

# Wilful Ignorance:

How Japan's voluntary approach is failing to stop the trade in illegal timber

A Global Witness briefing





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Cover illustration by Kensuke Okabayashi

**Stack of freshly cut rainforest wood in Sarawak logging concession operated by Samling, one of the largest logging companies in Sarawak**



# Executive Summary

Much of the world has woken up to the need to tackle illegal logging, which is devastating rainforests and worsening climate change, stripping forest communities of their homes, food and medicine, and undercutting the economies of forest-rich yet cash-poor countries, while feeding international organised crime.

Recognising the severity of the threat, most major timber importing countries have banned the import of wood products that have been illegally sourced, in an effort to choke the illegal timber market by stemming demand. One conspicuous exception is Japan. Japan is the only member of the G7 that currently lacks a law that prohibits the import of illegal timber, despite being the world's fourth largest importer of wood.

In the absence of a law preventing illegal timber imports, Japan relies on the companies themselves to monitor what timber is legal and illegal. *Wilful Ignorance* reveals how corporate self-regulation is having negligible, if any, impact on the likelihood that illegal timber ends up on Japanese markets. Global Witness looked into the buying habits of seven major timber importers in Japan by undertaking a survey and additional research, and assessed their efforts to keep illegal timber off the market. We found that all seven companies buy huge quantities of timber from the rainforests of Sarawak, Malaysia, which is home to prolific illegal logging that comes at a devastating social and environmental cost. This fact is well-publicised, yet Japanese companies make very little effort to screen Sarawak exports for illegal timber.

Under pressure at home and from abroad, Japanese legislators are debating measures to address this. It is critical that they pass a law that matches international standards and requires all companies that import timber to exercise the necessary due diligence to ensure the timber they buy is legal. Without these requirements, the proceeds of illegal logging will continue to flood the Japanese market. A new approach is urgently needed.

## Key facts and findings

- Japan is the only member of the G7 that lacks a law banning the import of illegal timber, despite being the world's fourth largest importer of wood.
- Over 20% of the global timber trade is considered illegal according to INTERPOL.
- Japan is the largest importer of rainforest plywood in the world, much of which is used as disposable concrete moulds in construction projects, or flooring in Japanese homes.
- Around a quarter of all plywood on the Japanese market comes from the Malaysian state of Sarawak. The UN Office on Drugs and Crime estimates that approximately 50% of all wood products from Sarawak are illegal.
- Seven major timber importers in Japan – Sumitomo Forestry, Sojitz, Marubeni, Itochu, Sumisho-Mitsuibussan Kenzai, Japan Kenzai and Toyo Materia- dominate the plywood trade with

Sarawak. Sumitomo Forestry, Sojitz, Itochu and Japan Kenzai responded to Global Witness' survey, and Marubeni provided an incomplete response.

- All seven importers do business with Sarawak logging companies that have been found to be illegally logging.
- All seven buy from logging companies in Sarawak which are embroiled in legal disputes with indigenous communities for violating their rights to the land they have traditionally owned.
- All four companies that responded to the survey admitted to not fully knowing which area of the forest in Sarawak their timber came from nor had they inspected their suppliers' logging operations.
- All four companies that responded to the survey and Marubeni claimed that all of their timber from Sarawak was legal based on Japan's current voluntary standard.

Global Witness put the allegations contained in this report to the principal Japanese companies involved. Responses were received from Sojitz, Sumitomo Forestry, Itochu, and Japan Kenzai. The relevant components of these responses have been incorporated into this report.

## Recommendations

**Japanese legislators should:** enact legislation that requires companies to assess and minimize the risk of illegal timber in their supply chain. These obligations must be mandatory for all importers to avoid an uneven playing field that discourages responsible behaviour.

**The Japanese government should:** agree to align its measures against illegal logging with its fellow G7 members and commit at this year's G7 Summit in Ise-Shima to prioritize shutting down all international routes for the illegal timber trade.

**Japanese companies should:** publicly commit to sourcing only legal timber, assess the risks of illegal logging in their timber supply chains and take robust measures to minimize any risks identified. For high risk supply chains such as Sarawak, companies should require credible, independent third-party checks on the legality of their supplier's operations and stop importing timber products where this is not possible.



# Illegal logging: a global crime with a corporate face

The phrase “illegal logging” may conjure images of criminal gangs smuggling timber out of national parks under cover of night. But in fact, as the UN Office on Drugs and Crime has pointed out, illegal logging is mostly conducted by large timber companies, operating on global markets, and often with international shareholders.<sup>1</sup>

Global Witness’ ongoing work in the Malaysian state of Sarawak bears this out, where evidence over the past decade indicates large logging companies such as Samling and Shin Yang have systematically violated national forestry laws.<sup>2</sup> Both companies are major suppliers to Japan,<sup>3</sup> the world’s fourth largest importer of wood-based products and the largest importer of tropical plywood, nearly half of it from Sarawak.<sup>4</sup>

## What is illegal logging?

Illegal logging takes place when timber is harvested, processed, transported or traded in violation of national or international laws. It might involve paying off officials for logging permits, logging inside protected areas or outside permitted boundaries, violating regulations meant to protect the environment, violating the land rights of indigenous communities living in areas being logged, or colluding with corrupt transport agents to launder illegal timber into legal supply chains. According to Interpol, over 20% of the global timber trade consists of illegally sourced timber, generating more than \$30 billion in criminal proceeds, and often closely linked to international organised crime.<sup>5</sup>

The impacts of illegal logging are devastating, especially for those who have lived in forests for generations. Over half of Sarawak’s land has been allocated for logging or agricultural plantations.<sup>6</sup> Indigenous communities there are now encircled by a network of roads carved into forests that are vital to their livelihoods and cultures. Many are fighting in court for recognition of their customary rights to land the government has handed out to large companies without their consent.<sup>7</sup>

In rainforests across the globe, illegal logging not only destroys the homes and livelihoods of indigenous peoples, but also undermines international efforts to slow deforestation, fight climate change and protect biodiversity, while putting responsible timber producers – who can’t compete with cheap illegal goods – out of business. The illegal timber trade goes hand in hand with corruption, undermining good governance and lining the pockets of vested interests.

Given the scale of the issue, many nations have moved to ban the import of illegal timber and force their domestic industries to ensure they are not using illegal wood. Since the 2005 Gleneagles summit, at which G8 leaders committed to halt the import of illegally-logged timber, new legislation in the US and EU has helped to decrease timber imports from suspected illegal sources and shift timber buyers away from high risk sources, and encouraged other countries like Australia to enact similar legislation.<sup>18</sup> In February 2016, the largest seller of hardwood flooring in the US received a \$13 million fine for importing illegal timber,<sup>19</sup> and many companies in the EU, US, and Australia now specifically avoid timber from Sarawak as it is simply too risky.<sup>20</sup>

In fact, all members of the G7 now prohibit the import of illegal timber,<sup>21</sup> with only one exception: Japan.

## A repeat offender:

The Malaysian state of Sarawak has both one of the highest deforestation rates in the world<sup>8</sup> – with less than 5% of its original forests undisturbed by logging<sup>9</sup> – and a climate of widespread corruption and weak oversight that allows rampant illegal logging to proceed unchecked.

According to the UN Office on Drugs and Crime, approximately 50% of all wood products from Sarawak are illegal.<sup>10</sup> Investigations by Global Witness uncovered evidence that Abdul Taib Mahmud, the former Chief Minister of Sarawak, received kickbacks for handing out forestry licences.<sup>11</sup> The majority of logging licenses are owned by six logging companies, known as the “Big 6” – Samling, Shin Yang, Rimbunan Hijau, Ta Ann, WTK and KTS.<sup>12</sup> One of the largest companies, Samling, was found illegally logging in 2008 by the Malaysian Auditor General and in 2009 by the Norwegian Government Pension Fund.<sup>13</sup> Independent investigations in recent years by Global Witness and others found evidence of illegal and

highly destructive logging by Samling, WTK, Ta Ann and Shin Yang in some of Sarawak’s last intact rainforests.<sup>14</sup> The Norwegian Pension Fund divested from Samling in 2010 and WTK and Ta Ann in 2012 out of concern about the impact of their logging operations.<sup>15</sup>

Even the government of Sarawak has acknowledged the problem, with new Chief Minister Adenan Satem admitting since he came into office in 2014 that corruption and illegal logging are major issues in the forest sector. In 2014, Adenan stated “illegal logging activities have jeopardized [the Sarawak Government’s] efforts to promote sustainable forest management practices – not only does it incur losses in revenue to the state but more seriously it causes long-lasting environmental degradation.”<sup>16</sup> In 2015, he acknowledged that forest enforcement was “very weak because ...some of the officials are corrupt.”<sup>17</sup>

Year	Selection of relevant events in Sarawak and Japan	Sarawak timber exports (million m <sup>3</sup> RWE)
2005	July: G8 commits to take action to halt illegal timber trade	14
		4
2006	April: Japan introduces public procurement policy requiring legal timber	14
		4.8
2007	Malaysian Human Rights Commission reports on violation of native customary land rights by Shin Yang	13
	April: Indigenous community of Long Lamai brings a case against Samling for logging in their native customary land	3.6
2008	May: more than 100 Kenyah indigenous peoples begin a blockade to stop logging by Samling	14
		4
2009	Malaysian Auditor General finds illegal logging in Samling concessions	12
	Indigenous communities win two separate cases in Sarawak High Court recognizing their native customary right to land	2.9
	Indigenous community of Long Jaik brings a case against Shin Yang for violating their native customary rights	
2010	April: Malaysian NGO JOANGOHUTAN reveals 140 cases pending between indigenous communities and the Sarawak government over logging and plantation licenses	12
	August: Norwegian Government Pension Fund finds illegal logging in Samling concessions and divests from Samling	2.7
	October: 50km logjam disaster, caused by likely illegal logging by WTK, makes international news	
	December: Penan community of Ba Jawi brings a case against Samling for logging in their native customary land	
2011	June: Malaysian Anti-Corruption Commission begins official probe into Chief Minister Taib for alleged graft	10
	September: Swiss Bruno Manser Fund exposes corruption in Sarawak's forestry sector and Sarawak timber industry's intimate links to Chief Minister Taib Mahmud	2.9
2012	Global Witness publishes evidence of illegal logging in Shin Yang concessions	10
		3.3
2013	Malaysian Human Rights Commission publishes report criticizing Sarawak Government's failure to recognize native customary land rights	9.6
	March: Global Witness exposes systematic, high-level corruption in Sarawak's forestry sector	3.3
	September: Global Witness exposes Japanese companies' links to illegal logging in Sarawak	
	October: Norwegian Government Pension Fund divests from WTK and Ta Ann based on evidence of illegal and unsustainable logging	
2014	June: Global Witness publishes satellite evidence of unsustainable and potentially illegal logging by Samling and Shin Yang	9.2
	November: Chief Minister Adenan commits to tackling illegal logging and corruption at State Legislative Assembly	3
	December: Chief Minister Adenan admits to timber smuggling and "very prevalent corruption" in Sarawak forest sector at Sarawak Economic Development Corporation's Integrity Day	
2015	May: Chief Minister Adenan pledges to grant no more logging or plantation licenses at Malaysian High Commission	7.5
	Sarawak Government raids 240 timber camps and companies for suspicion of illegal logging	2.4
<div> <div></div> <div>Estimated roundwood equivalent volume of timber (excluding chips) exported from Sarawak – (million m<sup>3</sup>)</div> </div> <div> <div></div> <div>Estimated roundwood equivalent volume of plywood exported from Sarawak to Japan – (million m<sup>3</sup>)</div> </div>		

# The Goho-wood system is failing the forests of Sarawak

Japan is one of the largest per capita consumers of illegal timber products among major developed economies,<sup>23</sup> and some 12% of the timber imported into Japan is estimated to be at high risk of being illegal.<sup>24</sup> It's not hard to see why: Japan's existing system to address the illegal timber trade, known as the Goho-wood system, is systematically flawed.

Under the system, only the national government is required by law to buy legal timber, while local governments and companies are merely encouraged to do so.<sup>25</sup> Government-issued guidelines set out a number of methods both the Government and companies should use to verify legality.<sup>26</sup> While the Government is supposed to encourage legal sourcing by setting a good example, a recent independent survey showed that a quarter of the Government agencies don't check the legality of the timber products they buy.<sup>27</sup> Because the system has no means of enforcement, Government agencies have no incentive to comply with the law.

An even bigger issue is that the standards for determining whether timber is legal are extremely weak. Companies that voluntarily follow government-issued guidelines can get a Goho-wood seal of

approval if they are deemed capable of supplying legal timber. Over 12,000 companies in Japan boast the Goho-wood certification, including 45 timber traders that account for more than half of Japan's timber imports.<sup>28</sup>

However, the majority of companies only check documents that in practice don't ensure legality. Industry associations and companies have been given a free hand in deciding how to verify legality and monitor compliance with their own rules.<sup>29</sup> Under their rules, a wide range of documents are accepted as proof of legality, including logging permits, export certificates endorsed by producer governments, and even trading papers issued by third parties in ports or processing centres.<sup>30</sup> These documents are taken at face value: companies aren't required to assess the risk of illegal logging or take appropriate measures to minimize the risk of the timber being illegal. Almost any actor in the supply chain can issue a piece of paper declaring a timber shipment "legal", leaving the entire system open to fraud and corruption.

In the case of Sarawak, timber is considered legal by Japanese companies as long as the Sarawak government has stamped the export permit.<sup>31</sup> Independent assessments have shown the Sarawak government's procedures for verifying legality are woefully inadequate.<sup>32</sup> Moreover, the Chief Minister of Sarawak has admitted that forest authorities are not properly enforcing the law and corruption in the timber industry is an issue. A stamped export permit is therefore a hopelessly insufficient method of ensuring legality. Despite this, the Japan Lumber Importers' Association - the industry association representing timber importers in Japan that account for nearly two thirds of Japan's plywood imports - accepts the Sarawak Government's assurances at face value and claims that most if not all of the plywood coming from Sarawak is legal.<sup>33</sup>

A closer look at how Japanese companies are checking the legality of their Sarawak timber imports confirms these serious and systematic weaknesses in Japan's Goho-wood system. It shows that companies are not willing to voluntarily take the necessary steps to ensure the legality of their timber supply chains - there is simply no commercial or regulatory incentive to do so.

## Sarawak a major supplier to Japan:

- Japan has consistently been Sarawak's most important customer for its timber products, importing around one third of all exported timber from Sarawak since 1990.
- Over 100 million sheets of plywood are shipped every year from Sarawak to Japan, largely for use as disposable concrete moulds or flooring for its construction and housing industries.
- In 2015, nearly a quarter of the plywood on the Japanese market came from Sarawak despite the well-documented risk of illegal logging.<sup>22</sup>



*"Japan's legality verification system... has serious design weaknesses which limit its ability to eliminate illegal products from Japan's market."*<sup>34</sup>

Chatham House, 2014

Plywood mill in Sarawak run by Shin Yang, the largest supplier of Sarawak plywood to Japan. Global Witness has documented illegal and highly destructive logging by Shin Yang.

# Evaluation of Japanese companies' due diligence

In order to assess what the Japanese timber industry is doing to minimize the risk of importing illegal timber, Global Witness surveyed seven major Japanese trading companies responsible for the majority of imported plywood from Sarawak<sup>35</sup> and carried out additional research based on information in the public domain.



































Four companies - Itochu, Sojitz, Sumitomo Forestry and Japan Kenzai - responded to the survey, while Marubeni provided an incomplete response. Sumisho-Mitsuibussan Kenzai and Toyo Materia failed to respond, indicating an unwillingness to be transparent about their supply chain.

On the basis of this information, Global Witness evaluated each company's exposure to the risk of illegal logging and efforts to assess and mitigate the risk of illegality when buying timber from Sarawak. Our findings are summarized below and in Figures 2 and 3, and an explanation of the methodology can be found in the Appendix. The findings confirm Global Witness' view that free from meaningful legislative oversight, Japanese companies are not taking adequate measures to avoid buying illegal timber. While some Japanese companies have adopted policies to minimise the risk of importing illegal timber, this does not appear to be translating into systematic behavioural changes, and most companies appear to be continuing business as usual despite being well aware of the problem.

- All seven importers buy significant quantities of plywood from Malaysia, Indonesia and China, countries which are considered significant suppliers of high-risk timber products.<sup>36</sup> (See Figure 2)
- All seven importers do business with Sarawak logging companies which have been found to be illegally logging.<sup>37</sup>
- All seven buy from logging companies in Sarawak which currently face court challenges by indigenous communities for violating customary land rights.<sup>38</sup>
- All seven buy from logging companies in Sarawak which have engaged in highly destructive logging in rainforests of high conservation value.<sup>39</sup>
- Only three of the Japanese importers - Itochu, Sojitz, and Sumitomo Forestry - have policies stating they will not purchase illegal timber.<sup>40</sup> Only these three have committed to disclose how they are addressing the risk of illegal timber in their supply chain. Japan Kenzai claimed it is considering developing a timber procurement policy.
- None of the companies that responded to our survey knew the origin of all the timber they buy from Sarawak. One respondent, Itochu, claimed to know the logging concession for almost all their timber from Sarawak.

**Figure 2: Japan's import of high risk plywood<sup>42</sup>**




































The seven Japanese companies evaluated in this report dominate Japan's trade in tropical plywood. Information obtained from publicly available sources confirms that the majority of plywood comes from Malaysia and Indonesia, countries with a high risk of illegal logging. These Japanese companies have extensive business ties with the six largest logging companies in Sarawak, many of which have been documented to have logged illegally and unsustainably. Imported plywood sales are for FY 2015. Proportion of plywood imports by source country is as of April 2015. Key trading partners marked with an \* are based on information from 2012.

	Itochu	Sojitz	Sumitomo Forestry	Japan Kenzai	Marubeni	Sumisho-Mitsuibussan Kenzai	Toyo Materia
<b>Total value of imported plywood sales (JPY)</b>	21,399 million	32,315 million	41,635 million	13,300 million	20,558 million	15,327 million	10,611 million
<b>Source of plywood imports</b>	Indonesia (45%) Malaysia (45%) China (10%) Vietnam (3%)	Malaysia (57%) Indonesia (27%) China (10%) Vietnam (6%)	Indonesia (47%) Malaysia (43%) China (10%)	Malaysia (56%) Indonesia (24%) China (8%) Vietnam (6%)	Malaysia (51%) Indonesia (38%) China (10%) Vietnam (1%)	Malaysia (61%) China (19%) Indonesia (17%) Vietnam (3%)	Malaysia, Indonesia, China, Vietnam (% unknown)
<b>Known trading partners in Sarawak</b>	     	     	     		     	 	
	 = Shin Yang	 = Samling	 = Ta Ann	 = KTS	 = WTK	 = Rimbunan Hijau	



**Figure 3: Japanese companies' due diligence**

Global Witness evaluated seven large Japanese trading companies on their commitment to not buy illegal timber, the quality of their due diligence when sourcing timber from Sarawak, and the willingness to be transparent about their due diligence process. Our methodology is explained in the Appendix to this report. The table below shows that none of the seven companies are taking sufficient measures to avoid illegal timber in their supply chain.

Category	Itochu	Sojitz	Sumitomo Forestry	Japan Kenzai	Marubeni	Sumisho-Mitsuibussan Kenzai	Toyo Materia
Policy							
Risk Assessment (Sarawak specific)							
Risk Mitigation (Sarawak specific)							
Transparency							
Total Score							

Key:  = Very poor |  = Poor |  = Fair |  = Good |  = no response |   = see Appendix

- Only one company that responded to the survey, Itochu, acknowledged evidence of illegal logging involving their suppliers, though they denied their suppliers to be illegally logging at this time. In contrast, Sumitomo Forestry stated there was no risk of illegal logging in Sarawak, but acknowledged there were some problems.
- None of the companies that responded to the survey had inspected their suppliers' logging operations or required a credible, independent third party to verify the legality of their suppliers' operations as a condition for doing business.<sup>41</sup>
- None of the companies that responded to the survey, or Toyo Materia, dropped suppliers in Sarawak despite persistent evidence of illegal logging. At most, three respondents, Itochu, Sojitz, and Sumitomo Forestry, sought greater assurance from their suppliers that the timber supplied is legal.
- Notwithstanding the high risks involved, all four of the companies that responded to the survey and Marubeni claimed all of the timber they buy is legal under the Goho-wood system.

In response to Global Witness' request for comment, Sojitz, Sumitomo Forestry, Itochu and Japan Kenzai did not accept some

of our findings and explained that they take additional measures to ensure the timber they buy is legal. Sojitz explained that under their recently adopted Wood Procurement Policy, the company endeavours to consider not only legality but also the impact of logging on the environment and society at large, and they are in the process of setting quantitative targets for implementation, as well as strengthening their risk assessment procedures and confirming conditions on-site as needed. Sumitomo Forestry explained that they verify the legality of Sarawak timber by following the Goho-wood standard as well as checking the intake documents for raw logs and conducting site inspections of the factories. They claimed to have a wood procurement committee carrying out due diligence and conducting site-inspections when wood is considered high-risk, and stated that they will not handle timber when it has not been verified as legal. Both Itochu and Japan Kenzai responded that they are requesting their suppliers to ensure there is no illegal logging or violations of the rights of indigenous peoples or destruction of high conservation value forests in their supply chain.

However, Global Witness believes that none of the measures taken by these companies are sufficient to mitigate the risk of buying illegal Sarawak timber. Japan's largely voluntary approach to tackle



illegal logging has clearly failed. Japanese importers continue to source large quantities of timber from regions such as Sarawak with high risks of illegal logging and are doing little to mitigate those risks. While it is encouraging that some importers have committed to source legal timber and are taking initial steps to turn those commitments into practice, our findings show that efforts vary widely across the seven major importers surveyed.

In the absence of a law that sets mandatory minimum standards for all companies, those that show leadership in eliminating illegal timber from their supply chains will be put at a commercial disadvantage relative to those that do nothing. And as long as Japanese companies are not required to ensure the timber they buy is legal, illegal timber will continue to flood the Japanese market. A new approach is urgently needed.

## New legislation is urgently required

To end the easy access to Japanese markets that illegal loggers currently enjoy, the Japanese government must bring its timber regulations into line with other G7 members. A new law is urgently required – and the law must have teeth through mandatory requirements.

The basis of any new legislation must be an explicit, mandatory requirement on all Japanese companies to assess the risk of illegal timber in their supply chains and to minimize the risk of the timber being illegal (see Box to the right). Importers in particular need to pay close attention to the risks of illegal logging and corruption in the area where their timber comes from, and go beyond just checking documents when the risks are high, such as in Sarawak. As is expected of companies in the EU and the US, companies sourcing from high risk countries must be able to identify the logging concession from which their timber originated and be aware of any third party disputes over the land. If a company identifies a high risk of illegal logging in their supply chain, it should be required to take robust measures to mitigate the risk of illegality, including by getting a credible, independent third-party to verify legality and establishing full traceability of the timber.<sup>43</sup>

Any continuation of a voluntary system or a system that allows industry a free hand to set its own standards of legality will have little, if any, impact on Japan's illegal timber trade while undermining global efforts to address illegal logging through binding regulations. Third-party monitoring should be introduced, independent of trade or industry associations, so that companies failing to carry out due diligence are held accountable, and this must be backed by strict penalties to ensure companies have the incentive to comply.

New legislation – if carefully designed and strictly enforced – will be of huge benefit for forests around the world and the people that depend on them, in particular in countries such as Sarawak that are struggling to bring corruption and illegal logging under control. Keeping cheap illegal timber out of Japan's markets will also help responsible timber producers in Japan to be more competitive. In fact, a recent Japanese study revealed that the demand for

### Due Diligence on Timber Legality:

G7 leaders and OECD member states now recognize that due diligence by companies is critical to ensuring responsible supply chains.<sup>44</sup>

The EU Timber Regulation (EUTR) requires companies to exercise due diligence when placing timber on the European market, and outlines the following key steps:

- **Information Gathering:** access information on sources and suppliers of timber, including information on compliance with applicable legislation;
- **Risk Assessment:** on the basis of this information and other criteria such as the prevalence of illegal logging in that area, assess the risk of illegal timber being placed on the market;
- **Risk Mitigation:** where a risk is identified, take adequate and proportionate measures to minimize the risk.<sup>45</sup>

domestic wood used for production of plywood could increase by 13% if regulations were introduced to eliminate illegal plywood from the Japanese market.<sup>46</sup> Strong regulation will also help companies reduce business risk by establishing predictability in business transactions and lessening the likelihood of litigation.

This year's G7 Summit provides an opportunity for Japan to show leadership and replace the failed Goho-wood system with a robust new law that will have benefits at home and abroad. With the risk looming that Japan's Olympic construction will depend on imports of illegal timber,<sup>47</sup> Japan should seize this opportunity to show the world that it is serious about stopping the illegal timber trade.

# Appendix: Explanation of methodology

Global Witness sent a questionnaire to the seven Japanese companies named in this report to find out what policies and procedures they had in place to avoid the risk of purchasing illegal timber, with a focus on practices in Sarawak. The questionnaire also asked basic questions about the companies' supply chain in Sarawak and their perception of the risk of illegal logging in Sarawak.

Based on the information obtained through the questionnaires, follow-up communications with the companies that responded, as well as information available in the public domain, Global Witness

evaluated the due diligence of each of the Japanese companies using the criteria laid out below. The values assigned to each criteria reflect our view of industry best practice. Criteria for evaluating risk assessment and risk mitigation took into account the particular context of Sarawak. Where responses to questionnaire were not consistent with information obtained in the public domain as well as subsequent correspondence with the companies, Global Witness subtracted a point to reflect the inconsistency. These are reflected by an ▲ in the Due Diligence Evaluation in the body of the report. † in the Evaluation indicates scores which were disputed by the companies.

<b>Policy</b>	<b>Quality – Relevance to Illegal Logging</b>	<p>4= Has publicly available policy that requires procurement of legal timber and due diligence to determine timber legality. Stipulates the scope of laws that should be considered, which includes third parties' legal rights.</p> <p>3= Has publicly available policy that requires procurement of legal timber</p> <p>2= Has publicly available policy that requires suppliers to comply with national laws</p> <p>1= Has publicly available policy on timber procurement, but does not address illegal logging</p> <p>0= No publicly available policy that addresses timber procurement</p>
	<b>Accountability</b>	<p>4= In addition to below, compliance is subject to independent audit</p> <p>3= In addition to below, has benchmarks or in the process of establishing benchmarks to track progress on implementing policy addressing timber procurement</p> <p>2= Compliance with policy addressing timber procurement overseen by the Board</p> <p>1= Compliance with policy addressing timber procurement monitored by staff</p> <p>0= No accountability</p>
<b>Risk Assessment (specific to Sarawak)</b>	<b>Ability to gather information for identifying risk</b>	<p>4= In addition to below, gathered information about governance of the forest sector – including corruption/weak rule of law.</p> <p>3= In addition to below, gathered independent evidence of legal, human rights and environmental issues in the forest/land sectors (media, civil society)</p> <p>2= Gathered information on timber species and origin of timber.</p> <p>1= Gathered documents indicating legality of timber supply from supplier.</p> <p>0= No information gathered</p>
	<b>Quality of risk assessment procedure</b>	<p>4= In addition to below, commissioned a reputable independent organization to evaluate evidence of illegal logging</p> <p>3= In addition to below, evaluated governance and/ prevalence of social conflict</p> <p>2= In addition to below, evaluated evidence of illegal logging provided by third parties such as NGOs, think tanks and media</p> <p>1= Checked documents indicating legality</p> <p>0= No risks assessed</p>
<b>Risk Mitigation (specific to Sarawak)</b>	<b>Procedure – Actions taken to mitigate risk</b>	<p>4= Hired a credible third party to conduct on-site review of supplier's compliance at the concession level.</p> <p>3= In addition to below, conducted on-site review of supplier's compliance at the concession level or had suppliers arrange for a credible third party to do so.</p> <p>2= In addition to below, gathered additional documentation from the supplier or Government to verify legality, including timber license of origin for almost all products</p> <p>1= Inquired with their supplier and consulted with experts/NGOs familiar with logging operations in Sarawak</p> <p>0= No mitigation actions taken</p>
	<b>Effectiveness</b>	<p>4= Only sourcing products with credible independent third-party verification of legality</p> <p>3= Only sourcing products on the basis of on-site verification of legality by staff</p> <p>2= Dropped high risk suppliers or supply chains where risks cannot be mitigated</p> <p>1= Only sourcing products with additional assurance of legality from supplier</p> <p>0= No change in sourcing practice in response to evidence of risk</p>
<b>Transparency</b>	<b>Disclosure of due diligence process and findings</b>	<p>4= In addition to below, publishes results of due diligence process that reports in detail on company's risk assessment/mitigation actions taken and findings.</p> <p>3= In addition to below, commissions independent audit of due diligence process</p> <p>2= Publishes summary report of due diligence process and findings</p> <p>1= Discloses due diligence procedure, but not actions taken or findings</p> <p>0= Does not disclose due diligence procedure, actions taken, or findings</p>
<p>Policy/Risk Assessment/Risk Mitigation: 0-2: Very poor, 3-5: Poor, 6-7: Fair, 8: Good</p> <p>Transparency: 0-1: Very poor, 2: Poor, 3: Fair, 4: Good</p> <p>TOTAL: 0-7: Very poor, 8-17 Poor, 18-24: Fair, 25-28: Good</p>		

# Endnotes

1. UNODC, Transnational Organized Crime in East Asia and the Pacific: A Threat Assessment, 2013, p. 90, [www.unodc.org/documents/data-and-analysis/Studies/TOCTA\\_EAP\\_web.pdf](http://www.unodc.org/documents/data-and-analysis/Studies/TOCTA_EAP_web.pdf)
2. See Global Witness, In the future, there will be no forests left, November 2012, [www.globalwitness.org/en/archive/hsbc/](http://www.globalwitness.org/en/archive/hsbc/); Global Witness, Japan's Timber Imports Fuelling Rainforest Destruction in Sarawak and Violation of Indigenous Land Rights, June 2014, [www.globalwitness.org/en/archive/briefing-japans-timber-imports-fuelling-rainforest-destruction-sarawak-and-violation/](http://www.globalwitness.org/en/archive/briefing-japans-timber-imports-fuelling-rainforest-destruction-sarawak-and-violation/)
3. See Global Witness, Industry Unchecked, September 2013, [www.globalwitness.org/archive/japanmalaysia/](http://www.globalwitness.org/archive/japanmalaysia/)
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9. Based on analysis by Global Witness of Greenpeace/World Resources Institute (WRI) maps of "intact forest landscape" (IFL) (significant areas of unlogged forest, identified using satellite imagery, available at [www.intactforest.org](http://www.intactforest.org)) as of 2010, with adjustments for additional areas degraded by logging between 2010 and mid-2012, as shown in Landsat ETM7 imagery for subsequent years, and with addition of unlogged, gazetted protected areas not large enough to be classified as IFL.
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11. Global Witness, Inside the Shadow State, March 2013. [www.globalwitness.org/en/campaigns/forests/inside-malaysia-shadow-state/](http://www.globalwitness.org/en/campaigns/forests/inside-malaysia-shadow-state/). Taib's lawyers told Global Witness that Taib "never demands or accepts bribes for the grant of licences and leases— whether for 10% of the value of those licences or leases or through structures designed to conceal his identity."
12. Based on analysis by Global Forest Watch, op cit. See also Markets for Change, Forest to Floor, March 2016, p.11-12, [www.marketsforchange.org/wp-content/uploads/2016/03/FORESTS-TO-FLOOR-ENGLISH-WEB-1.pdf](http://www.marketsforchange.org/wp-content/uploads/2016/03/FORESTS-TO-FLOOR-ENGLISH-WEB-1.pdf)
13. See Malaysian Auditor-General, Laporan Ketua Audit Negara, Aktiviti Kementerian/ Jabatan/Agensi Dan Pengurusan Syarikat Kerajaan Negeri Sarawak, Tahun 2008, 2009, p. 68-91, [www.audit.gov.my/docs/BJ/4Auditor%20General's%20Report/2States/Sarawak/3.SARAWAK\\_aktiviti.pdf](http://www.audit.gov.my/docs/BJ/4Auditor%20General's%20Report/2States/Sarawak/3.SARAWAK_aktiviti.pdf); Council on Ethics, The Norwegian Government Pension Fund Global, Recommendation of 22 February 2010, [www.regjeringen.no/upload/FIN/etik/Recommendation\\_Samling.pdf](http://www.regjeringen.no/upload/FIN/etik/Recommendation_Samling.pdf). Samling has refuted the Council on Ethics' allegations.
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33. Miyoko Kitagawa, Japan Forest Technology Association, op. cit. JLIA has previously stated to Global Witness that Sarawak's legality verification system is "well-established and now efficiently working in that country... The system fulfills the requirements of the Japanese Green Procurement Policy and has been widely accepted in the Japanese lumber industry for 7 years. We trust it obtains enough official validity to certify as legal in Japan."
34. Momii M., op. cit, p. 2.
35. These companies are Sojitz Corporation, Sumitomo Forestry Corporation, Itochu Corporation, Japan Kenzai Corporation, Marubeni Corporation, Sumisho & Mitsubussan Kenzai Corporation, and Toyo Materia Corporation and their respective subsidiaries. Information is based on survey responses, private communications and information in the public domain. See also Mokuzaï Kenzai Weekly, No. 2023, July 6 2015.
36. Momii M., op. cit, p. 16.
37. All seven buy from Shin Yang, the largest plywood producer in Sarawak, which Global Witness documented was illegally logging in 2011. Global Witness, November 2012, op. cit. Itochu, Sojitz, and Sumitomo Forestry buy from Samling, which was found to be illegally logging by Global Witness and others. Malaysian Auditor General, op. cit, Norwegian Government Pension Fund, op. cit., Global Witness, July 2014, op. cit.
38. Shin Yang, Samling, and Ta Ann are currently being challenged in Sarawak courts by indigenous communities for operating in their native customary land. See, for example, a case against Shin Yang: [21-03-2009] TR Matu Tugang & Ors. vs. Shin Yang Forestry Sdn. Bhd. & Ors.; Samling: [21-07-2010] Lija Agang & 3 Ors vs. Samling Plywood (Miri) Sdn Bhd & 2 Ors.; and Ta Ann: [SBW-21NCVC-2/8-2014] Sumen Bin Gasan & Ors. vs. Sarananas Enterprises Sdn. See also Global Witness, December 2015, op. cit.
39. Shin Yang, Samling, WTK, and Ta Ann have engaged in highly destructive logging in high conservation rainforests. See Global Witness, November 2012, op. cit, Norwegian Government Pension Fund, op. cit, Global Witness, July 2014, op. cit, Global Witness, December 2015, op. cit.
40. Itochu: [www.itochu.co.jp/en/csr/supply\\_chain/products/](http://www.itochu.co.jp/en/csr/supply_chain/products/), Sojitz: [www.sojitz.com/en/csr/priority/supply/](http://www.sojitz.com/en/csr/priority/supply/); Sumitomo Forestry: <http://sfc.jp/english/corporate/policies/procurement.html>
41. Some of the companies claimed that their suppliers in Sarawak were now undertaking third party verification, in response to their request. While Global Witness understands that Samling, Shin Yang, and Ta Ann have contracted with Global Forestry Services (GFS) to conduct legality verification for some of their logging concessions in Sarawak, given the high risk of illegal logging in Sarawak, we believe their verification methods are not sufficient to guarantee legality and do not consider GFS to be a credible, independent third party. GFS has refuted these allegations.
42. Sojitz, Itochu, and Japan Kenzai explained that the volume of timber they purchase from Sarawak has declined over the past year. While this is consistent with overall trade data, which indicates Japan's import of Sarawak plywood has decreased by more than 10% since the same time last year, information available in the public domain and obtained through private communications suggests that the decline is largely due to reductions in demand for housebuilding materials and a less favorable exchange rate. Japan is reported to have increased its timber imports in January and February 2016 by 20% by value compared to the same time last year. See [www.theborneopost.com/2016/03/27/timber-exports-to-japan-increase-by-](http://www.theborneopost.com/2016/03/27/timber-exports-to-japan-increase-by-)



rm100000-in-2-mths/. Sumisho Mitsuibussan Kenzai is reported to have increased its plywood imports from Sarawak, specifically Shin Yang. See Mokuzaï Kenzai Weekly, No. 2011, April 6 2015. Information in the table is gathered from the following sources: (Value of imported plywood sales) Mokuzaï Kenzai Weekly, No. 2043, December 7 2015; (Proportion of plywood imports by country) Mokuzaï Kenzai Weekly, No. 2011; (Trading partners in Sarawak) Survey responses, Mokuzaï Kenzai Weekly No. 2011, and Mokuzaï Kenzai Weekly 2011-2012, as featured in presentation by IGES, Opportunities for Sarawak Tropical Hardwood Products and Market Development in Japan, March 26 2016, [www.sarawaktimber.gov.my/pages.php?mod=announcement&sub=announcement\\_detail&id=15](http://www.sarawaktimber.gov.my/pages.php?mod=announcement&sub=announcement_detail&id=15)

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