

CHAPTER 4

STATEMENT OF NEEDS

4.1 INTRODUCTION

Forests in Malaysia are estimated to occupy around 60% of the country's total land area, equivalent to around 20 million hectares. These lands are mainly concentrated in Sabah and Sarawak. Most of the lands are categorized as Permanent Forest Estates (PFE) that are set aside for sustainable forest management, national and state parks or other legally protected forests. PFEs are designed to be harvested using selective practices, while the state land allows clearing felling and conversion to other land uses such as agriculture and industry. Except for a few thousand hectares of private plantation forests, the government owns all forestlands in Malaysia. Fifty seven percent of Malaysia's forests are allocated for production. Planted forests (including rubber plantations) are estimated to be around 1.8 million hectares, up by 234,000 hectares since 2005.

The Ministry of Natural Resources and Environment Malaysia stressed that innovative research and development initiatives have to be intensified in order to achieve the target of RM 53 billion in wood and timber product exports by 2020, as outlined in the National Timber Industry Policy. In order to achieve the target, at least 60% of export earnings must derive from downstream products and the balance 40% from primary processed products.

For many years now, Asia has been touted as a fresh source of demand for consumer products, attracting more and more global investments to its shores and fuelling new wealth. This shows the importance of the timber sector towards whole Malaysia's economy. In 2009, the timber sector was the fifth largest export earner for the country and maintains its position as strong driving force within the industry. In 2010 the timber sector contributed to 3.7% of the GDP and 3.2% of the country's total merchandise export. The wood-based industry can be classified into wood and wood products, paper products and furniture fixtures.

Exports of Malaysian wood and timber products generated RM 19.5 billion in revenue and the industry employed around 300,000 people in 2009. The ministry stated that the industry must be respond to the changes in global business environment promptly or risk losing its market share. The wood and wood products classification can be divided further

into ten subsectors of which three are of special importance that are plywood, sawn timber and wooden furniture. The further categories are logs, medium density fiber board (MDF), builder's carpentry and joinery (BCJ), mouldings, veneer and other timber.

4.2 SUPPLY AND DEMAND OF TROPICAL TIMBER AND FORESTRY PRODUCTS

Within the last two decades, the Malaysian wood-based industry became one of the most important socioeconomic sectors in the country. With the first Master Plan 1986, followed by the second in 1996 and the on-going third the industry was made very profitable with enormous growth rates. The wood-based industry in Malaysia can be described as large, with almost 5,870 manufacturing establishments. 80-90% of them are regarded as SME (small or medium enterprises), only the rest are regarded as big companies. More than 1,200 sawmill mills cover a capacity of 9.5 million cubic meters per year and have a workforce of 5,500 employers. In 2010 exports of saw logs and sawn timber amounted to RM 5.4 billion with exports mainly to Thailand, the Netherlands, People's Republic of China, Japan and Republic of Singapore. Summed up with all other mills, among them the furniture and joineries with 1,895 and a workforce of 103,000 people, the industry provides employment for almost 140,000 workers.

4.2.1 Wood and wood based products

Since the wood based industry is a sector with strong dependency on its export, it has suffered from the financial markets in 2008 which spilled over into 2009. In 2009 the export was downsized by 14.5% and registered earnings of RM 19.49 billion whereas in 2010 exports of timber products recovered to RM 20.5 billion and grew by 5.3%.

a) *Wooden furniture*

The largest subsector of the timber trade accounted for almost 32% of the total export receipts in 2010 (see Figure 4.1). The revenue amounted to RM 6.5 billion. Despite all domestic problems the US remained Malaysia's top furniture export market, followed by Japan. Due to its quality improvements, Malaysia has gained prominence as an attractive import destination for

furniture products among Japanese importers, unlike its main competitors China, Thailand and Taiwan who had suffered from Japan's recessionary conditions. The next biggest export destinations for Malaysian wooden furniture are United Kingdom and Australia.

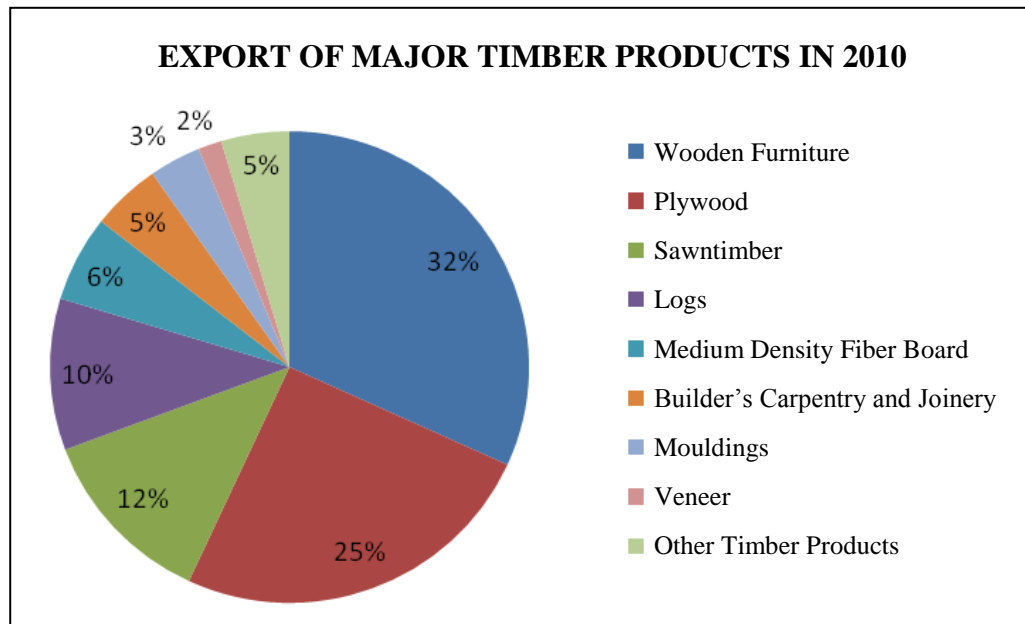


Figure 4.1: Export of Major Timber Products in Year 2010

b) Plywood

The plywood subsector was the second largest export earner in the timber trade with a volume of 3.72 million cubic meters valued at RM 5.1 billion. As a result it accounts for 25.1% of Malaysia's total export receipts concerning the timber products. In 2010, the subsector grew by 3.2%, recovering from a shrink of 21.2% in 2009 and 16.8% in 2008. Japan is the strongest trading partner for Malaysian plywood export: it accounted for 42% of the Malaysian plywood exports. This amounted 1.437 million cubic meters, 3.2% less than the previous year. The next strongest import countries for Malaysian plywood are South Korea and Taiwan, followed by United Kingdom and United States. South Korea's imports dropped both in volume (8.3%) and in value (5.4%) respectively compared to 2009, whereas exports to Taiwan recorded an impressive growth of volume (23.9%) and value (30.7%) compared to the previous year.

c) Sawn Timber

Number three export earner in the timber trade is sawn timber. It amounted to RM 2.5 billion with a volume of more than 2.1 million cubic meters which is 12.4 % of Malaysia's total timber export value. In 2010, the sector showed an improved performance both in terms of volume and in value. Important partners in the timber trade are Thailand, Netherlands and UAE as well as the traditional markets in Far East like Japan, Taiwan and China.

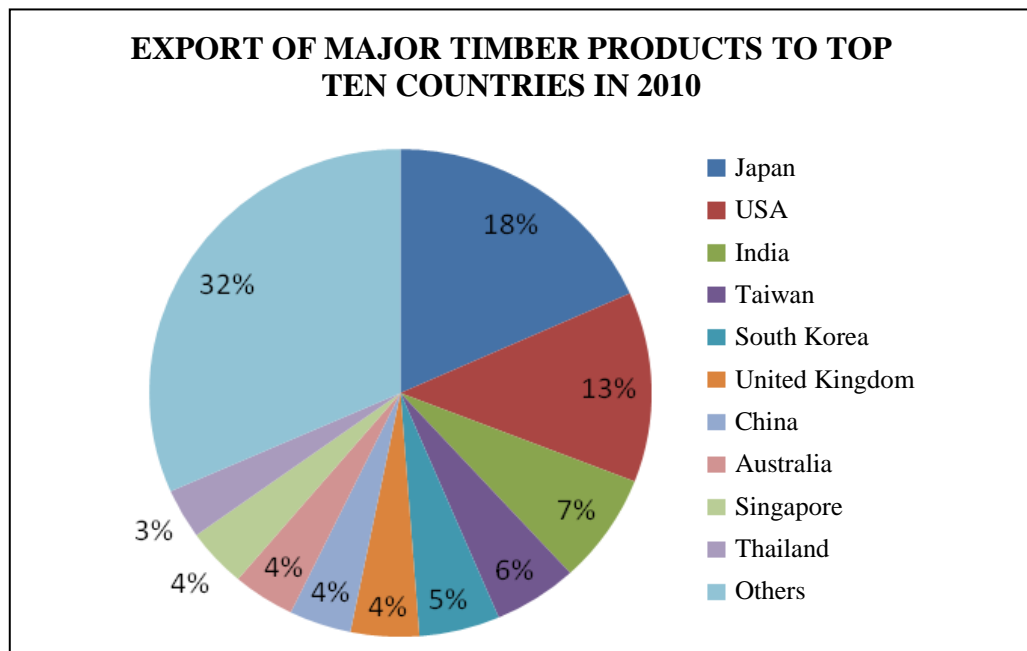


Figure 4.2: Export of Major Timber Products to top ten countries in Year 2010

4.2.2 Paper Product Industry

The paper and paper products industry comprise pulp, paper and paperboards, corrugated paper and containers of paper. In 2008, production of containers and boxes of paper and paperboard rebounded to higher demand for packaging materials, especially from the export-oriented industries. Sales of paper products increased by 9.2% to RM 6.7 billion in 2008 from RM 6.1 billion in 2007.

4.2.3 The Furniture Sector

The Malaysian furniture industry is highly export-oriented with over 90% of its production exported and consequently has made its presence felt in over 160 countries. Malaysia ranks as the world's ninth largest furniture exporter and second in Asia after the PRC. The sector has been a significant contributor to the country's GDP. In 2010, exports of wooden furniture amounted to RM 6.5 billion. Among the main export destinations count the USA, Japan, UK and Australia. Malaysians furniture companies number approximately 1,900 establishments, and the mills involved in export manufacturing are concentrated on the west coast of Peninsular Malaysia. A high concentration of furniture plants are in the states of Johor, Selangor, Perak, Penang, Malacca and Federal Territory of Kuala Lumpur. Furniture produced in Malaysia ranges from traditional to contemporary. It includes furniture designed by overseas buyers under international brand names. The furniture exported from Malaysia is either assembled or in ready-to-assembly (RTA) form. Malaysian furniture has gained access to the markets in New Zealand, South America, Middle East, Africa and Russia. Malaysia is a major supplier of office furniture to the Middle East market. The largest single market for Malaysian wooden furniture is the USA, whereas Japan represents the second largest importer with an upward tendency.

4.3 OUTLOOK

Taking all into account, the Malaysian wood based industry has suffered badly from the economic crisis beginning 2006, and its effects spill over until today. The dependency on its export success is the critical factor which lead the industry to unexpected success within the last 20 years, but in the crisis began to produce immense dropdowns in the sector's performance. On the one hand the sector will continue to face various challenges in the near future with the weakening US dollar against the Ringgit, unpredictability in freight services and charges and continuing difficult conditions in major markets like the European Union and USA. On the other hand demand for timber products in general is expected to remain robust in the Asian region especially in countries like China and India. The future trend, which can clearly be seen by the government's efforts, will be the transformation of the wood-based industry towards the production of value-added wood

products. This can only be achieved by innovative and creative means. Many research institutions including several universities have been strengthened through manpower to assist the industry.

Furthermore, the implementation of the Forest Plantation program is aimed at alleviating the concerns with regards to raw materials supply – an effort that must be applauded (Asia Timber magazine). The Malaysian furniture industry needs to move away from the low-end markets and penetrate into the medium and high-end markets. One of the most important elements for future excellence is the enhancement of Malaysian furniture designs as well as the enhancement of the country's market presence while being sensitive to the market's movements and trends. Embracing new technologies and best practices is an effective means for a player to tackle the ever-changing market. It is important to be aware of the latest developments and technologies, employing successfully new applications.

The government has set-up the Malaysian Furniture Promotion Council (MFPC) to specially focus on the promotion of the furniture sector. MFPC has developed working relationships with strategic marketing partners from abroad to reposition the industry away from existing competitive price segments. MFPC launched its Furniture Excellence Programme, or Furnexpro, to reposition Malaysia's furniture export into the middle- to higher-end market segments through collaborations with strategic partners in selected export markets. MFPC has also appointed technical consultants to be based in Malaysia in order to ensure that Malaysian products conform to the high-expectant and strict requirements of the market-standards.

An attractive package of fiscal incentives for new and additional investments is available to stimulate and support the growth of priority sectors in the resource-based industry, including the wood-based industry. Specific incentives are offered to local companies that have export potential in the wood-based industries. Activities located in the promoted areas (Sabah, Sarawak and the Eastern Corridor of Peninsular Malaysia) are eligible for Pioneer Status or Investment Tax Allowance, in accordance with that given for promoted areas. Companies undertaking forest plantation projects are eligible for forest plantation incentives in pre-packaged schemes. There is vast potential for the development of products utilizing non-wood fibers, such as oil palm trunks and palm biomass, coconut

trunks and kenaf fibers, to substitute wood. These alternatives are comparatively cheaper, sustainable as well as environmentally friendly.

In establishing new markets, Malaysia will devise a market strategy that improves the image of the industry through branding, supply reliability and provision of good service. The government encourages the furniture and furniture components manufacturers to focus on innovative product design and quality and expand their product range to include high-end niche products, while improving existing activities. Measures will be undertaken to aggressively promote exports of high-quality products that are in compliance with eco-labeling requirements to sustain market share as well as diversify into new markets.