

# WALKING ON THE DEVASTATION OF TROPICAL FORESTS

Tracking the progress of  
Japan's housing industry  
supply chain on taking  
responsibility for forest  
impacts in Sarawak.

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## Executive Summary

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**The forests of Sarawak have been falling for decades, with the logging driven substantially by demand originating from Japan.**

The impacts have now assumed extreme proportions, resulting in massive environmental damage together with serious social effects depriving indigenous populations of their ancestral forests, their rights and livelihoods.

**Pressing companies over the impacts of their timber purchasing decisions is a core part of the campaign to achieve responsible sourcing policies and thereby change the destructive impacts of Japan's housing industry on people, forests, biodiversity and climate.**

In 2016 Markets for Change and JATAN began a public campaign to

alert companies in the supply chain for plywood flooring, a key product originating from Sarawak, of the impacts of logging on people and forests.

This is our second report evaluating the response of companies. Results are mixed.

We have repeatedly asked them to identify and cease procurement of timber products from Sarawak until such products can be independently verified as legal, environmentally acceptable, and free from corruption and human rights abuses. We also ask companies to act in relation to timber from all sources by conducting robust due diligence analysis on their supply chains to ensure that the same concerns are not associated with the timber they buy, and to immediately cease sourcing where this cannot be guaranteed.





**Of the 65 companies surveyed, two-thirds did not respond and are still not transparent about their procurement.**

This represents a failure to adopt modern best practice and an unwillingness to expose poor practice to public scrutiny.



**20 companies answered our second annual questionnaire. Of these only one, Daito Trust, is not receiving wood product from Sarawak.**



**4 companies now take a reduced supply from this source.**

Some have done so because of a decision by their company, but others were simply affected by a constriction of supply from Sarawak. Others say that wood from Sarawak meets their standards, which is a poor reflection on those standards.



**Some companies have moved to investigate their supply chain from Sarawak and we find that they are moving to a broader and deeper assessment.** Some have incrementally improved policies.

Disappointingly, a number of companies continue to place financial considerations of a cheap wood supply above any ethical responsibility to disassociate themselves from this unacceptable source of supply.

The climate impacts of logging and the need to conserve forest carbon stocks are almost universally unacknowledged, with only three companies fully addressing this vital matter.

Misplaced reliance on third party forest management certification as the sole arbiter of acceptability is common amongst companies wishing to apply good standards. Companies also regard registration under the Clean Wood Act as an acceptable standard, but we point out the flaws in that law which mean that additional work verifying the supply chain is required, as is consideration of important matters not covered by this law.

Companies are warned that Sarawak has been promising unrealistic levels of forest conservation in what appears to be a greenwashing exercise designed to create an impression of change, but which is most unlikely, if not impossible, to be achieved.



**Logging activity is an activity that causes very extensive damages to the forest, to the environment and to the life of our people.**

- Harrison Ngau  
Malaysian lawyer, environmentalist and a member of the Dayak Kayan tribe.

# Conclusion

**Whilst there have been some incremental improvements, company policies generally are moving far too slowly to make a real difference to the situation on the ground in Sarawak.**

It is almost too late to make a meaningful difference to the damage being inflicted, but important to try to do so. As indicated in the title of this report, Japanese consumers are literally walking on floors that are the product of forest devastation when they buy new housing.

We plead with companies and consumers to take the situation seriously, and act expeditiously to take corporate and personal responsibility for the impacts of their purchasing decisions.



## Recommendations

### Recommendation 1:

**Japanese companies in the housing industry supply chain** for plywood flooring products now apply the recommendations of our 2016 report to;

- identify and cease procurement of timber products from Sarawak until such products can be independently verified as legal, sustainable and free from corruption and human rights violations, and
- conduct robust due diligence analysis on their supply chains to ensure that corruption, illegal logging, human rights violations, and environmental degradation are not associated with the timber they buy, and to immediately cease sourcing where this cannot be guaranteed.

### Recommendation 2:

It is time for **concerned citizens and consumers** to become involved in urging change if natural treasures, human rights and traditional lifestyles and livelihoods are not to be lost forever. See the Markets For Change and JATAN websites for further information on how to contact companies.

### Recommendation 3:

**Investors in companies participating in Japan's housing industry supply chain** should also ensure that those companies apply high procurement standards such as those operating in other developed countries. In this way investors can contribute to a positive outcome to the current unacceptable situation, and ensure that their own investment reputation on environmental and social standards is not jeopardised.

## Introduction

This report assesses the performance of Japanese companies in the housing industry supply chain in developing and implementing procurement guidelines designed to protect environmental values and human rights, with a specific focus on plywood from the high risk location of Sarawak.

It is part of an ongoing project designed to inform and motivate Japanese companies and consumers to acknowledge responsibility and take action on the impacts of their demand for wood products on the producing region, which in this case has suffered massive environmental damage from logging and has seen the ancestral forests of indigenous people alienated for wood production without their consent.

**Japan is the third largest developed country consumer market for imported wood in the world but lags behind the other two big consuming blocs, the EU and the US in applying sanctions to imports of illegally logged wood and in the adoption of an ethic of environmental and social responsibility amongst companies involved in the supply chain.**

We circulated a questionnaire to 65 companies in January 2018, continuing our practice of tracking the progress of Japan's housing industry supply chain in implementing provisions to address the deforestation and degradation of tropical forests, especially in relation to wood originating from Sarawak, Malaysia.

Our two previous reports<sup>1</sup> of 2016 and 2017 on this trade have explained the need for companies to take action to counter the ongoing destruction of forests and dispossession of indigenous people in Sarawak, the key producer of plywood flooring materials utilised in Japan.

Sarawak continues to be one of the most exploited and unregulated timber producers in the region. We have presented the facts regarding extreme circumstances in this high risk location, outlined the response of companies, and continued our extensive research and engagement in Japan with companies in the supply chain over procurement policy.

The campaign has also involved meetings with companies, seminars for business and for the public, media exposure of the issues, and a banner action designed to draw the attention of attendees to a major wood products trade show to the specific problem of logging Sarawak for plywood. We continue to investigate the situation in Sarawak, and include updates in this report.

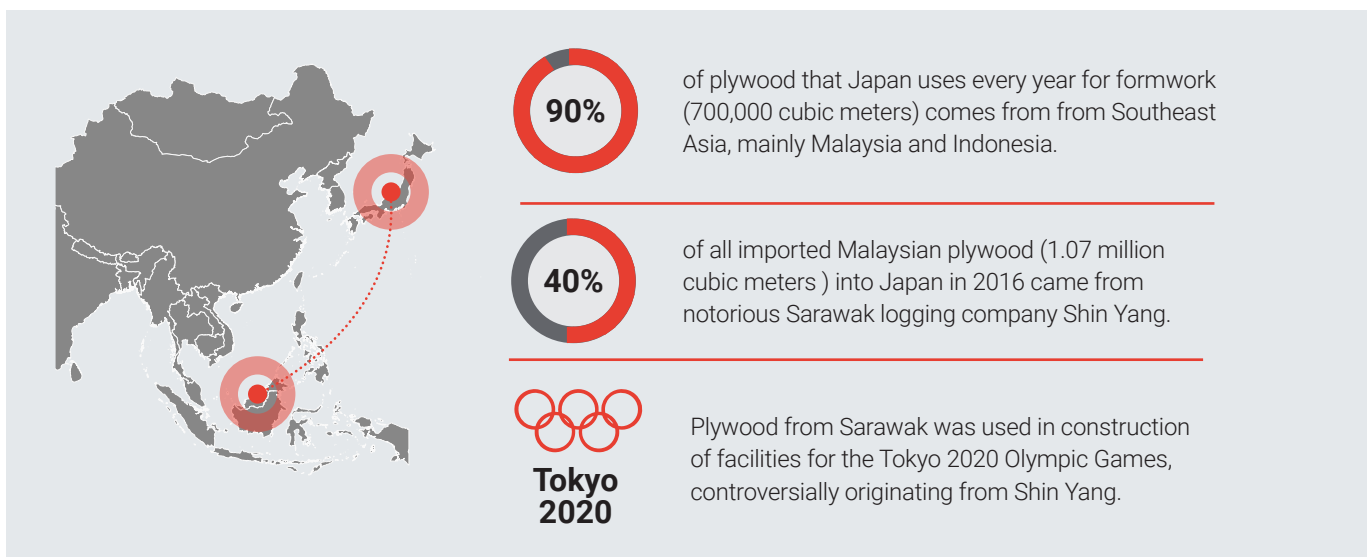
**“They really kill us, they kill us because if we drink the polluted water we will die and our food getting less and less, because the forests had been destroyed so how can they say they bring development?”**

- **Jepery Moyong**,  
Chief of Ba Puak Village.



# Japan Timber Imports and Shifting Trade with Sarawak

Japan remains one of Sarawak's largest trading partners. They remain the largest importer of plywood produced in Sarawak, a trade relationship that has been in place for decades. The plywood is used for concrete formwork and also in flooring for new housing.



While there has been a downward trend in timber trade between the two countries between 2012 and 2016 which has seen volumes reduce and prices increase, the period between 2017 and April 2018 has seen a renewed increase in demand for volume.

Similar trends can be found across Sarawak's timber related exports. This is largely due to the adjustment in Sarawak's domestic requirements in regards to the State's timber industry.

The amount of plywood that Japan uses every year for formwork is estimated at about 700,000 cubic meters, of which nearly 90% is from Southeast Asia, mainly Malaysia and Indonesia, according to the Japan Plywood Manufacturers' Association.<sup>2</sup> While the majority of plywood imported from Malaysia is for concrete formwork, a significant proportion is for use in flooring.

Plywood formwork originating from Sarawak became an issue in Japan during 2017 due to its use in construction of facilities for the Tokyo 2020 Olympic Games, in particular the high profile new National Stadium. Environment groups, including Markets for Change and JATAN, discovered plywood originating from notorious Sarawak logging company Shin Yang in use on the site.

In 2016, Japan imported 1.07 million cubic meters of Malaysian plywood, nearly 40% of all its plywood imports, according to trade statistics from Japan's Ministry of Finance. Shin Yang accounts for about half of that volume.<sup>3</sup>

In July 2017 Shin Yang group announced that they will reduce Japan-bound shipments of tropical plywood used in concrete formwork by about 30% starting in September, due to reduced supply of timber, coinciding with the Sarawak state government announcement that they have raised the "timber premium"

that it levies on commercial logging. A cubic metre of lumber is now taxed at a uniform \$12, compared to a maximum of 70 cents previously.

Meanwhile, Malaysia has reduced its export quota to 20% of total logging volume. Previously, it was 30%.<sup>4</sup>

While Japanese demand remains strong, production in Sarawak has slowed, owing largely to a reduced supply of quality logs which has seen prices remain high.<sup>5</sup> Japan had moved to fill the gap in the market with an increasing domestic plywood production, however domestic alternatives can compensate for only 30% of the estimated shortfall in Southeast Asian imports.<sup>6</sup>

2018 has marked a renewed push for an increased share of Sarawak's export timber product. Japan's housing and construction industries continue to rely heavily on tropical timbers.

# The Questionnaire

**In January 2018, Markets For Change and JATAN sent a comprehensive questionnaire to 65 companies in Japan's housing industry supply chain, essentially canvassing the same companies as in our previous survey.**

The questions asked were also the same as previously, with the addition of one more question asking whether the company had reduced their supply from Sarawak (in addition to questions on whether they had ceased or continued their Sarawak supply).

We sought information on their procurement policies in the specific fields of Environment, Social, Scope of Procurement Requirements, and Sarawak. The questionnaire can be found on the Markets For Change and JATAN websites at: <https://bit.ly/2lsynKR> and <https://bit.ly/2LgWv4X>

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# Methodology

**We are reliant on the answers given to us by each company. We are not responsible for their veracity. That is the responsibility of each company that answers the questionnaire. One company expressed scepticism regarding the answers of some others in our previous assessment, however we can only assume that the answers we receive are truthful.**

We have used our judgement in assessing performance when the answers are not coherent, seem ignorant, or are contradictory. For example, one company claimed to address all the environmental and social criteria on the basis that they buy certified wood, yet no certification system adequately covers all of these criteria.

We have made our best effort to assess the performance of each company against the specific criteria. This year many did not answer all the questions precisely, even when they gave a response to a question, which made it challenging to compile a comparative assessment.



# Companies Surveyed

Figure 1: Answer to Questionnaire by companies in the housing industry supply chain in Japan

 Timber Trading Companies	YES/NO	 Condominium Developers	YES/NO	 Housing Makers	YES/NO
Itochu Kenzai	✓	Nomura Real Estate Development	✗	Sekisui House (Osaka HQ)	✓
SMB Kenzai	✗	Mitsui Fudosan Residential	✗	Tama Home	✗
Sojitz Kenzai	✓	Sumitomo Realty & Development	✗	Daiwa House (Osaka HQ)	✓
Toyo Materia	✗	Mitsubishi Estate	✓	Asahi Kasei Homes	✗
Sumitomo Forestry	✓	Daikyo	✗	Sekisui Chemical (Osaka HQ)	✓
		Tokyu Fudosan Holdings	✓	Misawa Homes	✓
		Tokyo Tatemono	✗	Panahome	✓
		Takara Leben	✗	Iida Sangyo	✗
		KINTETSU REAL ESTATE	✗	Iida Group Holdings	✗
		Daito Trust Construction	✓	AQRUHOME	✗
		Mori Building	✗	Odakyu Housing	✗
		SEKISUI HEIM Real Estate	✗	Sanyo Homes	✗
		Odakyu Real Estate	✗	YAMADA SXL HOME	✗
		THE SANKEI BUILDING	✗		
		MEIWA ESTATE	✗	 Building (Flooring) Contractors	YES/NO
		NISSHIN FUDOSAN	✗	Uchiyama Corporation	✗
		STARTS	✗	Fujita Shouji	✗
		TORAY CONSTRUCTION	✗	With Flooring	✗
		Hankyu Realty	✗	Bismcompany	✗
				EDOGAWA	✗
				YAMATAKU	✗
				Daiko	✗
				MARUKOMA	✗
				Top Kogyo	✗
				Tokyo Board Industries	✗
				SANKI-KATAWAKU	✓

 Flooring Products Manufacturers	YES/NO
Daiken (Osaka HQ)	✓
Eidai	✗
Panasonic	✗
Noda	✓
Asahi Woodtech	✓
Wood One	✓
SATTSURU PLYWOOD	✗
Toyo Tex	✗
Sorachi Veneer	✗
ISHINOMAKI PLYWOOD	✗
YKK AP Inc.	✓
LIXIL	✓
HOKUZAISHOJI	✗

 General (Construction) Contractor	YES/NO
KAJIMA	✓

 Timber Wholesalers	YES/NO
Japan Kenzai	✓
Nice	✓
Jutec	✗

# Procurement Policy Assessment Summary



## ENVIRONMENT

Degradation or conversion of natural forests	●	●	●	●	●	●	●	●
Forest operations in primary forests	●	●	●	●	●	●	●	●
Forest operations in high carbon value forests	●	●	●	●	●	●	●	●
Forest operations in protected forests, protected species	●	●	●	●	●	●	●	●

## ENVIRONMENT & SOCIAL

Proof of legality in sourcing and operations	●	●	●	●	●	●	●	●
Certification requirement	●	●	●	●	●	●	●	●

## SOCIAL

Land tenure check	●	●	●	●	●	●	●	●
Proof of free, prior and informed consent from indigenous people	●	●	●	●	●	●	●	●
Checks on issuance of wood products tainted by corruption	●	●	●	●	●	●	●	●

## SCOPE OF PROCUREMENT REQUIREMENTS

Existence of procurement policy	●	●	●	●	●	●	●	●
Transparency – Public availability of policy	●	●	●	●	●	●	●	●
Independent advice on policy development	●	●	●	●	●	●	●	●
Review to verify implementation	●	●	●	●	●	●	●	●
Improvement to policy guidelines	●	●	●	●	●	●	●	●

## SARAWAK

Did your company investigate its supply chain for wood products from Sarawak?	●	●	●	●	●	●	●	●
Did you find wood products originating from Sarawak?	●	●	●	●	●	●	●	●
In relation to Sarawak supply, have you proven legality with document(s) issued by Sarawak state government?	NO	NO	NO	NO	NO	NO	NO	YES
Do you regard such document as sufficient to prove legality?								NO
Did you stop procuring timber products from Sarawak?	●	●	●	●	●	●	●	●



YES	NO	YES	NO		YES	YES	NO	NO		NO	
NO		NO			YES	YES					

# Key: Scoring Criteria for Procurement Policy Assessment Summary









This indicates insufficient information or irrelevance in reply and has been scored as zero.

<b>ENVIRONMENT</b>			
<b>Is the degradation or conversion of natural forests prohibited?</b>	Degradation of natural forest is not prohibited	Some insufficient protections against conversion and logging of natural forests	Degradation or conversion of natural forests is Prohibited
<b>Are forestry operations in primary forest prohibited?</b>	logging in primary forest not prohibited	Some insufficient protections for primary forests	Operations in primary forests are prohibited
<b>Are forestry operations that degrade high carbon value and/or high carbon stock forest prohibited?</b>	Not prohibited	Some insufficient protections for forest carbon	Prohibited
<b>Are operations in protected areas prohibited? Are harvestings of protected species prohibited?</b>	Not prohibited	Some insufficient protections	Prohibited

<b>ENVIRONMENT &amp; SOCIAL</b>			
<b>Proof of legality in sourcing and operations</b>	No	Implicitly through suppliers	Yes, explicitly in policy and conduct due diligence themselves
<b>Certification requirement</b>	No certification requirements	Preferences certified timber products but does not differentiate between certifications	Preferences more reliable certification and prioritises their procurement

<b>SOCIAL</b>			
<b>Is a check of land tenure required?</b>	No	Implicitly through suppliers	Yes, explicitly in policy and conduct due diligence themselves
<b>Is proof of free, prior and informed consent of indigenous communities required where applicable?</b>	No	Implicitly through suppliers	Yes, explicitly in policy and conduct due diligence themselves
<b>Is there any check on whether concession issuances and wood products are tainted by corruption?</b>	No	Implicitly through suppliers	Yes, explicitly in policy and conduct due diligence themselves

SCOPE OF PROCUREMENT REQUIREMENTS			
			
<b>Existence of policy</b>	Does not exist	In development	Exists
<b>Transparency - public availability of information</b>	Not publicly available	Partial information available	Publicly available
<b>Independent advice on policy development</b>	No independent guidance	Use of unreliable/ unspecified advisors	Use reliable third party advice on development
<b>Review to verify implementation</b>	No substantive review process	Internal review	Regular third party review and verification
<b>Improvement</b>	No process for improvement	Internal process for improvement of policy	Consultative process for improvement of policy involving independent third party

SARAWAK	YES/NO			
				
<b>Did your company investigate your supply chain for wood products originating from Sarawak?</b>		No		Yes
<b>Did your company find wood products originating from Sarawak?</b>		Yes		No
<b>In relation to Sarawak specifically: Have you proven 'legality' with document(s) issued by Sarawak State Government?</b>	Yes/No			
<b>Do you regard such a document as sufficient to prove 'legality'?</b>	Yes/No			
<b>Did you stop procuring timber products from Sarawak?</b>		No	Reduced	Yes

# Results

**Although almost every company surveyed is understood to be receiving material from Sarawak<sup>7</sup>, the vast majority of companies have again proven unwilling to engage on the issues.**

Two-thirds of recipients failed to reply at all and one company wrote back to us that they will not answer as they regard the matters covered by our inquiries to be internal information.



**This failure of transparency is a breach of international best practice and indicates an unwillingness to expose to public scrutiny their poor practices or lack of relevant procurement criteria.**

Perhaps there also remains a lack of comprehension by companies of their corporate responsibility to ensure that their demand for products does not drive adverse social and environmental impacts and of the expectation that they will be seen to take steps to address these issues.

**Twenty companies answered the questionnaire and we commend them for showing leadership in doing so.**

It is a big step to expose company procurement policies to external review, especially in Japan which lags behind other developed countries on these issues, but is vital to attaining responsible ethical standards and to gaining the confidence of consumers and financiers in a company's products and operations.

A few companies that did not score well in the assessment have only recently commenced development of comprehensive policies, or are at an even earlier stage in working on doing so. This should be borne in mind when contemplating the results.





**In their answers some companies told us of their investigations of supply chains from Sarawak, which do seem to be moving to a broader and deeper assessment.**

Companies also described some incremental improvement of policies over the year since our last survey. Several companies reduced the amount of product they receive from Sarawak, which is heartening. Some others indicated that reductions in availability of supply volumes from the Sarawak production end had affected the volumes received despite their willingness to continue to accept timber from Sarawak.

**Whilst it is good that a minority of companies are upgrading their procurement policies and investigating their supply chains, these efforts rely on incremental change at a time when urgency is needed** in addressing the environmental and social crises in Sarawak. This urgency has been repeatedly put to companies.



**We remain disappointed that many companies explicitly place cost considerations above ethical responsibility.**

Wood produced in dubious circumstances is cheaper than that conforming to appropriate standards. Cheap wood from tropical countries has been a major supply to Japan for decades. Much of that logging has inflicted untold environmental damage and human misery, much has been illegal. Even now Japan has not followed the practice of other developed countries and declared the import of illegally logged material to be against the law.

# Important issues arising from company responses

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## Reliance on suppliers to have appropriate standards

**Markets For Change, JATAN, and other eNGOs have applied considerable pressure to Japanese companies over a number of years to address the issue of Sarawak timber in their supply chain.**

We have recommended that Japanese companies apply high standards of due diligence in relation to the timber they import or use, and importantly, that it is not enough for a company to rely on the assurances of large trading companies in Japan, or timber companies in Sarawak in relation the compliance of timber products originating in Sarawak in regards to

environmental, human rights or indigenous land rights expectations. Companies must conduct their own research into the origin and impact of the timber they use.

Companies throughout the supply chain should ensure that the timber they put on the market and into Japanese homes is legal and meets environmental and human rights standards. It is their responsibility. Some companies continue to claim that they rely on suppliers higher up the supply chain to verify compliance with such standards. The results of our survey show that this is not a workable approach. In any case each company should develop their own policies and ensure that they are implemented.

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**Photo:** Logging truck transporting freshly cut logs in Sarawak.. Photo Bruno Manser Fonds.







## Ignoring the degradation of high carbon value forests

Most companies do not exclude products resulting from destruction or degradation of forests containing high carbon stocks, even when they do include standards to protect biodiversity and other high conservation values.

**This reflects a failure to keep pace with international concerns and actions to combat the adverse impacts on climate of logging, clearing, and of associated drainage of peat soils in Indonesia and Malaysia.**

Tropical forests are massive carbon stores, estimated to contain up to 250 billion tons of carbon and storing more carbon per hectare than most other natural forests and significantly more than forest plantations<sup>8</sup>. Logging of these forests results in the immediate release of emissions and also triggers ongoing emissions from short-lived wood products. Additionally, the drainage of peat forests (and fires associated with clearance) adds significantly to global emissions, and such emissions continue except where the peat is rewetted.



Between 2001 – 2012 about **30% of tropical deforestation occurred in Asia**, predominantly in Indonesia and Malaysia.



but **this accounted for 44% of emissions from deforestation** because of the carbon intensity of peat.<sup>9</sup>



**Valuing high carbon stocks and acting to retain and expand them is vital as the world attempts to limit global warming to 1.5C”**

High Conservation Value assessments alone do not often lead to the conservation and restoration of the majority of secondary or degraded forests for their carbon, but valuing high carbon stocks and acting to retain and expand them is vital as the world attempts to limit global warming to 1.5C. The climate benefit is not only in preventing the release of substantial emissions to the atmosphere, but also in enabling ongoing sequestration of carbon achieved by growing forests drawing carbon back out of the atmosphere. The actual and potential global contribution of forests to drawing down carbon levels in the atmosphere is very important. We are at the point where emissions reductions alone cannot meet our climate goals and we must also draw carbon back out of the atmosphere, so the vital function of natural forests in sequestration must be strategically deployed in preference to their logging particularly where high carbon stocks are present or can be restored.

**Currently, the various forest certification systems do not cover this important matter.**

## Exposure of weak Tokyo 2020 Olympics timber sourcing standards

**Over the past year the utilisation of tropical plywood of dubious origin in construction of facilities for the Tokyo 2020 Olympics has been publicised in Japan and internationally as a matter of concern.<sup>10</sup>**

Weak sourcing guidelines do not even require that plywood used on site be legally obtained, allowing instead for such timber to be 'laundered' by being first utilised in other construction before being deployed on Olympics construction. Yet this is a high profile event that exposes Japan to international scrutiny.

Olympics authorities constrain their requirements on legality of harvest and consideration for indigenous rights by "taking the actual business practice of timber trade into account to ensure feasibility"<sup>11</sup>. This is a recipe for continuation of unacceptable procurement practice.

As noted earlier in this report, the use of wood on the national stadium construction site originating from one of the most disreputable of the Sarawak logging companies, Shin Yang, was exposed in 2017.

At least one company responding to our questionnaire has been prompted to address their procurement following publicity about these concerns.



1. Shin Yang plywood in use on construction site of National Stadium, Tokyo.
2. Shin Yang plywood in use on construction site of National Stadium, Tokyo.
3. Protest over use of Sarawak plywood for construction for Tokyo 2020 Olympics venues.

**“Shin Yang has been logging very aggressively in the area of our village. When their tractors extract a log, they just bulldoze everything around... Shin Yang has been logging our ancestral forests without our permission or consent. They have never asked us for our opinion or needs.”**

- Matu Tugang

Headman of Long Jaik Belaga, Sarawak, September 2017. The Penan village of Long Jaik has been fighting Shin Yang for two decades.



## Reliance on Japan's Clean Wood Act – the problems

**Japan has failed to enact a comprehensive ban on imports of illegally logged wood products. It has instead enacted a voluntary scheme under which companies can register as supplying only legally harvested timber.**

A few companies that responded to our questionnaire indicated that they were participating, or may participate, in the scheme and relying on its provisions as the standard to prove their credentials on environmental and social issues in wood production.

The Clean Wood Act (formally the 'Act on Promotion of Use and Distribution of Legally Harvested Wood and Wood Products') was adopted in May 2016. A basic policy and two ministerial ordinances on enforcement and due diligence were proclaimed in May 2017, and the Act became operational in late 2017.

Formal recognition of responsible behaviour under the Clean Wood Act is likely to bring reputational benefits to companies participating. Revocation of registration is the main penalty for non-compliance and such businesses would risk losing their good name and standing. Fines are contemplated for falsely claiming registration.

**Some problems exist with the provisions of the Clean Wood Act compared to those of other jurisdictions, such as the EU Timber Regulation:**



**Definition of Legality** – the requirement is to verify that the wood was logged in compliance with the laws and regulations of the region or country of harvest. In the case of Sarawak, the weakness of the domestic provisions for legality and ongoing court action over the status of forested lands for which Native Customary Rights are claimed are a serious issue calling into question whether such a legality provision is satisfactory for high risk locations.



**Corruption** – a key concern regarding Sarawak is the corrupt allocation of logging concessions and corrupt documentation of legality and of supply chains. The Clean Wood Act does not address corruption, meaning that there is no consideration of this risk when evaluating documentation as part of due diligence measures.



**Risk Assessment** – criteria for risk assessment when carrying out due diligence procedures are not defined. By contrast, under the EUTR these 'consider the assurance of compliance with applicable legislation, prevalence of illegal harvesting of specific tree species, prevalence of illegal harvesting or practices in the country of harvest, sanctions and the complexity of the supply chain'<sup>12</sup>. These are vital considerations but there is no assurance they will be considered.



**Reliance on third party certification** – unlike the EU, USA or Australia, operators may use 'certification methods utilising forest management certification schemes and CoC (chain-of-custody) certification schemes' to ensure legality. This provision is unacceptable for ensuring legality. The issue was recently contested in Australia where an attempt to insert such a provision into the Illegal Logging Prohibition Act of 2012 failed to gain Parliamentary approval. Expert ENGOs strongly asserted that voluntary timber certification cannot replace legal compliance, explaining that experience in many countries shows that private certification does not guarantee legality. Both PEFC and FSC have repeatedly proven unable to exclude illegally sourced timber from supply chains. They do not provide transparent traceability and buyers do not need to know the exact origin of a product, which makes these schemes susceptible to fraud. The Australian Government itself recognised that "both systems [PEFC and FSC] continue to face challenges in dealing with deliberate fraudulent activity," and that a deemed-to-comply arrangement for these schemes "moves away from the principle that importers and processors need to understand their supply chains"<sup>13</sup>.

**These issues mean that companies must go further than compliance with the provisions of the Clean Wood Act to assure themselves of the legality and freedom from corrupt behaviour of the wood products in which they trade.**

## The problem with reliance on certification

**Many of the more progressive Japanese companies have expressed a reliance on forest certification schemes to determine and prove the suitability of the timber products they procure, however it is important to note that none of the companies procure only certified timber, they merely claim to preference it.**

Whilst certification is a step forward, it also poses numerous issues. Many of the companies who said they preference certified timber do not differentiate between certification schemes although such schemes vary significantly, as does their effectiveness. Those companies that do recognise the difference between schemes don't mandate making such a distinction in relation to Sarawak.

**Of the international schemes cited, Forest Stewardship Council (FSC) and Programme for Endorsement of Forest Certification (PEFC) are the most common.** PEFC provides an umbrella under which local and regional schemes from around the world may be registered. Some companies suggested that they preference FSC over PEFC in relation to Sarawak, however as there are currently no logging operations in natural forests certified by FSC in Sarawak this claim is clearly problematic.

While in some instances, certification can provide assurances that logging operations are less damaging than they otherwise would have been, this is only in relation to some certifications (FSC) and does not mitigate the fact that many of these areas will be irreversibly compromised regardless of better logging

practise. Often certified logging operations in sensitive areas provide a gateway for further destructive activities which will permanently degrade landscapes, and give a false sense of environmental responsibility when the introduction of logging in any form is actually problematic. The concept that significant forest landscapes should remain intact is not yet in practice by any certifiers. *Sciencemag* found that:

"The certification of logging concessions under responsible management had a negligible impact on slowing Intact Forest Landscapes (IFL) fragmentation in the Congo Basin. Fragmentation of IFLs by logging and establishment of roads and other infrastructure initiates a cascade of changes that lead to landscape transformation and loss of conservation values. Given that only 12% of the global IFL area is protected, our results illustrate the need for planning and investment in carbon sequestration and biodiversity conservation efforts that target the most valuable remaining forests".<sup>14</sup>

Certification of logging operations in biodiversity rich, yet sensitive landscapes such as Sarawak can never provide the assurances of sustainability and environmentally responsible practices required. The only way to mitigate the risk posed to these areas is to cease procurement of the products which lead to their destruction.

**"Free and prior informed consent is not properly integrated into the MTCS guidelines and not correctly implemented in practice"**

- Indigenous Peoples Network of Malaysia





### Forest Stewardship Council Certification (FSC)

The environment movement internationally preferences FSC as the superior certification but it still falls short in relation to a number of broader environmental concerns. Its failure to guarantee the retention of environmental values across the landscape via the recognition of the importance of maintaining Intact Forest Landscapes has been an issue of contention within FSC internationally that environment groups are pushing to have addressed and measures introduced to do so. Earlier commitment of the scheme to address this matter has been watered down. Greenpeace International has just recently withdrawn from membership of FSC and this is understood to be in large part over the failure to implement effective standards on this vital matter.



### Programme for Endorsement of Forest Certification (PEFC)

PEFC has drawn broad criticism from environment and human rights groups internationally. Claims that it is manifestly inadequate and falls short of providing reliable assurances of sustainability are supported by numerous studies and reports, some of which show that it is incapable of

even providing assurances of legality. Greenpeace state:

“PEFC suffers from systemic problems that hide and obfuscate bad practices. The standards are vague and therefore weak, as they can be interpreted as desired by those with bad practices. Governance is controlled by and for the industry, with only token participation by other stakeholders and, audits and the dispute resolution system are likewise controlled by the very actors whose claims of sustainability they are supposed to verify. In other words, the PEFC and its endorsed systems were created to protect an entrenched logging industry.”<sup>15</sup>



### Malaysian Timber Certification Scheme (MTCS)

The Malaysian Timber Certification Scheme (MTCS) is the PEFC approved certification scheme most widely used in Sarawak. The MTCS has been found on numerous occasions to be inadequate to even detect illegally logged timber, let alone provide any reliable assurance of sustainability.<sup>17</sup>

However, the situation in Sarawak is so extreme, that even the lax guidelines of the MTCS prove to be too challenging for the timber industry, who via their peak body the Sarawak Timber Association (STA) complained that conditions set by Malaysian Timber Certification Scheme for export of timber were a big constraint to the development of the timber industry in the state. They issued a statement saying “At this point, the obvious difference is that our imminent and meaningful objective is to achieve

market recognition of our sustainable forest management through the effort of FMC (Forest Management Certification). PEFC on the other hand emphasise on environment and social principles above economic viability”<sup>17</sup> In other words, the situation in Sarawak is so bad, that even the internationally criticised, ineffective and lax regulations promoted by the PEFC scheme (MTCS) have proved too stringent for even the best logging operations in that state to comply with. Sarawak timber interests complain that profits would be adversely affected by the application of environmental and social principles as required for certification, thus relegating ethical production to being an impediment to money-making.

The MTCS has also come under criticism from indigenous groups in Malaysia, with the Indigenous Peoples Network of Malaysia (JOAS) issuing a statement saying “free and prior informed consent is not properly integrated into the MTCS guidelines and not correctly implemented in practice.”<sup>18</sup> This should stand as a clear indicator that those Japanese companies who are claiming green credentials, or suggest that they are attempting to influence Sarawak logging companies while waiting for conditions in Sarawak to improve, cannot depend on the industry to regulate itself in an internationally acceptable manner and should immediately cease the procurement of timber from Sarawak.

## Sarawak's Mandatory Forest Certification Plans

**In 2015, the Sarawak state forest department started to initiate a plan to see certification of Sarawak's heavily criticised logging industry in order to maintain access to increasingly concerned international markets.**

They were specifically concerned about access to Japanese markets in the run up to the Tokyo 2020 Olympics. Sarawak's state government was conscious that they needed to clean up the image of their logging industry and in conjunction with several eNGOs including World Wildlife Fund – Malaysia, and NEPcon, as well as the 'Big 6' logging companies in Sarawak, set certification targets to be reached by 2017. The particular focus of this commitment was to see all logging concessions inside of the "Heart of Borneo" conservation area certified by 2017.<sup>19</sup>

While making this commitment towards certification, the largest logging companies in Sarawak (the 'Big 6') continue

to have their interests represented by the Sarawak Timber Association (STA), an organisation which has continually opposed certification for Sarawak's timber industry claiming that environmental and human rights measures are far too stringent and are detrimental to the economic viability of the industry.<sup>20</sup>

The target date of 2017 was not met for certification of logging in the Heart of Borneo, but Sarawak state has subsequently announced that it would require all forest operations across the state to acquire certification by 2022. This is in response to ongoing pressure from NGOs to address the issues associated with the timber industry in Sarawak and also in response to fluctuating timber export figures. We remain sceptical that this requirement can or will be met, and advise that such announcements may be designed to influence international customer companies to continue the trade absent satisfactory improvements to date.



## Caution regarding Sarawak's changing policy environment – more fantasy than reality?

**In 2018 Sarawak's chief minister Datuk Patinggi Abang Johari Tun Openg announced plans to commit to preserving 80 percent of Sarawak's land area as primary and secondary forest.<sup>21</sup>**



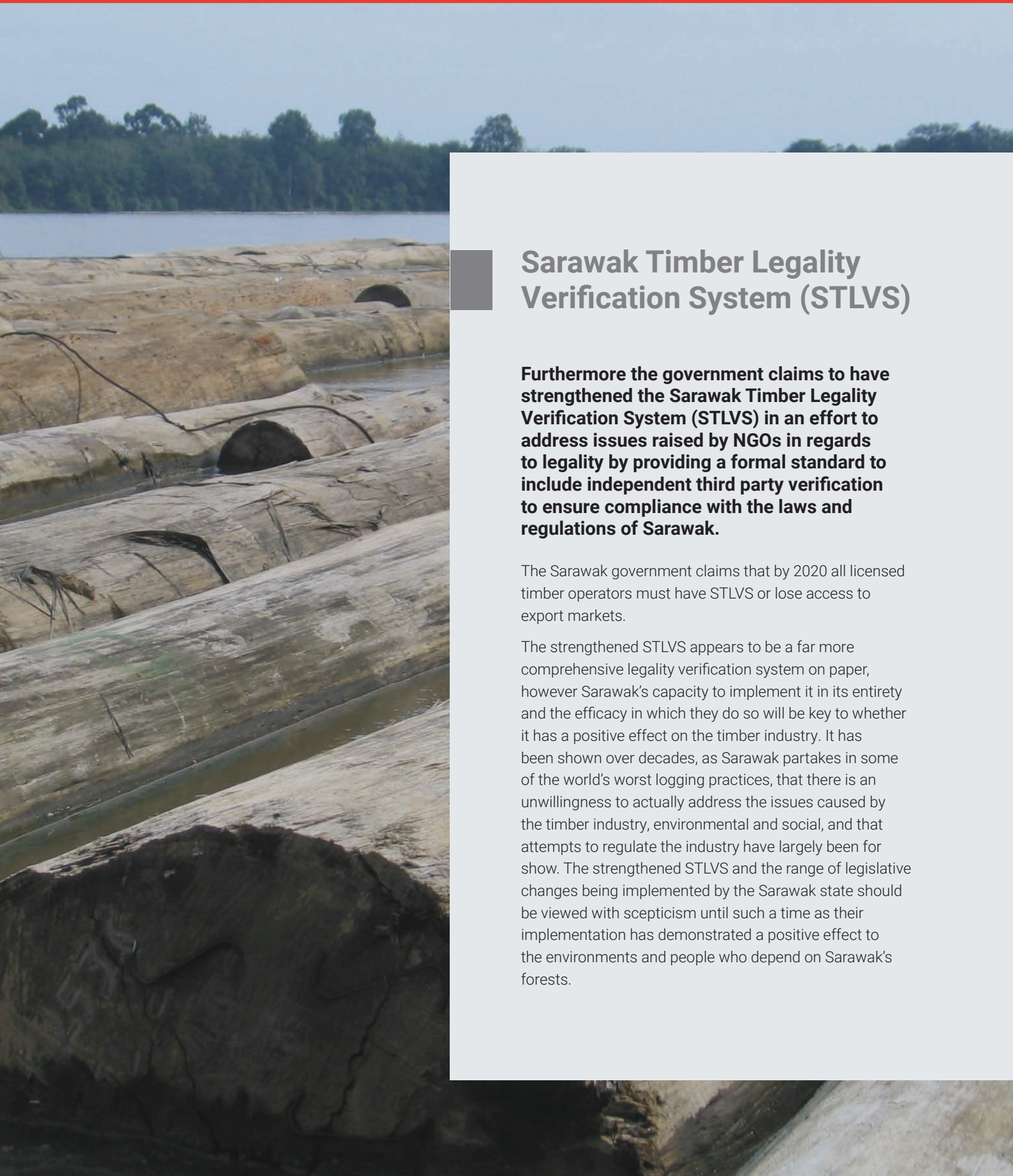
It is unclear how this will be achieved, in fact it seems impossible, with past reports stating that natural forests cover less than 64 percent of Sarawak's landmass, with some estimates as low as 57 percent.<sup>22</sup> A further 9.5 percent of Sarawak is covered by tree plantation.<sup>23</sup>

Furthermore, there are still plans to achieve a government target of 1000000 hectares of Licenced Planted Forest (LPF), of which there is currently only 400000ha.<sup>24</sup> This is supposed to occur by conversion of natural forest degraded by logging. Existing concession areas designated to oil palm and other sorts of tree plantation cover 32.7 percent of Sarawak's landmass, but it remains unclear where the further 600000ha of land required to meet the target will be found.<sup>25</sup>

With mounting questions as to whether there is enough land in Sarawak suitable for such cultivation, the issue is further complicated with the understanding that 25 percent of existing such areas are under title dispute, primarily with NCR claims.<sup>26</sup>

If the Sarawak government is genuine in their commitments, as outlined above, there are serious discrepancies in land availability and existing forest percentages that must be addressed in a transparent and open manner, because it is unclear how the Sarawak government intends to meet any of these targets. It has even been suggested that they perhaps intend on significantly redefining definitions of primary and secondary forests in order to include existing plantations. Comments from the UK based NGO Earthsight suggest that if the targets are to be reached then there would need to be cancellations of designated plantation concessions.<sup>27</sup> Adding to the confusion, the Chief Minister also stated that the state government has decided to open land for industrial forest, which involves plantation of trees to provide raw materials for Sarawak's timber industry.<sup>28</sup>

**“It remains unclear where the further 600000ha of land required to meet the target will be found.”**



## Sarawak Timber Legality Verification System (STLVS)

**Furthermore the government claims to have strengthened the Sarawak Timber Legality Verification System (STLVS) in an effort to address issues raised by NGOs in regards to legality by providing a formal standard to include independent third party verification to ensure compliance with the laws and regulations of Sarawak.**

The Sarawak government claims that by 2020 all licensed timber operators must have STLVS or lose access to export markets.

The strengthened STLVS appears to be a far more comprehensive legality verification system on paper, however Sarawak's capacity to implement it in its entirety and the efficacy in which they do so will be key to whether it has a positive effect on the timber industry. It has been shown over decades, as Sarawak partakes in some of the world's worst logging practices, that there is an unwillingness to actually address the issues caused by the timber industry, environmental and social, and that attempts to regulate the industry have largely been for show. The strengthened STLVS and the range of legislative changes being implemented by the Sarawak state should be viewed with scepticism until such a time as their implementation has demonstrated a positive effect to the environments and people who depend on Sarawak's forests.



## Conclusion

Whilst there have been some incremental improvements, company policies generally are moving far too slowly to make a real difference to the situation on the ground in Sarawak.

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It is almost too late to make a meaningful difference to the damage being inflicted, but important to try to do so. As indicated in the title of this report, Japanese consumers are literally walking on floors that are the product of forest devastation when they buy new housing.

We plead with companies and consumers to take the situation seriously, and act expeditiously to take corporate and personal responsibility for the impacts of their purchasing decisions.

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