

Malaysian Raw Wood Export Ban
Report By
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This is a report based on the TED case study dated January 1993. Back then, Malaysia was the world's largest exporter of tropical wood supplying 70% of total world demand. Malaysia also supplied 90% of Japan's tropical timber demand in 1990. It also quoted a 1990 report by the International Timber Trade Organization (ITTO) that Malaysia would be a net importer by 2001. It was cited that extensive logging to meet Japanese demand for raw wood has depleted rain forest in Sabah and Sarawak. It was assessed that only 20% of Sabah and Sarawak's virgin rain forest remained, in 1993. This has resulted in the loss of biodiversity as well as the dislocation of hinterland natives of which the Penans is a well documented case. The environmental is extensive and the depleted rain forest is irreplaceable. Reasons cited for the wanton logging were 1) the relatively cheaper price for Malaysian raw wood compared to other importer's domestic wood and 2) the failure of the logging concession tender mechanism to correctly reflect the environmental cost. To compound this reasons were the practice of the autonomous state government in awarding logging concessions to politically connected personages as a form of political patronage. Weak enforcement contributed to illegal logging and damaging logging practices which gave rise to soil erosion and further environmental damage. Hence, it is clear that international trade is the catalyst for the environmentally damaging timber industry.

What is the current situation? According to ITTO's 2004 Annual Review, Malaysia only supplied about 1/3 of total world demand in 2003. The quantity exported was about 5.5 million m³ worth USD2 billion at current prices. Despite this, it has remained the world's largest exporter of logs. China has in recent years emerged as the world's largest importer and Malaysia's most important export destination for logs. Malaysia continued to remain a net exporter of logs despite ITTO's earlier projection. The Malaysian Timber Council estimated that currently there exists 176 million m³ total merchantable volume of wood in the production forest. Assuming that logging continues at the 2004 production rate of 22 million m³, total merchantable volume will be depleted within 8 years or by 2014.

To mitigate deforestation, the Compensatory Forestry Plantation Project was launched in 1982. It was reported that a total of 50,000 hectares had been established. However, this is hardly a sufficient mitigating factor because of the 15 year maturity period while the annual rate of deforestation is about 400,000 hectares. Regardless, a commercial forest cannot replace the destroyed virgin rain forest with its accompanying rich biodiversity which took millions of years to form.

The National Forestry Act, 1984 was amended by the Malaysian Parliament on 4 August, 1993 where heavier penalties will be imposed on forest offenses to deter illegal logging. However, enforcement is again proving the weakest link due to lack of manpower to effectively police vast tracts of the rain forest.

This problem is clearly an example of market failure where the pricing mechanism has failed to internalize the external cost of the environmental damage caused by logging. There are several remedies open to the government to consider. 1) Total ban on any form of logging 2) To raise the reserve price of the timber concession award tender.

The first remedy is the best action despite being drastic. The timber logging industry employs about 60,000 workers and the government will have to take the responsibility of retraining them. Industries requiring wood can seek to import it because currently there is no import tariff on logs. Otherwise, firms are free to exit the industry.

However, the government must also be prepared for the political fallout because historically timber concessions have been awarded to individuals and companies with strong political connections.

The second remedy is less drastic but requires a thoughtful approach as to how to correctly set the reserve price for the timber concession tender. A hectare of timber concession may yield RM1 million profit for the concessionaire. The weakness of the current tender system allows for the concessionaire to gain excessive profits. One approach is to set an open auction system. Another approach will be to add the cost of rehabilitating the forest to the reserve price of the tender. This will serve to reduce the producer surplus of the concessionaire while provide the government with sufficient funds to rehabilitate the forest.

Nevertheless, these remedies are stop gap and does not provide the full solution to the environmental question. This is because by implementing these remedies, Malaysia will protect its rain forest while at the same time export the environmental problem to another country by importing their logs. On the global balance, rain forest is still being depleted else where for example in the Amazon basin to feed the hungry engines of industry and growth.

Rain forest functions as the lungs of our planet by converting carbon dioxide into life giving oxygen. At the current rate of deforestation, there may be insufficient forest to sustain oxygen level in the atmosphere. When this occurs, it is an environmental disaster on a global scale. It comes to naught that Malaysia still have its precious rain forest.

In this sense, the present economic models of incorporating externalities and export quotas seem deficient, parochial and narrow minded. These were the very same models which encouraged the relocation of polluting industries from the Developed Countries to Less Developed Countries under the guise of Foreign Direct Investment. The real challenge of overcoming environmental issues is to find a global solution. We need to become responsible global citizens and seek to protect the global environment.

References

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