

Progress on Forest Certification in Malaysia

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ABSTRACT

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In this report Alterra (Green World Research), Wageningen University and Research Centre assesses the chronology of key events with respect to the certification process for sustainable forest management of 3 States in Peninsular Malaysia by a third party independent certifier SGS.

The initiative for this report was taken by Alterra in order to assess the Keurhout perceived gap between The Dutch Minimum Requirements and the certification format used by SGS.

The present report is already announced in NTCC's letter to Keurhout of 17 July 2001. In this letter NTCC responds to the proposal of Keurhout's Management Board to close the perceived gap between the Dutch Minimum Requirements and the auditing report. This report should provide an assessment of the issue.

It is Alterra's conclusion that there is not such a gap as the Standards of Performance of the format which was agreed in June 1999 have not changed.

Therefore, Alterra's advise to the Keurhout Foundation is to provide a Keurhout Hallmark to the 3 States based on the SGS certificates .These certificates should stand alone without any preconditions /conditions for reason that the SGS audits followed the agreed format and Guidelines of the July Ad Hoc Working Group 1999 Report and all major CARR's observed by SGS were closed.

Keywords: Forest certification, Malaysia, Keurhout Foundation, National Timber Certification Council Malaysia (NTCC), SGS, Sustainable Forest Management.

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Contents

List of abbreviations	5
1 Introduction	7
1.1 Objectives	7
1.2 Procedures	7
1.3 Contents	8
2 The Certification Process	9
2.1 Sustainable forest management and certification	9
2.1.1 Conservation of biodiversity	9
2.1.2 Protection of customary rights	9
2.1.3 Certification	9
2.2 Joint Working Group	10
<i>Report of the Ad-Hoc Expert Working Group August 1998</i>	10
2.3 Issues	12
<i>“The Hague meeting”</i>	12
3 Conclusions and Recommendations	19
3.1 Conclusion	19
3.2 Recommendations	19
3.2.1 Acknowledgments	19
References	21
Appendix 1 Appendix 1 Draft Schedule of Conditions:	23
Appendix 2 Appendix 2 Letter from Keurhout with respect ot Ad Hoc Expert Group[June 1999 Report	25
Appendix 3 Appendix 3 Letter from NITTA to NTCC commenting on letter of Keurhout	27
Appendix 4 Appendix 4 Data on permanent forest areas in Malaysia	29
Appendix 5 Appendix 5 Chronology of key events from December 1999 to July 2001 including Annexes 1-XV as background information	31
Appendix 6 Appendix 6 Responses on the draft report	35

List of abbreviations

Ad-hoc Expert Working Group	Malaysia-The Netherlands Ad-hoc Expert Working Group, August 1998
Ad-hoc Working Group	Malaysia-The Netherlands Ad-hoc Working Group, June 1999
Alterra	Alterra Green World Research, Wageningen University and Research Centre
BoE	Board of Experts of Keurhout
Major CARs ¹	Major Corrective Action Requests
Minor CARs ²	Minor Corrective Action Requests
C&I	Criteria and Indicators
FDPM	Forestry Department Peninsular Malaysia
FSC	Forest Stewardship Council
FMU	Forest Management Unit
ITTO	International Tropical Timber Organization
JWG	Malaysia- The Netherlands Joint Working Group
KF	Keurhout Foundation
MC&I	Malaysian Criteria, Indicators, Activities and Standards of Performance for Forest Management Certification
MB Keurhout	Management Board of Keurhout
MTC	Malaysian Timber Council
MTIB	Malaysian Timber Industry Board
NTCC	National Timber Certification Council, Malaysia
NTTA	Netherlands Timber Trade Association
SFM	Sustainable Forest Management
SGS	SGS (Malaysia) Sdn. Bhd.
SoP	Standard of Performance

¹ should be closed-out before issuance of certificate of compliance

² should be fully addressed at the next surveillance visit (in 6 months' time)

1 Introduction

1.1 Objectives

In view of the current situation relating to the verification by the Keurhout Foudation (“Keurhout”) of certificates issued by SGS (Malaysia) Sdn.Bhd. (SGS) to Pahang, Selangor and Terengganu, Alterra as an independent organisation has prepared this report to provide an assessment of the degree of correspondence between the SGS audit reports (Ref. 1, 2, 3) and the draft “schedule of conditions” listed in APPENDIX 1.

Actually SGS (M) has recognised that Pahang, Selangor and Terengganu are eligible for an SGS(M) Certificate against the MC&I (AWG 23 December 1999) but the certificates were not issued due to the non-acceptance by the Keurhout B0E.(APPENDIX 6)

Alterra decided to undertake task so as to assess the information available on what was perceived by Keurhout but not by the National Timber Certification Council, Malaysia (NTCC) as a gap between the agreed standard as contained in the audited MC&I format and the Dutch Minimum Requirements (compare ANNEXES XIII and XIV in APPENDIX 5).

This Alterra decision was made as a follow up action to two informal meetings convened by NTCC on 10 and 14 July in Kuala Lumpur, which was also attended by SGS ,Forestry Department Peninsular Malaysia (FDPM), Malaysian Timber Council (MTC) and Malaysian Timber Industry Board (MTIB).

This initiative by Alterra is accordingly mentioned in NTCC’s letter to Keurhout of 17 July 2001 (ANNEX XIV).

1.2 Procedures

A draft of the report will be circulated to NTCC, FDPM, MTC, MTIB, Netherlands Timber Trade Association (NTTA), SGS, and Keurhout so as to allow for comments on the facts stated in the report i.e. the sufficiency of the APPENDICES/ANNEXES in providing an accurate picture of the developments in this matter, as limited time did not allow Alterra to make a full study of all the documentation available in NTCC and in Keurhout. .

In response to a request from the Managing Director of Keurhout a draft will be circulated before July 21 so as to facilitate a timely decision by the Management Board of Keurhout.

Comments on the facts by respondents will be listed in an additional APPENDIX 6 of the final report. The content of the report is the sole responsibility of Alterra.

The final report will be e-mailed by Alterra to the Management Board of Keurhout before July 25.

Copies of the final report will also be mailed to NTCC, FDPM, MTC, MTIB and NITTA and the co-chairmen of the Malaysia-The Netherlands Joint Working Group (JWG).

1.3 Contents

An overview of sustainable forest management (SFM) in Malaysia is provided in section 2.1. One of the activities in Malaysia is the bilateral Malaysia-The Netherlands JWG. Section 2.1 provides information on the JWG's involvement in a pilot study on timber certification, while section 2.2 deals with the comparison of the MC&I with the Dutch Minimum Requirements which provided a format to be used by SGS for auditing. The key part of the report is in section 2.3 which addresses the question whether or not there are gaps between the format agreed in December 1999 and the format used for auditing by SGS. For this purpose, section 2.3 provides a chronological overview of the communication on the certification audits and formats for the period from December 1999 to July 2001. The conclusions and recommendations are presented in section 3.

Issues identified by Alterra during the certification process will be indicated in the text as follows:

Issue 1

If an issue is closed by Alterra it will be indicated as follows:

Issue 1 Closed

2 The Certification Process

2.1 Sustainable forest management and certification

Introduction

Malaysia has accepted Agenda 21 and the Forest Principles adopted at the 1992 Earth Summit at Rio de Janeiro as well as ITTO's Year 2000 Objective to ensure trade of forest products in the international market are derived from sustainably managed forests.

Since 1971, the National Forestry Council has been facilitating a coordinated approach to forestry in Malaysia. Under the Malaysian Constitution, forestry comes under the jurisdiction of the respective State Governments.

2.1.1 Conservation of biodiversity

Forests in Malaysia cover more than 20.5 million ha or 62% of the total land area. A total of 16.3 million ha (80 % of the forested land) is permanent forest which is gazetted by law. Of this permanent forest, 66% is production forest and the remaining 34% is set aside for protection and conservation of biological diversity. Furthermore, within the production forest, Virgin Jungle Reserves for biodiversity conservation have been established. Over the last 5 years, the total area under permanent forest in Peninsular Malaysia has increased by some 0.2 million ha (Appendix 4).

2.1.2 Protection of customary rights

The interests and customary rights of the indigenous people in Malaysia are protected by a number of legislation including the National Land Code 1965, Aboriginal Peoples' Act 1954, National Forestry Act 1984, Cultural Heritage (Conservation) Enactment 1997 of Sabah, Land Ordinance 1930 of Sabah, Forest Ordinance 1958 of Sarawak and Sarawak Land Code 1958.

2.1.3 Certification

NTCC started operations in January 1999 as an independent non-profit organisation to establish and operate a national certification scheme. NTCC has also been given the responsibility to administer an endowment fund to enable an annual auditing of the forests in Peninsular Malaysia by third party assessors under the NTCC scheme. Since 1998, FDPM has been conducting internal assessments of forest management practices on the ground.

Malaysia has formulated a national standard for certification of its natural forests, the *Malaysian Criteria, Indicators, Activities and Standards of Performance (MC&I) for Forest Management Certification*. The *MC&I for Forest Management Certification* based on the 1998 ITTO Criteria and Indicators for Sustainable Management of Natural Tropical Forests. The *MC&I for Forest Management Certification* was finalised and adopted by 111 stakeholders from 58 organisations through a transparent and participatory approach at the national-level consultation held in October 1999 as the document to be used for forest management certification. This set of the MC&I is now reflected in the format used for auditing the states of Pahang, Terengganu and Selangor.

NTCC has initiated discussions with the Forest Stewardship Council (FSC) to develop a FSC-compatible Malaysian standard for forest management certification. Towards this end, the FSC-NTCC Workshop on Forest Certification was held in December 2000. In this respect, 10 NGO's expressed their concern that the Workshop had been organised without them having been adequately consulted by NTCC.

A pilot study under the Malaysia-The Netherlands cooperation programme on timber certification has been going on since 1996. In this context, it is noted that the Malaysian timber imported as Declaration timber has been favourably accepted by the Dutch market. The success of this pilot study in the three states of Pahang, Terengganu and Selangor has prompted the other five timber-producing states in Peninsular Malaysia to express their willingness to embark on certification of their natural forests using the current *MC&I for Forest Management Certification*.

At this stage, some timber companies in Sarawak are also interested to have their forest concession areas assessed to the requirements of the *MC&I for Forest Management Certification*, once the decision on the three states is clear.

2.2 Joint Working Group

The Malaysia-The Netherlands Joint Working Group (JWG) decided on its Fourth meeting on 23-24 April 1998 at The Hague to establish an Ad-hoc Expert Working Group to:

- a) compare the Dutch Minimum Requirement No 1 with the Malaysian criteria and indicators for SFM at the forest management unit (FMU) level
- b) to identify a set of Malaysian criteria and indicators to meet the Dutch Minimum Requirement No.1
- c) to elaborate on the standards of performance

Report of the Ad- Hoc Expert Working Group August 1998

The report of the Ad-Hoc Expert Working group which met in August 1988 concluded that it was possible to achieve a one-to-one correspondence between the

criteria and indicators of the Dutch Minimum Requirements No.1 and the Malaysian C&I after adding 6 indicators to the (at that time) existing Malaysian criteria and indicators. The standards of performance were also elaborated.

With respect to this report the following issues should be noted:

- (1) the TOR of the Ad-Hoc Expert Working Group is on Dutch Minimum Requirement 1. The Dutch Minimum Requirement No. 1 is on the requirements for sustainable forest management. This Requirement no 1 corresponds with the Requirements Regarding the Performance of Forest Management in the Keurhout Verification Procedure dated 14 October 1997. This change has caused some confusion , but is conceived by Alterra as a mistake and this is why Alterra closes this issue .

Issue1: Are Requirement 1 And Verification 2 The same ? Closed

- (2) (2)with respect to the choice of the State as the FMU level (which implies certification on a State base) the Expert Report noted that the rational for this decision is that forestry is a State matter under the Malaysian Constitution and all decisions including the allocation of the Annual Allowable Cut (AACs)are made by the State authorities. This does not exclude, however, the possibility that in future a lower management level can be envisaged (Ref. 4). This decision was still considered as an issue :

Issue 2 : Why is the FMU level on State level ?
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Report of the Ad-Hoc Working Group June 1999

A change in the August 1998 (Ref. 2) standard was made in June 1999. After this 1999 Ad-hoc Working Group meeting Annex 8 in the August 1998 report was replaced by Annex 4 in the 1999 report. Details on why this change (Issue 3) was made and how this format was accepted by Keurhout as a format which reflects the Minimum Requirements are given below.

Issue3: Acceptance of the June 1999 Format

Following further discussions in January 1999 between NTCC,NTTA and Keurhout, it was felt that more work should be done on the following issues:

- a) identification of the critical standards of performance
- b) how to exclude individual operators who do not meet the requirements

This so called “Ad-Hoc Working Group” met in June 1999 in Kuala Lumpur. With respect to the criteria ,indicators, activities and standards of performance, it was suggested in their report that Annex 8 in the August 1998 Report should be replaced by Annex 4 of the June Report 1999. In addition , Guiding Notes *for assessing the Standards of Performance for Forest Mngement Certification, Peninsular Malaysia* was provided in Annex 5 of the June 1999 report.

In the June 1999 Ad-hoc Working Group report, it was noted that the Managing Director of the NTTA in his capacity as member of the Ad-hoc Working Group would send the report including the set of C&I and matching SoPs (Annex 4) and the Guiding Notes (Annex 5) to Keurhout “for consideration and acceptance by the Keurhout Foundation as a credible basis for forest management certification eligible for the Keurhout Hallmark” [Ref. 5 ,section 3.0 (i)].

The answer of Keurhout (APPENDIX 2) and the response shown in APPENDIX 3 is viewed by Alterra indicate that it was understood that the format was agreed by Keurhout. Alterra observes that the answer of Keurhout was a bit elaborate as it stated that no rights could be derived from this letter, but the letter was written in response to the fact that no audits had started yet on the ground. It is Alterra’s view that Keurhout accepted the June 1999 format when certification audits started. This implies not only that the 1999 format is accepted (issue 3), but also that the State is also accepted as the FMU level for certification audits (issue 2) by Keurhout. Alterra closes therefore both issues .

Issue 2 & 3: Closed

2.3 Issues

This section is on changes after it was agreed to use the June 1999 format including the Guiding Notes attached to it in Annex 4 and Annex 5 is the basis for the following observations on changes to the format in the next phase, tables as changes related to the “The Hague meeting” and “The Weesp meeting” in APPENDIX 5..

It is Alterra’s view based on the available information summarised below that non of the (many) changes in the format did dilute the agreed 1999 package .

“The Hague meeting”

In december 1999 , a Malaysian delegation led by NTCC held informal discussions in The Netherlands with Keurhout and NTTA. The reason for the delegation’s trip to The Netherlands was that the delegation wanted the accepted June 1999 Ad-hoc Working Group format (section 2.2) to match with a new MC&I based on the 1998 ITTO criteria and indicators for Sustainable Management of Natural Forests. which had been adapted following a national-level consultation in October 1999. The discussions in the Hague are reflected in ANNEX I where it is stated by the Ad-hoc Working Group co-chairman (in both Dutch and English) that the proposed changes as tabled in ANNEX II did not change the format,.However, although there is a reference in ANNEX II that standards of performance would be the same , it would have been helpfull that it was mentioned in the letter (ANNEX I) that the SOP’s were not changed. The crux in the December meeting was that it was decided that the SOP ‘s should not be changed. .

Issue 4: Changes in the June 1999 Format?
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As there was no clear definition of what was the meaning of “no changes”, a new and serious issue was born which, together with quite a few changes on the MC&I format caused a lot of confusion in Weesp. .

With “no changes”, Alterra means that all the standards of performance as agreed by the Ad Hoc Working Group members would be the same, but the The Haque meeting would allow changes in the criteria, indicators and activities in the MC&I which do not change the agreement for the simple reason that **the outcome of the audit is always the same as long as the standards of performance are not changed.** Once more : No SoP’s were changed either during The Hague meeting or later in the process.

Issue 4: No changes affecting the June1999 package are observed. Closed

However, “new ” MC&I formats arrived in Holland , urging the BoE to check whether the agreed format was still the same with the new arrived MC&I . In a letter of 17 December 1999 from Keurhout (Annex III) the so called October MC&I was anticipated by Keurhout not to be different from the agreed format in Annex II (with indeed similar SoP’s as in the June 1999) . The BoE should discuss these formats and before they met on 20 January another format arrived in Holland (ANNEX IV) , which by that time included alreday some other changes which Alterra conceives as editorial as no changes in SoP’s are involved. This was not the

last audit posted. Once more an another format arrived May 24 in Holland (Annex V) including the Guide lines and this was the format which SGS used to make the audits. What was for NTCC and SGS clear (no changes with respect to the 1999 “package”) was not clear to the BoE of Keurhout.

With all the changes in formats it was not an easy task for the BoE of Keurhout to follow the process. A new issue 5 similar to the last one came up:

Issue 5: Was the Format still The agreed June1999 Package?

Then, in order to solve the issue Keurhout confirmed to NTTC (ANNEX VI) that it accepts the proposed audit document on the understanding that nothing has changed in the set which was mutually agreed in December 1999. If the BoE had received the contract between NTCC and SGS they might have already become convinced that the agreed format was the 1999 package and that nothing had been changed. But the BoE did of course not see the contract which is a document to be used between partners NTCC and SGS (ANNEX VII) .

(In this contract some important details are mentioned such as the number of visits to be conducted being the responsibility of the independent third party assessor. Another observation in the contract is there is a stand alone position of certificates, apart from any decision by Keurhout on the hallmark. Whatever the practical use of a certificate without Hallmark is it is noted that a SGS certificate can be issued at the moment all Major CARs have been closed out).

The following significant communication in the “chain of events” was an e-mail from Keurhout received by NTCC on 16 March 2001 (ANNEX VIII). It is clear from this e-mail that the BoE has still difficulties with Issue 5, Keurhout then asked NTCC to confirm that “no changes” in the audit format had occurred. The Alterra view at this stage is once more that the pertinent confirmation required by Keurhout on the “no changes” issue is caused by the many changes in the MC&I format..

Issue 5 Continues

Following its meeting on 15 March, the BoE had doubts whether the same set is still on board, and requested SGS to come to The Netherlands. On 16 March NTCC responded to the e-mail of Keurhout in ANNEX IX with a chronology of events leading to the use of the audit document! . This was not a response as respected by Keurhout ,NTTCwould give. That is why Alterra made inquiries on this response .Why did NTCC not simply say yes to Keurhout on such a simple question? The answer is that the question is too simple , as it cannot be denied that many changes had occurred (although not affecting the crux of the format: the SoPs!). Therefore,

NTCC felt it could not answer directly question 1 of Keurhout (see ANNEX VIII) with a Yes or No!.

This NTCC response was a logic one from the point of view of NTCC but was not clear to the BoE of Keurhout, to say the least. In NTCC's perception there were changes but these were agreed 1999 package., while in the perception of Keurhout, there were changes which may have changed the agreement. The answer of NTCC only made the BoE more suspicious. Alterra's view is that this was a misunderstanding between NTCC and Keurhout. But the issue 5 stayed on the table.

“The Weesp meeting”

As a preparation to the meeting in Weesp, SGS and NTCC received a letter from Keurhout (ANNEX10) with questions from the BoE.

By then it was clear that the BoE was convinced that there is a gap between what was agreed and the actual format which was used during the audit. On the opposite NTCC did not longer understood what was going on, taking in account that the SoP's had not changed. As said before as long the SoP`s are not changed it does not matter whether there are changes in the indicators an activities.

In the Weesp meeting (no minutes available!) ,the BoE made the observation that the assessment reports are stating that the forest management is in agreement with the Stichting Keurhout verification procedure, while at the same time the performance against some of the relevant Keurhout requirements have not been mentioned in these reports. Moreover, Keurhout made the observation that SGS had not assessed the three States against the Minimum requirements of the Dutch government, but against the agreed format (which were agreed by Keurhout) . In this respect Alterra also notes that the Keurhout BoE keeps still the view that during the meeting SGS had said that the Guiding Notes had limited their audit scope. As a result of this SGS statement the Keurhout representatives became more convinced that there was a gap. NTCC and SGS have different opinions with respect to the SGS statement on the Guidelines. In fact NTCC and SGS changed these Guidelines such that also in the view of Alterra it was more difficult to pass for the States, taking in account that SGS wanted to audit with a major/minor CARR's procedure ALL standard of performance at once , which was not foreseen in the Guidelines. The BoE consequently, invited SGS to indicate, by means of pre-conditions and/or conditions, what measures should still be taken before the Keurhout Requirements would be fully met. SGS, then, issued on request by Keurhout draft certificates with a list of conditions (APPENDIX 1).

Issue 5 Continues

Alterra`s view based on oral discussions with participants in the Weesp meeting is that SGS had agreed to provide certificates based on the Standard: MC&I, Activities

and Standards of Performance (MC&I) for Forest Management Certification (FMU level) Peninsular Malaysia(Malaysia-The Netherlands Ad Hoc Working Group) and NOT directly against the Dutch Minimum Requirements. In Alterra's view the agreed 1999 package also implies that the format corresponded fully with the Dutch Minimum Requirements for the simple reason that the 1999 package is by now agreed between oparties (seen Issue 4 which is closed).

Alterra denies that the agreed format (incl. the Guiding Notes) has offered a constraint for certification as all parties had agreed to the Dec.'99-format and in this format the SoPs had not been changed so the format is still the same. It is Alterra's view that a misunderstanding occurred between SGS , NTCC and the BoE during the Weesp meeting. The BoE had the perception that the agreed format was changed, what is in Alterra's view not the case.

Based on the perceived gap , Keurhout asked SGS to produce a list of pre-conditions and conditions for the BoE (ANNEX XI) based on the BoE areas of concern and this list (ANNEX XII) was mailed to Keurhout. NTCC, FDPM and SGS were willing to consider at that time the inclusion of the Draft Schedule of Conditions on the understanding that these were conditions. From NTTC's point of view most points in the draft schedule referred to minor CARs in the audits of SGS and a few more expressed the observations of the BoE of Keurhout, which could easy been adjusted during the next surveillance of SGS. So NTCC agreed with the list of Conditions at a time they were not yet perceived as Pre-conditions or in fact major CARR's which obstruct the issue of an SGS certificate. It was not understood by the Malaysian side that a Draft Schedule of Conditions attached to a certificate would give the wrong impression to the market as it would suggest (also due to its very losse wording) that SFM was still a long way to go in Malaysia. Fortunately the KB in its decision to NTCC noted this discrepancy between the results of the audits and the Draft Schedule of Conditions and urged SGS for more consistency between the audit reports and list of Conditions (ANNEX XII).

The letter of KB to NTCC (cc to SGS) in ANNEX XIII, states under point 6 that SGS and NTCC should try to sort out the discrepancies between audits and list of conditions.

The letter of Keurhout (ANNEX XIII) assumes, however, that the audit reports are draft audit reports .

Issue 6: The SGS Reports Are Final Closed

The SGS audit reports are however final for reason of credibility as explained by SGS in informal July 2001 meetings in Kuala Lumpur (see also ANNEX XV, forthcoming). Issue 6 closed.

The situation with respect to issue 5 should in the view of Alterra been closed before the Weesp meeting, for reason that taking in account all information it should have been clear that there were no changes which had changed the agreed package of 1999. Due to misunderstandings there was a considerable delay in closing this issue, but in Alterra's view there cannot a misunderstanding on the issue by now. Issue 5 is closed.

Issue 5: Was the format still The agreed June1999 package? Closed
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3 Conclusions and Recommendations

3.1 Conclusion

There is only one possible conclusion. The documents studied indicate that there were many misunderstandings in the process. Nevertheless we were able to close all issues including issue 5, for the following reasons that

- a) There are no outstanding issues related to the third party audits (Ref. 1,2,3) as all Major CARs outstanding have been closed.
- b) The format as agreed based on the December 1999 format has not changed as all Standards of Performance agreed have been audited, which implies that whatever other changes are made, these changes will not affect the result of the audit.

Consequently, there is no gap between the agreed set and the Dutch Minimum requirements as all the Standards of Performance agreed have been retained.

As the outstanding major CARs have been closed by SGS, SGS can issue SGS certificates which stand on their own. These certificates get only practical meaning for the market if a Keurhout hallmark is made available.

3.2 Recommendations

1. Recommendation to the Management Board of Keurhout

To provide immediately the Keurhout Hallmark, based on the SGS certificates. The final SGS certificate should stand on its own without any list of conditions as indicated in the letter from NTCC in reply to the decision of the Management Board of Keurhout (ANNEX XIV).

2. Recommendations to N^TTA and MTC/MTIB

To take immediate action to restore the market confidence.

3.2.1 Acknowledgments

The authors thank SGS Malaysia (dr Kevin Grace, Mr Salahudin Yaacob, NTCC (Dato Dr Freezailah Che Yeom, dr Mr Chew Leye Teng, Mr Harnarinder Singh), the Forest Department Department of Peninsular Malaysia (Mt Tangh Hooi Chew), the N^TTA (mr. A.de Boer), Keurhout Foundation (Mr. K. Bosdijk) for the documents provided. Alterra also thanks the Netherlands Ambassador in Kuala Lumpur his

excellency Mr. C. van Tooren forv advise. The content and conclusions are entirely the responsibility iof the authors.

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2. Audit Report: Selangor FMU, SGS (Malaysia) Sdn. Bhd. dated 22 February 2001
3. Audit Report: Terengganu FMU, SGS (Malaysia) Sdn. Bhd. dated 12 March 2001
4. Report of Malaysia-The Netherlands Ad-hoc Expert Working Group Meeting Kuala Lumpur, 3 - 14 August 1998
5. Report of Malaysia-The Netherlands Ad-hoc Working Group Meeting, Kuala Lumpur, 22 - 25 June 1999

Appendix 1 Draft Schedule of Conditions:

1. Forest policy for sustainable use of forest resources, environmental protection and social benefits be communicated to forest operators and the public. Time frame: 6 months.
2. Schedule of training programmes for staff and logging contractors on the requirements and means of implementation of the MC&I (AHWG 23 Dec 1999). Time frame: 6 months.
3. Clearly defined procedures for pre-harvest planning inclusive of specified objectives for each planning unit for residual forest stand conditions. Procedures for monitoring harvesting operations and closing out of harvested areas that include evaluation of impacts of field operations for each licensed area. Procedures shall also provide for monitoring growth, composition and structure of residual forest stands following harvesting for each planning unit taking into account impacts of field operations. Time frame: 6 months.
4. Clearly defined procedures for reduced impact logging that minimises damage to the residual stand based on prescribed limits and damage from forest road construction and appropriate slope limitations for specified harvesting techniques. Time frame: 6 months.
5. Development of methods for environmental monitoring for water quality, endangered species and forest biological diversity within the Permanent Forest Estate. Time frame: 6 months.
6. Prescriptions for sustained yield within predetermined harvest levels, residual stand conditions and cutting cycle. Time frame: 6 months.
7. Give initial impetus for acceptable level of participation by local stakeholders, in particular the Orang Asli and NGOs, in the forest management process. Time frame: 6 month.
8. Implementation of procedures for pre-harvesting planning and related monitoring procedures based on Condition #3. Time frame: 12 month.
9. Implementation of methods developed for reduced impact logging based on Condition #4. Time frame: 12 month.

10. Implementation of methods developed for environmental monitoring based on Condition #5. Time frame: 12 month.
11. Implementation of MS ISO 9001 system (currently in draft form) that provides for procedures and monitoring of key operations inclusive of internal auditing and use of corrective action requests. Time frame: 12 months.

Appendix 2 Letter from Keurhout with respect ot Ad Hoc
Expert Group[June 1999 Report

APPENDIX 2



To the two focal points of the
Malaysia-The Netherlands pilot project
for timber certification:
Mr. Chew Lye Teng (NTCC) and
Mr. A. de Boer (VVNH)

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Weesp, 17 September 1999

Ref: 99338
Re: Malaysia-The Netherlands pilot project for timbercertification,
VVNH letter 99-1776 dated 14 July 1999,
Minutes of Ad-hoc Group of Experts Meeting 22-25 June 1999.

Dear Sirs,

In the above letter Mr. de Boer requests Keurhout, in the name of the Ad Hoc Group, to judge whether the proposed criteria, indicators and performance standards would build a sufficient basis for a certificate, based thereon, to qualify for Keurhout's acceptance, realising that the request concerns a theoretical assessment which does not prejudge an assessment on the hand of a certificate, when the fieldwork has been completed. According to his letter, the request has been based on the desire to prevent that a lot of costly field work is being carried out on a basis which is considered not meeting the Keurhout requirements, and is put forward at a moment where there is room for adjustment.

Referring to The Keurhout Verification Procedure, dated 14 October 1997, we are considering this request as the request for an indication in what way the eventual certificate will be verified. This is the light in which you should read our following comments. They do not bind the Board of the Keurhout Foundation in any way and, consequently, you may not derive a right on them.

Reference is also made to our letter dated 31 March 1999 in which we are reacting to the work of the Ad-hoc Experts Working Group which met 3-14 August 1998 and to our fax letter dated 17 June 1999.

Following the order of The Keurhout Verification Procedure our comments will cover the four Keurhout requirements.

Internet address: <http://home.worldonline.nl/~keurhout>

Since it is the responsibility of the certifying body, according to chapter 2.3.5, to determine the number of sites to be visited for the qualification of the FMU, we would like the certifying body to state his criteria. We want to be sure that the objective, professional criteria for spot checks are being met.

The same question applies to the criteria for determining the qualification of the individual licence holder, as mentioned in chapter 2.4.3. We want to know whether the 10% criterion is correct and whether the various forest types will be covered in the correct proportionality.

We are referring to Mr. Chew's fax dated 26 August 1999 in which the status of "licence holder" is explained. It is our concern that the qualification of the mere number of licence holders might not necessarily be equalling our requirement for proportionality as indicated above.

Referring to our faxed letter to the two focal points dated 17 June 1999, Mr. Chew has requested us to accept that the assessment of the three "Declaration states" be carried out after our positive reaction on the above criteria set has been received.

Although we are sticking to our position that the current agreement sees to the (last) assessment due June 1999, we have agreed with the postponement of the assessment because we have appreciated your argument that this would enable the NTCC to organise the assessment of the 3 "old" and the 5 "new" states against the same set of criteria, realising also that the new criteria set will be more stringent and meeting fully the Keurhout requirements.


Therefore, we are urging you now to have the three "old" states assessed without further delay. We would hate to be forced to withdraw our Declaration on timber from the pilot project by the End of this year because of the lack of assessment reports stating full compliance with the pilot project agreement, as has been foreseen.

You will no doubt agree that this could be detrimental to the Malaysian credibility and reliability on the Dutch market and could have a negative impact on the process of verification of the certificates for the 8 states on Peninsular Malaysia. On the other hand, we also hope that you will agree that Keurhout 's credibility has been essential and will remain essential for a successful entry to the Dutch market of the flow of certified timber from Malaysia.

We trust that this reaction is meeting with your request. Please do not hesitate to contact us in case you would need more information and/or more explanation on these comments.

With kind regards,

Keurhout foundation



Kees W.F. Bosdijk,
managing director

Appendix 3 Letter from NTTA to NTCC commenting on letter of Keurhout

APPENDIX 3

Faxbericht

VERENIGING VAN NEDERLANDSE HOUTONDERNEMINGEN
Netherlands Timber Trade Association

Bedrijf:	NTCC	Fax:
Bestemd voor/att. To:	Mr Chew Lye Teng	Aantal pagina's:
Afkomstig van/ from:	Andre de Boer	

Almere, 22 september 1999

Betrafft: Keurhout's letter of Sept. The 17th

Ref: *AdUB*
No.: 99-2342

Dear Mr Chew,

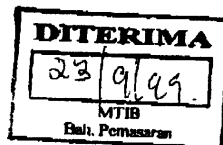
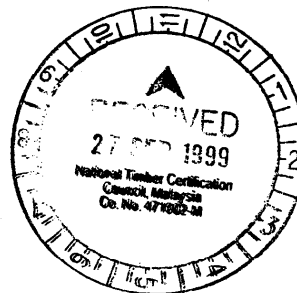
Taking it that you have received the above mentioned letter I establish that the reaction of Keurhout -although we both would have liked to see a firmer positive reaction- is the best we can get. Keurhout is -understandably- cautious to give ground for expectations it can't meet at the end of the day.

As I see it the reaction gives a sound basis to go ahead and start the fieldwork. I am positive that Keurhout's letter does not give her the opportunity to make complaints about the theoretical, conceptual approach as agreed by our working group after the fieldwork has been done.

Let me know if you disagree with my views and if not please inform me then with regards to the next steps and the time-table to be followed.

With kind regards,


Andre de Boer



Westeinde 6, 1334 BK Almere-Buiten, Postbus 1380, 1300 BJ Almere
Nederland / The Netherlands Tel. (31)(0)36 - 532 10 20 Fax. (31)(0)36 - 532 10 29

Appendix 4 Data on permanent forest areas in Malaysia

Permanent Forest Estate in Malaysia, 1995-1999 (million ha)

Year	Peninsular Malaysia	Sabah	Sarawak	Malaysia
1995	4.68	3.60	6.00	14.28
1996	4.68	3.60	6.00	14.28
1997	4.73	3.60	6.00	14.33
1998	4.73	3.60	6.00	14.33
1999	4.85	3.60	6.00	14.45

Source: Forestry Department per. com. with Mr. Thang Hooi Chiew,
Deputy Director General of Forestry, Peninsular Malaysia

Note: The figures represent the net area under PFE after taking into account all areas gazetted and excised during the year.

Appendix 5 Chronology of key events from December 1999 to July 2001 including Annexes 1-XV as background information

Chronology of Key Events from December 1999 to July 2001

ANNEX	Date	Sender	Recipient	Copied To	Subject	Remarks
I	14 December 1999	NTTA	NTCC c/o Malaysian Embassy, The Hague	-	“The Hague Meeting” . Correspondence of MC&I Malaysia versus format agreed in Ad Hoc Working Group.	Attached to this annex is a letter to Keurhout on the same subject. In both letters, it is stated that the paper (listed as ANNEX II) corresponds with the agreed annex 4 of the Ad Hoc Working Group Report of June 1999.
II	15 December 1999	Experts June 1999 Ad Hoc Working Group	KF/BoE	-	“The Hague Meeting” . Suggested additions/amendments to the MC&I to ensure full compliance with the Malaysian-The Netherlands Ad Hoc Working Group Criteria and Indicators for Forest Management Certification.	Document produced as a result of discussions in The Hague between the Malaysian and Dutch experts of the June 1999 Ad-Hoc Working Group (Thang/Chew/de Boer/Diemont) which was presented to the BoE of Keurhout on 15 December 1999.
III	17 December 1999	KF	NTCC	-	“The Hague Meeting” . Overview of informal discussions in the Hague.	Keurhout BoE meeting is scheduled for 25 January 2000 to discuss the changes in the MC&I format in the light of the suggested additions/amendments discussed in The Hague (see ANNEX II).
IV	6 January 2000	NTCC	KF	NTTA FDPM Alterra NTCC, etc	“The Hague Meeting” . Letter from NTCC to KF-enclosed a copy of the MC&I (53 indicators) dated 23 December 1999.	The MC&I format dated 23 December 1999 with 53 indicators, now including 3 additional indicators so as to agree with the annex 4 of the report of the June 1999 Ad Hoc Working Group. In this document a subset is identified (shaded part) which corresponds to the indicators in annex 4 of the

ANNEX	Date	Sender	Recipient	Copied To	Subject	Remarks
						June 1999 Ad Hoc Working Group report. This format also reflects editorial changes such as in the NTCC e-mail to Keurhout dated 13 January 2000.
V	24 May 2000	NTCC	KF	-	“The Hague Meeting” . The MC&I format dated 23 December 1999 including 3 additional indicators in order to agree with annex 4 of the Ad-Hoc Working Group report dated June 22-25, 1999.	Only the cover is reproduced in ANNEX V. This is a stand alone document incorporating the 29 indicators in annex 4 of the Ad-Hoc Working Group report dated June 22-25, 1999. Also the guiding notes were attached as a separate document. It should be emphasised that this document which was used in the audit is the same as the shaded part in the document mentioned under ANNEX IV.
VI	29 May 2000	KF	NTCC	-	“The Hague Meeting” . The auditing document under ANNEX V is accepted by Keurhout as a basis for auditing by SGS on condition that nothing changed with respect to the mutually agreed set in The Hague.	In this report, it is explained that “nothing changed” refers to the standards of performance, which are the crux in any auditing format (see section 2.3 of this report).
VII	19 & 22 June 2000	SGS	NTCC	-	Contracts between NTCC and SGS (19 & 22 June 2000).	In this document, it is clear that SGS certificates will be issued upon compliance with the agreed standard mentioned in ANNEX VI.

ANNEX	Date	Sender	Recipient	Copied To	Subject	Remarks
VIII	16 March 2001	KF	SGS NTCC	-	“The Hague Meeting” . Keurhout questioned the format used and requested SGS to be present at the next meeting of BoE.	The BoE was not convinced that “no changes” had been made (see also ANNEX VI). SGS agreed to be present (Grace). NTCC will also be present (Chew).
IX	16 March 2001	NTCC	KF	FDPM SGS	Answer from NTCC with respect to ANNEX VIII.	See report for observations on this issue.
X	9 April 2001	KF	SGS	NTCC	“Weesp meeting” . Document listing the issues raised by the BoE.	See this report for an assessment (section 2.3).
XI	26 April 2001	KF	SGS	KF/BoE NTCC	“Weesp meeting” . Subject of e-mail: Verification of certificates. Proposals for conditions and pre-conditions.	Is the outcome of BoE meeting (see ANNEX X). The document refers to Keurhout Verification 2 (the performance of forest management) (see Keurhout Verification Procedure). This is equivalent to no. 1 in the Minimum Requirements of the Dutch Government!
XII	1 May 2001	SGS	KF NTCC	SGS	“Weesp meeting” . Response of SGS to request in ANNEX XI.	Schedule of conditions became ultimately 11 items (specified in 17 May e-mail from SGS to Keurhout). This Alterra report states that this list should be deleted after various issues have been closed out (section 2.3).

ANNEX	Date	Sender	Recipient	Copied To	Subject	Remarks
XIII	2 July 2001	KF	NTCC	NTTA Alterra NTCC SGS	Decision of Keurhout Management Board.	The main part of the letter is that NTCC should demonstrate that there is no gap between the format agreed at the December 1999 meeting and the Dutch Minimum Requirements. This is the issue of inquiry by Alterra in this report.
XIV	17 July 2001	NTCC	KF	-	Response of NTCC to KF (see ANNEX XIII).	In this letter, it is noted that Alterra will provide a report on the issues raised by Keurhout, and this is the report prepared by Alterra.
XV	Yet to be received.	SGS	KF		Letter of SGS stating the final nature of the audit reports.	The final nature has already been communicated at the informal meetings organised by NTCC on 10 and 14 July 2001.

Appendix 6 Responses on the draft report

Resposns from Keurhout:

Mr. Chew Lye Teng,
National Timber Certification Council, Malaysia
19 F, Level 19, Menara PGRM No. 8,
Jalan Pudu Ulu, Cheras
65100 Kuala Lumpur,
Malaysia

Weesp, 27 January 2000.

Ref: 0019
Re: Malaysia-The Netherlands Co-operation in Timber Certification-
informal consultations;
Keurhout reaction on NTCC comments. as per your letter dated 6 January, 2000.

Dear Mr. Chew,

Thank you very much for your comments as per above mentioned letter. We have studied your comments in detail during our meeting on 20 January and are reacting as follows.

We have welcomed the detailed way in which you have commented on our remarks as a follow-up of our informal consultations. This has facilitated our deliberations. In our reaction we will be following the sequence of the Keurhout Verification Procedure. For formal reasons which we have already explained in our letter to the two focal points dated 17 September 1999, these reactions do not bind the Panel of Experts and/or the Board of the Keurhout Foundation in any way and, consequently, you may not derive a right from them.

Verification 1: Requirements regarding the management system

The management system has been mentioned in the MC&I 23/12/99. We have got no knowledge of the mentioned relevant documents and, therefore, cannot verify them. Thus, we take it at this moment that they are sufficiently covering the requirements, in the light of the fact that the eventual certificate(s) will have to show that the management system is meeting our requirements.

Answering the remarks in your above letter, your letter dated 1 October 1999 has not really addressed our concern, it has merely repeated the presentation of all existing relevant documents. In order to straighten out any misunderstanding, let me put it this way: Keurhout is seeking the guarantee that the system as has been described in all these documents is actually being implemented on the ground. You will have to guarantee this through a third party certificate. So, Keurhout is expecting the certifying body (CB) to check whether your documents have been able to build a valid system. In other words: SGS will have to guarantee that not only the theoretical system is acceptable but also the actual situation; this will include elements like practical monitoring of the situation on the ground.

Verification 2: Requirements regarding the performance of forest management

We have studied the amended MC&I 23/12/99 and have found them in agreement with the results of our informal discussions, when you will be able to give a satisfactory reply to the following specific questions/remarks:

5.7: the Virgin Jungle Reserves and buffer strips (20 metres width) have been re-included.

6.1(extent of protection): we are missing the “5% of the concession area” as mentioned in the earlier version. Anyway we would prefer the wording “at minimum 5% of the concession area”.

6.3 (buffer strips): we would like the following remarks made by Messrs. De Iongh and Nooteboom during the informal discussions to be included: the corridor function of the buffer strips should be taken into account in the eventual width and that this is depending on the vegetation structure and topography. “At least 5 metres” we propose to be altered into “at least 10 metres wide”. Also a buffer strip in mangrove forests of 3 metres width we consider not appropriate. We propose this to be “at least 20 metres width”.

We will await how the certifying body will assess the practice.

Verification 3: Requirements regarding the certifying body

We shall see to it that the requirements with regard to the certifying body (Appendix, table 3 of The Keurhout Verification Procedure) are duly observed and will verify this body in so far as the certifying body has not been accredited (by one of the bodies indicated in the Government’s minimum requirements mentioned in this document) as to its reliability, expertise and credibility.

In other words: we will await how this is going to be organised and offered to us through an accredited CB.

Verification 4: Requirements regarding the chain of custody

Since we have not yet been confronted with a detailed draft of the way you are going to organise this aspect, which will highly depend on the construction of your certification scheme for Peninsular Malaysia, we would advise you to do so in the nearest possible future, in order not to lose time. In my opinion this exercise could be realised parallel to the process on the forest management elements. Again, also here the position of the CB is of the utmost importance. The CB has to guarantee to Keurhout that it has satisfactorily checked and will remain checking during the duration of the certificate that your chain of custody system satisfactorily meets Keurhout’s chain of custody requirements.

Referring to GTZ’s remarks and Mr. Thang’s comments, for which we thank him very much, we disagree with GTZ and would like to stress that it is up to you to define a valid system, as it is the CB’s responsibility towards Keurhout to guarantee that the system indeed is and will remain valid. For your information: I have invited Dr. Burger to react on Mr. Thang’s comments.

We will, formally, await your proposal. Informally, please do not hesitate to contact us whenever you would deem it necessary, for an informal reaction. We take it that you will include the VVNH and Dr. Diemont in this process that will, in our opinion be a rather important and, therefore, vulnerable one.

We will now react on other elements in your letter.

We have studied your draft time-table and can agree with it. We agree that the time which you need for translating the theory of the “June 99 package” into detailed guidelines for the auditors is of the utmost importance and cannot be missed. So, we take it that the assessment of the 3 “old” states will start in April 2000. And that the assessment of the “new” states will follow suit.

Although it is up to you to determine when the “new” states are to be assessed, your indication in the time-table that the assessments will take place between July and November 2000, leads us to the conclusion that Keurhout’s approval of the certification system for Peninsular Malaysia is hardly realisable in 2000: leaving one month for Keurhout to receive, study and comment on the reports might be a bit too optimistic.

As I stated many times before, Keurhout will have to know well in advance when the assessment reports of the “old” states will be offered to us for verification, because a negative conclusion would lead to Keurhout’s decision to withdraw the Declaration. So, please add this activity to the schedule and present it to us for our comments and approval.

As for the logo’s discussion, I actually cannot recall that a conclusion had been reached in the informal discussions. Keurhout’s formal position is that we are extremely careful in protecting the Keurhout Hallmark as the actual guarantee to the buyer of Keurhout timber products. That is why we have obliged our participants to use it in conformity with our detailed instructions only, and to offer us any proposal in writing for us to agree on if they would wish to act otherwise.

Answering your proposal in a practical way, I think that Keurhout could rather easily agree on labelling timber with a Malaysian logo and that we would leave it to Keurhout’s participants to decide on putting another logo beside the Keurhout logo on their timber products. It would then be up to the individual company to judge whether adding a Malaysian label on his product is a commercial advantage or not. We simply want to be certain that Keurhout’s logo and name are not being misused by any party.

As for item 4 of our letter dated 17 December 1999, I merely wanted to be assured of the fact that the assessment of the “old” states and the periodical assessment for the certification of Peninsular Malaysia for the duration of the certificate is from the financial point of view guaranteed by incoming funds, so that this issue will no longer be a matter that has to be solved each time an assessment is due.

We thank you for the report of the national-level consultation. We are studying it and will come back on this when we are ready to do so.

Please let me end by asking you to extend my regards to the other members of the Malaysian delegation to The Netherlands last December. I would like to leave it to you to keep them informed.

Awaiting your reaction, I remain with kind regards,

Keurhout foundation
(Oanel of Experts)

Kees W.F. Bosdijk,
secretary

Cc: Mr. André de Boer, VVNH (focal point)
Dr. Herbert Diemont (consultant)

Respons 2 from SGS.

Van: Kevin_Grace@sgs.com [mailto:Kevin_Grace@sgs.com]
Verzonden: Wednesday, July 25, 2001 6:17 AM
Aan: NTCC
CC: Salahudin_Yaacob@sgs.com; Aida_Adnan@sgs.com
Onderwerp: Alterra Report

Thank you for your message. I have taken a quick look at the draft report.

As mentioned in the meeting the SGS audit report is final as indicated in your letter to Keurhout dated 17 July 2001 and in this draft report under section 2.3 on page 11. The reports for each state were finalized following close out of all major CARs issued against the MC&I (AHWG 23 Dec 1999) and comments from external peer review, then submitted to NTCC and Stichting Keurhout.

On page 4 of the report under section 1.1 the opening paragraph states that SGS(M) has issued certificates for Pahang, Selangor and Terengganu. Actually SGS (M) has recognized that Pahang, Selangor and Terengganu are eligible for an SGS (M) Certificate against the MC&I (AHWG 23 Dec 1999) but the certificates were not issued due to the non-acceptance by the Keurhout BOE and Verification system.

On page 6 under section 2.1 "Malaysia has formulated..." appears misleading as the paragraph states that the MC&I is accepted by all 111 stakeholders and 58 organizations as fully finalized standard for certification at the conference in Oct 1999. According to my discussions with several key organizations that attended the conference this is not true. In addition SGS did not use the exact document discussed at the October meeting.

The main issue of the report should emphasize section 2.2 which is the focus of the current situation whereby there is perceived to be significant gaps by the Keurhout BOE between the results of the audit process using the MC&I (AHWG 23 Dec 1999) and the Hallmark minimum requirements.

I hope these comments assist in the development of the Alterra report. We would also appreciate a copy of the final report from Alterra.

Best regards
Kevin Grace

Alterra comment: the comment of Dr. Grace with respect to the 1999 October conference is considered as a personal opinion by Alterra .