

## FULL PAPER

# SABAH TIMBER LEGALITY ASSURANCE SYSTEM (TLAS): STRATEGIC APPROACH TOWARDS EUROPEAN UNION DEFORESTATION REGULATION (EUDR) COMPLIANCE

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### ABSTRACT

The Sabah Timber Legality Assurance System (TLAS), established in 2009, ensures timber products from Sabah are harvested, processed, and traded in compliance with local laws and international standards. This paper outlines the Sabah Forestry Department's strategic approach to the European Union Deforestation Regulation (EUDR). In June 2024, the Sabah Forestry Department collaborated with the EU to align TLAS with the EUDR and incorporate sustainable elements through the EU Corporate Sustainability Due Diligence Directive (CS3D). This alignment aims to meet stringent EU trade regulations by mitigating deforestation risks and promoting sustainable corporate behavior throughout the global value chain, addressing social and environmental impacts. The revision of the Sabah TLAS will include key alignments, such as being deforestation-free after 31<sup>st</sup> December 2020, ensuring products comply with national legislation, providing geolocation of production plots, consulting with indigenous peoples, and complying with relevant legislation, including land use rights, environmental protection, labor rights, and Free, Prior, and Informed Consent (FPIC). The update process involves consultations and training with timber stakeholders, ensuring readiness to meet new standards. By integrating EUDR and CS3D requirements, Sabah not only aims to enhance the marketability and credibility of its timber products but also to safeguard its forests for future generations and contribute to global efforts to combat climate change and protect biodiversity.

**Keywords:** Sabah Timber Legality Assurance System, European Union Deforestation Regulation, Climate Change

## 1. INTRODUCTION

In response to growing international concerns surrounding the high-risk trade in tropical timber, particularly in European countries, the Sabah Forestry Department (SFD) took proactive measures to address these issues. Back in 2007, Sabah actively participated in negotiations with the European Union (EU) concerning the Forest Law Enforcement, Governance, and Trade (FLEGT) program and the development of the Voluntary Partnership Agreement (VPA) for Malaysia. Although Malaysia has yet to sign the VPA, all trade in forest products between Malaysia and the EU is currently subject to the Due Diligence scheme. In 2009, Sabah developed the Sabah TLAS in response to the European Union Timber Regulation (EUTR) requirement for all timber products to be exported internationally, especially to European countries (Sabah Forestry Department, 2023).

## 2. SABAH TIMBER LEGALITY ASSURANCE SYSTEM (TLAS)

The Sabah TLAS is a comprehensive Due Diligence System designed to ensure that timber products from Sabah are harvested, processed, and traded in strict compliance with local laws and international standards.

The Sabah TLAS has since become the recognized legality standard for third-party auditing within Sabah and serves as a comprehensive framework for ensuring the legality and sustainability of timber operations. The Sabah TLAS encompasses six (6) principles and twenty (20) criteria, covering sixty-five (65) upstream companies, including forty-three (43) Sustainable Forest Management Licence Agreements (SFMLA) holders and one hundred fifty-six (156) downstream mill and trader companies (Sabah Forestry Department, 2023). These principles address the right to harvest, forest operations, statutory charges, other users' rights, mill operation, and trade and customs, as follows:

**Principle 1 - Right to Harvest**, includes criteria such as the approval of harvesting areas, possession of harvesting licenses and coupe permits, compliance with environmental impact assessment (EIA) requirements, and the presence of a forest management plan and annual work plans. Additionally, it covers criteria related to plantation development plans, area demarcation, and forest inventory.

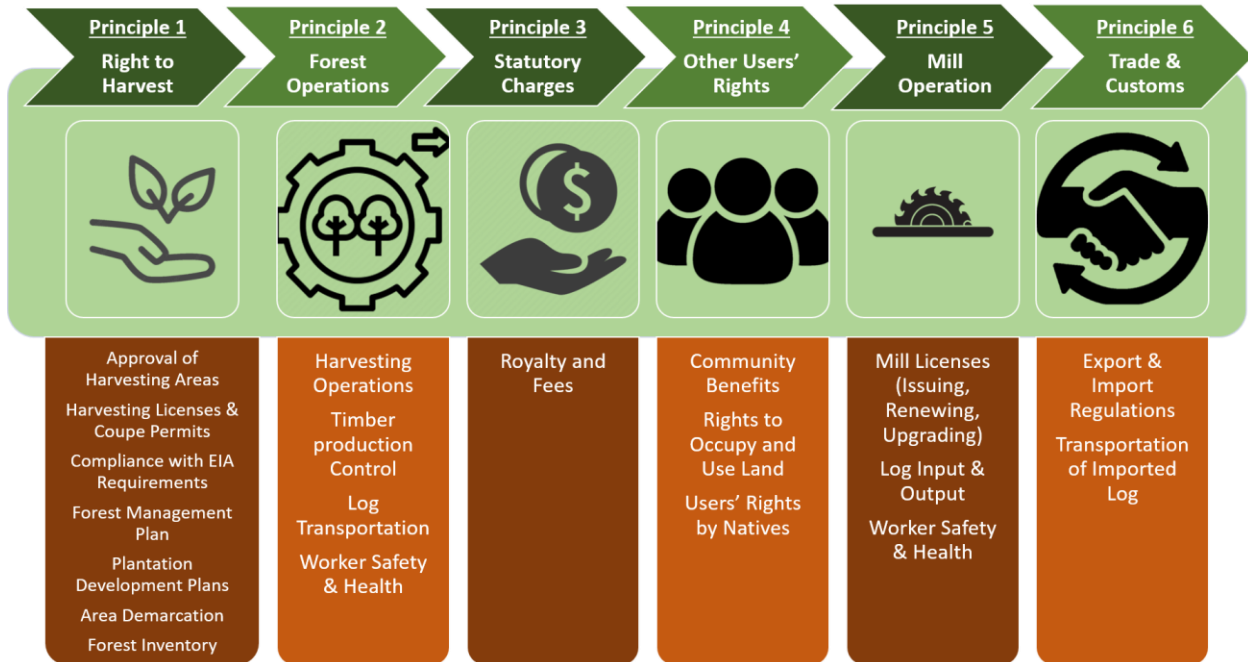
**Principle 2 - Forest Operations**, focuses on criteria related to harvesting operations, control of timber production, log transportation, and worker safety and health.

**Principle 3 - Statutory Charges**, covers criteria related to royalty and fees.

**Principle 4 - Other Users' Rights**, includes criteria addressing community benefits and rights to occupy and use land and users' rights by natives.

**Principle 5 - Mill Operation**, encompasses criteria related to issuing, renewing, and upgrading mill licenses, log input and output, and worker safety and health.

**Principle 6 - Trade & Customs**, deals with criteria related to export and import regulations, transportation of imported logs, sawn timber and veneer, and handling timber from Sarawak, another state in Malaysia.



### 3. THE IMPORTANCE OF SABAH TLAS IN THE TIMBER INDUSTRIES

Implementing the Sabah TLAS has led to significant changes across the forest sector's environmental, economic, and social dimensions. Economically, the timber industry has shifted towards sustainability, with Sabah timber producers increasingly aligning with the "Green Lane" approach (Roslan J. & Charlene B., 2018). Socially, stakeholder engagement has become a crucial element of the system. By involving relevant stakeholders, such as environmental and social NGOs, government departments, SFMLA license holders, manufacturers, and others, the Sabah TLAS has fostered a greater understanding and awareness of its standards and compliance requirements.

The Sabah TLAS has also improved governance and transparency in forest and timber trade management in Sabah. The SFD has appointed a third-party auditor to conduct annual audits in the SFMLA, Form I, and FIIB licensed areas, as well as in timber-based manufacturing and import/export operations, ensuring compliance with the Sabah TLAS Principles 1 to 6.

The Sabah TLAS has streamlined the numerous legal requirements imposed by various departments and agencies under a single guideline, aligning with the principles of timber legality. It has established a robust system for tracing timber throughout the supply chain, ensuring that

timber from unverified sources is effectively segregated. This guarantees product legitimacy and acceptance to international markets, including Europe, Australia, the USA, Japan, and Korea.

Over the past decade, Sabah TLAS has significantly improved compliance with existing laws, increased transparency, and strengthened forest governance. The TLAS Compliance Certificate (CC) has now become an integral part of due diligence processes in the global timber trade.

#### **4. INSTITUTIONAL ARRANGEMENT**

The SFD acts as the key authority and custodian for the Sabah TLAS, with the mandate to issue Sabah TLAS CC to both upstream and downstream timber production and wood processing sectors. The department ensures that timber operations within Sabah adhere to the standards and legal requirements set under the Sabah TLAS framework.

Within the SFD, the FLEGT Unit plays a pivotal role in overseeing and coordinating the auditing processes of Sabah TLAS. This unit is integral to maintaining the system's integrity and ensuring effective implementation. Its responsibilities include organizing annual internal meetings to review compliance levels, address non-compliance issues, and suggest adjustments to align Sabah TLAS with evolving international regulations. By facilitating these reviews, the FLEGT Unit continuously strengthens the auditing processes and ensures that necessary revisions are made.

The Implementing Agencies Coordination Committee (IACC) is another key platform overseeing coordination, monitoring, and enforcement activities across the timber industry. The committee, comprising various government agencies, meets annually to review compliance, identify corrective measures, and implement actions that ensure adherence to Sabah TLAS standards. Its diverse membership, which includes representatives from the Natural Resources Office, Sabah Forestry Department, Sabah Wildlife Department, Environment Protection Department, and several other relevant agencies, ensures a holistic approach to managing and monitoring timber legality (Sabah Forestry Department, 2023).

Additionally, the Stakeholder Consultation provides an essential platform for inclusive dialogue, engaging a wide range of stakeholders such as timber associations, i.e., Timber Association of Sabah (TAS) and Sabah Timber Industries Association (STIA), trade companies, NGOs, and government bodies. This consultation process gathers feedback and concerns related to Sabah TLAS, contributing to the system's continuous improvement. The annual stakeholder meetings are an avenue for addressing compliance issues, discussing remedial actions, and ensuring that all parties involved in the timber industry are informed of any updates or changes to the Sabah TLAS (Sabah Forestry Department, 2023).

The institutional arrangement, consisting of the SFD, FLEGT Unit, IACC, and Stakeholder Consultation, ensures the effective implementation, monitoring, and enforcement of Sabah TLAS. This structure facilitates collaboration among relevant government bodies, industry associations, and stakeholders. It strengthens transparency and credibility within the timber industry, reinforcing Sabah's commitment to sustainable forest management and legal timber trade.



The members of the IACC committee meeting



Stakeholder Consultation session



Participants of the Stakeholder Consultation session

## 5. IMPLEMENTATION OF SABAH TLAS AUDIT

The Sabah TLAS audit is a comprehensive process conducted by a third-party auditor to ensure compliance with the state's stringent forest management and industry standards. This audit involves in-depth field assessments based on the Sabah TLAS Standards and Procedures, covering key areas outlined in Principles 1 to 6, including the Chain of Custody (CoC) requirements. It is designed to assess both upstream industries, including SFM licensees, and downstream industries, such as mill operations and timber traders.

The audit process begins with an opening meeting chaired by the Pegawai Perhutanan Wilayah (PPW), which is participated in by the auditor, representatives from SFM licensees, and the District Forestry Officer (DFO). This meeting is conducted to clarify objectives, methodology, and expected outcomes from the auditor. Following this, the audit progresses to a detailed

documentation review and field inspections, performed using the Sabah TLAS checklist to verify compliance at various operational levels.

After the audit, findings are presented in a closing meeting, where the auditor highlights compliance achievements and identifies gaps. Non-compliance issues are categorized into major and minor gaps and observations, with corresponding timeframes for corrective action. Auditees must address major gaps within two months, while minor gaps and observations must be rectified within twelve months.

Those SFM licensees and industries that demonstrate full compliance or effectively address any identified gaps within the stipulated periods are awarded the Sabah TLAS Compliance Certificate. However, companies that fail to meet the required standards or neglect major non-compliances are deemed ineligible for certification.

By December 2023, the Sabah Forestry Department had audited more than 1.16 million hectares of production forest and issued over 1,300 Sabah TLAS Compliance Certificates to various stakeholders, including upstream industries, mills, and traders, underscoring Sabah's commitment to sustainable forest management and legal timber production.

## **6. COMPLIANCE TREND OF SABAH TLAS BY LICENSEES OVER THE YEARS**

From 2009 to 2013, the number of licensees in compliance with Sabah TLAS fluctuated annually (Figure 1). A significant shift occurred in 2014 when the number of compliant licensees surged, reaching a peak of approximately 150 licensees by 2015. This was due to the integration of downstream industries included in the Sabah TLAS audit in adherence to the legal framework.

Between 2015 and 2018, compliance remained steady, with slight fluctuations but no drastic changes. However, in 2019, there was a notable drop in compliance numbers due to the global Covid-19 pandemic. However, 2020 gradually recovered, bringing the compliance figures back to around 160 licensees. The data for 2023 shows an increase from the previous year, showing that compliance by the timber companies remains strong overall.

The non-compliance data reveals that from 2009 to 2015, the number of non-compliant licensees remained very low, with minimal fluctuations. However, from 2016 onwards, non-compliance began to rise steadily, peaking sharply in 2019 when over 80 licensees were found non-compliant. However, non-compliance rates fell dramatically in 2020. This was also due to the number of audited licensees declining drastically. By 2023, the number of non-compliant licensees appears to have stabilized at a lower level.

The overall trend indicates a substantial improvement in the Sabah TLAS compliance among licensees from 2009 to 2023, with some fluctuations in recent years. These trends reflect the ongoing efforts of the Sabah Forestry Department and related stakeholders to ensure adherence to the Sabah TLAS framework.



## TLAS Compliance by Licensee (2009 - 2023)

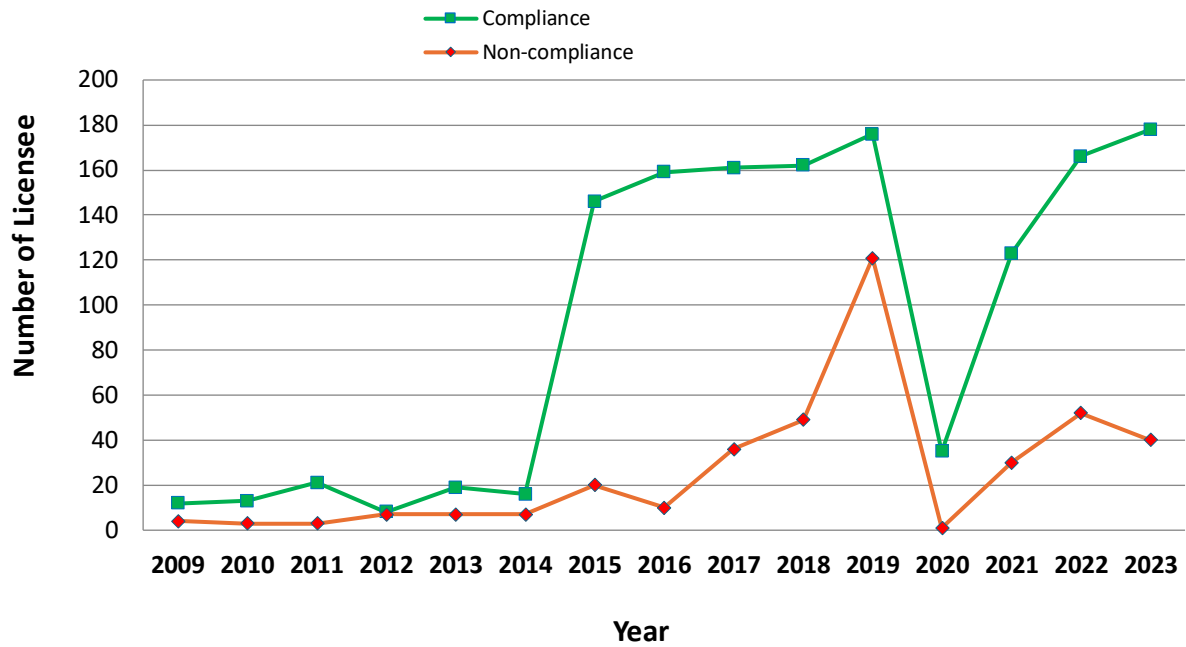


Figure 1. Sabah TLAS Compliance Trend from 2009 to 2023



Sabah TLAS auditing is in progress at the Focus Lumber, Keningau

## 7. THE EMERGENCE OF THE EUROPEAN UNION DEFORESTATION REGULATION (EUDR)

The EUDR, introduced in 2022, seeks to prevent the entry of products linked to deforestation and forest degradation into the EU market. Recognizing deforestation and forest degradation as critical contributors to climate change and biodiversity loss, the EU created the EUDR as a strategic measure to reduce greenhouse gas emissions and promote global biodiversity conservation.

The regulation targets seven key commodities, i.e., wood, soy, cattle, palm oil, cocoa, coffee, and rubber. To ensure compliance, EU operators are prohibited from placing or exporting products to the EU market unless they adhere to stringent conditions. These include being deforestation-free after 31<sup>st</sup> December 2020, providing precise geolocation data for all production plots, engaging with indigenous communities, and aligning with the production country's legal framework, covering aspects such as land use rights, environmental protection, labor rights, and obtaining Free, Prior, and Informed Consent (FPIC) (Franziska Rau, 2024). The EUDR is scheduled to be fully enforced by 30<sup>th</sup> December 2024

This regulation reflects the EU's broader ambition to reduce deforestation and forest degradation emissions as part of its goal to achieve net-zero greenhouse gas emissions by 2050. Non-governmental organizations within the EU have also championed this initiative as a vital component in addressing both climate change and biodiversity loss at a global level.

## **8. SABAH'S COMMITMENT AND ACTIONS ALIGNING SABAH TLAS WITH THE EUDR STANDARDS**

The introduction of the EUDR sets a new global benchmark for timber legality but also poses a potential trade barrier. As a major contributor to the global timber industry, Sabah is committed to aligning its TLAS with the EUDR to promote the production of responsible and sustainable forest products. This alignment ensures that Sabah's timber products comply with international environmental standards, increasing its credibility in the global market. Additionally, this prepares Sabah for potential indirect trade impacts, where third countries import, process, and re-export timber products to the EU, ensuring that Sabah remains competitive and compliant across the supply chain.

### **8.1 Sabah's Collaboration Project with the European Union (EU) to Align Sabah TLAS with the EUDR**

In June 2024, the Sabah Forestry Department launched a collaboration project with the EU to update the Sabah TLAS aligning with the EUDR requirements and incorporating elements such as sustainability, environmental protection, and social responsibility through the Corporate Sustainability Due Diligence Directive (CS3D). The CS3D is an EU legislation to ensure companies operate responsibly by identifying, preventing, and mitigating adverse impacts on human rights and the environment throughout their global value chains. This update is designed to meet the EUDR requirements which will be fully enforced by 30<sup>th</sup> December 2024.

The Sabah TLAS revision project, guided by EUDR experts, is a crucial milestone for Sabah's forestry sector. This initiative involves comprehensive consultations and workshops with key industry stakeholders, including the IACC, STIA, and the TAS, as well as various upstream and downstream timber industry actors. The project also emphasizes capacity-building, ensuring local stakeholders have the necessary knowledge and tools to meet the new standards.



Expected to be completed by February 2025, the project spans about 136 working days, showcasing Sabah's proactive approach to meeting international timber legality and sustainability standards. The specific objectives and key activities in the Sabah TLAS revision are as follows:

Specific Objectives of the Project:

- i. To revise the Sabah Timber Legality Assurance System to meet the requirements set by the EUDR and the EU Corporate Sustainability Due Diligence Directive (CS3D).
- ii. To build the capacity of Sabah's timber stakeholders, ensuring they fully understand and can meet the EUDR and CS3D requirements, thereby enhancing the industry's sustainability.

Key Activities in Sabah TLAS Revision:

- i. Kick-off Meeting (Mid-June 2024): The objectives, practical considerations, and timelines were presented by the EUDR experts to kickstart the revision process.
- ii. Mapping Sabah TLAS with EUDR/CS3D Requirements (End July 2024): A thorough review of Sabah TLAS principles and criteria was conducted, followed by mapping EUDR and CS3D requirements and drafting a report on the findings.
- iii. Updating Implementation Tools (End August 2024): This phase involved updating the tools used for Sabah TLAS implementation, including checklists and audit templates, ensuring they reflect EUDR and CS3D requirements. Stakeholders were invited to review and provide feedback on the draft.
- iv. Consultation with Stakeholders (Early October 2024): A series of consultations and workshops with stakeholders, including IACC members, STIA, and TAS, provided valuable input that will be incorporated into the final TLAS update.
- v. Developing Training Materials (End October 2024): A 'training of trainers' program was designed, including materials to guide the practical implementation of the updated Sabah TLAS.
- vi. Training of Trainers (End November 2024): Trainers participated in workshops and pilot audits to ensure a smooth transition to the new standards, with ongoing follow-up sessions to review progress.
- vii. Outreach and Training for Industry (End January 2025): Two outreach and training workshops will be conducted for the timber value chain, ensuring all industry players are equipped to implement the updated TLAS requirements.
- viii. Closing Meeting and Final Report (End February 2025): The final phase will include a meeting with key stakeholders and a presentation of the updated Sabah TLAS standard, aligned with the EUDR and endorsed by the EU.

This initiative signifies an achievement for the Sabah Forestry Department and the Sabah State Government and reflects a strong commitment to improving environmental governance. By integrating transparency, accountability, and sustainability into forestry practices, Sabah is protecting its forest resources for future generations and contributing to global efforts in combating climate change and preserving biodiversity.



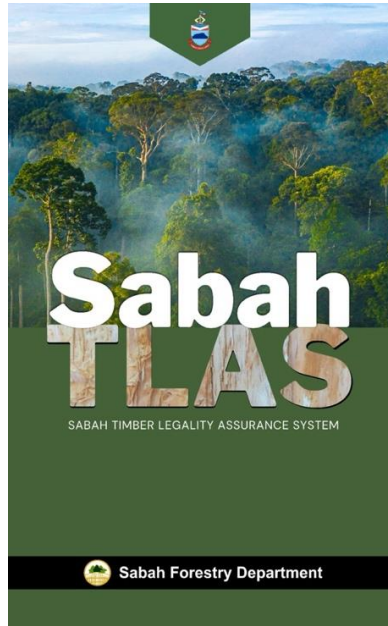
Launching of the Collaboration Project with the EU to update Sabah TLAS aligning with the EUDR

## **8.2 Sabah's Initial Initiative to Align Sabah TLAS with the EUDR**

Prior to its engagement with the EU, Sabah took the initial initiative to revise its TLAS in 2023 to align with the requirements of the EUDR. The SFD prepared an initial draft that adheres to EUDR requirements and incorporates critical elements of sustainability, environmental protection, and social benefits for workers and local communities. The development of this draft was supported by Global Forestry Services (GFS), which consulted with members of the TAS and the STIA. This draft will serve as a baseline document for the collaboration projects with the EU.

The revised Sabah TLAS draft includes specific criteria and adjustments for upstream and downstream sectors. In the upstream section, the TLAS Principles 1 to 4 (P1-4) have been revised to ensure regulatory compliance, including the sustainability of resources, detailed plantation establishment and operational systems, and the identification and protection of environmental and social impacts. It also covers resource monitoring, environmental and social element assessments, traceability of materials through removal passes and geolocation data, and identifying forest areas that comply with EUDR definitions under the Sabah TLAS framework.

In the downstream section, covering TLAS Principles 5 to 6 (P5-6), the draft emphasizes compliance with legal and Chain of Custody (CoC) requirements. It includes a comprehensive CoC manual outlining purchasing processes, risk assessment, warehousing, production control, subcontracting, material input, and sales and export. The system allows for the clear identification and segregation of materials and products based on their compliance with the Sabah TLAS, Sabah TLAS EUDR, or non-TLAS status. The traceability of materials, including geolocation data, remains a critical element that needs to be refined under the EU collaboration project to ensure transparency and compliance at all production levels.



The Initial Draft of Revised Sabah TLAS Checklist Published in 2023

## 9. CONCLUSION

Sabah's commitment to aligning the Sabah TLAS with the EUDR reflects the state's proactive approach to ensuring sustainable forest management and maintaining access to international markets. By incorporating the stringent requirements of the EUDR, such as being deforestation-free after 31<sup>st</sup> December 2020, complying with local and national legislation, and ensuring transparency through geolocation data and timber traceability, Sabah is not only enhancing the credibility of its timber products but also demonstrating leadership in global sustainability efforts.

This alignment strengthens Sabah's position as a trusted source of legal and sustainable timber, improving marketability in the EU and other international markets by prioritizing environmental and social responsibility. The revisions to Sabah TLAS, including adherence to the CS3D, ensure that Sabah's timber industry operates within global standards for environmental protection, labor rights, and local peoples' rights.

Sabah is setting a new standard for responsible forestry through ongoing stakeholder consultations, capacity-building initiatives, and compliance audits. This dedication to integrating transparency, accountability, and sustainability will protect Sabah's forests for future generations and contribute significantly to global efforts in combating deforestation, climate change, and biodiversity loss.

While we are committed to enhancing our environmental governance and ensuring our timber products meet the highest international standards, the system also factors in the current state development agenda and plans.

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