

CHAIN OF CUSTODY FOR SARAWAK - TIMBER TRACKING PROCEDURES

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There has been a growing demand lately for genuinely need of proof that timber traded in the global market place is supplied from legal sources. In testimony, major consumer countries of tropical timber products such as Japan and Europe had drawn in the pipeline public procurement policies for the trade of legal timber products. Both the industry and the state government of Sarawak viewed this development positively. Such a move is in consonance with the continuous effort done by Sarawak authority to garner customer confidence that industry has always been managed in a manner adhering to the rules and laws of the country.

INTRODUCTION

Sarawak is the one of the major suppliers of tropical timber in the global market. Latest foreign exchange earning from the export of timber products for Sarawak improved about 15% from US\$2 billion in 2005 to US\$2.31 billion in 2006. This industry generates investment opportunities, provides employment of multi disciplines, catalyze transfer of technology and spur regional development for Sarawak. In all fairness, it is of utmost importance to ensure that the industry continue to sustain its contribution to the socio-economic development of the general population at large.

The development of the timber industry that contributes to the economic well-being of Sarawak was attributed to internationally commendable sound and transparent forest management practices implemented over the years. It was supported by effective legal framework, efficient regulatory system and continuously improved administrative mechanism from the forest down to the export exit point of the country. The system implemented had not only catalyzed economic benefits but also successful in curbing illegal practices to a manageable minimum level.

Illegal timber in the context of Sarawak is timber which is harvested, transported, bought or sold in violation of national laws. Such practices include harvesting without proper approved concession permit, harvesting in violation of permit conditions, failing to pay royalty and non-compliance to trading rules. The overall management of the forest resource and industry particularly in curbing illegal activities for Sarawak has been adequately defined in the state constitution.

The objective of this paper, therefore, is to highlight the primary regulatory framework used to manage overall forest and timber downstream industry in Sarawak. This is necessary to inform consumers that timber procured from Sarawak with legitimate documentation is assured sourced and traded legally. Such understanding is imminent to ensure continuous acceptance of the timber tracking system used in Sarawak.

LEGAL FRAMEWORK

The existing acts, ordinances, regulations and rules which are relevant to regulate and manage the forest and forest industry sector in Malaysia in general and Sarawak in particular are listed in Appendix I.

Forest Concession

The management of land and forests in Sarawak is under the administrative purview of the state government. The gazetted primary laws applied to management of forest resources are the Forest Ordinances, 1954, Sarawak Wildlife Protection Ordinances, Forest Plantation Ordinance, Natural Resources and Environment Ordinances and Sarawak Forestry Corporation Ordinance 1995.

The right to extract timber from forests in Sarawak is only granted to companies holding concession license issued by the Ministry of Planning and Resource Management and managed by the Forest Department of Sarawak. Each concession, before the start of harvesting activities, must have an approved plan pertaining to timber inventory, harvesting blocks and coupes, annual volume of timber harvest, forest engineering plan and environmental impacts assessment.

Timber Processing

Any establishment for all types of manufacturing including the processing of timber is required to obtain manufacturing licence from the Ministry of International Trade and Industry (MITI) under the provision of Malaysian Industrial Co-ordination Act 1975 (ICA) after obtaining support from the Sarawak Industrial Co-ordination Committee (ICC). After obtaining manufacturing licence approval from MITI, the manufacturing company is required to obtain mill licence from Forest Department under Section 66 of the Forest Ordinance (Sarawak Cap. 126). With effect from 1st June 2007, STIDC will be authority to issue registration of mill

for manufacturing involving in all kinds of timber processing activities except sawmilling.

The Sarawak Timber Industry (Registration) Regulations, vested powers to Sarawak Timber Industry Development Corporation (STIDC) to register any persons engage in or association with the manufacture, sale, distribute, storing and marketing of timber in Sarawak. The penalty for any person who contravenes this regulation was reviewed to RM300,000 (USD83,000) in 2006.

Export Permit

All sawn timber exported from Sarawak must be graded in compliance with the Malaysian Timber Grading Rules, 1984. Under the Timber Grading Regulations, 1983, STIDC is vested the power as Grading Authority to check grade at least 10% of the exported volume.

Under the Malaysian Custom Act 1967, STIDC is given the power to issued export and import permit of timber products by the Malaysian Royal Custom Department. An electronic permit issuance permit system known as Sistem Maklumat Kastam (e-permit system) had been developed and used since 2006. All exporters must register to obtain their e-permit number as user of the e-permit system.

Regulating Agencies

There is not less than 8 agencies involved directly issuing and cross checking documents for planning, extraction, processing and trade of timber in Sarawak. These departments are:

- Ministry of Planning and Resource Management
- Forest Department
- Natural Resources and Environmental Board
- Sarawak Forest Corporation
- Sarawak Timber Industry Development Corporation
- Harwood Timber Sdn Bhd
- Royal Custom Department
- Port Authorities

These organizations have their own procedures which have formed a very effective approach of implementing and auditing the timber tracking system implement at each point.

TIMBER TRACKING

Timber Harvesting

Only company issued concessions by Forest Department is allowed to extract timber from the forest. Before extraction can commence, the concession owner is to prepare and submit for approval their detail harvesting plan. The felling permit or commonly known as a Permit to Enter Coupe issued is to be endorsed by SFC

before the logging crew can implement the timber harvesting in the approved block.

The felled trees are de-crowned, bucked and skidded to the log landing at the roadside. These logs are then debarked and trimmed in accordance with the Licensee's requirement. Thereafter, tractor numbers are painted onto the logs as a means of verifying that the logs are extracted by a particular crew in the approved block. Some licensees may affix their own tags (optional) onto the logs.

Then the logs are affixed with white plastic tags to show the coupe/block number and species. Blue plastic tags are used for logs harvested using helicopter. These plastic tags remain intact as verification features during movement throughout the supply chain. The logs are then loaded into the truck accompanied by Log Trucking List to be transported to transit camps.

At the transit camps, the logs are unloaded and arranged properly to be trimmed, measured and graded. All logs will be hammered marked at each end and at the middle with the registered mark of the licence holder under which the logs were harvested. Every licence holder is assigned an approved and registered property mark by the Director of Forests. At this point, logs are marked with different tags to classify its respective intended utilization (sawmill, plywood and export). After grading and documentation is completed, the logs can then be delivered to log ponds. Each truck must be accompanied with the log trucking list to detail the logs ferried.

At the log pond, the logs are further graded and sorted according to quality and end use (export or local processing). Each log will be assigned with a unique serial number on plastic tags. Different alphabets are used as log serial numbers on plastic tags with different colours to differentiate distinctly its intended used. The tag colours and alphabets used are as follows:

(a) Tractor and Kuda-kuda Logging Systems
Logs for export White tag A – L
Logs for sawmills Yellow tag M – S
Logs for veneer/plywood mill Orange tag T – Z
Poles (30 - < 40 cm diam.) Purple tag
Poles (20 - < 30 cm diam.) Pink tag

(b) Heli-Harvesting System
Logs for export Blue tag HA – HL
Logs for sawmills Blue tag HM – HR
Logs for veneer/plywood Blue tag HT – HZ

The concession licensee will complete and submit Log Specification Forms to SFC for log inspection. Log inspection is only carried out after SFC had verified that the Licensee is clear of any offences, unpaid outstanding royalty and other related irregularity. SFC will carry out log inspection by checking

log measurement, species, property marks, plastic tags and number of log pieces. After satisfactory verification exercise, royalty marking and removal pass will be carried out to enable the logs to be transported to its final destination. Similar verification process is conducted for the issuance of transit removal pass.

This exercise is in accordance with the rules which states no forest produce shall be removed to any place from any Forest Checking Station unless the person actually removing it is in possession of a removal pass relating to such produce, issued under the hand of a forest officer and, if it is timber, unless it bears the prescribed Government hammer-mark denoting that it has been assessed for royalty.

Logs arriving at the export point and mill gates, will be rechecked in term of measurement, species, property marks, plastic tags and number of log pieces by SFC. Harwood Timber will inspect the logs to ensure that it has been shipped in accordance with its intended utilisation of either for export or reserved for domestic processing. An Export Clearance Certificate (ExCC) is issued for export logs which fully adhere to the specified requirements. After verifying compliance through physical inspection based on ExCC, SFC will issue the final Transit Removal Pass. The Transit Removal Pass will be submitted as the verifying documents used to process application for export permit. A similar physical inspection procedure is adhered at the mill gates for logs allocated to sawmill, veneer and plywood mills.

Timber Processing

All logs arriving at the mill will be physically inspected by SFC and Harwood Timber at the mill log ponds. The logs detail is verify against the information contained in the accompanying Transit Removal Pass and Endorsement Clearance Certificate documents. The mill can only processed the log after it was physically verify tally with the information in the accompanying documents. All mills are required to submit their monthly production return to STIDC which will be use to verify production input and output of the mill.

As a prerequisite regulatory requirement, all mills must have a valid mill license issued by Forest Department and registration as manufacturer from STIDC. Beginning June 2007, the registration of mills for all types of timber processing activities except sawmill will be issued by STIDC. The mill licences and registration issued shall be valid for only one year and subject to annual renewal.

Export Permit Issuance

STIDC had been authorised by Royal Customs Department Malaysia to issue export permits for timber products exported from Sarawak. To facilitate a more

efficient delivery system, an electronic system was developed and now been used to process application and approve export permit electronically. This system enables accurate and real-time information management. The e-permit system had been implemented state wide since 2006.

Exporters are registered and assigned unique identification in order to do electronic permit application transaction. It is a form of in-built verifying and monitoring mechanisms to curb illegal transaction.

The export permit processes starts when the exporter submits the Custom Declaration Form (CDF 2) on line using the e-permit system. The application detail includes consigner, consignee, shipping agent, description of goods, destinations, timber volume, timber values and timber quantity. Supporting documents submitted by exporter for the export of logs are transit removal pass, shipping order, invoices, log specifications, summary of logs, trade license, STIDC Registration Certificate and letter of log quota compliance. In the case of permit for timber products, the exporter is to submit invoice, packing list, shipping order, supplier list and grading certificates (for sawn timber). Export of *Ramin* must be accompanied with additional documents like grading exemption certificate and CITES certificate issued by Forest Department. Special export permit from Forest Department is required for export of timber species like *Gaharu*, *Belian*, *Bakau*, *Sepetir* and *Bintangor*.

Export of sawn timber is to be accompanied by grading certificate. Timber Grading Regulations, 1983 requires all sawn timber to be exported are to be graded in accordance with the Malaysian Grading Rules for Sawn Hardwood Timber. STIDC will conduct a 10% check grading of the consignment as detail in the schedule of Timber Shipped to ensure grading compliance.

STIDC verifies e-permit application by checking the accuracy of the supporting document received. Applications with incomplete or inaccurate information are rejected. Approval of permit application is transacted electronically. STIDC will conduct physical inspection before approval is granted. The Sistem Maklumat Kastam (e-permit system) will register, acknowledge and assign permit number to each application approved. The Royal Custom Department will issue acknowledgment of permit approval. Exporters applying the permit will print the Custom acknowledgement on the CDF 2 form and submit it to STIDC for endorsement of approved export permit. The export permit is valid for not more than 3 days. New application is required to replace permit exceeding the expiry limit.

The exporter will submit the integrated shipping documents and outward manifest to the Customs for entry into the e-declare database system. Custom will give feedback to STIDC via on-line on the clearance status of the goods at the port. A copy of the approved e-permit

and e-declare documents will travels with the consignment. These documents can be used as proof that the timber in the consignment is legal in accordance with the law of the country and tracking can be done by way of assessing the information detailed in those documents.

TIMBER IMPORT

Beginning 3 July 2000, STIDC is empowered by the state government to manage and control the import of timber including sawn timber from Indonesia. Sarawak share long land and sea border with its neighbouring Kalimantan, one of the Indonesian provinces in Borneo Island. For decades, there has always been in-flow of goods including timber passing through the borders from Indonesia to Sarawak.

In effort to control illegal entry of timber, Sarawak has designated 5 entry points for timber from Indonesia. The five entry points are Sematan, Biawak, Tebedu, Batu Lintang and Lubok Antu. These entry stations are operated under the ambit of STIDC and being assisted by Harwood Timber. The purpose is to control and monitor the import of timber from Indonesia to ensure that only timber from legal sources is allowed.

All importers must register with STIDC. Importer of sawn timber from Indonesia will submit application for Custom clearance using Borang Kastam 1 and to be supported with the Pemberitahuan Eksport Barang (PEB) and Surat Keterangan Sahnya Hasil Hutan (SKSHH) from Indonesian authorities. STIDC will inspect and ensure that timber of *Ramin* species is to be supported with CITES certificate issued by the Indonesian authority. An inspection note will be issued by STIDC. Timber can only be allowed entry after it has been verified having adequate supporting documents.

The timber will be transported to and unloaded at Harwood Timber deport. Here the timber is physically tallied by Harwood Timber to ascertain the quantity and species. After which the receipt note is issued and the timber will be neatly stacked and bundle. The importer will submit application supported by relevant documents for hammer marking using Form A.

STIDC will validate the document received and conduct hammer marking and tagging on timber. Finally, a removal pass is issued to enable the timber to be removed to its destination using Malaysian registered vehicles. The timber will be assigned a unique serial number used as reference on the tag and the removal pass.

PREVENTIVE MEASURES

Despite stringent laws enforced, it cannot be denied that there may be some element of illegal activities. Such

activities, however, are within the manageable limit. In addition, preventive measures are being in placed to create awareness and prevent illegal practices cropping. Every regulating agencies involved has form its own preventive and enforcement units to tackle illegal activities. Inter-agencies joint patrols are being conducted from time to time. In some instances, the assistance of military and police personnel are sought.

The multi-agencies involvement in tracking timber source before issuing an export permit serve as internal audit to the system implemented. Each agency has the responsibility to verify information and documents used are accurate and authentic. In addition, the relevant work procedures of these departments are certified under the ISO 9001:2000. Third party audit is the major requirement to maintain certification under ISO 9001:2000 quality management system. The system also emphasize on continuous improvement on the overall work procedures implemented.

Obviously, the management of the overall forest and timber industry is being governed by the existing laws, regulations and rules. As it is so, efforts are being done to improve the existing regulatory procedures implemented to strengthen its effectiveness.

Efforts are continuously being made to ensure the system used is transparent. Sarawak government has engaged URS Australia Pty Ltd to looked at the effectiveness and identify gap for improvement the forest chain-of-custody systems used in Sarawak. Initial finding of this study revealed that there is a chain of custody established in Sarawak for log production through to local processors and log export points. The state government is looking into the recommendations proposed by URS to strengthen the acceptance of the system in place.

CONCLUSION

The present legal framework and regulatory system used in Sarawak to manage the forest and timber industry has been successful in sustaining the development of the industry for the last 3 decades. It is the duties of all stakeholders concern particularly the government and the investors alike to play equally important role in upholding the good management practices to ensure the sustainability of the industry for the future generation. Glitches in the system will be rectified. Gaps highlighted will be narrowed at least but neutralise ultimately.

References

Appendix I

[1] URS Pty Ltd, "Review of Chain of Custody Systems Operating in Sarawak, Malaysia", 12 January 2007

[2] Seneca Creek Associates, LLC and Wood Resources International, LLC, " 'Illegal Logging' and Global Wood Markets: The Competitive Impacts on the US Wood Products Industry", November 2004

[3] Sarawak Timber Industry Development Corporation Ordinance, 1999, Sarawak

[4] Forests Ordinance, Chapter 126, 1995

[5] The Sarawak Timber Industry (Registration) Regulations, 2006

LIST OF RELEVANT REGULATING LAWS

1. Forest Ordinance, 1954
2. Wildlife Protection Ordinance 1998
3. Natural Resources and Environment (Amendment) Ordinances 1997
4. Forests (Planted Forests) Rules 1997
5. Sarawak Land Code
6. Sarawak Timber Industry Development Corporation Ordinance, 1999
7. The Timber Industry (Registration) Regulations, 2006
8. The Timber Grading Regulations, 1983
9. The Malaysian Grading Rules for Sawn Hardwood Timber, 1984
10. The Industrial Co-ordination Act 1975
11. Malaysian Custom Act, 1967
12. Occupational, Safety and Health Act 1994
13. Occupational Safety and Health (Control of Industrial Major Accident Hazards) Regulations 1996
14. Environment Quality Act 1974
15. Environment Quality (Clean Air) Regulations, 1978