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CHARTING THE DIRECTION FOR TIMBER

DESPITE the Covid-19 pandemic that has plagued Malaysia's industries for a full year, the timber industry registered encouraging export figures of RM22.02bil to rank third after palm oil and rubber in the primary sector, declining just 2% from 2019's RM22.50bil.

More than 50% or RM12.28bil of all timber and timber-related exports result from three downstream products, namely furniture (RM10.63bil) – the star performer of the year that saw a 16% increase year-on-year (y-o-y) – alongside builder's joinery and carpentry (RM971.75mil) as well as mouldings (RM687.89mil).

Bolstered by the United States-China trade war, its significant contribution towards the country's gross domestic product acted as one pillar of strength to support the economy in times of need.

In fact, overtaking Japan as Malaysia's largest export market for timber and timber-related products, for the second consecutive year since 2019, was the US. It was the country's single largest market for furniture, contributing to 60% of all furniture exports, with a 49.9% y-o-y hike to RM7.45bil.

"The US is a major market for our furniture and it's doing well despite the pandemic. Demand is still there, especially for the mid-market segment and we're exporting a lot to distribution chains like Walmart and other furniture distributors," said Malaysian Timber Industry Board (MTIB) director-general Mohd Kheiruddin Mohd Rani.

Meanwhile, Japan as Malaysia's biggest plywood market saw a 21.1% drop in export to RM2.73bil due to its high plywood stock levels, even as China moved up the ranks with a 23.2% rise (RM2.25bil) as Malaysia's third largest market for such products, especially rubberwood sawntimber.

Promising year ahead

When it comes to setting the direction for the industry, the target is to reach RM23bil in export for 2021.

As with last year, Malaysia's timber industry seeks to continue tapping into issues related to the

US-China trade war by addressing its gaps or vacuums for the year.

Kheiruddin also expressed hope that Japan will again increase its imports of Malaysian plywood, with improvement in imports from other countries such as India for sawn timber, boards and panels – including medium-density fibreboard (MDF), particleboards and chipboards – as it is a significant market.

For the Middle East market, the industry maintains its volume of exports of low grade timber, but price points are at a standstill. Moreover, although the European Union remains a big market for sawn timber, Malaysia's market share for its exports are declining due to competition with African countries.

He said, "We're losing our market slowly to African timber. Our price is not as competitive due to logistics issues, where transportation costs contribute to the high price of our timber."

"In addition, we're also competing with softwood timber from Canada, Finland, Russia and other European countries at the same time."

That said, he hopes to tap the United Kingdom as a separate market following its split from the EU, through the development of bilateral trade to improve market access. Australia, too, may be a good opportunity to tap into as a strong market for mouldings.

"With all these indicators on the response for our timber, we hope we can soon participate in international trade fairs and missions, as well as promotional campaigns. Hopefully, by the second half of the year, we can organise some trade missions overseas, business matching and roundtable discussions," he added.

Moving the industry forward

Kheiruddin believes the way forward is to leverage Malaysia's Free Trade Agreements (FTAs) – such as the recently signed Regional Comprehensive Economic Partnership, Asean Free Trade Area and its seven regional FTAs with nine other bilateral FTAs – to increase exports of timber and tim-

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ber-related products.

Such arrangements that the country participates in, he stressed, will reduce the tariff and non-tariff barriers for certain products to selected markets, thus improving the competitiveness of Malaysian timber.

This is becoming increasingly necessary in times where non-tariff barriers such as national procurement policies for various importing countries are hampering market access through timber legality requirements, import legality verification, eco-labelling, as well as carbon footprint reduction, life cycle assessment and other emerging compliance requirements.

He said, "We're taking steps to overcome these issues. MTIB has approved a study to be done by the Forest Research Institute Malaysia together with timber associations on life cycle assessment for us to have facts and figures to address the accusations from our buyers."

Shipping rates have spiked vastly in the past few months, with freight costs to certain locations increasing by 100% up to 400%, remaining a challenge for exporters.

Market competition from neighbouring countries is also rising, with countries such as Vietnam quickly rising up the ranks in furniture exports due to its low production costs.

Malaysia's timber industry will have to tackle these issues head on. One way is through increasing productivity and capacity through automation and mechanisation in line with the fourth industrial revolution (IR4.0).

"The industry needs to move into automation and mechanisation to adjust the move towards IR4.0. Currently, we're hardly at IR3.0 yet, while Germany and Italy have very high productivity," he revealed.

The second is moving away from volume-based original equipment manufacturing to the higher value original design manufacturing (ODM) and original brand manufacturing (OBM), where product design and market niche will boost competitiveness.

Protecting natural resources

But while developing the timber industry remains core to the coun-

try's economy, equally vital is the preservation and conservation of Malaysia's tropical rainforests and the biodiverse ecosystems within them.

He noted that the industry's 2020 export performance was encouraging, not only in the face of the year's challenges, but also in terms of progress in line with the government's policy under the National Timber Industry Policy.

This is aimed at reducing the export of primary processed materials such as logs - demonstrated through the limits placed on West Malaysia's production of logs from local forests to 4 million cubic metres a year - while increasing the export of higher value-added downstream products.

He stated, "We cannot rely on materials from our natural forests, as the country is firmly committed to keeping to our Rio Declaration, where the forest cover must be over 50% of total land area."

Under the National AgriCommodity Policy for the industry, the vision is to achieve a ratio of 65% downstream and 35% primary processing by 2025. In comparison, Malaysia's timber industry is at 56% downstream and 44% primary processing at the moment.

Kheiruddin added that Peninsular Malaysia's timber industry is strong in downstream processing, with Sabah and Sarawak targeting the same under the 12th Malaysia Plan (12MP). Sarawak is already moving towards this direction as it is targeting to export RM10bil worth of downstream products such as furniture by 2030.

While this stance has created a shortage of raw materials for the timber industry, steps are being taken to solve the issue, with increasing imports of raw materials in the short term, as well as research and development (R&D) into new materials and the creation of forest plantations for a long term solution.

The objective is twofold: To ease the burden on the country's natural forests and also provide a steady supply of materials for industry use in a sustainable manner.

"Imports of raw materials [for the timber industry] have increased drastically for the past

five years, in order to supplement the shortage of raw materials produced locally.

"It's a very good sign. Import statistics show that imports increased from RM2.95bil in 2014 to RM6.81bil in 2020 (2019: RM5.95bil)," he shared, adding that the Malaysian Timber Council's Import Assistance Programme helps defray a certain percentage of shipping costs to encourage raw material imports.

Locally, R&D on alternative raw materials has been ongoing in the direction towards zero waste, especially the oil palm byproduct of oil palm trunks (OPT), bamboo and eucalyptus.

The development of OPT is encouraging, Kheiruddin said, for the production of plywood and engineered laminated veneer lumber, where there is a good market for such products overseas.

He said, "We're not producing at volume at the moment and we need more industry players to venture into OPT production, which can be used for structural purposes outdoors.

"This helps improve the production of the timber sector itself, as well as diversify the range of products we can manufacture."

As for the development of forest plantations, the Forest Plantation Development Programme (FPDP) has been ongoing since 2006 with an initial allocation of RM1.045bil in soft loans to establish a total of 130,000 hectares. That said, it fell short of the target as 126,000 hectares have been established to date.

Harvesting is set to begin in two years' time, with 19 million cubic metres of logs projected to be generated from the programme to improve the supply of raw materials in the local market.

Under the 12MP, another RM500 million has been allocated to continue the FPDP until 2025, with another RM500mil earmarked under the 13MP to sustain the programme for the next decade.

Moreover, Kheiruddin added that there has also been initiative from the private sector to establish their own forest plantations, leading to about 800,000 hectares inclusive of those established by the private sector mostly in Sabah and Sarawak.

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Kheiruddin: MTIB is optimistic that Malaysia's timber and timber-related products export this year can achieve RM23bil.

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Government policy is pushing for the timber industry to increase downstream processing products such as furniture for export, while driving down primary processing exports such as logs.