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VISION

To be recognised as the leading timber certification organisation for tropical forests

MISSION

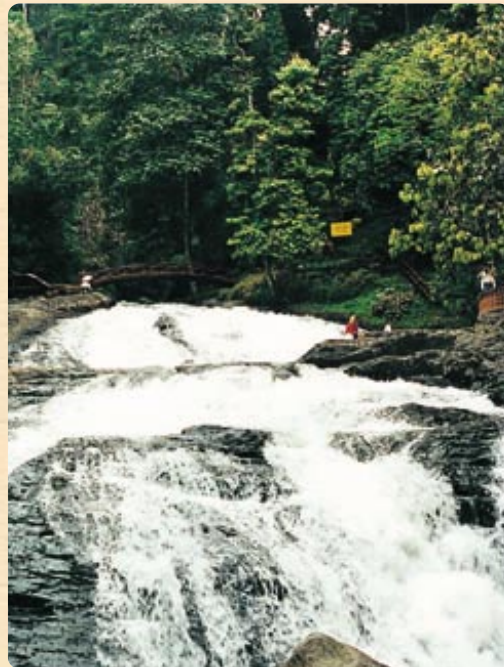
To establish and operate a credible and internationally recognised national timber certification scheme towards promoting sustainable forest management in Malaysia

The Malaysian Timber Certification Council (MTCC) is an independent non-profit organisation established in October 1998 to develop and operate a voluntary national timber certification scheme in Malaysia. Incorporated under the Companies Act 1965 as a company limited by guarantee, MTCC is governed by a Board of Trustees and started its operation in January 1999.

Timber certification was conceived as a market-linked tool to promote and encourage sustainable forest management as well as to provide an assurance to buyers that the timber products they buy come from sustainably managed forests.

In establishing and operating its certification scheme, MTCC's main activities are to:

- Serve as a forum for consultation among all stakeholders in Malaysia on the establishment and operation of a timber certification scheme
- Cooperate and liaise with the appropriate standards setting body in formulating standards related to timber certification and keeping them under review periodically
- Process applications for timber certification, exercise control over assessments of forest management and chain-of-custody in the applicant enterprises, and make decisions regarding the applications for certification
- Formulate procedures and guidelines for assessment of forest management and chain-of-custody
- Implement a system to monitor the operation of the certification scheme, including appeals procedures, surveillance mechanism for periodic review of compliance by certified enterprises, and rules for the use and issuance of certificates
- Coordinate with national, regional and international bodies related to timber certification to facilitate cooperation and mutual recognition arrangements
- Conduct programmes to promote and publicise the timber certification scheme, both internationally and locally





Left to right: Goh Chee Yew, Dato' Dr Abdul Razak bin Mohd Ali, Tuan Hj. Jamaluddin bin Mohd Isa, Datuk Leo Chai, Dato' Dr Freezailah bin Che Yeom

Board of Trustees

The Board of Trustees, comprising the Chairman and eight other members, is the governing body which decides the overall policy and direction in carrying out MTCC's activities. In addition to the Chairman, the members comprise two representatives each from academic and research institutions, the timber industry, non-governmental organisations (NGOs) and government agencies.

The members of the Board of Trustees in 2001 were:

Chairman

Dato' Dr. Freezailah bin Che Yeom

Member

Datuk Ng Kam Chiu

Organisation

Ministry of Science, Technology and the Environment
(up to 28 December 2001)

Dato' Leong Ah Hin @ Leong Swee Kong

Ministry of Science, Technology and the Environment
(w.e.f. 28 December 2001)

Ms. Chan Lai Har

Ministry of Primary Industries

Dato' Dr. Abdul Razak bin Mohd. Ali

Forest Research Institute Malaysia

Asso. Prof. Dr. Rusli bin Mohd.	Universiti Putra Malaysia (up to 15 May 2001)
Prof. Dato' Dr. Nik Muhamad bin Ab. Majid	Universiti Putra Malaysia (w.e.f. 15 May 2001)
Mr. Henry Ng Kok Guan	Timber Exporters' Association of Malaysia (up to 15 May 2001)
Mr. Goh Chee Yew	Malaysian Wood Industries Association (w.e.f 15 May 2001)
Mr. Barney Chan Sek Tee	Sarawak Timber Association (up to 3 August 2001)
Datuk Leo Chai	Sarawak Timber Association (w.e.f 3 August 2001)
Mr. Balu Perumal	WWF Malaysia (up to 15 May 2001)
Mr. Hiew Wai Phang	WWF Malaysia (w.e.f 15 May 2001)
Mr. Chen Hin Keong	Malaysian Nature Society (up to 15 May 2001)
Tuan Hj. Jamaluddin bin Mohd. Isa	Malay Forest Officers Union, West Malaysia (w.e.f 15 May 2001)

The Board of Trustees met four times in 2001 as follows:

Tenth Meeting - 9 January

Eleventh Meeting - 9 March

Twelfth Meeting - 21 June

Thirteenth Meeting - 4 October



1st meeting of Board of Trustees



CERTIFICATION COMMITTEE

A four-member Certification Committee was appointed by the Board of Trustees at its Thirteenth Meeting held on 4 October 2001 to carry out the following functions: (i) to decide on the registration and deregistration of independent assessors, and (ii) to decide on applications for forest management and chain-of-custody certification based on assessment reports submitted by independent assessors.

The members of the Certification Committee were:

<u>Member</u>	<u>Organisation</u>
Ms. Chan Lai Har	Ministry of Primary Industries
Dato' Dr. Abdul Razak bin Mohd. Ali	Forest Research Institute Malaysia
Tuan Hj. Jamaluddin bin Mohd. Isa	Malay Forest Officers Union, West Malaysia
Mr. Goh Chee Yew	Malaysian Wood Industries Association

INVESTMENT COMMITTEE

The Investment Committee was established by the Board of Trustees in 1999 with the main objective of overseeing the overall implementation of MTCC's investment policy, particularly in the management of the Endowment Fund. In addition to the formulation of policies and procedures on matters related to the objectives of the establishment of the Fund, the Committee is also responsible for the selection and appointment of the professional Fund Managers, as well as determining the amount to be allocated to the appointed Fund Managers. The Committee reports periodically to the Board regarding its activities, and is also responsible for ensuring that all audited annual statements and reports are duly submitted to the Ministry of Primary Industries and the Ministry of Finance.

The members of the Investment Committee were:

Chairman

Dato' Dr. Freezailah bin Che Yeom

Member

Ms. Chan Lai Har

Mr. Mustafar bin Taib

Mr. Chew Lye Teng

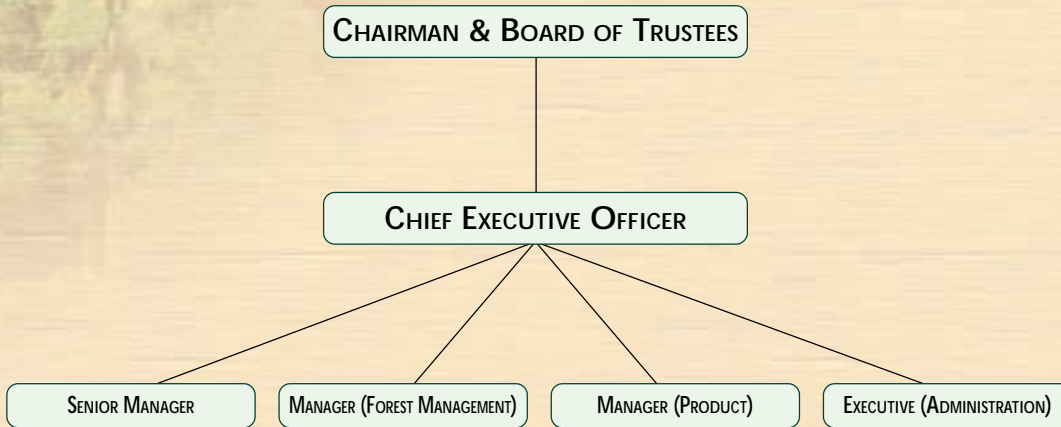
Organisation

Ministry of Primary Industries

Ministry of Finance

Malaysian Timber Certification Council





Management Team

- Mr. Chew Lye Teng – Chief Executive Officer
- Mr. Harnarinder Singh – Senior Manager
- Mr. Ismail bin Ibrahim – Manager (Product)
- Mr. Yong Teng Koon – Manager (Forest Management) (w.e.f 1 December 2001)
- Ms. Noor Eshah binti Yat – Executive (Administration)

In-House Investment Committee

The In-House Investment Committee was established in 1999 with the main objective of monitoring the implementation of the decisions of the Investment Committee, as well as to formulate investment recommendations for the consideration of the Investment Committee. This Committee reports periodically to the Investment Committee.

The members of the In-House Investment Committee were:

- Mr. Chew Lye Teng (Chairman)
- Mr. Harnarinder Singh
- Mr. Ismail bin Ibrahim
- Ms. Noor Eshah binti Yat (Secretary)



Left to right: Chew Lye Teng, Yong Teng Koon, Ismail Ibrahim, Noor Eshah bt Yat, Harnarinder Singh

Organisation Structure



I am pleased to present the Malaysian Timber Certification Council's Annual Report and the Audited Accounts for the financial year ending 31 December 2001.

This Annual Report reviews the progress and development of the MTCC in terms of its work and activities during its third year of operation. The year under review had been eventful for forestry in Malaysia. And encouragingly, the Council has progressed from strength to strength in the implementation of a timber certification scheme in Malaysia.

Firstly, on 17 October 2001, the Right Honourable Deputy Prime Minister of Malaysia, who is the Chairman of the National Forestry Council, launched celebrations to commemorate the one hundredth anniversary of forest management in Malaysia. It was in 1901 when Mr. A.M. Burn-Murdoch assumed duties as the first Chief Forest Officer for the Straits Settlement and Federated Malay States. Secondly, the Board of Trustees of the MTCC, at its Thirteenth Meeting on 4 October 2001, decided to start the operation of its timber certification scheme. This historic milestone demonstrates the professionalism and dedication of our forest managers that has reached a level of confidence for forest management to be subjected to third party independent auditing.

The MTCC scheme involves the issuance of two types of certificates; the *Certificate for Forest Management* for Forest Management Units (FMUs) and the *Certificate for Chain-of-Custody* for timber product manufacturers and exporters. The standard used for the auditing of FMUs is the Malaysian Criteria and Indicators (MC&I) which is based on the 1998 ITTO *Criteria and Indicators for Sustainable Management of Natural Tropical Forests*. The MC&I contains the key elements for sustainable forest management covering economic, social, environmental and conservational aspects. The chain-of-custody certification is based on the *Requirements and Assessment Procedures for Chain-of-Custody Certification* which have been developed with contributions from the German Agency for Technical Cooperation (GTZ), for which I wish to gratefully acknowledge.

MTCC's Certification Committee had its first meeting on 11 December 2001 and considered applications for forest management and chain-of-custody certification. At this meeting the Certification Committee awarded certificates to three FMUs, Pahang, Selangor and Terengganu. In addition 16 companies were awarded the *Certificate for Chain-of-Custody*.

In addition to these three FMUs, assessments of another four State FMUs (Perak, Johor, Kedah and Negeri Sembilan) were carried out towards the end of the year under review.

MTCC continued collaborative efforts and cooperation with other international initiatives in certification. Since the inception of the Malaysia-The Netherlands cooperation programme in 1996, three FMUs, Pahang (1,521,022 ha), Terengganu (557,661 ha) and Selangor (246,673 ha) have been assessed on a regular basis against a mutually agreed standard for forest management certification. Following these assessments carried out by SGS (Malaysia) Sdn. Bhd. in July-August 2000 for these FMUs, the audit reports were submitted in early 2001 to the Keurhout Foundation with a recommendation from SGS (Malaysia) Sdn. Bhd. for the issuance of a Keurhout Hallmark. However, as the Keurhout Board was of the view that certain aspects of forest management did not fully comply with the Keurhout requirements, the Hallmark was not awarded but timber from these FMUs were allowed to enter the Dutch market as



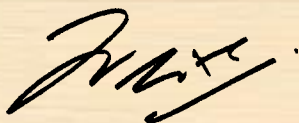
Keurhout 'Declaration' timber for a period of six months from 1 October 2001 – 31 March 2002. Follow-up assessments were to be undertaken to the agreed standard with additional aspects identified by the Keurhout Foundation in a Schedule of Conditions.

Further progress was achieved under the MTCC-FSC collaboration in 2001. In April, the two independent consultants, Dr. Markku Simula and Mr. James Sandom, presented their draft report, *Assessment of Compatibility of Malaysian Criteria and Indicators for Forest Certification with FSC Requirements* to representatives of stakeholder groups, including members of the National Steering Committee (NSC) which was formed following the FSC-MTCC *Workshop on Forest Certification* convened at the end of 2000. The main recommendations of the report include (a) how MTCC may achieve greater compliance with the FSC development process; (b) how to achieve compatibility between the *MC&I* and the FSC Principles and Criteria; and (c) recommendations to FSC to strengthen the FSC system.

The 28-member multi-stakeholder NSC, formed in early 2001, met three times during the year. At its first meeting on 24 April, the NSC held preliminary discussions on various aspects of the MTCC-FSC collaboration and the need to eventually form the National Working Group (NWG) in accordance with FSC requirements. At its second meeting on 14 August, the NSC discussed the recommendations of the consultants on the compatibility of the *MC&I* with the FSC Principles and Criteria. At its third meeting on 22-23 October, the NSC decided to initiate the process for the formation of the NWG, as well as a Technical Working Group (TWG) to draft the FSC-compatible *MC&I*. The four-member TWG was set up with representation from all stakeholder groups and at its meeting on 12-16 November produced the first draft of the FSC-compatible *MC&I* which will be subjected to regional and finally a national consultation before being finalised and adopted for implementation.

Much has been achieved during the year under review which saw the operation of the MTCC certification scheme. But much more needs to be done. Many organisations and persons from various stakeholder groups have continued to provide the necessary support and assistance for MTCC to progress during the year. To all of them I am more than grateful. I hope the following year will bring greater goodwill and understanding especially from some members of the social group whose participation will be necessary so that the process may benefit from their inputs. Timber certification is new. It is an evolving process. We have made a start. We need now to strengthen the process and the *MC&I* from time to time with inputs from all stakeholder groups all of whom are equally important. But let us also be aware that timber certification will not be able to solve all problems particularly at this early stage of its development and implementation in Malaysia.

I conclude this brief review of the year with my utmost gratitude to all members of the Board of Trustees for their guidance and wise counsel. To the management team of the MTCC and staff, ably led by Mr. Chew Lye Teng, its Chief Executive Officer, I wish to put on record my appreciation for their dedication and hard work.



DATO' DR. FREEZAILAH BIN CHE YEOM
Chairman
2 October 2002



In 2001, the total area of certified forests in the world expanded rapidly. However, developing countries accounted for no more than 8% of the 105 million hectares of forests that have been certified. During the year, moves towards the establishment of an international framework for mutual recognition between credible certification schemes made slow progress.

With this international scenario, 2001 proved to be a very challenging year which however ended on a bright note with the operation of the MTCC timber certification scheme in October. The MTCC scheme is being implemented using a phased approach. The standard currently used for assessing FMUs is the *Malaysian Criteria, Indicators, Activities and Standards of Performance for Forest Management Certification (MC&I)* which is based on the 1998 ITTO *Criteria and Indicators for Sustainable Management of Natural Tropical Forests*.



MTCC plans to use a standard which is compatible with the P&C of the FSC. A multi-stakeholder NSC is currently revising the *MC&I* to make it compatible with the FSC P&C.

MTCC's main activities were focused on efforts to start the operation of its certification scheme as soon as possible. In addition, activities related to MTCC's cooperation programmes with other certification organisations, in particular the Keurhout Foundation in The Netherlands and the FSC, continued to be given attention.

Progress was achieved towards the operation of the MTCC timber certification scheme, particularly with the finalisation of the *Requirements and Assessment Procedures for Chain-of-Custody (RAP/COC)*, implementation of training programmes for auditors in chain-of-custody certification, as well as finalisation of terms and conditions for registration of independent assessors and criteria for registration of peer reviewers.

With the operation of the certification scheme, MTCC was able to award its first batch of certificates in December. The *Certificate for Forest Management* was awarded to three FMUs i.e. the Pahang, Selangor and Terengganu State FMUs, while the *Certificate for Chain-of-Custody* was awarded to 16 timber product manufacturing and exporting companies. Four other State FMUs, i.e. Perak, Kedah, Johor and Negeri Sembilan, were also assessed; this means that seven of the eight States in Peninsular Malaysia with substantial areas of forest under the Permanent Forest Estate had been assessed under the MTCC certification scheme in 2001.

However, progress in the Malaysia-The Netherlands cooperation programme in timber certification encountered a few setbacks in 2001. Firstly, the transition from the export of 'audited' timber to certified timber to The Netherlands in 2000 was delayed as the three States involved in this programme, Pahang, Selangor and Terengganu, could not fully comply with the agreed standard for this programme. As a result, the existing Keurhout 'Declarations' were terminated after 31 December 2000, and a grace period was given until 28 February 2001 to allow the timber product manufacturers and exporters to ship their existing stocks and work-in-progress manufactured from 'audited' material.

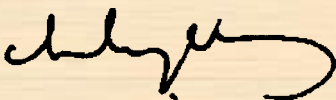
Secondly, although the three States concerned were subsequently considered by the independent assessor to have met the requirements of the agreed standard, the Keurhout Foundation did not fully agree with the findings of the assessor and forwarded a Schedule of Conditions which identified aspects of forest management for which evidence of compliance was required.

Although another period of six months, from October 2001 to 31 March 2002, was given for the export of the 'audited' timber while providing the opportunity to the three States to address the non-compliances with the standard and the Schedule of Conditions, by 31 December 2001, the States concerned had not completed taking the necessary corrective actions. Therefore the three States were unable to achieve the target of being awarded the Keurhout Hallmark.

With regard to the MTCC-FSC collaboration, good progress was made by the multi-stakeholder NSC towards the formulation of an FSC-compatible standard and formation of a National Working Group (NWG) to formulate a standard for FSC endorsement. In this process, the NSC made the decision to follow the format and structure of the FSC Principles and Criteria in formulating the FSC-compatible *MC&I*. A first draft of the FSC-compatible *MC&I* containing a set of proposed Indicators was formulated following three meetings of the NSC in 2001. Nevertheless, this activity also encountered a setback when five of the eight representatives of the social stakeholders decided to withdraw from the NSC even before its second meeting. These members have unfortunately maintained their decision despite appeals and explanations regarding the consultation process by the NSC members. It is however in the best interest of all stakeholders, especially the social stakeholders, that these organisations return to the NSC process to provide the necessary inputs and viewpoints in the formulation of the FSC-compatible standard, and in subsequent multi-stakeholder processes which will continue to take place in our efforts to ensure sustainable forest management.

In summary, despite the constraints and challenges encountered during 2001 in carrying out its activities, MTCC has managed to start the operation of its timber certification scheme nearly three years after its formation. I would like to thank the representatives of the various stakeholder groups for supporting and participating actively in the activities organised by MTCC in the spirit of consultation, cooperation and compromise so necessary to forge ahead in our common objective of ensuring the sustainable management of Malaysia's forest resources.

I would also like to thank the Chairman and members of the Board of Trustees for their continued guidance, support and encouragement given to the MTCC management in carrying out our activities. Last but not least, I would also like to express my sincere gratitude to my team of managers and supporting staff for their contributions towards our activities and achievements in 2001.



CHEW LYE TENG
Chief Executive Officer
2 October 2002





Operation of MTCC Timber Certification Scheme

MTCC achieved a significant milestone in October 2001 following the decision of the Thirteenth Meeting of the Board of Trustees to start the operation of the MTCC timber certification scheme.

Under the scheme, two types of certificates will be issued - the *Certificate for Forest Management* to FMUs and the *Certificate for Chain-of-Custody* to timber product manufacturers or exporters. The Certification Committee held its first meeting on 11 December and considered three applications for forest management certification and sixteen applications for chain-of-custody certification.



Briefing by State Forestry Department at opening meeting during assessment of Perak State FMU

Forest Management Certification

The MTCC timber certification scheme is being implemented using a phased approach. The standard currently used for assessing the FMUs is the *Malaysian Criteria, Indicators, Activities and Standards of Performance for Forest Management Certification (MC&I)* which is based on the 1998 ITTO *Criteria and Indicators for Sustainable Management of Natural Tropical Forests*. It contains the key elements

for sustainable forest management covering economic, social, environmental and conservational aspects, and incorporates the corresponding standards of performance for Sabah, Sarawak and Peninsular Malaysia identified during the regional and national-level consultations held in 1999.



Forest resource map examined during assessment of Johor State FMU

The Certification Committee agreed to award the *Certificate for Forest Management* to three State FMUs, namely Pahang, Selangor and Terengganu, based on field assessments carried out under the Malaysia-The Netherlands cooperation programme in timber certification



and recommendations made by the independent assessor, SGS (Malaysia) Sdn. Bhd.



In addition to these three State FMUs, assessments of another four timber producing states in Peninsular Malaysia

Gunung Arong Forest Reserve plate observed during Johor State FMU assessment

(Perak, Johor, Kedah and Negeri Sembilan) were carried out towards the end of 2001 for the purpose of awarding the *Certificate for Forest Management* as well as the Keurhout Hallmark (under the Malaysia-The Netherlands programme). The assessment of Perak by SGS Malaysia was conducted on 8-13 October, followed by Johor on 22-27 October, Terengganu on 28 October to 1 November, and finally Negeri Sembilan on 5-8 November.

Chain-of-Custody Certification

The 'Project on Review of Guidelines for Chain-of-Custody Certification under the MTCC Timber Certification Scheme', funded by the GTZ to further revise the document entitled *Requirements and Assessment Procedures for Chain-of-Custody Certification (RAP/COC) Rev. 3*, was completed in May.



Under this project, a *Report on Systems and Documentation Used in Identification and Tracking Wood Material within the Malaysian Forest Product Sector* was prepared, together with a revised set of guidelines for chain-of-custody certification entitled *Requirements and Assessment Procedures for Chain-of-Custody Certification (RAP/COC) Rev. 4*. In addition, a manual for conducting training programmes was prepared.



Follow-up briefings on the revised *RAP/COC* document were organised for the timber industry and potential assessor companies and organisations in Peninsular Malaysia (6 June), Sarawak (22 June) and Sabah (23 June).



Briefing on revised *RAP/COC* document held in Kota Kinabalu (top), Kuching (centre) and Kuala Lumpur (bottom)

On 15-17 August, MTCC organised its first Trainin Programme on Chain-of-Custody Certification for potential auditors at the Wood Industry Skills Development Centre in Banting, Selangor. The programme is part of MTCC's capacity building efforts to create a pool of trained local auditors to conduct assessments for chain-of-custody certification under the scheme. A total of 14 participants



First Training Programme on Chain-of-Custody Certification for potential auditors



(10 from Peninsular Malaysia, 3 from Sarawak and 1 from Sabah) attended the programme, which was conducted by Mr. Jeffrey Hayward and Mr. Walter Smith from the SmartWood Programme of the Rainforest Alliance, and Mr. Abdul Aziz Long of SIRIM QAS Sdn. Bhd.



Following the operation of the scheme in October, MTCC received applications for chain-of-custody certification from 16 companies that had been awarded the *Certificates of Timber Tracking for the Stichting Keurhout*



First Training Programme on Chain-of-Custody Certification for potential auditors

Hallmark Declaration by SGS (Malaysia) Sdn. Bhd. under the Malaysia-The Netherlands cooperation programme in timber certification. Based on this certification, the Certification Committee agreed to award the *Certificate for Chain-of-Custody* to the 16 companies involved:

- Bortim Sdn. Bhd.
- Mentakab Sawmill Sdn. Bhd.
- United Trading & Sawmill Sdn. Bhd.
- Maran Road Sawmill Sdn. Bhd.
- Pan Resources Sdn. Bhd.
- Mahawangsa Timber Industries Sdn. Bhd.
- Kilang Papan Datuk Wan Ahmad
- Asrama Raya Sdn. Bhd.
- Lionex (M) Sdn. Bhd.
- Exsell Corporation Sdn. Bhd.
- Finewood Export Associates Sdn. Bhd.
- Arif Jasa Industries Sdn. Bhd.
- Arah Asia Sdn. Bhd.
- Pesaka Terengganu Bhd.
- Leung Huat Timber Industries Sdn. Bhd.
- Besut Tsuda Industries Sdn. Bhd.

Registration of Independent Assessors and Peer Reviewers

Since the terms and conditions for registration of independent assessors as well as criteria for registration of peer reviewers were finalised in 2000, training programmes have been conducted to train profession-

from potential assessor companies and organisations to be auditors for forest management and chain-of-custody certification.

Hence, with the availability of trained auditors, MTCC was able to consider applications from companies for registration as independent assessors. The Board of Trustees at its Thirteenth Meeting approved the following six companies for registration as assessors for forest management certification:

- Gaya Tunas Sdn. Bhd.
- Chemsain Konsultant Sdn. Bhd.
- SIRIM QAS Sdn. Bhd.
- SGS (Malaysia) Sdn. Bhd.
- TropBio Forest Sdn. Bhd.
- Saytech (Sarawak) Sdn. Bhd.

Eleven companies were also approved to be registered as assessors for chain-of-custody certification as follows:

- Saytech (Sarawak) Sdn. Bhd.
- Chemsain Konsultant Sdn. Bhd.
- Gaya Tunas Sdn. Bhd.
- TQS Management Sdn. Bhd.
- SIRIM QAS Sdn. Bhd.
- SGS (Malaysia) Sdn. Bhd.
- JB Agriculture Management Services
- KiwiHeng Wood Industry Consultants Sdn. Bhd.
- AOQC Moody (Malaysia) Sdn. Bhd.
- TropBio Forest Sdn. Bhd.
- Bureau Veritas (M) Sdn. Bhd.

Publicity and Promotion

MTCC's corporate brochures and publications were distributed during fairs and exhibitions in which it participated, such as the Malaysian International Furniture Fair (MIFF) 2001 in Kuala Lumpur (in March) and the National Level 30th World Forestry Day Exhibition 2001 in Selangor (April).

At the international level, Malaysian Timber Council (MTC) provided assistance in distributing the brochures and



MTCC booths at MIFF 2001 (top) and National Level 30th World Forestry Day Exhibition 2001 (bottom)

Operation of MTCC Timber Certification Scheme



publications in exhibitions in which MTC participated, such as the IMM 2001 International Furniture Fair, Cologne (January), BAU 2001, Munich (January), San Francisco Mart Winter Show 2001 (January), BOUWBEURS 2001, Utrecht (February), IBS 2001 International Builders' Show, Atlanta (February), SAIEDUE 2001, Bologna (March), INTERZUM 2001, Cologne (May), 15th Australian International Building Materials & Equipment Exhibition, Sydney (June), BATIMAT International Building Exhibition, Paris (November) and MADERALIA 2001 International Suppliers' Fair for the Wood and Furniture Industry, Valencia (November).

MTCC also participated in a number of international and local conferences, seminars, workshops and training courses during which papers on its activities and progress of timber certification in Malaysia were presented, and MTCC's brochures and publications were distributed. These included the following:-

- ◆ *FAO-GTZ-ITTO Seminar on Building Confidence among Forest Certification Schemes and their Supporters*, 19-20 February, Rome
- ◆ *STA International Conference 2001*, 28 March, Kuching
- ◆ *Bengkel Komuniti Mengenai Pakatan FSC-MTCC Malaysia – Menggubal Kriteria, Petunjuk, Aktiviti dan Piawaian Pelaksanaan (MC&I) bagi Pensijilan Pengurusan Hutan Malaysia yang serasi dengan Prinsip dan Kriteria FSC*, 15 April, Kuala Lumpur
- ◆ *International Training Programme on Forest Certification 2001*, 13 May to 1 June, Garpenburg & Stockholm, Sweden (Part I) and 15 November to 1 December, Quito, Ecuador (Part II).
- ◆ *Training Course on Forest Management Certification*, 15-17 August 2001, Sarawak Timber Association, Kuching
- ◆ *13th Malaysian Forestry Conference: Managing Forest in the New Millennium*, 20-25 August 2001, Johor Bahru
- ◆ *International Conference on Forestry and Forest Products Research (CFFPR 2001)*, 1-3 October, Kuala Lumpur
- ◆ *3rd Regional Model Forest Workshop on "Criteria and Indicators for Sustainable Forest Management in Model Forests"*, 25-29 November 2001, Pyay, Myanmar

Throughout 2001, the MTCC's website at <http://www.mtcc.com.my> was updated from time to time to provide the latest information on its activities and the progress of timber certification in Malaysia.

MTCC also made presentations and conducted briefing sessions to the timber industry as follows:

- ◆ Briefing on *MTCC and its activities* to Samling Strategic Corporation Sdn. Bhd., 2 March



- ◆ Presentation on *Certification of Timber Products* at Industry Seminar Series, Malaysian International Furniture Fair 2001, 9 & 10 March 2001
- ◆ Briefing on *MTCC's Requirements and Assessment Procedures for COC Certification (RAP/COC)*, 6 June (Kuala Lumpur), 22 June (Kuching) & 23 June (Kota Kinabalu)
- ◆ Briefing Session to Sarawak Forestry Department and Sarawak Timber Association on *Implementation of MTCC Timber Certification Scheme*, 15 October, Kuching
- ◆ Briefing Session to Sabah Forestry Department, Sabah Timber Industries Association and Timber Association of Sabah on *Implementation of MTCC Timber Certification Scheme*, 16 October, Sandakan and Kota Kinabalu
- ◆ Briefing Session to Industry on *Implementation of MTCC Timber Certification Scheme*, 7 November, Kuala Lumpur



Panel discussion during Briefing Session on Implementation of MTCC Timber Certification Scheme



Participants at the briefing session



Operation of MTCC Timber Certification Scheme

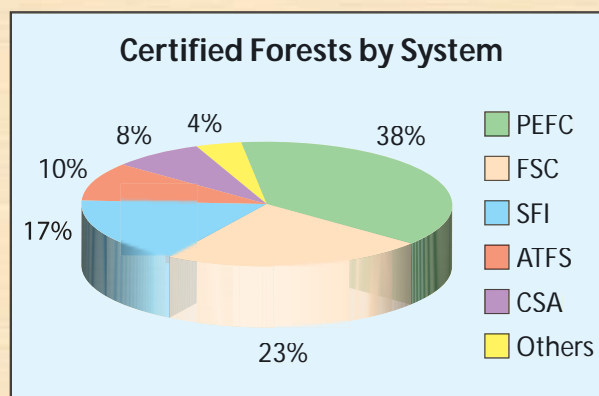


Forest certification remains a contentious issue in the international forestry policy arena as it is a trade related instrument and countries feel that it can influence their competitiveness and market access. In particular, tropical timber producers are concerned about their difficulties to achieve certification status and the expected increase in production costs, while market benefits may appear uncertain.

However, forest certification is rapidly expanding and its growth has been exponential. Based on a paper presented at an ITTO International Workshop¹, it was estimated that 105 million hectares of forests had been certified as at the end of 2001. The figure includes third party audited area under the international schemes (FSC and PEFC), national schemes (Canada, Malaysia and the United States), as well as forests which have been issued a Keurhout declaration.

Geographically, the total certified area is unevenly distributed, with more than half being located in Europe and almost 40 percent in North America; the developing countries accounted for no more than 8 percent of the total area certified.

In terms of market share by schemes, a noticeable change was observed over the last few years. While all the world's certified forests used to be registered under FSC, the scheme's current market share was only 23 percent, falling behind PEFC Council, which has a market share of 38 percent. They were followed by other schemes, namely Sustainable Forestry Initiative (SFI), American Tree Farm System (ATFS), Canadian Standards Association (CSA) and others with market shares of 17, 10, 8 and 4 percent respectively.



Source: Atyi & Simula, 2002

¹ *Forest Certification: Pending Challenges for Tropical Timber* by Richard Eba'a Atyi and Markku Simula, presented at ITTO International Workshop on Comparability and Equivalence of Forest Certification Schemes, 3-4 April 2002.

Mutual Recognition

As part of its efforts to support initiatives towards establishing an international framework for mutual recognition between credible certification schemes, MTCC participated in the *FAO-GTZ-ITTO Seminar on Building Confidence among Forest Certification Schemes and their Supporters* which was held in Rome on 19-20 February. The seminar was a follow up of the two earlier seminars held in Brussels in 2000, and aimed to broaden the discussions to a wider audience, to ensure that initiatives for the international framework take into account the views and interests of other parties, particularly developing countries and NGOs.

The seminar was however not conclusive as it was not able to bridge the different viewpoints between those organisations which favoured such an international framework and those who were against. The seminar therefore concluded that further dialogue at the international level would be needed and that organisations such as ITTO, FAO and GTZ should continue to facilitate this dialogue.

Malaysia-The Netherlands Cooperation in Timber Certification



Auditors assessing Perak State FMU

Since the inception of the Malaysia-The Netherlands cooperation programme in timber certification in 1996, three State FMUs in Peninsular Malaysia, i.e. Pahang (1,521,022 ha), Terengganu (557,661 ha) and Selangor (246,673 ha), have been assessed on a regular basis against a mutually agreed standard for forest management certification.



Perak State FMU assessment closing meeting

In early 2001, audit reports on the assessments of Pahang, Terengganu and Selangor State FMUs that were carried out in July-August 2000 were prepared by the independent assessor, SGS (Malaysia) Sdn. Bhd. and submitted to the Keurhout Foundation for its consideration. The field assessments were conducted using a standard entitled *Malaysian Criteria, Indicators, Activities and Standards of Performance*

(MC&I) for Forest Management Certification (Forest Management Unit Level), Peninsular Malaysia (Malaysia-The Netherlands Ad-hoc Working Group) and dated 23 December 1999. The standard was mutually agreed by experts from Malaysia and The Netherlands and was developed taking into account the requirements of the Keurhout Foundation for timber from sustainably managed forests,





Marking of buffer zones along waterways observed in Pahang State FMU

using the 1998 ITTO *Criteria and Indicators for Sustainable Management of Natural Tropical Forests* as the framework. SGS (Malaysia) Sdn. Bhd. was also instructed to refer to the document entitled *Guiding notes for assessing the standards of performance for forest management certification, Peninsular Malaysia* in carrying out these assessments.

Based on these assessments, the three State FMUs were recommended by the assessor for a *SGS Certificate of Compliance* to the Keurhout Hallmark Programme. However, the Keurhout Managing Board was of the view that certain aspects of forest management practices in the Pahang, Selangor and Terengganu FMUs did not fully comply with the Keurhout requirements and hence did not award the Hallmark.



Regenerated forest stand observed during Selangor State FMU assessment

However, in order to encourage the process, the audited timber from the three state FMUs was allowed to enter the Dutch market as Keurhout 'Declaration' timber for a period of six months from 1 October 2001 to 31 March 2002. Follow-up assessments were to be undertaken in these three State FMUs during

the six-month period to evaluate their level of compliance to the agreed standard and aspects of forest management identified by the Keurhout Foundation in a Schedule of Conditions.

MTCC-FSC Collaboration



Presentation of joint study by Dr. Simula and Mr. Sandom (seated)

In April, the two independent consultants for the MTCC-FSC joint study, Dr. Markku Simula and Mr. James Sandom, presented a draft report entitled *Assessment of Compatibility of Malaysian Criteria and Indicators for Forest Certification with FSC Requirements* to representatives of stakeholder groups, including members of the NSC which had been formed following the *FSC-MTCC Workshop on Forest Certification* held in December 2000.



Representatives of stakeholder groups and NSC members at joint study presentation



Dato' Dr. Freezailah chairing 1st meeting of NSC



Representatives of stakeholder groups at 1st meeting of NSC

The report was finalised in September after taking into account the comments received. The main recommendations were in the following aspects: (i) how MTCC could achieve greater compliance with the FSC development process; (ii) how to achieve compatibility between the *MC&I* and the FSC Principles and Criteria; and (iii) recommendations to FSC to strengthen the FSC system.

The multi-stakeholder NSC set up in early 2001 was given the task of examining the terms and conditions for further MTCC-FSC collaboration as well as to formulate an FSC-compatible standard for forest management certification. Comprising 28 members, the NSC represents the stakeholder groups in the country, namely the environmental, social and economic groups as well as the direct resource managers which include the Forestry Departments. Nomination of the NSC members was coordinated by facilitators of the respective stakeholder groups from the three regions i.e. Sabah, Sarawak and Peninsular Malaysia, who had been appointed during the Workshop.

The NSC met three times in 2001. At its first meeting on 24 April, the members held preliminary discussions on various aspects of the collaboration between MTCC and FSC, particularly pertaining to the setting up of a FSC National Working Group (NWG). During the second meeting on 14 August, the NSC discussed the recommendations of the consultants on the compatibility of the *MC&I* with the FSC Principles and Criteria. The NSC met for the third time on 22-23 October and agreed to initiate the process for the formation of the NWG, as well as to set up a Technical Working Group (TWG) to draft the FSC-compatible *MC&I*.





Participation of Dr. Timothy Synnott of FSC at 3rd meeting of NSC

The four-member TWG was set up with representation from all the stakeholder groups. Its first meeting on 12-16 November produced the first draft of the FSC-compatible *MC&I* which was distributed to stakeholders for comments.



Dr. Synnott in discussion with Dato' Dr. Freezailah and Chew Lye Teng

Unfortunately in July, even before the second meeting of the NSC could undertake any substantive discussions, five of the eight representatives of the social stakeholder groups (representing three organisations) announced their withdrawal from the NSC. The NSC explained to these representatives that the majority of the issues raised by them

could be addressed by the NSC process while others were beyond the jurisdiction of the NSC and MTCC. A number of appeals were also made by the NSC Chairman and members to these representatives to return to the consultation process.

Notwithstanding their withdrawal, the NSC continued to keep these five representatives informed of the progress in its work by sending them the minutes of meetings, and the door has been kept open for them to return to the consultation process. The draft of the FSC-compatible *MC&I* was also sent to them for comments.

Cooperation With Other Timber Certification Schemes



MTCC organised/coordinated the following local events in 2001:

LOCAL EVENTS	DATE	VENUE
Briefing to Samling Strategic Corporation Sdn. Bhd. on MTCC and its activities	2 March	Kuching
Presentation of Joint Study to Compare <i>MC&I</i> with FSC Principles and Criteria	24 April	Kuala Lumpur
1 st National Steering Committee Meeting	24 April	Kuala Lumpur
Briefing to Members of Timber Exporters Association of Malaysia (TEAM) on latest development in Malaysia-The Netherlands cooperation in timber certification	19 June	Kuala Lumpur
Briefing on MTCC's <i>Requirements and Assessment Procedures for COC Certification (RAP/COC)</i>	6 June 22 June 23 June	Kuala Lumpur Kuching Kota Kinabalu
2 nd National Steering Committee Meeting	14 August	Kuala Lumpur
Training Programme on Chain of Custody Certification	15 - 17 August	Banting
3 rd National Steering Committee Meeting	22 - 23 October	Kuala Lumpur
Briefing Session to Sarawak Forestry Department and Sarawak Timber Association on Implementation of MTCC Timber Certification Scheme	15 October	Kuching
Briefing Session to Sabah Forestry Department, Sabah Timber Industries Association and Timber Association of Sabah on Implementation of MTCC Timber Certification Scheme	16 October	Sandakan & Kota Kinabalu
Briefing Session to Industry On Implementation of MTCC Scheme	7 November	Kuala Lumpur
1 st Meeting of Technical Working Group, National Steering Committee	12 - 16 November	Kuala Lumpur

Significant Events



MTCC held discussions with the following visitors in 2001:

VISITORS	DATE	VENUE
Mr Alain Paul , Forest Engineer, Holz. Conzert, Hamburg	9 February	Kuala Lumpur
Dr. Fusho Ozawa (President), Mr. Yoshio Utsuki (Executive Director) and Mr. Tomoyuki Deguchi (Japan Overseas Forestry Consultants Association)	13 February	Kuala Lumpur
Dr. Norihiko Siraishi, Associate Professor Tokyo University	13 February	Kuala Lumpur
Mr. Alistair Sarre, Editor, ITTO Tropical Forest Update	22 February	Kuala Lumpur
Mr. Richard McRae, LTS International Ltd., Edinburgh	16 March	Kuala Lumpur
Drs. Thomas J. Trooster, Managing Director, P.J. Timbers C.V., Utrecht, The Netherlands	4 April	Kuala Lumpur
Dr. Ir. Herbert Diemont. Wageningen University and Research Centre, The Netherlands	16 July	Kuala Lumpur
Mr. Adul Chotinisakorn, Minister-Counsellor (Commercial), Thai Embassy	8 November	Kuala Lumpur
Mr. Loong Siew Kong & Mr. Chan Siew Koon, Samling Strategic Corporation Sdn. Bhd. Mr. Chris Inglis, LTS International Ltd., Edinburgh	12 December	Kuala Lumpur



Alistair Sarre of ITTO meeting Harnarinder Singh and Ismail Ibrahim at MTCC office

MTCC participated in the following events in 2001:

INTERNATIONAL CONFERENCES AND MEETINGS	DATE	VENUE
FAO-GTZ-ITTO Seminar on “Building Confidence Among Certification Schemes and their Supporters”	19-20 February	Rome, Italy
Informal Regional Consultation/Workshop on Inter-linkages: Synergies and Coordination Among Multilateral Environmental Agreements, United Nations University (UNU), Tokyo	26-27 February	Kuala Lumpur
International Conference on the Application of Reduced Impact Logging to Advance Sustainable Forest Management: Constraints, Challenges and Opportunities	26 Feb - 1 March	Kuching
STA International Conference 2001	28 March	Kuching
International Training Programme on Forest Certification – Part I	13 May - 1 June	Garpenburg & Stockholm, Sweden
30 th Session of the International Tropical Timber Council	28 May - 2 June	Yaoundé, Cameroon
International Conference of Forestry and Forest Products Research (CFFPR 2001)	1 - 3 October	Kuala Lumpur
31 st Session of the International Tropical Timber Council	29 Oct – 3 Nov	Yokohama, Japan
International Training Programme on Forest Certification – Part II	15 Nov – 1 Dec	Quito, Ecuador
3 rd Regional Model Forest Workshop on “Criteria and Indicators for Sustainable Forest Management in Model Forests”	25-29 November	Pyay, Myanmar



Dato' Dr. Freezailah presenting his keynote address during CFFPR 2001



INTERNATIONAL FAIRS/EXHIBITIONS	DATE	VENUE
Malaysian International Furniture Fair 2001	6 – 10 March	Kuala Lumpur National
Level 30 th World Forestry Day Exhibition 2001	7 – 16 April	Klang & Shah Alam

LOCAL CONFERENCES AND MEETINGS	DATE	VENUE
Mass Media Visit in Conjunction with the National Level 30 th World Forestry Day Celebrations	3 – 5 April	Kuala Lumpur
Bengkel Komuniti Mengenai Pakatan FSC-MTCC – Menggubal Kriteria, Petunjuk, Aktiviti dan Piawaian Pelaksanaan (MC&I) bagi Pensijilan Pengurusan Hutan Malaysia yang Serasi dengan Prinsip dan Kriteria FSC – Jointly Organised by Partner Social Organisations	15 April	Kuala Lumpur
IRIM-FDPM Seminar on Sustainable Forest Management: Challenges, Opportunities and Concerns	12 May	Kuala Lumpur
Meeting of Timber Industry Forum	24 May	Kuala Lumpur
MTC Seminar 2001: The Malaysian Timber Industry – Moving Forward in the New Millennium	12 June	Kuala Lumpur
MTC Lecture Series 2001 “Listing of Ramin and Other Species of Timber on the Appendices of CITES”	22 June	Kuala Lumpur
STA Training Course on Forest Management Certification	15 – 17 August	Kuching
13 th Malaysian Forestry Conference	20 - 25 August	Johor Bahru
16 th Meeting of National Forestry Council	15 November	Kuala Lumpur

BALANCE SHEET AS AT 31 DECEMBER 2001

	2001 RM	2000 RM
ENDOWMENT FUND	25,000,000	25,000,000
ACCUMULATED FUND	1,079,853	955,598
	26,079,853	25,955,598
	=====	=====
Represented by:		
PROPERTY, PLANT & EQUIPMENT	167,052	230,167
CURRENT ASSETS		
Sundry receivable and deposits	93,703	169,813
Fixed deposits with licensed bank	25,770,799	25,419,702
Cash & bank balances	110,758	151,964
	25,975,260	25,741,479
Less:		
CURRENT LIABILITIES		
Sundry payables and accruals	62,459	16,048
NET CURRENT ASSETS	25,912,801	25,725,431
	26,079,853	25,955,598
	=====	=====

Financial Statements



INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2001

	2001 RM	2000 RM
Revenue	28,980	-
Cost of sales	(28,980)	-
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Gross surplus	-	-
Other operating income	1,051,644	827,958
Administrative and general expenses	(927,389)	(934,844)
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Deficit from operations	124,255	(106,886)
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Net (deficit)/Surplus for the year	124,255	(106,886)

Financial Statements

