

“Market Watch 2010”

The Timber Sector in Malaysia

Overview

With an annual average of 20% export surplus, Malaysia is one of the 20 largest export nations worldwide and is ranked 28th out of 121 countries by the “Global Enabling Trade Report 2009”, published by the World Economic Forum. Malaysia’s total trade in 2008 amounted to RM 1,185 trillion, which depicts an increase of 6,8% compared to 2007 trade balance; exports even rose 9,6%, while total imports grew by 4.9% to RM 504.57 billion. But the weak global markets also affected Malaysian trade in 2009. In the first 6 months of 2009, total trade accounted for RM 441.75 billions, decreasing of about 30% in comparison to the first half of 2008. The estimated exports of 2009(January-August) are RM347.1 billion; total imports amounting RM270.5 billion.¹Major export countries for Malaysian goods are Singapore, Japan, China, India, Korea as well as the United States, Australia, the Netherlands and Germany among others. In 2008, Malaysia’s largest export revenue contribution was made by the electrical and electronics products sector (38%). Other crucial sectors are palm oil & palm oil-based products, crude petroleum, liquefied natural gas and timber/timber-based products. Major import products are electrical/ electronic products, machinery, iron / steel products as well as chemical products.

Malaysia’s top five trading partners were the United States of America, the Republic of Singapore, the European Union, the People’s Republic of China and Japan. Malaysian FDI reached RM 48 billion in 2008, but in first half of 2009 the FDI has dropped to RM4.2 billion.² Sources of foreign investments mainly lie in Japan, Germany, the USA and Singapore³.

¹ MIDA (Malaysian Industrial Development Authority), Wed. 06/01/10

² Aseanaffairs, Wed. 06/01/2010

³ German Trade and Investment Center

Introduction to the Wood-Based Industry

The timber industry recorded a decrease in terms of export earnings with RM 7.0 billion in export receipts in 2008 (January-April). The major products exported in 2008 were saw logs, plywood, wooden furniture, sawn timber, BJC and fiberboard. The wood-based industry is one of the major resource-based industries and one of the most important sectors contributing to Malaysia's economy. The wood-based industry can be divided into two subcategories, namely primary and secondary wood processing. Primary wood processing mills process logs to produce sawn timber and veneer. Secondary wood processing turns primary products and other solid wastes such as small branches, off-cuts, edging or slabs, chipping and sawdust into downstream value-added products.

Currently, there are more than 5,000 manufacturers involved in the production of wood products, and it is estimated that more than 80% of these companies are small and medium sized industries (SMI). The industry develops a wide range of downstream products such as panel-based products, mouldings, builders' carpentry and joinery (BCJ) as well as furniture and furniture components. Malaysia enjoys the recognition as a major supplier of wood-based panels as well as furniture products. Especially the wood & rattan furniture continue to perform well in the timber sector.

Through its primary and value-added processing activities, the wood-based industry has assumed a significant role in Malaysia's industrialization programme. Conscious of the contribution of the industry, the government has identified it as a priority industry, targeted for further development. The main development objectives of the Industrial Master Plan (IMP) are to transform the wood-based industry into a major resource-based industry, maximise value-added products from forest resources as well as make Malaysia a reputable centre for high-quality wood products such as furniture, joinery and mouldings. To date, Malaysia has signed Free Trade Agreements (FTA) with a few major trading partners like Japan, China and Korea and tariffs for most products will be reduced or eliminated gradually following the schedule agreed by both parties.

The wood-based industry can be classified into wood and wood products (1), paper products (2) and furniture fixtures (3). The following report will provide a comprehensive and close look at these classifications.

(1) Wood Product Industry

The wood-based industry in Malaysia comprises four major sub-sectors: -

- **Sawn timber**
- **Veneer and panel products** (include plywood and other reconstituted panel products such as particleboard/chipboard/fiberboard)
- **Mouldings** (builders' joinery and carpentry (BJC) such as doors/windows and its components)
- **Furniture and furniture components**

Most of the larger sawmills, veneer and plywood mills are located in Sabah and Sarawak, while down-stream processing mills such as mouldings, fiberboard, BCJ products and furniture and furniture components are located in Peninsular Malaysia. These mills mainly utilize rubber wood, which are sourced from sustainable plantations. Sabah and Sarawak attract most of the projects that utilize tropical hardwood for the production of sawn timber, veneer, plywood and other veneered panel products. More than 70% of the 174 plywood mills are located in Sabah and Sarawak, while for mouldings, out of the 352 mills in operation, 157 are located in Sabah, and 28 in Sarawak.

In response to the requirement for certified or 'green' timber by major export markets, particularly European countries, the timber certification scheme operated by the Malaysian Timber Certification Council (MTCC) continued to make significant progress in awarding the Certificates for Forest Management. Importation of logs has been an important portfolio, and MTCC continues to assist the local timber supply industry in their raw material procurement by facilitating import and port handling under a special programme called 'Import Assistance to Purchase Raw Materials'.

Performance of the Wooden Sub-Sectors

Sawn Timber

The sawmilling industry is the largest and oldest wood processing industry in Malaysia and mainly producing for the export market. The industry is also a source of sawn timber for the domestic market, especially the construction industry. Thailand, the Netherlands, Japan, Taiwan and China account for the top five importers of Malaysian sawn timber (see Table 3). Export of sawn timber in 2008 amounted to RM 2.6 billion and major species

exported by Malaysian are Kapur, Keruing, Meranti and Mersawa. The Malaysian sawn timber industry is well established, with 1,202 sawmills in operation allocated on Peninsular Malaysia (667), in Sabah (175) and Sarawak (180).

Veneer and Panel Products

Plywood

The plywood industry superseded furniture to reemerge as the leading timber export of the country, contributing with 28% to the total timber products export earnings. In 2008, export of plywood amounted to RM 6.4 billion. USA, the largest importer, followed by the Japan, Taiwan and the UK were registered as top designations of Malaysia's plywood (see Table 3). The plywood and veneer industry in Sabah and Sarawak comprises larger mills compared with Peninsular Malaysia. The bulk of the plywood produced in Malaysia has the standard size 1220mm x 2440mm. The range of plywood products includes common veneer-faced plywood, overlaid plywood such as printed-paper and polyester plywood, plywood for concrete formwork and marine plywood. Malaysian plywood has achieved international standards such as the Japan Agriculture Standards (JAS), British Standards (BS), and International Hardwood Products Association Standards (IHPA) for the US-market and Harmonized European Standards (EN) for Europe. Malaysia is currently the largest exporter of tropical plywood in the world with 180 mills in operation.

Particleboard

In view of the need to maximise the utilisation of wood resources, the industry has diversified into the production of high value-added, reconstituted panel products such as particleboard and medium density fiberboard. The particleboard industry has grown, and currently there are 16 companies in operation. Over the years, the industry has successfully exported its products, particularly for use in the furniture industry. In 2008 (January - April), exports amounted to RM 1.4 billion, with the main destinations being UAE, China, Vietnam, and Japan. Today, Malaysia is a major exporter of particleboard, and its particleboards are able to comply with international standards such as BS, EN and Japan Industrial Standards (JIS).

Medium Density Fiberboard (MDF)

The MDF industry currently has 14 plants with a total annual installed capacity of 2.9 million. For 2008, the export of MDF totaled at RM 1.2 billion. Currently, Malaysia is the world's third largest exporter of MDF, after Germany and France, with exports going mainly to Japan, People's Republic of China (PRC), UAE, Vietnam, Taiwan and Pakistan (see Table 3). Malaysian MDF has attained international standards such as BS, Japan, Australia and New Zealand Standard (JANS), and EN standards. A number of companies have also ventured into the production of laminated/ printed MDF for export.

Veneered Panels Products

Besides MDF, the industry has continued to develop engineered products from veneer, such as laminated veneer lumber (LVL), laminated veneer cross-band (LVB) and laminated veneer sandwich (LVS), to meet the demand for structural and industrial applications. The industry combines modern technology with the efficient use of natural resources to produce these products for the export market. Besides being environmentally friendly, these products, with enhanced structural quality to meet different climatic conditions, are increasingly being used in the construction industry.

Mouldings and Builders' Carpentry and Joinery (BCJ)

The manufacture of mouldings represents the first stage in the downstream processing of sawn timber. The majority of moulding plants are small, and they are usually integrated in the existing sawmills, furniture or joinery mills. The common products from the moulding plants are general moulding, S4S, door stops, door jambs casings, skirting, architraves, door and window components such as stiles, rails, louvre blades and paneling, flooring pieces, finger joints and veneer-wrapped mouldings.

BCJ products include architectural mouldings (panellings, skirtings, crowns and chair rails), doors/windows and accessories, wooden flooring and wooden railings. Exports of mouldings and BCJ are mostly sending to the USA, Japan, UK, Australia, Singapore and Denmark (see Table 3). In 2008, exports of mouldings were RM 745.2 million while the exports of BJC amounted to RM 1.35 billion. The major products exported were wooden floorings and wooden doors. To date, there are 344 mouldings and joinery plants in Malaysia.

Finally, the wood-based industry has also diversified into the manufacturing of high value-added reconstituted composite products such as fiber-reinforced polymer composites (FRPC), reflecting a growing global demand. Over the past 40 to 50 years, the timber industry has developed from a basically primary processing industry to a much more sophisticated one, which today consists of a significant number of downstream value-adding industries.

Table 1: Wood Processing Mills in Malaysia

Industry	Total No. of Mills	Industry	Total No. of Mills
Sawmill	1,132	Kiln Drying plants	244
Plywood/Veneer mills	178	Wood Preservations plants	158
Moulding Plants	341	Woodchip mills	10
Chipboard	10	MDF Plants	11
Parquet factory	26	Prefabricated house	10
Furniture, Joinery & Other woodworking plants	2,084		

Source: Malaysian Timber Industry Board (MTIB)

(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 RM6.7 billion in 2008 from RM6.1 billion in 2007.

(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 10th largest furniture exporter and second in Asia after the PRC. The sector has been a significant contributor to the country's GDP. In 2008, exports of wooden furniture amounted to RM6.8 billion. Among the main export destinations count the USA,

Japan, UK and Australia (see Table 3). The export value of furniture is expected to reach RM10 billion by 2010.

Malaysian furniture companies number approximately 1,800 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. Among the furniture exported are kitchen furniture, bedroom furniture, upholstered with wooden frame and office furniture of which over 80% are made from rubber wood, a light colored, medium hardwood popularly called 'Malaysian oak'. The export of garden/outdoor furniture from tropical hardwood is mainly targeted for the European market. The solid tropical wood species used are known for their durability under different climatic conditions. Besides these traditional markets, 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 (see Table 3).

Recognizing the need to move from designing manually to the use of Computer Aided Design (CAD), AutoCAD is one of the popular software system used by Malaysian furniture manufacturers today. In order to keep pace with the increasingly competitive market, furniture manufacturers have ventured to combine the use of various materials to create designs, which are not only aesthetic, but also functional. In 2008, various improvements were implemented to further streamline the institutional support and delivery system for the wood and wood product industry. These included the introduction of the Malaysian Timber Industry Board (MTIB) Core System (MCS) to facilitate exporters of timber products applying for export licenses from MTIB.

Export Performance

In 2008, total exports of wood and paper products increased marginally by 3.5% to RM19.5 billion from RM18.8 billion in 2007 (see Table 2). The increase is contributed by an increase in orders from original design manufactures (OEM) and original brand manufacturers (OBM). Malaysia represents the world's largest exporter of tropical hardwood logs, sawn timber and a major exporter of tropical plywood, veneer and moldings. Wooden furniture, in particular rattan continues to perform well in the timber sector during 2008, as export values increased by 3.9%. In this context, demand for wooden and rattan furniture is expected to grow further as these products are much sought by importers. Moreover, there are so much value added processing opportunities to be tapped in wooden and rattan products.

Table 2: Exports of Wood and Wood Products

Product	2008 Value (RM 000')	Change (%)	2007 Value (RM 000')
Total Export of wood and paper products	19,491.9	3.5	18,834.9
Total exports of wood products	16,628.2	2.1	16,294.1
Veneer and plywood	8,354.5	1.3	8,246.3
Wooden furniture	6,919.4	3.9	6,661.7
Wood manufactures	1,352.6	-2.3	1,384.4
Cork manufactures	1.6	-4.8	1.7
Total exports of paper and pulp products	2,863.7	12.7	2,540.9
Paper and paperboards (cut to size)	1,682.6	14.9	1,464.5
Paper and paperboards	1,009.2	10.6	912.4
Wood in chips	133.5	6.0	125.9
Pulp and waste paper	38.4	0.8	38.1

Compiled by the Ministry of International Trade and Industry (MITI)

Table 3: Major export markets by products

Product	Destination
Sawn timber	Thailand, Netherlands, Japan and Taiwan
Veneer	South Korea, Japan, Taiwan and China
Plywood	USA, Japan, Taiwan and UK
Mouldings / BCJ	USA, Japan, UK, Australia, Denmark, Singapore
MDF	China, Japan, UAE, Taiwan, Vietnam and Pakistan
Particleboard	China, Vietnam, South Korea and Taiwan
Furniture	USA, Japan, UK, Australia and Singapore

Source: Malaysian Timber Industry Board (MTIB)

Malaysia during the current Economic Recession

The current economic downturn and financial crisis affect Malaysia as well. Malaysian banks, however, has not been involved with the U.S. and western financial markets to a large extent, and therefore not affected by the crisis in this respect.

On the contrary, the financial turmoil has created an upward trend in the Islamic Banking Industry when the country is trying to be a world hub in "Islamic Banking". Furthermore, Malaysia is a very young nation with an average age of less than 24 years (Germany: about 42 years), and this drives the consumption. Malaysia's wealth of raw materials for example oil & gas, natural rubber, palm oil, etc. contributes largely to the state and private revenues; likewise these revenues promise future income. Malaysia's central role in the prosperous ASEAN region with its 570 million people serves further as a regional home market. The Electronics & Electrical (E & E) is the only highly affected sector by the crisis resulting from its strong dependence on the U.S. and the rest of the world.

Malaysia's government takes stern measurements and introduces government-driven stimulus packages to support the economy. Its' stimulus package is in the same league of some mega-programmes by the United States, China or Singapore, if it is set in relation with the nominal economic performance amounting to 740 billion RM in 2008. It contains aids to accelerate implementation of infrastructure projects, a car-scrap bonus, and guarantees working credits and funds for labor market. On 10th of March 2009, the government introduced a second economic package for the year 2009. Further to this, an additional "mini budget" amounting to 60 billion RM (about 13 billion Euros) shall be disbursed between 2009 and 2010. The Ministry of Finance and other economic cycle analysts calculate that the Malaysian economy will contract approximately 3,3 % in 2009.

Outlook

The wood-based industry will need to continue to focus on downstream value-added processing to remain viable. This should be further supported through the development of the industry in an integrated manner, combining both manufacturing activities, R&D including product design and market promotion. The strengthening of industrial linkages is crucial in light of the increasing competition from low-cost and resource-rich countries

would inevitably force Malaysia out of the low-end markets. The export performance of the industry is expected to improve with the growth in the global construction industry.

Furniture is expected to remain a major contributor to export earnings, with a projected growth of 9% per year in world furniture trade. In order to achieve higher export earnings, furniture manufacturers have to shift away from supplying the mass-market segment and concentrate on developing their own designs, supported by branding and more effective marketing efforts.

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.

Important Malaysian Furniture Trade Fairs in 2010

MALAYSIAN INTERNATIONAL FURNITURE FAIR (MIFF) 2010

Date: 2-6 March 2010

Venue: Putra World Trade Centre (PWTC)

MALAYSIAN FURNITURE & FURNISHING FAIR

Date: 4-7 Sept 2010

Venue: Kuala Lumpur Convention Centre (KLCC), Hall 1-5

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