

# Hard evidence of continued import of Illegal timber from Malaysia to Japan

## - Highlighting The Need for Stronger Action

### Executive Summary

Japan is falling farther and farther behind other major consuming markets in its efforts to halt trade in illegally sourced wood. Both the US and Europe have enacted laws which make it an offence to import timber and wood products which were illegally logged in the country of origin, but Japan has shown no sign of following suit. In a recent independent assessment by the think-tank Chatham House, Japan was ranked last of five consumer countries in its efforts to tackle the problem.<sup>1</sup>

The same report estimated that Japan imported illegally-sourced wood products valued at \$2.4 billion in 2008 – of the five consumer countries studied, Japan had the highest proportion of imports of probable illegal source, and the highest per-capita consumption of illegal wood.<sup>2</sup>

Japan has implemented a public procurement policy for timber and has also conducted joint work with Malaysia and Indonesia to try to ‘verify’ the legality of timber imported into the country. Unfortunately the procurement policy is very weak<sup>3</sup>, and the ‘legality verification’ being conducted in source countries is of such a poor standard that it is failing to prevent illegally sourced wood entering the country.

This latter point has been dramatically demonstrated recently by a case study from Sarawak, Malaysian Borneo – there is firm evidence to show that plywood being imported into Japan as ‘legally verified’ was actually made from timber which was illegally sourced. A major Japanese conglomerate has been identified which purchased more than \$45 million of timber from Samling in the last year.

### Background

- Samling Global are one of the ‘big four’ largest timber companies in Sarawak, Malaysian Borneo. They have logging concessions covering almost 2 million hectares in Sarawak, and harvest almost 2 million cubic metres of logs in Sarawak each year.<sup>4</sup>
- In August 2010, the Ethical Council of the Norwegian government’s Pension Fund Global disinvested from Samling, after finding that the company was involved in systematic illegal logging within and around its timber license concessions in Sarawak. Field research and satellite image analysis carried out by Earthsight Investigations in 2009 found that Samling were illegally logging in a National Park, outside concession boundaries and in prohibited steep slope and riverine buffer areas within concessions, logging without Environmental Impact Assessments, clearing forest in excess of limits and logging undersize and protected trees. In 2008 the Malaysian Auditor-General also found evidence of illegalities in Samling concessions in Sarawak.<sup>5</sup> The illegalities identified stretched back over a period of several years. Weak procedures mean Sarawak officials are often unable to detect the illegalities; in other instances they may turn a blind eye or release illegal timber once a small fine is paid. As a result, though much of the logging taking place in the company’s concession estate is illegal, the logs leaving the company’s forest areas are ‘legalised’ with official tags and taxes are paid on them. The resultant exports are also therefore classed as ‘legal’ by the Sarawak government.

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<sup>1</sup> Chatham House, ‘Illegal Logging and Related Trade: Indicators of the Global Response, 2010 - <http://www.illegal-logging.info/uploads/CHillegalloggingpaperwebready1.pdf>, p50-64. A one-page summary of findings regarding Japan can be found at <http://www.illegal-logging.info/uploads/CHillegalloggingreportcardjapan.pdf>.

<sup>2</sup> Ibid., p 106-110

<sup>3</sup> Ibid., p 64

<sup>4</sup> Samling Global IPO Prospectus, 2007

<sup>5</sup> Ethical Council recommendation, 22<sup>nd</sup> Feb 2010, at <http://www.regjeringen.no/pages/13897161/Samling.pdf>

- Japan is by far the largest importer of Sarawak timber, accounting for 30% by value of Sarawak's timber and wood product exports in 2009. In that year Japan imported 1.2 million cubic metres of plywood and 300,000 cubic metres of logs from Sarawak. Total imports were worth in excess of \$1 billion.<sup>6</sup>
- Samling annual reports reveal that Japan is the largest buyer of the company's logs and plywood from Sarawak. Japanese companies bought more than half of Samling's plywood production in 2009-10, and around one in ten of the company's log exports are destined for Japan.<sup>7</sup> Japanese companies imported 160,000 cubic metres of tropical hardwood plywood from Samling in 2009-10, worth an estimated \$100 million.<sup>8</sup> They also imported an estimated 87,000 cubic metres of tropical hardwood logs.
- The Japanese government and wood importers have in the last few years developed joint systems with Indonesia and Malaysia to try to ensure that only legal timber is exported to Japan. The Japanese government now appears to consider that all timber imports from these two countries have been 'legality verified'.<sup>9</sup> The checks made to establish this are very weak, however. The standards and methods used are much less rigorous than the Legality Assurance Systems being developed in a number of countries in partnership with the EU, and also less rigorous than even the weakest independent private-sector legality verification systems such as those developed by Smartwood and SGS. A Samling official told an Earthsight undercover investigator in December 2010 that all the company needs to do for the Japanese market is to get the local forest agency STIDC to put an extra stamp on the export declaration for each shipment.
- Datu Haji Len Talif Salleh, Director of Forests in Sarawak, gave a presentation at the Illegal logging symposium held in Japan in December 2010, in which he outlined the procedures in place to prevent illegal logging and ensure that only legal wood from Sarawak could reach Japan.<sup>10</sup> In his presentation he showed examples of key permits and licenses governing logging in Sarawak to demonstrate the controls in place, including detailed harvesting plans and Permits to Enter Coupe. The two examples of detailed harvesting plans/maps he showed to the audience were for timber licenses T/0411 and T/0390, which are Samling logging concessions.<sup>11</sup> Pictures of log trucks and log tags in the presentation were also of Samling logs and trucks, and copies of other official inspection documents used to demonstrate legality procedures were also connected to Samling group companies. Haji Len also showed an example of the stamp put on export documents for shipments from Sarawak which is supposed to guarantee that the timber was legally harvested.
- In a related scandal involving Sarawak, in 2007 Japanese tax inspectors found that Japanese companies shipping logs from Sarawak to Japan had been avoiding millions of dollars of taxes by claiming as legitimate expenses large 'kickbacks' being paid via a Hong-Kong front company to a company in Sarawak owned by the brother of the Sarawak Chief Minister, Abdul Taib Mahmud.<sup>12</sup> The Malaysian Anti Corruption Authority launched an investigation. A coalition of Japanese NGOs wrote to the Malaysian Prime Minister about the scandal.<sup>13</sup>

<sup>6</sup> STIDC Newsletter (Perkasa), Dec 2009

<sup>7</sup> Samling Global Annual Report 2010

<sup>8</sup> Based on 52% of total exported ply volume reported in Samling Annual report, multiplied by typical prices for JAS certified plywood in Japan.

<sup>9</sup> Presentation by Ozawa Makota of Wood Products Trade office, Dec 2010 - [http://www.goho-wood.jp/topics/doc/sympo2010\\_report\\_7.pdf](http://www.goho-wood.jp/topics/doc/sympo2010_report_7.pdf), claimed that 75% of Japanese plywood imports were 'legality verified' in 2009 – implying all imports from Malaysia and Indonesia (which between them supply this percentage).

<sup>10</sup> [http://www.goho-wood.jp/topics/doc/sympo2010\\_report\\_6.pdf](http://www.goho-wood.jp/topics/doc/sympo2010_report_6.pdf)

<sup>11</sup> Ethical Council, 2010

<sup>12</sup> Japan Times, 29<sup>th</sup> March 2007

<sup>13</sup> [http://www.illegal-logging.info/item\\_single.php?it\\_id=2068&it=news](http://www.illegal-logging.info/item_single.php?it_id=2068&it=news)

- In 2007 Samling stated that “Japan is one of our main markets for our export logs and our largest market for plywood. Our existing customers in Japan are primarily merchants, being Japanese trading houses, some of whom have been our customers for over 20 years.”<sup>14</sup> Samling’s main buyer of logs and plywood in Japan is Sojitz Corporation, a giant Japanese stock-exchange listed conglomerate with annual revenues of more than \$40 billion. Samling’s 2010 Annual report notes that Sojitz is ‘a long term customer and business partner of the Group’<sup>15</sup>; Samling are currently supplying Sojitz with logs, plywood and laminated veneer lumber under a 3-year sales agreement with Sojitz, running till June 2012. The agreement covers sales of logs from Samling subsidiary Kayuneka Sdn. Bhd, plywood from subsidiaries Samling Plywood (Miri) Sdn. Bhd, Samling Plywood (Baramas) Sdn. Bhd and Samling Plywood (Bintulu) Sdn.Bhd, and LVL from subsidiary Foothill LVL & Plywood (Cangshan) Co. Ltd. In the year ending June 2010 these companies sold wood products worth US\$25,758,000 to Sojitz. Sojitz holds a 14.9% interest in a Samling subsidiary, Samling Housing Products Sdn Bhd, which produces furniture.<sup>16</sup> Samling Plywood (Miri) and Samling Plywood (Baramas) use logs from the Samling concessions in the Baram basin where Earthsight research uncovered systematic illegal logging.
- In addition to the above agreement for sales of logs, plywood and LVL, Samling also have a current agreement to sell housing products (such as flooring and furniture) to Sojitz. Samling subsidiary Samling Housing Products sold US\$19,681,000 of products to Sojitz in the year to June 2010.<sup>17</sup> Another listed Japanese company, Dainippon Ink & Chemicals, Inc, owns 29 per cent of Samling Housing Products.<sup>18</sup>
- In total therefore, Sojitz purchased more than \$45 million of wood products from Samling in the last recorded year. The sales contracts allow for sales of up to \$64 million in the current year (July 2010-June 2011).<sup>19</sup>
- Though Sojitz are probably the largest Japanese importer of Samling timber from Sarawak, the figures suggest there are many other buyers which have yet to be identified. One company, Itochu Corporation, is known to have purchased logs from another Sarawak company recently<sup>20</sup>, and has had previous joint venture projects with Samling.<sup>21</sup> It is likely that the buyers are among the largest log and plywood importers, which are well known to Japanese NGOs. According to company reports, Samling have a sales office in Japan; contact details are unknown.

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<sup>14</sup> Samling IPO Prospectus, 2007

<sup>15</sup> Samling Annual Report, 2010, page 64

<sup>16</sup> Ibid.

<sup>17</sup> Ibid., page 65

<sup>18</sup> Ibid., page 67

<sup>19</sup> Ibid. page 64 and 65

<sup>20</sup> A document in Haji Len’s presentation from December 2010 shows sales from Shin Yang to Itochu

<sup>21</sup> See Samling IPO Prospectus 2007 and Annual Report 2010