra		
PT. Sumalindo Lestari Jaya TBK	East Kalimantan		
PT. Sumatera Prima Fibreboard	South Sumatra		
PT. Sumatera Timber Utama Damai	Jambi		
PT. Sumber Graha Sejahtera	Banten		
PT. Sumber Mas Indah Plywood	East Java		
PT. Surya Satrya Timur Corp	South Kalimantan	○	○
PT. Tanjung Raya Plywood	South Kalimantan		
PT. Tanjung Selatan Makmur Jaya	South Kalimantan		
PT. Tirta Mahakam Resources TBK	East Kalimantan	○	○
PT. Wijaya Tri Utama Plywood Indutry	South Kalimantan		
Sarawak, Malaysia (17 questionnaire forms sent, 16 answers (1 sent back company materials, 1 stopped operating), 9 interviews)			
Bright Wood Sdn Bhd	Bintulu, Sarawak	■	○3)

GT Plywood Industries Sdn Bhd	Bintulu, Sarawak	○	
Cairn Field Sdn. Bhd.	Bintulu, Sarawak	○	
Jaya Tiasa Plywood Sdn. Bhd.	Sibu, Sarawak	○	
Linshanhao Plywood (Sarawak) Sdn Bhd	Kuching, Sarawak	▲	○
Manuply Wood Industries (S) Sdn Bhd	Bintulu, Sarawak	○	○
Rimbunan Hijau Plywood Sdn. Bhd.	Sibu, Sarawak	○	
Samling Housing Products Sdn Bhd	Miri, Sarawak		○3)
Samling Plywood (Miri) Sdn Bhd	Miri, Sarawak	○	
Samling Plywood (Bintulu) Sdn.Bhd.	Bintulu, Sarawak	○	
Sanyan Wood Industries Sdn Bhd	Sibu, Sarawak	○	○
Shin Yang Plywood Sdn Bhd	Miri, Sarawak	○	○
Shin Yang Plywood(Biuntulu) Sdn. Bhd.	Bintulu, Sarawak	○	
Subur Tiasa Holdings Bhd	Sibu, Sarawak	○	○
Ta ann Holdings Bhd	Sibu, Sarawak	○	○
The Sarawak Co. (1959) Sdn. Bhd.	Sibu, Sarawak	○	
Zedtee Plywood Sdn Bhd	Tatau, Sarawak	○	○
Sabah, Malaysia (27 questionnaire forms sent, 26 answers (2 stopped operating, 1 was not applicable), 1 interview)			
Anfasar Sdn. Bhd.	Sabah	○	
Bersatu Andal Sdn. Bhd.	Sabah	○	
Bidasari Sdn. Bhd.	Sabah	○	
Borneo Moulding Sdn. Bhd.	Sabah	◆	
Caslink Sdn. Bhd.	Sabah	○	
Eamawood Forest Sdn. Bhd.	Sabah	○	
Hock Foh Hing Enterprise Sdn. Bhd.	Sabah	○	
Innoprise Wood products Sdn. Bhd.	Sabah	○	
Jupiter Lite Sdn. Bhd.	Sabah	○	
Kalabakan Plywood Sdn. Bhd.	Sabah	○	
Kasah Enterprise Sdn. Bhd.	Sabah	○	
Kin Yip Wood Industries Sdn. Bhd.	Sabah	○	
Lee Kok Enterprise Sdn, Bhd.	Sabah	○	
Matowin Sdn. Bhd.	Sabah	○	
Mau Seng Timber Sdn. Bhd.	Sabah	○	
Pacific Wood Product Sdn. Bhd.	Sabah	○	
Pembangunan Papan Lapis Sdn. Bhd.	Sabah	○	
Sabah Softwoods Berhad	Sabah		○

Samawang Sawmill Sdn. Bhd.	Sabah	○
Sanbumi Sawmill Sdn. Bhd.	Sabah	○
Sanbumi Wood Processing Sdn. Bhd.	Sabah	○
Sentosa Jaya Fruit Farm Sdn. Bhd.	Sabah	○
Sungai Silinponpon Sdn. Bhd.	Sabah	■
Super-W Sdn. Bhd.	Sabah	■
Syarikat Lak Sdn. Bhd.	Sabah	○
Tawau Plywood Manufacturing Sdn. Bhd.	Sabah	○
Unsur Juta Sdn. Bhd.	Sabah	○

Note 1: In the above list, the companies that sent back the form and were directly visited are shown with symbols.

Note 2: ○: The companies that sent back the form and were directly visited. ▲: The companies that did not send back the form but submitted certificates of certification etc. ◆: Kiln dry service only ■: Operation stopped at present

Note 3: Interviews were conducted at the same time for the companies that have the same parent company.