



## TRADE POLICY OF THE CUSTOMS MALAYSIA IMPOSED ON WOOD - BASED PRODUCTS

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### ABSTRACT

Perdagangan internasional melibatkan pergerakan barang dan jasa di seluruh dunia yang disebut sebagai transaksi impor-ekspor. Setiap negara memiliki pembatasan yang memerlukan regulasi untuk melindungi keselamatan dan kesejahteraan negara. Oleh karena itu, kebijakan perdagangan internasional diperlukan untuk mengendalikan masuk dan keluarnya barang atau jasa secara teratur dan terkendali melalui regulasi. Malaysia memiliki berbagai kebijakan perdagangan, termasuk hambatan tarif dan non-tarif yang dikelola oleh Jabatan Kastam Diraja Malaysia (JKDM). Kebijakan perdagangan ini diterapkan pada produk berbasis kayu yang diimpor dan diekspor. Jumlah terbatas bahan baku dari sumber daya alam ini memerlukan mekanisme untuk mengendalikan produksinya. Studi deskriptif berdasarkan data sekunder ini bertujuan untuk mengidentifikasi kebijakan perdagangan yang diterapkan pada produk kayu serta implikasi kebijakan perdagangan untuk industri ini dan berbagai pihak lainnya. Penelitian ini mengungkapkan bahwa hampir semua barang berbasis kayu dikenai bea masuk antara 0%, 20%, dan 35% dengan tarif ad valorem saat kedatangan komoditas ini di titik masuk Malaysia. Sementara itu, bea ekspor berada pada tarif 0% untuk komoditas ini. Pada saat yang bersamaan, terdapat hambatan non-tarif berupa izin impor dan ekspor yang diperlukan untuk perdagangan komoditas ini. Badan yang berwenang untuk menyetujui dan mengeluarkan izin impor/ekspor adalah MTIB untuk Semenanjung Malaysia, SFD untuk Sabah, dan STIDC untuk Sarawak. Bea masuk sebagai pendapatan nasional, melindungi industri domestik dengan harga pasar yang seimbang. Izin impor/ekspor diperlukan untuk mengendalikan produksi sumber daya alam yang terbatas ini. Malaysia harus meninjau dan menganalisis kebijakan perdagangan untuk memastikan liberalisasi perdagangan yang komprehensif dan kompetitif serta keadilan secara global.

*International trade involves the movement of goods and services across the world called an import-export transaction. Every country has limitations, which is legislation is required to protect the safety and well-being of the country. Thus, international trade policy is needed to control the entry and exit of goods or services in an orderly and controlled manner through regulations. Malaysia has various trade policies, including tariff and non-tariff barriers that are administered by the Royal Malaysian Customs Department (RMCD). These trade policies are enforced on timber-based products that are imported and exported. The finite amount of raw material of this natural resource requires a mechanism to control its production. This descriptive study based on secondary data aims to identify the trade policy imposed on timber products as well as the implications of the trade policy for this industry and various other parties. It reveals that almost all wood-based goods are subject to an import duty between 0%, 20%, and 35% at the ad valorem rate upon arrival of this commodity at the Malaysian entry point. While the export duty is at a 0% rate on this commodity. At the same time non-tariff barriers which are import and export permits required for this commodity trade. The agencies empowered to approve and issue import/export permits are MTIB for Peninsular Malaysia, SFD for Sabah, and STIDC for Sarawak. Import duty as national income, protecting domestic industry with a balanced market price. Import/export permits are required to control the production of these limited natural resources. Malaysia has to review and analyze the trade policies to ensure comprehensive and competitive trade liberalization and justice globally.*

## **1. INTRODUCTION**

### **1.1. Background of Study**

International trade is the exchange of capital, goods, and services across international borders or territories.

It is important for the country as a mechanism for the expansion and sustainable development of an economy. Other benefits are generating employment opportunities, a rise in the standard of living, efficient allocation, and better utilization of resources, promoting production efficiency, variety of goods available for consumption, consumption at cheaper cost, making more profit from an expanded market, and reducing trade fluctuations. As international trade involves exiting, entering, and transiting various types of goods from and within the country, trade policy is a necessity for a country as a mechanism to control and maintain the sustainability of the economy, national security, and socio-culture.

Each country has its domestic market that may be connected to a regional or global market. Therefore, trade policy is needed to function as a restriction mechanism imposed on the movement of goods between countries (import and export). However, the major purpose of trade policy is to promote domestic goods rather than exported goods, and thereby safeguard the domestic industries as well as aim to boost the nation's international trade.

There are multiple market layers for timber products. The sustainability and legality of the timber trade are issues of international concern. Illegal logging and corruption are forest crimes that affect economic and social development and weaken the sovereignty of the institutions of a country. According to the World Bank, in 2017 as much as US\$52-157 billion in losses occurred worldwide in lost revenue (World Bank, 2017). Therefore, the trade policy is one of the solution mechanisms to prevent and eliminate illegal import and export of timber products across the world.

For the past two decades, the wood-based industry has been the largest contributor to Malaysia's economic growth. Among the products are sawn timber, panel board (plywood, particle board, chipboard and fiberboard, veneer, mold and carpentry and joinery work (BJC), furniture and its components involving 240,000 workforces (MIDA, 2020). It is the third most important commodity subsector after palm oil and rubber. Be among the world's top 10 exporters of boards, sawn timber, and furniture. The export value of wood products in 2021 is RM20.3 billion of which 13.7% is plywood, and 46.9% is wooden furniture (MIDA, 2022).

Numerous instruments of trade policy on the timber industry were created by the Malaysian government involving several government agencies and statutory bodies to control and enforce. The enforcement of non-tariff barriers such as licenses, import quotas, and other voluntary export restraints such as Certification of the European Union Deforestation Regulation (EUDR), Program for the

Endorsement of Forest Certification (PEFC), Convention on International Trade in Endangered Species of Wild Flora and Fauna CITES, The Japanese Agricultural Standard (JAS), Sustainable Green Ecosystem Council (SGEC), etc.

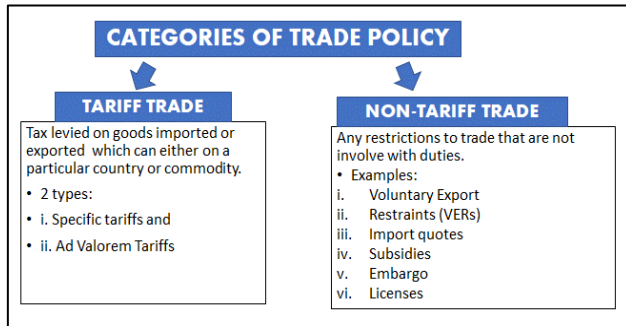
Lack of technical research on trade policy imposed on the timber industry, especially on tariffs and non-barriers that are governed by the Royal Malaysian Customs Malaysia (RMCD). Thus, lack of scientific and technical research on trade policy imposed on the timber industry, especially on tariffs and non-tariff barriers that are governed by the Royal Malaysian Customs Malaysia (RMCD). Thus, this study aims to identify the types of tariff and non-tariff barriers imposed on wood-based products and to discover the processes and procedures that will contribute new information to the body of knowledge on tariff barriers imposed on wood-based products.

The timber industry is one the important contributors to the nation's socioeconomic is among the top three gross domestic product (GDP) contributors in the commodity, also attracting foreign and domestic direct investment (BNM Annual Report, 2022). Since the 1970s, Malaysia has become one of the largest producers of timber and timber-based products. From timber producers to various added-value products which are furniture, sawn timber, sawn timber, plywood, veneer, carpentry, and furniture builders' carpentry (BJC). Therefore, the objective of the study is to explicate the trade policy (non-tariff barrier and tariff barrier) practice and enforce on timber products as well as to describe the benefits of trade policy to the timber industry players and socio-economy as well Malaysian government.

Trade policy called commercial policy or international trade policy is a set of rules and regulations that are intended to change international trade flows. All countries have their trade policies where the public officials are responsible for formulating their aims to enhance the nation's international trade. The purpose of trade policy is to set a clear standard and goals to help smoothen international trade. In many regions, a group of countries works jointly to create mutually beneficial trade policies. A trade policy is a restriction on international trade put in place by a country's government. It is considered a mechanism for the countries to promote domestic goods and industry as well as to protect from foreign goods competition.

Generally, trade policy is classified into 2 categories which are tariff trade and non-tariff trade. Tariffs trade known as tariff barriers are import and export duties levied on taxable goods. While non-tariff trade called non-tariff barriers are the permits/licenses required prior importation/exportation of goods. Figure 1 below depicts the categories of trade policy and the types of both categories.

Figure 1: Categories of Trade Policy



A tariff barrier consists of 2 types which are i) Specific tariffs: which are levied as a fixed charge for each unit of a good imported and ii) Ad-valorem tariffs are levied as a proportion of the value of the imported good. Meanwhile, there are 6 common instruments for non-tariff barriers which are import quotas, voluntary export restraints, subsidies, antidumping duties, local content requirements, and administrative policies. Table 1 below the types and functions of non-tariff barriers.

Types of Non-Tariff Barriers	Function
Import quota	A direct restriction on the quantity of some good imported into a country by enforcement of issuing import licenses to an importer.
Voluntary export restraints	It is a quota on trade imposed by the exporting country, normally at the request of the importing country's government
Antidumping duties	Established to penalize foreign firms that sell goods in a foreign market at below costs of production. It intends to protect domestic producers from unfair foreign competition.
Subsidies	Is a facility provided by the government to local companies in terms of cash grants, low-interest loans, tax breaks, and government equity participation in domestic companies helps domestic producers compete with imported goods and gain export markets.
Local content requirements	Some specific fraction of goods must be produced domestically.
Administrative policies	The bureaucratic rules are designed to make it difficult to import into the country

Table 1: 6 Common Types of Non-Tariff Barriers

Although Malaysia's international trade policy focuses on a more liberal and fair global trade

environment, Malaysia still creates trade barriers to protect the domestic market and critical sectors such as timber, agriculture, food, and others to maintain cultural norms, religion, sustainability natural resources, and national security.

## 2. LITERATURE REVIEW

### 2.1. Practice of Trade Policy in Malaysia

The Royal Malaysian Customs Department (RMCD) is an authorized government agency to manage and enforce trade policy for tariff barriers and non-tariff barriers for the Malaysian government. RMCD is one of the main revenue collectors for the federal government under the Ministry of Finance. RMCD governs and enforces a few import and export licenses to safeguard the domestic economy and security as well as to ensure the safety of citizens. The Customs (Prohibition of Import) Order 2023 for absolute prohibition, conditional prohibition except under an import license, and conditional prohibition except in the manner provided on selected import goods to Malaysia. In general, any imported goods sensitive to any religion, or belief in Malaysia are absolutely prohibited.

RMCD is authorized to administer and enforce the Customs (Prohibition of Import) Order 2023 has 3 schedules: i) 1st schedule for absolute prohibition, ii) 2nd schedule for conditional prohibition except under an import license and iii) 3rd schedule for Part I - Conditional prohibition except in the manner provided in the schedule; Part II - Condition prohibition except in the manner provided and shall not apply to the free commercial zone; Part III - Conditional prohibition except in the manner provided for goods controlled under the International Trade in Endangered Species Act 2008. Generally, any imported goods sensitive to any religion, or belief in Malaysia are absolutely prohibited. Certain imported items, which are rubber products, wildlife, pharmaceutical items, intoxicants, and food & beverage products require import licenses/permits.

However, the purpose of this descriptive study only concerns the trade policy that is administered and under the jurisdiction of the RMCD which is a non-tariff and tariff barrier on timber products. A non-tariff barrier enforced by RMCD is import and export permits under the Second Schedule, Customs (Prohibition Import of Goods) Order 2023 and Second and Third Schedule, Customs (Prohibition Export of Goods) Order 2023. Meanwhile, the tariff barriers are the import/export duties levied on wood-based products that are enforced under Customs Duties Order 2022.

### 2.2. Tariff Barrier in Malaysia

A tariff also called a duty is a tax levied on the import or export of goods. Among the main functions of tariffs are as a revenue source for the government, as a protection mechanism for domestic industries, and as a solution for trade distortions (Bradley,2017).

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Import and export duties in Malaysia follow the Harmonized Tariff System (HTS) for the imported and exported goods from/to other countries than members of the Association of Southeast Asian Nations (ASEAN). However, for the importation and exportation of goods from/to ASEAN countries, the ASEAN Harmonized Tariff Nomenclature (AHTN) will be applied to impose the import/export duties.

In Malaysia, the Customs Duties Order In Malaysia, the Customs Duties Order 2022 is the legislation of customs duties and tariffs enforced on taxable goods with rates of import or export duties ranging from 0% to 40% c. If the goods have the 'Nil' remark in Customs Duties Order 2022 meaning, there are no import or export duties imposed on those goods. (RMCD, 2023).

Wood-based product in Custom Duties Order 2022 under 1st Schedule in Section IX: Wood and articles of wood; wood charcoal; cork and articles of cork; manufactures of straw, of esparto or other plaiting materials; basket ware and wickerwork and was classified in Chapter 44: Wood and articles of wood; wood charcoal. The HS codes for heading 44.01 until 44.21 with 8 rates of import duty ranging from 0%, 5%, 10%, 15%, 20%, 25%, 30% and 35%. An export duty rate of 0% and 15%. The tax rates for HS codes 94.01 are 0% and 20% for import duty while 0% rate for export duty. Table 5 below the extraction of items according to Heading and HS Code for wood-based products as in Chapters 44 and 94 (Customs Duties Order, 2022).

No.	Heading	Items
1.	4401	Fuel wood, in logs, in billets, in twigs, in faggots or similar forms; wood in chips or particles; sawdust and wood waste and scrap, whether or not agglomerated in logs, briquettes, pellets, or similar forms.
2.	44.02	Wood charcoal (including shell or nut charcoal), whether or not agglomerated.
3.	44.03	Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared.
4.	44.04	Hoopwood; split poles; piles, pickets, and stakes of wood, pointed but not sawn lengthwise; wooden sticks, roughly trimmed but not turned, bent or otherwise worked, suitable for the manufacture of walking sticks, umbrellas, tool handles, or the like; chipwood and the like
5.	44.05	Wood wool; wood flour
6.	44.06	Railway or tramway sleepers (crossies) of wood
7.	44.07	Wood sawn or chipped lengthwise, sliced or peeled,

No.	Heading	Items
		whether or not planed, sanded or end-jointed, of a thickness exceeding 6mm
8.	44.08	Sheets for veneering (including those obtained by slicing laminated wood), for plywood or for similar laminated wood and other wood, sawn lengthwise, sliced or peeled, whether or not planed, sanded, spliced or end-jointed, of a thickness not exceeding 6mm
9.	44.09	Wood (including strips and friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rebated, chamfered, V-jointed, beaded, moulded, rounded or the like) along any of its edges, ends or faces, whether or not planed, sanded or end-jointed.
10.	44.10	Particle board, oriented strand board (OSB) and similar board (for example, waferboard) of wood or other ligneous materials, whether or not agglomerated with resins or other organic binding substances
11.	44.11	Fibreboard of wood or other ligneous materials, whether or not bonded with resins or other organic substances.
12.	44.12	Plywood, veneered panels and similar laminated wood
13.	44.13	Densified wood, in blocks, plates, strips or profile shapes
14.	44.14	Wooden frames for paintings, photographs, mirrors or similar objects.
15.	44.15	Packing cases, boxes, crates, drums and similar packings, of wood; cable-drums of wood; pallets, box pallets and other load boards, of wood; pallet collars of wood
16.	44.16	Casks, barrels, vats, tubs and other coopers' products and parts thereof, of wood, including staves
17.	44.17	Tools, tool bodies, tool handles, broom or brush bodies and handles, of wood; boot or shoe lasts and trees, of wood.
18.	44.18	Builders' joinery and carpentry of wood, including cellular wood panels, assembled flooring panels, shingles and shakes
19.	44.19	Tableware and kitchenware, of wood
20.	44.20	Wood marquetry and inlaid

No.	Heading	Items
		wood; caskets and cases for jewelry or cutlery, and similar articles, of wood; statuettes and other ornaments, of wood; wooden articles of furniture not falling in Chapter 94
21.	44.21	Other articles of wood
22.	94.03	Other furniture and parts thereof

Source: Customs Duties Order 2022

Table 5: The HS Code and Items of Wood-Based Products

### 2.3. Import Duty

Import duty may also be known as a customs duty, tariff, import tax, or import tariff (Barone,2020). Import duty is a tax levied on imported goods into Malaysia at ad valorem and on a specific tariff. The ad valorem is a certain rate of import duties levied on the unit value multiplied by the quantity of imported goods and a specific tariff is levied based on the quantity such as weight, volume, surface, etc. of goods under the Customs Duties Order, 2022. Import duty rates vary according to the type of imported goods from 0% to 50%. Even if there is no import duty subject to those imported goods, it is still subject to sales tax for domestic consumption (RMCD,2023).

### 2.4. Export Duty

Export duty refers to the tax imposed on goods exported to foreign countries. Rates on exported goods between 0% to 10% at ad-valorem and specific tariff under Customs Duties Order 2022. Export duties are imposed on exported wood-based products to protect local natural resources. However, export duties waived on Malaysia-invested foreign timber to encourage Malaysia-invested plants more competitive advantage in the global market (RMCD,2023).

### 2.5. Non-Tariff Barrier

Malaysia rarely imposes quantitative import restrictions. A limited goods such as rice and sugar under Customs (Prohibition of Imports) Order 2023. Only 17% of goods in the HS (Harmonized System) tariff book are subject to non-automatic import licensing designed to protect import-sensitive or strategic industries (Lim, Manshan & Skrine,2023) where wood products are among this category.

### 2.6. Import Permit

An import permit or license refers to official permission required from government agencies before importation that allows the importer to import a certain quantity of controlled goods. It is an administrative procedure required to be applied together with other related documents to the relevant authorized body prior importation of goods into Malaysia (Malaysia National Trade Repository, 2023). Import permits as a mechanism to control the quantity of imported goods, comply with the safety,

quality, health, and environment of the country as well and able to discriminate goods from other countries to protect domestic industries.

### 2.7. Export Permit

Malaysia enforces the export permit for certain commodities with the goal of restricting the quantity of exports and encouraging domestic consumption. Commodities such as rubber, timber, palm oil, and tin must have special permission from relevant government agencies prior exportation (International Trade Administration, 2022). An export permit is important to keep track of the quantity and type of controlled goods exported to other countries which helps the Malaysian's government to control and regulate trade policy between countries effectively and efficiently.

### 2.8. Timber Industry in Malaysia

Natural resources such as land, forests, and water in Malaysia are under the control and jurisdiction of the state government. The finished products from these resources, whether through movement, processing, trade, or others, are under the control of the federal government.

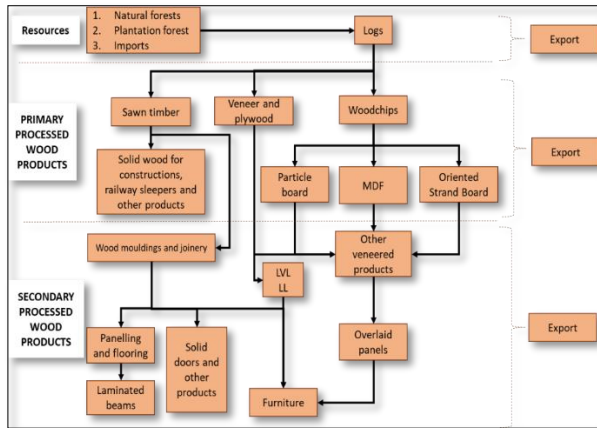
For the timber industry, the For the timber industry, the jurisdiction is divided into 3, namely Peninsular Malaysia (PM) including Federal Territories (Kuala Lumpur, Putrajaya, and Labuan), Sabah, and Sarawak according to the location of these natural resources. Malaysian Timber Industry Board (MTIB) administers PM and Federal Territories, Sabah Forest Department (SFD) regulates Sabah and Sarawak Timber Industry Development Corporation (STIDC) manages Sarawak (MTIB Regulation,2021).

The timber industry in Malaysia is divided into two activities which are upstream and downstream. Logging and harvesting of logs from natural forests and forest plantations are considered upstream activities while, primary, secondary, and tertiary operations from the processing of raw materials (logs) to the manufacture of semi-finished and finished timber products under downstream activities. Figure 1 depicts the structure of the timber industry in Malaysia.

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Figure 1: Overview of Timber Industry in Malaysia



Source: Adapted from National Timber Industry Policy 2009 – 2020

Number of primary processing activities was less than half of secondary processing. However, output from the primary processing activities was slightly more than double than of the secondary processing activities whereas sawmilling and planing of wood took up more than 50% of all primary processing activities. Meanwhile, furniture manufacturing is dominated by secondary processing activities (DOSM,2016). Downstream activities comprised four major sub-sectors which are sawn timber, wood-based materials, and goods such as plywood, moldings, and builders’ joinery as well as carpentry like doors, windows, etc., and lastly furniture and associated components (Forest Legality Initiative,2023).

Figure 2 illustrates the value chain of the timber industry in Malaysia which is governed by a comprehensive set of laws and regulations from a few government agencies such as RMCD, MTIB, Forest Department, SFD, and STIDC in order to safeguard and protect this industry. As one of the valuable natural resources of the country and among the main commodities that contribute to Malaysia's GDP. Hence, the process, transportation, and manufacturing of timber products are closely regulated throughout the value chain from the logs to the processing of finished products for domestic consumption and up to the point of export to other countries.

Figure 2: The Value Chain of Timber Industry in Malaysia

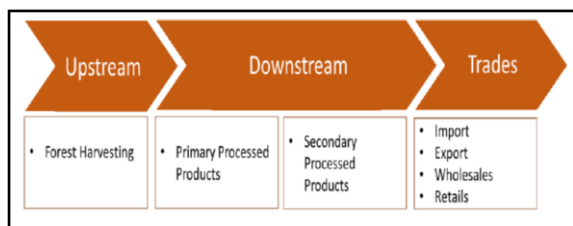


Table 3 below reports the trend of production for five main wood-based products from 2017 until 2021.

It shows the fluctuation of wood-based production. In 2020, the significant reduction in output volume since World War II influenced of COVID-19 pandemic that occurred worldwide at the end of 2019. Exports amount of wood products were RM22 billion, and total imports were RM6.8 billion (DOSM 2020). However, in 2021 the volume output of wood products increased by 3% with a total export value were RM22.74 billion (DOSM 2022). Almost half the total exported amount was contributed from wooden furniture. Malaysia at the 12th ranked world's largest exporter of wooden furniture. The top three export destinations are the United States at 34.8%, Japan at 14.8% and Singapore at 4.4%. Meanwhile, Malaysia imports raw materials for finished products which are sawntimber at 54.1% and veneer at 57.1% in 2021 (MTC,2021).

Year /Product	2017	2018	2019	2020	2021
Logs	12,481	12,075	10,726	4,777	8,866
Sawntimber	3,264	3,440	3,372	2,274	3,088
Mouldings	134	126	231	188	200
Plywood	2,636	2,502	2,150	1,676	1,748
Veneer	577	573	473	310	256
<b>Total</b>	<b>19,092</b>	<b>18,717</b>	<b>16,952</b>	<b>9,225</b>	<b>14,158</b>

Volume ('000 m3)

Source: Forestry Department of Peninsular Malaysia, SFD and STIDC

Table 3: Production of Wood-Based Products for 2017-2021

**3. RESEARCH METHODOLOGY**

**3.1. Data Collection**

This study is the desktop data collection based on secondary sources such as journals articles, online newspaper, annual reports from authorized agencies such as Malaysia Timber Industrial Board (MTIB), Royal Malaysian Customs Department (RMCD), Department of Statistics Malaysia (DOSM), Malaysian Investment Development Authority (MIDA), Malaysian Timber Council (MTC), Forestry Department of Peninsular Malaysia (FDPM), Sabah Forestry Department (SFD) as well as Sarawak Timber Industry Development Corporation (STIDC). The data used for the purpose of this study involves of last five years from 2017 to 2021. The data were analyzed according to the objectives of the study.

According to Chivaka (2018), secondary data is widely used for data collection techniques in social science research and has its roots in the works of social scientists like Durkheim, Max, and Weber. Despite its criticisms, it remains a valuable tool in various research fields. Since this paper involves complex and technical data. Therefore, the good practice for gathering data is using secondary data that is more cost-effective and nevertheless good

quality to be analyzed and published as the best manuscript (Curwin, Slater & Eadson,2013).

#### 4. RESULTS AND FINDINGS

##### 4.1. Importation of Timber-Based Products

The importation of wood-based products to Malaysia involves import taxes with different tax rates according to the HS Code under Customs Duties Order 2022. This commodity's HS Codes are 44 for wood and articles of wood and 9403 for wooden furniture and its parts. The rates for import duty for this commodity vary which are 0%,5%,10%,20%,25%,30%, and 35%.

HS Code	2017	2018	2019	2020	2021
44	683,002	853,896	769,968	809,392	1,108,987
9403	392,791	400,017	464,009	709,512	833,816
<b>Total</b>	<b>1,075,793</b>	<b>1,253,913</b>	<b>1,233,977</b>	<b>1,518,904</b>	<b>1,942,803</b>

(USD '000)

Source: International Trade Centre (ITC) - UN COMTRADE

Table 4: Malaysia's Import of Wood -Based Products by HS Code

Table 4 above is the summary of Malaysia's importation of wood products for 5 years from 2017 until 2021. In 2021, Malaysia at 33<sup>rd</sup> world ranked as the importer of wood and articles of wood under HS Code 44 and ranked 25<sup>th</sup> in importing furniture and parts under HS Code 9403 (Noorazimah & Norhaizurah,2022).

##### 4.2. Exportation of Timber and Timber-Based Products

Table 5 below shows Malaysia's export of wood products for 5 years from 2017 until 2021 under HS Code 44 for wood and articles of wood and HS Code 9403 for furniture and parts. In 2021, Malaysia was world ranked 8<sup>th</sup> as a major exporter of furniture and parts under HS Code 9403 and ranked 18<sup>th</sup> as a major exporter under HS Code 44 (Noorazimah & Norhaizurah, 2022).

HS Code	2017	2018	2019	2020	2021
44	3,518,642	3,581,127	3,006,819	2,328,278	2,575,100
9403	1,860,642	1,925,093	2,135,265	2,501,908	2,539,749
<b>Total</b>	<b>5,379,284</b>	<b>5,506,220</b>	<b>5,142,084</b>	<b>4,830,186</b>	<b>5,114,849</b>

(USD '000)

Source: International Trade Centre (ITC) - UN COMTRADE

Table 5: Malaysia's Export of Wood-Based Products by HS Codes

##### 4.3. The Procedures of Non-Tariff Barrier on Wood-Based Products

In Malaysia, there are three authorities involved in processing, approving, and issuing import/export permits for wood-based products. Those agencies are

the Malaysian Timber Industry Board (MTIB) for Peninsular Malaysia and Federal Territory (Kuala Lumpur and Labuan), the Sabah Forest Department (SFD) for Sabah as well as Sarawak Timber Industry Development Corporation (STIDC) for Sarawak. These three agencies were authorized by the Director General of the RCMD under the Customs Act 1967 (Section 10) to issue import/export permits. The company or person engaged in importing/exporting timber products under HS Codes 44 and 94 must be a registered person with MTIB for Peninsular Malaysia, SFD for Sabah, and STIDC for Sarawak before applying import/export permit. Registered companies or persons will be issued Certificates of Registration which should be renewed annually.

##### 4.4. Import Permit of Wood-Based Products

The Second Schedule of the Customs (Prohibition of Imports) Order 2023 lists the wood products required for an import permit from MTIB, SFD, or STIDC before importation into Malaysia. Those products are logs, baulks, sawntimber, plywood, fibreboard, and chipboard/particleboard under Customs HS Codes of 4403, 4407, 4410, 4411, and 4412. The importer is required to submit the following documents a) CITES permit/certificate (if related to scheduled species of the timber) and b) Certificate of Origin, including any one of the legality documents from the exporting country as follows; i)FLEGT license or ii) Certificate issued by a recognized timber certification body or iii) Certificate of Voluntary Legality Scheme or iv) Any legality document issued by any recognized agency/corporation/industry association; or v) Self-declaration documents by the exporter with endorsement by the authorities of the exporting country; or (vi) Copy of the Customs Export Declaration from the exporting country. The import permit is also required for the items in the 3rd Schedule under HS Codes 44.01, 44.04, 44.07, 44.08, 44.09, 44.2, 44.14 until 44.21, 94.01, and 94.03 under International Trade in Endangered Species Act 2008 (Customs [Prohibition of Imports] Order,2023).

Timber Product	2017	2018	2019	2020	2021
Log	75	68	86	44	65
Baulks	2	4	10	4	4
Bakau	77	43	77	84	88
Plywood	3,321	5,251	5,781	5,575	4,660
Sawntimber	1,173	3,276	3,103	3,458	6,726
*Fiberboard	-	-	-	-	1,275
*Chipboard/particles	-	-	-	-	4,140
<b>Total</b>	<b>4,648</b>	<b>8,642</b>	<b>9,057</b>	<b>9,165</b>	<b>16,958</b>

Source: MTIB

\*Import Permit Required Effective on 1 Okt 2021

Table 6: Issuance of Import Permit by MTIB From 2017 – 2021

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The import permits application and issuance process are carried out manually. As summarized in Table 6 above shows the number of import permits issued by MTIB for the years 2017-2021. In 2021, a total of 16,958 import permits for log products, baulks, mangrove wood, plywood, sawn timber, chipboard/particleboard, and fiberboard were issued in Peninsular Malaysia. It recorded an increase of 46% or 7,793 import permits compared to the number of permits issued in 2020 which was 9,165 permits. For 5 years the trend of increasing import permits. This increment occurred for the reason of the high demand for plywood, sawn timber, chipboard/particleboard, and fiberboard for domestic use such as construction and production of other finished or semi-finished products such as wooden furniture, wooden frames, doors, windows, flooring, etc.

**4.5. Export Permit of Timber and Timber-Based Products**

The exporter of wood products in the Second Schedule of the Customs (Prohibition of Exports) Order 2023 under the 2nd Schedule with HS Codes 1401.10, 1401.20, 44.01 until 44.21 and 9406.10 and in the 3rd Schedule under International Trade in Endangered Species Act 2008 with HS Codes 1211, 3301, 44.01, 44.03, 44.07, 44.09, 44.14, 44.16, 44.18, 44.20 and 94.02 is required to apply an export permit prior exportation from Malaysia. An exporter has to submit to the MTIB, SFD, or STIDC the documents which are sales agreements/supply contracts from overseas suppliers that were certified by the Malaysian Embassy in the respective tropical countries which are Thailand, Laos, Cambodia, Vietnam, Singapore, Papua New Guinea, Solomon Islands, Timor Leste, or other authority bodies recognized by the government of Myanmar and the Philippines. An exporter of sawn timber in Sarawak must acquire the Grading Certificate before being exported by doing a grading process according to Timber Grading Regulation 2008 under Section 24 of the STIDC Ordinance, 1973 (APEC,2015).

Regional Office	2017	2018	2019	2020	2021
HQ MTIB	22,156	23,185	20,969	13,327	9,857
Southern MTIB	18,414	23,125	22,672	22,579	25,808
Northern MTIB	12,584	12,352	17,879	10,743	8,489
East MTIB (Kelantan)	8,095	7,360	7,308	4,642	3,803
East MTIB (Kuantan)	3,712	4,088	3,685	2,290	2,181
East (Terengganu)	1,125	1,236	1,074	830	724
Central MTIB	14,980	16,667	12,595	18,330	18,634
<b>Total</b>	<b>81,066</b>	<b>88,013</b>	<b>86,182</b>	<b>72,741</b>	<b>69,496</b>
Kota Kinabalu	537	no permit issued	no permit issued	no permit issued	no permit issued
Sandakan	192				
Tawau	781				
<b>Total</b>	<b>1,510</b>				
<b>Grand Total</b>	<b>82,576</b>	<b>88,013</b>	<b>86,182</b>	<b>72,741</b>	<b>69,496</b>

*Source: MTIB & SFD*

Table 7: The Export Permit Issued by MTIB & SFD From 2017 - 2021

The breakdown of export permit issuance from MTIB headquarters in Kuala Lumpur and regional offices for the year 2017-2021 is in Table 7 above. An export permit application and issuance process is carried out online through the MTIB Core System at MTIB headquarters and regional offices. In 2021, MTIB offices in Peninsular Malaysia processed and issued a total of 69,495 export permits, a reduction of 3,245 export permits issued or 4.7% from 72,741 permits issued in 2020. Among the causes of this reduction is the result of weak demand from importers, especially from the USA and China. There has been no issuance of export permits in Sabah starting 2018 after the return of power to the Sabah State authorities.

**4.6. Discussion**

Tariff barriers which are import and export duties are governed by the RMCD more familiar than non-tariff barriers (import and export permits). However, both provide a similar significant impact on the revenue of the timber industry, government revenue, and consumer expenditures in Malaysia. Almost all goods imported to Malaysia are subject to import duty. Import duty on wood-based products at rates between 0% to 35%.

The high tax rate of import for certain wood products such as wood charcoal, wood flour at 20%, laminated veneered lumber at 30% as well as



plywood, veneered panels, and similar laminated wood at 35% are levied for the reason to protect domestic industry for the similarity and equal of price as well as competitive in the local market. Another reason is when the government imposes a high tax rate on imported certain wood products to reduce local consumption and encourage local production of this commodity at a lower market price compared to imported goods since local production costs are lower.

However, there is no export duty (0% rate) imposed on this commodity the reason for encouraging domestic manufacturers to produce more for the international market and promote competitive advantage with other foreign manufacturers/exporters internationally. Malaysia's tropical forest is rich with high-quality species of trees such as merbau, balau, meranti, acacia, keruing, and rubberwood with high market value. Finished products from these species are high-quality in terms of durability and lasting. Therefore, with high prices, this commodity is difficult to enter the domestic market. To cover high production costs, producers need to enter the international market, especially in developed countries for better prices and higher profits.

The prerequisite of an export permit is required for the exportation of wood-based products in Malaysia shows the high quality of the product from a legal source of raw material that offers satisfaction and the needs of the importers. Besides that, import permits function to control and maintain the country's biodiversity from endangered species brought into Malaysia. Possible fungus, and tree disease from the exporting country threaten the flora and fauna of the country.

The disadvantage of the tariff barrier which is import duty will increase the price of imported wood products and may lead to high prices being paid by domestic consumers in Malaysia. Intense competition between importers and local producers in terms of price. Although it is possible that imported products are better quality than local products, but consumers are more concerned with price than quality.

Trade barriers limit the ability of local producers to export wood products with high tariffs in the importer's country. This will lead to a loss of revenue and decreased profit. They have a limitation in expanding the business internationally. On a large scale, trade barriers affect economic growth and decrease administration efficiency for developing countries.

## 5. CONCLUSIONS

A trade policy i.e., tariff and non-tariff barriers was formed by a country's government for the purpose of setting clear standards and goals to help smooth international trade transactions as well as to protect local resources and domestic industry from foreign goods competition. It also functions as a restriction movement of protected commodities to international trade.

Tariff barriers imposed on timber products in Malaysia will gain both revenue and limit the importation which may inhibit the development of local industry. It is helping this commodity equality in pricing, available at a lower price in the market, and ensures a stable demand and supply in local and international markets. promoting economic growth, achieve the country's development goals as well as raising the standard of living. The revenue gained from the import and export duties to be used for national administration expenses and welfare, alleviating poverty, and public needs such as education, health, defence, infrastructure facilities such as roads, schools, hospitals, places of worship, and others for the well-being, prosperity, and security of Malaysia.

Peninsular Malaysia, Sabah, and Sarawak cover an area of 33 million hectares. About 18.83 million hectares or 55.3% of land are covered with forest area. Malaysia's forest is very important to maintain its natural biodiversity in addition to being a source of the country's economy, supply of clean air, clean water, rain catchment areas, food sources, eco-tourism, etc. These natural resources are important and valuable and provide a significant on economy and environmental well-being (APEC,2022). Thus, by having trade barriers imposed on timber products will protect these natural resources that influence the country's ecosystem positively and negatively.

As one of the world's leading wood-based product producers, Malaysia is actively involved in international forums such as FAO, ITTO, UN Forum on Forests, and the Convention on International Trade on Endangered Species (CITES) to promote Malaysia and other countries' producers of timber tropical products. An export permit is legislation to restrict the exportation of wood-based products to environmentally sensitive markets. However, this legislation must consider the level of the country's development and the right to optimize the use of its natural resources (MTC,2023).

## 6. RECOMMENDATION

Malaysia must review and analyze these two types of trade policies which are tariff and non-tariff barriers to ensure comprehensive and competitive liberalization and fairness of trade at the global level without threatening the quality and quantity of forest natural resources and ensure their long-term sustainability to be heritage to future generations.

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