

COUNCIL ON ETHICS

THE GOVERNMENT PENSION FUND GLOBAL

To the Ministry of Finance

25 June 2012

UNOFFICIAL ENGLISH TRANSLATION

Recommendation to exclude WTK Holdings Berhad from the investment universe of the Government Pension Fund Global

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1 Summary

The Council on Ethics recommends the exclusion of the Malaysian company WTK Holdings Berhad (WTK) from the Norwegian Government Pension Fund Global (GPF) because of an unacceptable risk that the company is responsible for severe environmental damage through its logging operations.

WTK is a Malaysian logging company involved in the harvesting of timber and the manufacturing of plywood and sawn timber. All its natural forest concessions and mills are located in Sarawak, Malaysia. To the Council's knowledge WTK holds six timber licenses totalling approximately 194,000 hectares, as well as two licenses for planted forest (plantation development) covering a total of about 131,000 hectares. WTK is part of the unlisted WTK Group. The Council has only assessed the logging operations in the concession areas belonging to the listed company.

In accordance with the Ethical Guidelines, the Council contacted WTK in December 2010 requesting information on the company's forest operations. WTK did not respond to the Council's request. In February 2012, the Council sent a draft of this recommendation to the company for comments. Since then, the company has been contacted on several occasions but has not responded. The recommendation is mainly based on the Council's own research including the company's environmental impact assessments, which are publicly available at the library of the Natural Resources and Environment Board in Kuching and Sibuan in Sarawak, and satellite-imagery analysis.

In its assessment, the Council has emphasized the environmental damage associated with the conversion of tropical forests to plantations, environmental damage associated with logging, and the fact that the company's practices seem to breach normal requirements and are therefore assumed to be illegal. The Council has also emphasized the scale of the damage and to what extent it causes long-term and irreversible impacts, whether the damage is a result of violations of national laws or international norms, and what the company has done to mitigate impacts.

All but one of WTK's license areas overlap with The Heart of Borneo and The Sundaland Biodiversity Hotspot, which are considered to be among the most biodiverse ecosystems on earth. In this region, WTK has licenses to establish plantations covering an area of about 130,000 hectares, of which 70,000 hectares will be completely cleared and the remaining 60,000 hectares along riverbanks and on steep slopes will be significantly affected because of the increased fragmentation of forests and habitats. The Council attaches importance to the fact that the area being cleared is home to numerous species which are totally protected in Sarawak, according to WTK's own environmental impact assessments. A number of them are also listed on The International Union for Conservation of Nature's (IUCN) Red List of threatened species. The development of plantations on this scale will further reduce their habitats and increase the risk of rare and endemic species becoming extinct.

The Council has studied one of the company's timber license areas in the Melatai River Basin, where WTK is permitted to conduct selective logging and where WTK started intense logging during the period 2006-2010. The timber harvesting seems to have caused extensive erosion and numerous landslides along roads, rivers and on steep slopes, which may cause long-term impacts on the ecosystem in the license area. In the Council's opinion it cannot be ruled out that WTK's logging practices have contributed to the landslides that filled the Rajang River with 300,000 cubic metres of logs and debris in October 2010. Based on the available information, the Council concludes that WTK's forest operations appear to cause extensive and irreversible environmental impacts.

WTK seems to have breached numerous government requirements which companies normally have to comply with. This applies both to the license area for planted forest and the timber

license area, in the three areas which the Council has studied. In these three areas, it appears that WTK has logged outside the concession's boundaries, in buffer zones along river banks and roads, and on steep slopes, which normally is not permitted in Sarawak. In one of the license areas, the Council has estimated that the area which has been illegally logged amounts to about 4,000 hectares. The Council has not had access to the licenses, and it is possible that the company has been exempted from the requirements and that concession boundaries have been changed. Based on available information, the Council finds it probable that WTK's logging practices are in conflict with government requirements. The Council emphasizes that the same practice is found in all of the researched areas, and that the assumedly illegal logging appears to have caused extensive environmental damage, in particular in the timber license area studied by the Council. In addition, the Council finds that illegal logging in itself is unacceptable and a breach of international norms.

The Council's assessment is that WTK does little to reduce the environmental damage associated with its logging and clearing of forests. The Council stresses that WTK neither seems to have carried out assessments to identify and protect important ecological values, nor implemented other measures to mitigate the environmental impacts associated with the conversion of forest.

WTK's licenses will be valid for many years to come. There is no indication that the company will end these operations or substantially change the way they are run in the near future. The company's unwillingness to provide information strengthens the assessment that the practice will continue.

The Council on Ethics therefore recommends the exclusion of WTK Holdings Berhad from the investment universe of the Norwegian Government Pension Fund Global because of an unacceptable risk of the company being responsible for severe environmental damage.

2 Introduction

In November 2010, the Council on Ethics decided to assess the Fund's investment in the Malaysian company WTK Holdings Berhad. The decision built on information that the company could be involved in illegal logging and environmentally damaging forest operations in Sarawak, Malaysia.

At the end of 2011, the GPFH held 10,096,000 shares in the company, with a market value of about USD 4.2 million.

2.1 What the Council has assessed

The Council on Ethics has assessed whether there is an unacceptable risk that WTK contributes to or is itself responsible for severe environmental damage as per paragraph 2, third subsection of the Guidelines For the Observation and Exclusion of Companies From the GPFH's Investment Universe (the Ethical Guidelines).¹

In previous recommendations concerning severe environmental damage, the Council has put particular emphasis on whether:²

- the damage is significant;
- the damage causes irreversible or long-term effects;
- the damage has considerable negative impact on human life and health;
- the damage is a result of violations of national laws or international norms;

¹ http://www.regjeringen.no/en/sub/styrer-rad-utvalg/ethics_council/ethical-guidelines.html?id=425277 .

² In previous recommendations, the Council has elaborated on the criteria for severe environmental damage, see for example the Council's recommendations concerning Freeport McMoRan and Samling Global, available at www.etikkradet.no.

- the company has neglected to act in order to prevent the damage;
- the company has not implemented adequate measures to rectify the damage;
- it is probable that the company's unacceptable practice will continue.

It is existing and future violations that are covered by the Guidelines. The Council has therefore assessed whether there is a risk that the company's practice will continue in a similar manner in the future.

In the present recommendation the Council has assessed the environmental damage associated with WTK's logging and clearing of tropical rainforests in Sarawak, Malaysia.

Environmental damage associated with the clearing of tropical forests

The logging and conversion of tropical forests to plantations is considered to be among the greatest threats to forest ecosystems and biodiversity. It also contributes significantly to greenhouse gas emissions. In Sarawak companies must have a license in order to convert rainforest to plantations (so-called licenses for planted forest). This requires the removal of trees and vegetation so that the area may be used for plantations for the production of palm oil, timber or other crops. Clearance of rainforest is considered to have devastating effects on biodiversity, natural habitats and eco-system services. Plantations are mono-cultures with little ecological value compared to the natural rainforest.

All except one of WTK's concession areas are within the Heart of Borneo area (see Figure 2). This is a WWF initiative to which the governments of Indonesia, Malaysia and Brunei have all signed up and pledged to manage the area in a manner that is sustainable. This area:

“is the largest transboundary tropical forest expanse remaining in South East Asia. Home to an astounding 6% of the world's total biodiversity, from the orangutan to the world's largest flower, and containing the headwaters for 14 of Borneo's 20 major rivers, it is one of the richest treasure-houses on the planet. More than 600 new species have been discovered within the Heart of Borneo since 1995, an average of 3 per month.”³

Sarawak, including the Heart of Borneo, is part of The Sundaland Hotspot.⁴ A hotspot is characterized by an exceptional biodiversity, having a high level of endemic species (at least 0.5 percent or 1,500 of the world's plant species), in addition to being threatened by human activity. To qualify as a hotspot, the region must have lost 70 percent or more of its primary vegetation.⁵ The Sundaland Hotspot contains 25,000 plant species, of which 60 percent are not found anywhere else in the world. The remaining primary vegetation covers about 10 million hectares of the original 150 million hectares. A large number of birds, mammals and amphibians are threatened by extinction. The logging and conversion of forest to plantation are the main drivers of habitat loss and the biggest threat to this hotspot. Sarawak's deforestation rates are among the highest in the world. Between 2005 and 2010 about 10 percent, more than 865,000 hectares, of the state's forests were cleared. This is more than three times the deforestation rate for the whole of Asia over the same period and one of the highest deforestation rates in the world.⁶

Both the UN, the World Bank and national governments recognize the need to reduce deforestation and forest degradation through, *inter alia*, the establishment of the United Nations Collaborative Initiative on Reducing Emissions from Deforestation and Forest Degradation

³ Financing the Heart of Borneo: A Partnership Approach to Economic Sustainability, Oct 2010, available at http://assets.panda.org/downloads/sustainable_financing_hob.pdf.

⁴ Conservation International, http://www.conservation.org/where/priority_areas/hotspots/asia-pacific/Sundaland/Pages/default.aspx.

⁵ The concept was introduced by the biologist Norman Myers in 1988. Information on Biodiversity Hotspots is available at the homepage of Conservation International, http://www.conservation.org/WHERE/PRIORITY_AREAS/HOTSPOTS/Pages/hotspots_main.aspx.

⁶ FAO 2011: *State of the World's Forests*. Comparison of yearly deforestation per country, 2000-2010. In 2005-2010, the early deforestation rate in Brazil and Indonesia was 0.5 percent. In Sarawak it was 2 percent.

(REDD and REDD+) in developing countries, supported by the World Bank and others. The Norwegian Government has also supported these initiatives by allocating up to NOK three billion a year to efforts to reduce greenhouse gas emissions from deforestation in developing countries, but also the need to protect biodiversity and promote sustainable development is emphasized in this regard.⁷

The Council's point of departure is that the tropical rainforests of Borneo are among the most biodiverse ecosystems on earth. They provide habitats for many endangered species and ensure vital fundamental eco-system services, such as carbon storage, water management and soil stabilization. Tropical rainforests are important for the global environment, at the same time as the conversion of forests is a big threat to its future existence. Against this background, including the many international and national initiatives in place to reduce deforestation and forest degradation, the Council has assessed the environmental damage associated with the clearing of tropical forest. In its assessment, the Council emphasizes the scale of the logging and clearing, to what extent the company's licence areas overlap with areas of high ecological values, and which consequences the conversion of forest will entail for endangered species and their habitats.

Illegal logging

Illegal logging takes place when logging operations are in breach of national laws and regulations. This may among other things include logging outside the license area, logging in protected areas and of threatened species, or exceeding the harvest-quota stipulated in the timber license agreement. It may also entail that requirements on how forest operations are to be carried out are not followed, such as rules regarding logging methods and road construction, or not implementing measures to prevent erosion and the pollution of river systems.

Forestry is regulated in order to limit the environmental damage related to logging operations. When these requirements are not followed, there is a significant risk that the logging operations may lead to more extensive and severe environmental deterioration, than if the requirements had been met. Illegal logging may thus aggravate environmental damages associated with timber harvesting. Illegal logging may in itself provide a basis for exclusion under the criteria for severe environmental damage.

2.2 Sources

WTK does not disclose any substantial information on its license areas and forest operations in publicly available documents. The Council therefore contacted WTK in December 2010 requesting copies of licenses, forest management plans and environmental impact assessments for the various concession areas operated by the company, as well as information on the company's sustainable forest management practices.⁸ WTK has not responded to the Council's request.

In order to assess the company's operations, the Council has obtained publicly available documents at the libraries of the Natural Resources and Environment Board (NREB) in Kuching and Sibu in Sarawak, including the Environmental Impact Assessments (EIA) corresponding to WTK's license areas LPF/0022 and LPF/0032 and T/3148, as well as EIAs for single coupes of the license areas T/3081 and T/3132. No EIAs were found for WTK's other license areas.

In addition, the Council has obtained Landsat satellite imagery for all of WTK's license areas listed in Table 1, as well as a SPOT-image⁹ which covers an area along the Melatai River in

⁷ The Government of Norway's International Climate and Forest Initiative, see <http://www.regjeringen.no/en/dep/md/Selected-topics/climate/the-government-of-norways-international/-why-a-climate-and-forest-initiative.html?id=547202>.

⁸ The Council on Ethics sent a letter to WTK on 9 December 2010, and approached the company again by email on 25 January 2011.

⁹ The SPOT image has a 2.5 metre spatial resolution and is dated 6 January 2011.

WTK's license area T/3476. Landsat imagery has been analysed and compared with imagery for multiple time periods stretching back over ten years. These images have a 15-30 metre spatial resolution, which is sufficiently detailed to clearly show logging roads, forest degradation and clearance. In order to illustrate areas where the forest has deteriorated, these areas have been artificially coloured red on the images shown in this recommendation. The images are used to assess whether logging has been carried out in steep slopes, within buffer zones and outside license areas. Such activities are environmentally harmful and may conflict with government requirements.

A short field visit was made to Sarawak in November 2010. The aim was to explore the location and cause of a large landslide which had led to extensive environmental damages along the Rajang River the previous month. At that time the Council had information that logging in one of WTK's license areas could have contributed to the so-called logjam. Interviews were carried out with families of timber workers, local politicians and journalists.

This recommendation is based mainly on the Council's own research. Other sources are referred to in footnotes.

3 Background

3.1 About the company

WTK Holdings Berhad (WTK) is a Malaysian forestry company primarily involved in the harvesting of timber and the manufacturing of plywood and sawn timber. All its natural forest concessions and mills are located in Sarawak, Malaysia.¹⁰ WTK is listed on the stock exchange in Kuala Lumpur, Malaysia. The listed company is part of the unlisted WTK Group, which has additional timber concessions in Sarawak and Papua New Guinea. The Council has only assessed the logging operations of the listed WTK Holdings Bhd.

3.2 WTK's Timber Licenses and Licenses for Planted Forests in Sarawak

Timber licenses cover areas where WTK is permitted to carry out selective timber logging. Selective logging is the harvesting of specific species of trees and of a minimum tree size. The Council has identified six timber licenses held by the WTK, totalling approximately 194,000 hectares. In addition the company has a long-term contract with the Sarawak Timber Industry Development Corporation (STDIC)¹¹ to harvest 92,000 hectares of forest in one of STDIC's license areas in Sarawak.¹² There is no information on the actual size of the areas where WTK has rights to harvest timber, as this information is not published by the company. It is therefore possible that WTK may have other license areas which are not known to the Council.¹³

WTK also holds two licenses for planted forest (plantation development) covering a total of 131,000 hectares. Within these areas, WTK is permitted to clear the forest and convert the area to plantations. The Council does not know whether the company has other licenses for the development of plantations.

¹⁰ WTK Group, <http://www.wtkholdings.com/index.html>

¹¹ Sarawak Timber Industry Development Corporation is a forestry company owned by the authorities in Sarawak, <http://www.sarawaktimber.org.my/>.

¹² WTK's subsidiary Piramid Intan Sdn Bhd has a logging contract with STDIC in area A of STDIC's license T/3401. The concession area covers 91,882 hectares.

¹³ A recent study of major timber companies in Sarawak concluded that WTK Holdings held 320,000 hectares of timber concessions, see Feah, D. 2011: *Development of Global Timber Tycoons in Sarawak, East Malaysia: History and Company Profiles*, The Bruno Manser Funds, http://stop-timber-corruption.org/resources/bmf_report_sarawak_timber_tycoons.pdf.

Table 1 below provides a list of WTK's licenses which have been identified by the Council, while Figure 1 shows the location of WTK's license areas within Sarawak. All of the licensees are wholly owned subsidiaries of WTK.

Table 1: List of WTK's timber licenses (Timber license, T/) and licenses for planted forests (LPF) in Sarawak identified by the Council

License No.	Type	Name of subsidiary	Area (hectares)	Net plantable area (hectares)	License valid until ¹⁴
T/3080	Timber	Ninja Developments Sdn. Bhd.	19,250 ha	N/A	30 Aug. 2020
T/3081	Timber	Limpah Mewah Sdn. Bhd.	53,050 ha	N/A	31 July 2020
T/3148	Timber	First Count Sdn. Bhd.	18,477 ha	N/A	16 Aug. 2020
T/3132	Timber	Sanitama Sdn. Bhd.	26,885 ha	N/A	22 June 2020
T/3064	Timber	Sut Sawmill Sdn. Bhd.	12,425 ha	N/A	28 Feb. 2020
T/3476	Timber	Interglobal Empire Sdn. Bhd.	63,450 ha	N/A	5 Dec. 2022
LPF/0022	Plantation Forest	Immense Fleet Sdn. Bhd.	63,875 ha	35,235 ha	21 Feb. 2062
LPF/0032	Plantation Forest	Immense Fleet Sdn. Bhd.	68,001 ha	36,520 ha	27 Feb. 2063

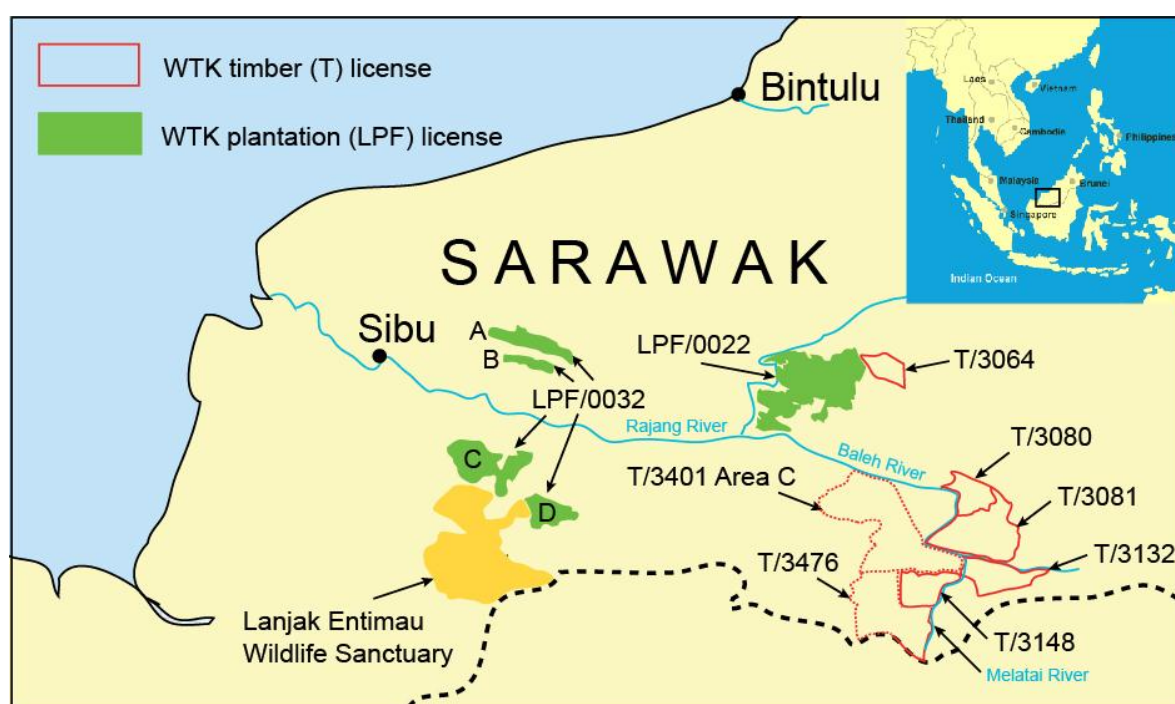


Figure 1: Map showing WTK's timber licenses (red boundaries) and forest plantation licenses (green areas) and areas where WTK has a logging contract with STDIC (T/3401 Area C), which the Council has been able to identify.¹⁵

¹⁴ WTK's announcements to the stock exchange: :

<http://announcements.bursamalaysia.com/EDMS%5Cannweb.nsf/LsvAIIByID/482568AD00295D07482573A70031FDE4?OpenDocument>, and <http://announcements.bursamalaysia.com/EDMS/.../Notes-2Q2002.doc>, and [http://announcements.bursamalaysia.com/EDMS/subweb.nsf/7f04516f8098680348256c6f0017a6bf/89521c3731a5ee6648256e8600139bbe/\\$FILE/WTK-AnnualAuditedAccounts.pdf](http://announcements.bursamalaysia.com/EDMS/subweb.nsf/7f04516f8098680348256c6f0017a6bf/89521c3731a5ee6648256e8600139bbe/$FILE/WTK-AnnualAuditedAccounts.pdf) and http://www.bursamalaysia.com/website/bm/listed_companies/company_announcements/announcements/archives.jsp.

¹⁵ Concession boundary information is drawn from maps from Environmental Impact Assessments (EIAs) and from a presentation given by the Sarawak Forests Department in October 2010. Precise boundaries of T/3401 Area C and T/3476 (dotted red lines) are uncertain. T/3401 Area C is licensed to STDIC, but WTK Holdings subsidiary Pyramid Intan Sdn Bhd is contracted to carry out harvesting.

4 The Council's research

The Council's research has been limited to the license areas where maps, satellite images and other information have been available, and where logging and clearing have been carried out recently. This has narrowed the assessment to WTK's two license areas for planted forest (LPF/0022 and LPF/0032) and one timber license area (T/3476).

4.1 License areas LPF/0022 and LPF/0032

Environmental damage associated with the clearing of forests

In license areas allocated for plantation development, companies are permitted to clear all forest, except for forest on steep slopes, in buffers zones along rivers and other specific areas. The government requires that companies carry out an environmental impact assessment (EIA) to identify environmental values in the license area, identify potential environmental risks associated with the development stages of the plantation and recommend mitigation measures to reduce environmental impacts.

According to the environmental impact assessments, WTK's license areas for planted forest cover 131,000 hectares which mainly will be used for the production of timber. Topographical conditions, roads, rivers and streams and so forth limit the area which can be planted to about 60 per cent of the area.¹⁶ By the end of 2011, WTK had cleared and planted forest and oil palm covering 15,000 hectares – about 20 per cent of the total planned.¹⁷ The company expected to convert a further 4,000 hectares in 2012.¹⁸

The EIA for LPF/0032 provides little information on the condition of the forest in the license area, other than the forest is a Mixed Dipterocarp Forest¹⁹ which has been degraded by previous logging. Nevertheless the EIA notes the presence of a wide range of rare and protected species of plants and animals in the areas of forest slated for clearance.²⁰ A number of these species are classified as endangered or vulnerable by the International Union for Conservation of Nature (IUCN).²¹ The EIA for LPF/0032 states that 'the plantable area is to be cleared of the existing flora and along with them the habitats of the fauna,'²² and concludes that the clearance of the natural forest will have major adverse impacts on the flora and fauna in the area concerned: 'species diversity of the indigenous flora in the affected areas could never be replaced.'²³ Regarding biodiversity, the EIA comes to two contradicting conclusions: On the one hand it states that that 'in spite of their logged-over conditions, the forests are still rich in floral species

¹⁶ Ecosol Consultancy Sdn Bhd 2004: *Environmental Impact Assessment for Oya-Kanowit-Katibas Forest Plantation under License for Planted Forest No. LPF/0032*, and Plantacia Sdn Bhd 2003: *Environmental Impact Assessment Report for Tree Planting Project at Bukit Raya Area (LPF/0022)*. According to the EIA the plantable area is 71,755 hectares or 55 percent of the license area (131,032 hectares). In addition 5,240 hectares will be used for oil palm plantations.

¹⁷ WTK Holdings Annual Report, 2011. This includes 6,500 hectares of timber plantations and more than 8,500 hectares of oil palm plantations.

¹⁸ See footnote 17.

¹⁹ Dipterocarpaceae is a large family of primarily evergreen leaf trees which dominate the rainforest in Malaysia. The trees can grow to be very old and reach their normal height at 40-70 metres. Many species are economically valuable as timber, but they are also used in the production of etheric oils, balsam and plywood.

²⁰ In Sarawak protected species are listed under the Sarawak Wildlife Ordinance. The EIA confirms the presence of 19 protected fauna species, of which 6 totally protected under the Wildlife Ordinance. Five of these are listed on the IUCN Red List of threatened species, see below.

²¹ The IUCN Red List of threatened species classifies species at high risk of global extinction. The EIA for LPF/0032 identified among others, the following species: Bornean Gibbon (*Hylobates muelleri*), Box-tortoise (*Geochelone emys*), Giant Squirrel (*Ratufa affinis*), White-fronted Langur (*Presbytis frontata*) and Sun Bear (*Helarctos malayanus*). The two first mentioned are classified as endangered, the next as vulnerable and the last two as near threatened. Endangered species face a very high risk of extinction in the wild, vulnerable species are species facing a high risk of extinction, and near-threatened species are likely to become vulnerable or endangered in the near future, see <http://www.iucnredlist.org/>.

²² Ecosol Consultancy Sdn Bhd, 2004: *Environmental Impact Assessment for Oya-Kanowit-Katibas Forest Plantation under License for Planted Forest No. LPF/0032*, p. C4-5.

²³ See footnote 22, p. C4-26.

and can play an important role in species conservation and environmental protection'.²⁴ On the other hand it declares that 'as the Project sites are under forests that had been logged, and thus already greatly disturbed, the issue of biological conservation of the existing environment is not crucial'. In this context, the Council notes that it is widely recognized that secondary forests can retain important ecological values in terms of biodiversity and eco-system services.²⁵

The License area LPF/0032 is divided into four different areas, of which two border the Lanjak Entimau Wildlife Sanctuary (C and D, see Figure 2 for location).²⁶ The Sanctuary is the largest protected area in Sarawak, and has been proposed as a Unesco World Heritage Site by the Sarawak government, among other things because of its significance as a habitat for orangutans (*Pongo pygmeus*) and a number of other threatened species.²⁷ The EIA notes the proximity to the Sanctuary: 'It is noteworthy that the Lanjak Entimau Wildlife Sanctuary is found immediately south to the Areas A and D. This Totally Protected Area (TPA) is outside the Project Area and hence will not be affected by the Project Activities.'²⁸ A buffer zone between the License area and the Sanctuary shall prevent impacts on the Sanctuary. It is not clear how wide this buffer zone is.

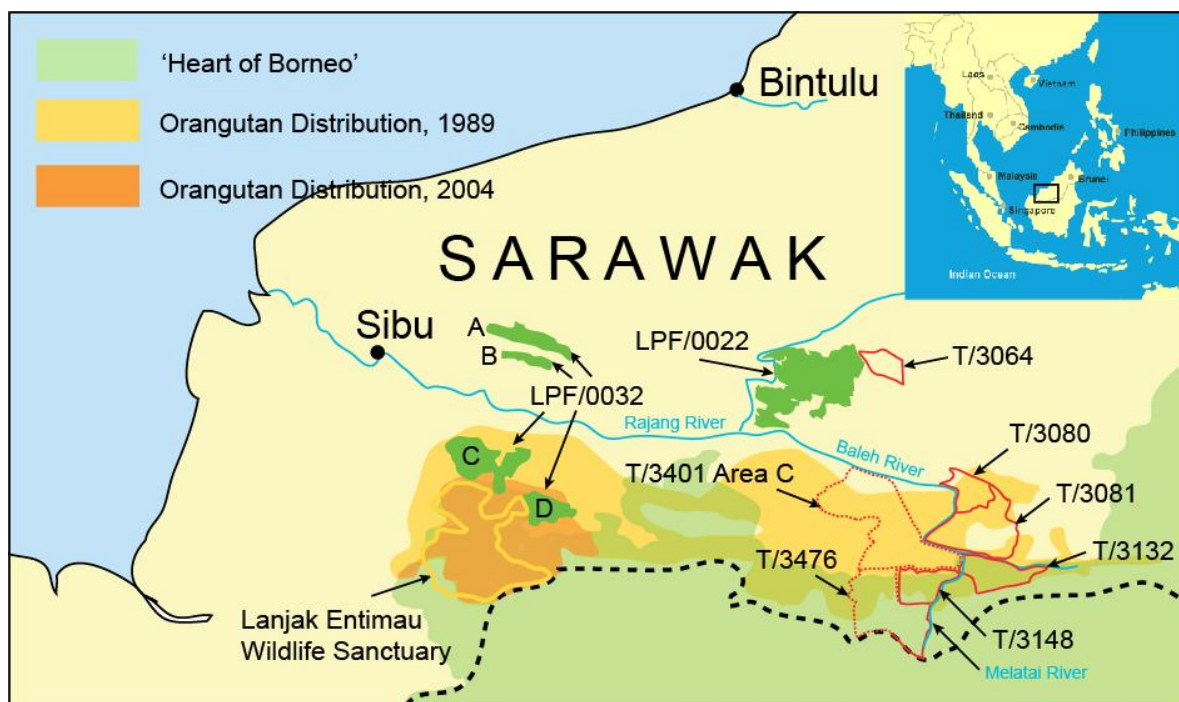


Figure 2: Overlay of the boundaries of WTK's timber and plantation licenses with "Heart of Borneo" and with orangutan distribution, 1989 and 2004.²⁹

According to the EIA, which was carried out in 2003, orangutans are not present in the license area (it is not listed as a protected species).³⁰ Nevertheless, maps of orangutan distribution in Borneo suggest the continued existence of orangutans within WTK's license as late as in 2004 (Area D, see Figure 2).³¹ The same maps also show that in 1989-2004, orangutans are thought to

²⁴ See footnote 20 p. C3-17.

²⁵ See for instance Berry et.al. 2010: The high value of logged tropical forests: Lessons from northern Borneo in *Biodivers Conservation* (2010) 19:985-997, DOI 10.1007/s10531-010-9779-z.

²⁶ The Lanjak Entimau Wildlife Sanctuary is an IUCN protected area, management category IV area, a category of protected areas typically designated to protect specific species and habitats.

²⁷ <http://whc.unesco.org/en/tentativelists/1988/>.

²⁸ See footnote 22 p. C3-22.

²⁹ Orangutan distribution from WWF Germany 2005: *Borneo: Treasure Island at Risk – Maps on Status of Forests, Wildlife and related Threats on the Island of Borneo*, <http://www.worldwildlife.org/what/wherewework/borneo/WWFBinaryitem7590.pdf> Heart of Borneo boundary from WWF Kalimantan Landcover map, 2010, supplied to the Council by WWF.

³⁰ The Orangutan (*Pongo pygmeus*) is classified as an endangered species on the IUCN Red List of threatened species.

³¹ See footnote 29.

have been present in a wide area of forest which overlaps with several of WTK's license areas. The logging and clearing of forests have contributed to the loss of habitats and the population of orangutans in these areas.

The Council is aware that the Sarawak government is planning to extend the protected area to the northeast and east because it is assumed that there are orangutan habitats outside the sanctuary. The expansion entails that the south-eastern part of Area C will have a longer common border with the Sanctuary.³² The Council notes that the EIA for LPF/0032 does not explicitly address the risk of orangutans being present in the license area, and that the company does not seem to have carried out any studies aiming to verify whether the animals have a presence in the license area.

There is not much information available on the condition of the forest in the other license area either (LPF/0022). The EIA notes that the area has been selectively logged in the past but nevertheless identifies a significant number of protected species,³³ of which eight are listed on IUCN's Red List of Threatened Species.³⁴ The EIA states that 'adverse impacts on soil and water factors are expected during logging, felling, log removal, burning and roading. Since site preparation involves clearing of the land, major adverse impacts are envisaged for flora and fauna factors, since their habitat will be destroyed.'³⁵

WTK's own environmental impact assessments indicate significant biodiversity within the two license areas. Nevertheless, the assessments appear not to have been based on thorough surveys of flora and fauna, and studies to verify for instance the presence of orangutans in the part of the license area which borders the Sanctuary seem not to have been conducted. The EIAs conclude that the conversion of forests to plantations will cause the destruction of 70,000 hectares of tropical forests with irreversible impacts on biodiversity and habitats, including habitats for threatened species.³⁶ These operations will also lead to an increasing fragmentation of the rainforest, which may reinforce the negative impacts on biodiversity in the license area.

Possible illegal logging in LPF/0032

Despite the serious environmental impacts, the EIA recommends few specific mitigation measures to protect the threatened species and their habitats. The mitigation measures mentioned include maintaining natural vegetation in areas of steep slopes (slopes in excess of 35 degrees, so-called Class IV terrain) and riparian buffer zones. Here forest operations shall be avoided to protect wildlife and to prevent erosion and landslides: 'the natural vegetation in the proposed conservation areas (which usually coincide with the steeper areas)... shall be preserved'.³⁷ And furthermore 'clear felling will only be practiced in areas with very gentle terrain'.³⁸

A satellite image from July 2009 shows which forest areas within Area A of LPF/0032 had recently been clear-felled. Comparison with the concession map included in the EIA shows areas being cleared in steep-sloped terrain and outside the concession boundary (see Figure 3), in

³² Wildlife Conservation Society: *Orangutan Nest Count Surveys at the Proposed Extension Areas of Lanjak-Entimau Wildlife Sanctuary. Interim Report submitted by the Wildlife Conservation Society (WCS)-Malaysia Program to the US Fish and Wildlife Service (USFWS) on 15th October 2011.*

³³ Plantacia Sdn Bhd 2003: *Environmental Impact Assessment Report for Tree Planting Project at Bukit Raya Area (LPF/0022).* The EIA lists 12 totally protected species and 20 protected species according to the Sarawak Wildlife Protection Ordinance 1998, First Schedule, part 1. This includes the Bornean Gibbon (*Hylobates muelleri*), Pangolin (*Manis javanica*), Western Tarsier (*Tarsius bancanus*), Giant squirrel (*Ratufa affinis*) and many species of Hornbills.

³⁴ See footnote 21. Bornean Gibbon and Pangolin are classified as endangered, Western Tarsier and Tufted Ground Squirrel are listed as vulnerable, Giant Squirrel, Rhinoceros Hornbill, Helmeted Hornbill and Crested Fireback Pheasant are near threatened species according to the IUCN.

³⁵ See footnote 33, p. 57.

³⁶ The EIA estimated the plantable area to be 71,755 hectares.

³⁷ Ecosol Consultancy Sdn Bhd 2004: *Environmental Impact Assessment for Oya-Kanowit-Katibas Forest Plantation License for Planted Forest No.LPF/0032*, p. C5-9.

³⁸ See footnote 37 p. C2-19.

conflict with the mitigation measures recommended in the EIA.³⁹ As mitigation measures recommended in the EIA are mandatory for the company, the Council's assumes that the logging in these areas is illegal.⁴⁰ The measures are in accordance with normal government requirements for forest operations in Sarawak.⁴¹

The total area cleared outside the concession boundary to the north of Area A is estimated to be 280 ha, while that cleared within conservation areas within the concession boundary (which appears to have occurred in 8 separate locations) totalled 730 ha. In total, WTK appears to have logged about 1000 hectares of forest illegally.

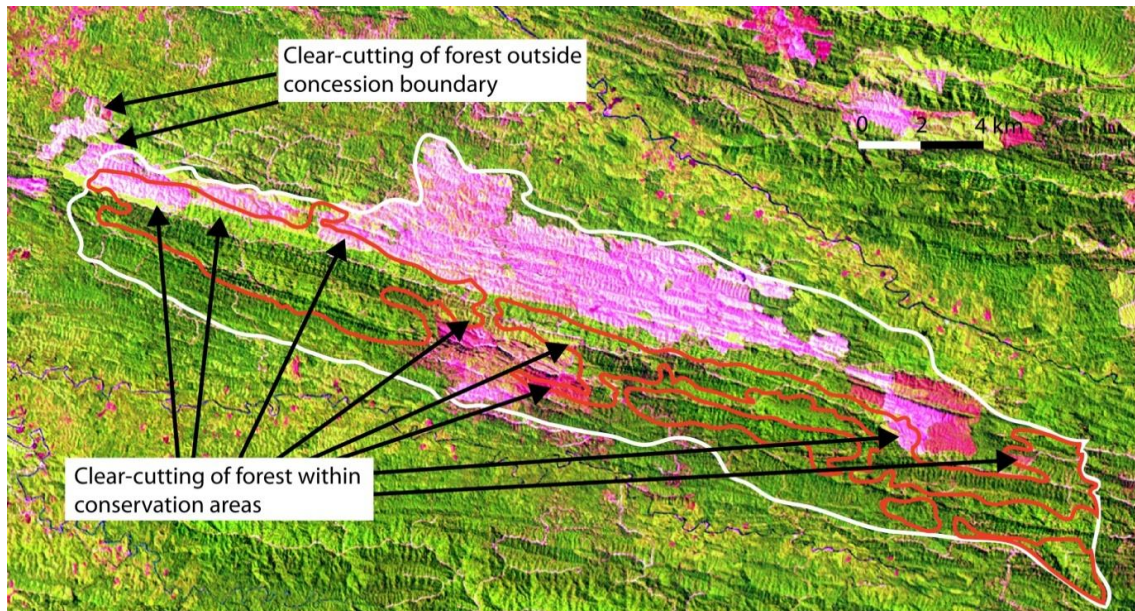


Figure 3: Landsat satellite image showing logging outside concession and within conservation areas, LPF/0032 Area A, July 2009 (white line is license boundary, red lines enclose conservation areas. Pink areas represent areas recently clear cut).

³⁹ Maps showing the boundaries for the 4 different areas (A-D) in the concession were included in the EIA for LPF/0032. For each of these areas the maps show areas where logging is permitted and areas which shall be protected.

⁴⁰ Confirmed in a meeting between the Council's secretariat and the Sarawak Forest Department, NREB, the Forestry Corporation and other government bodies in Kuching, Sarawak on 17 October 2011.

⁴¹ See the Council on Ethics recommendation to exclude Samling Global for a list of forest management requirements.

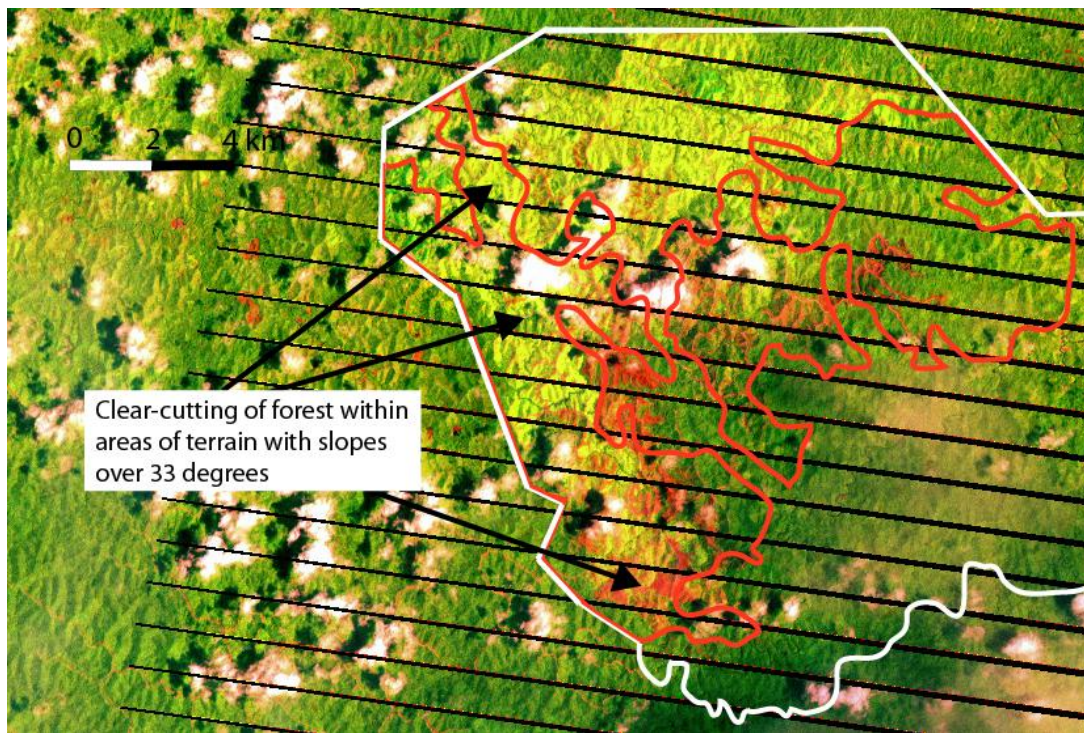


Figure 4: Landsat satellite image showing clear-cutting of forest within areas with slopes over 33 degrees, LPF/0032 Area C, March 2011 (white line is license boundary, red lines enclose steep slope areas, red areas on the image represent areas clear cut very recently, while light green areas represent areas clear cut slightly less recently. Black lines are due to satellite error).

Large areas have also been cleared within Area C of the license area, which most likely should not have been cleared (see Figure 4).⁴² The total area which appears to have been logged illegally within Area C, is estimated to amount to 3,000 ha. Logging had not commenced in Area B (2009) and Area D (2011) of the license area (LPF/0032).

As WTK has not responded to the Council, the Council has based its assessment on the maps which are included in the EIA for LPF/0032. It cannot be ruled out that the concession boundaries are imprecise, or that the boundaries have been adjusted in the official permit from the Sarawak government. Indeed, the EIA does state that the precise boundaries of steep terrain and buffer zones will need to be further clarified through ground surveys.⁴³ Based on available information, WTK does not seem to have implemented the mitigation measures recommended in the EIA, such as not logging in steep terrain and in riparian buffer zones. The Council assumes that this is in breach of the government's requirements, and that this practice has contributed to reinforce the environmental damage associated with the conversion of forests to plantations in LPF/0032.

4.2 Timber License Area T/3476

The timber license area T/3476 is located in the Melatai River basin, where WTK is permitted to carry out selective logging. Melatai is a tributary of the Baleh River, which flows into the Rajang River (see Figure 2). The rainforest in the license area seems not to have been logged previously as no roads or other infrastructure appear on the satellite images. In Sarawak, companies are not required to conduct environmental impact assessments when logging virgin rainforest, and hence there is little information available on this license area.

⁴² In this concession the EIA classifies slopes in excess of 33 degrees as steep terrain, while Sarawak authorities seem to have applied 35 degrees in other concessions.

⁴³ See footnote 37, p. C3-7.

Environmental damage associated with logging operations

Satellite images show that WTK over a period of several years has carried out extensive and intensive logging in this concession area. In 2009 and 2010 intense first round logging and road-building was ongoing in the south eastern part of the concession, in an area of steep terrain close to the Indonesian border (see Figure 5). Areas further north in were logged around 2007.

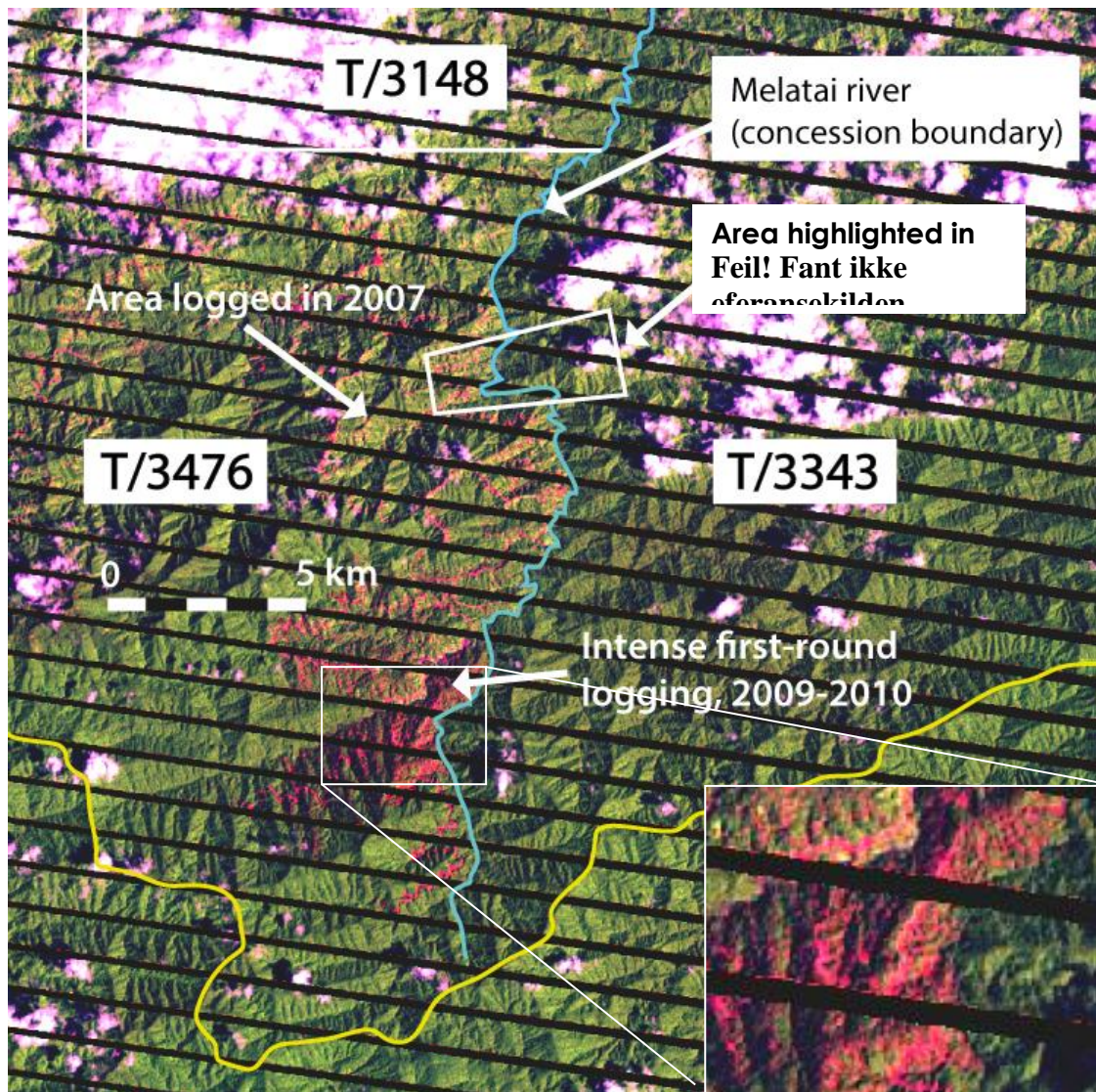


Figure 5: Landsat satellite image showing intensive logging upstream of logjam source area in T/3476, February 2010, with close up in bottom right (Logged areas are coloured red. Yellow line indicates the international border).

Figure 6 below shows a SPOT satellite image of the southern part of T/3475, while Figure 7 is a close-up of an area along the Melatai River where WTK has carried out logging.⁴⁴

⁴⁴ The SPOT image has a spatial resolution of 2.5 metres and is dated 6 January 2011.

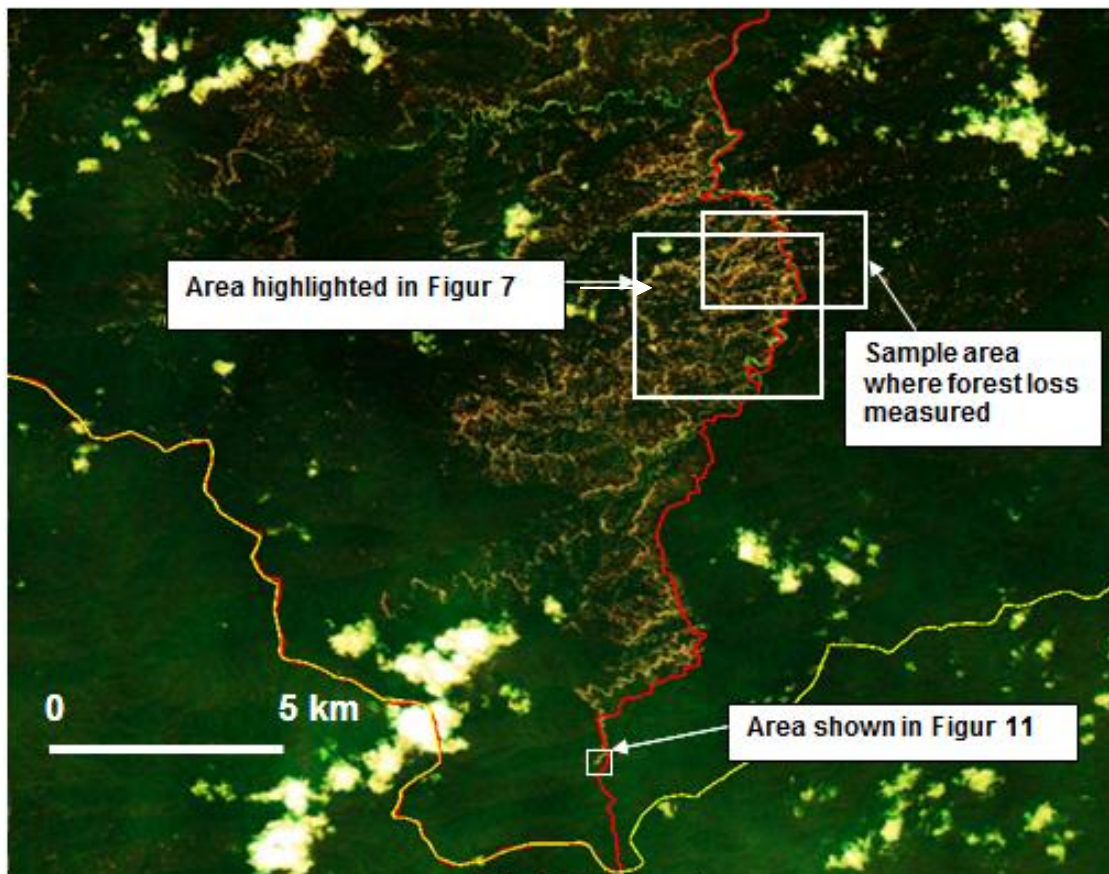


Figure 6: SPOT satellite image of the Upper Melatai river basin, 6 January 2011. The red line indicates the eastern boundary of WTK's T/3476 logging concession which follows the Melatai River. The yellow line is the Indonesian border.

The satellite images show extensive logging has been carried out on river banks, in steep terrain and along logging roads, which appear to have caused or contributed to numerous landslides in the concession area, both along rivers and roads. Erosion and many landslides can be seen extending along the downward slope below logging roads in Figure 7, Figure 8 and along the Melatai River in Figure 9.

Most of the erosion shown in Figure 7 and Figure 8 appear to be the result of landslides alongside logging roads. Based on the SPOT satellite image, the extent of the forest destruction has been estimated for a sample area of 275 hectares on each side of the Melatai River as a result of landslides and road construction (see Figure 6 for location). On the side where WTK has been logging, more than one third (36 per cent) of the virgin rainforest has been destroyed, while, less than 5 per cent of the forest has been destroyed by landslides on the other side of the river where no logging has been conducted.

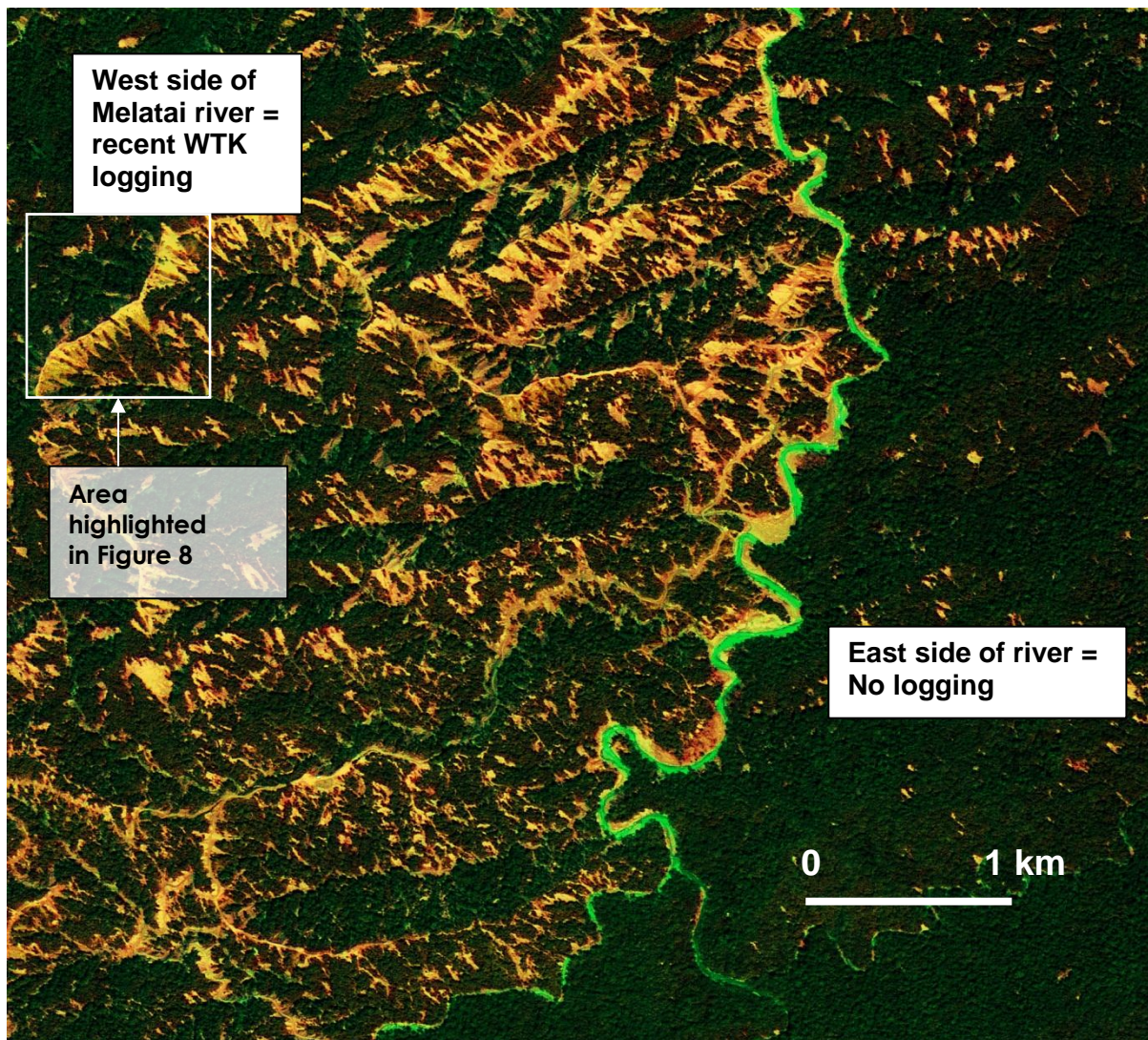


Figure 7: Close up of area along Melatai river, SPOT satellite image of 6 January 2011.

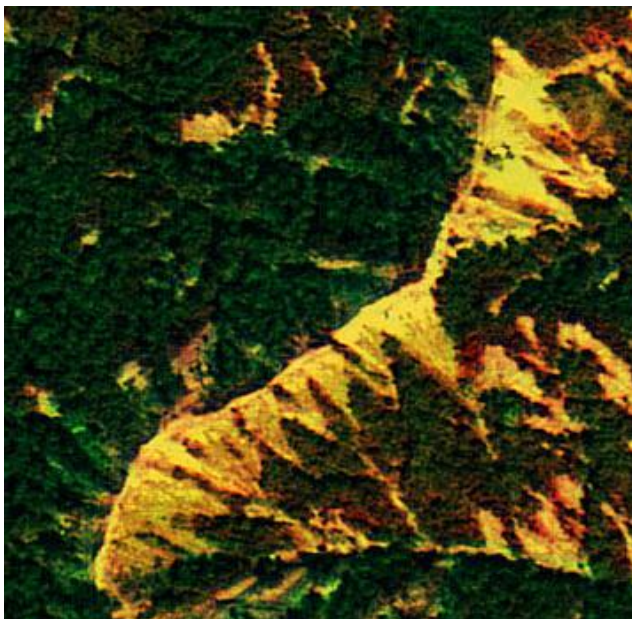


Figure 8: Close up of landslides along logging road in WTK license area T/3476, SPOT satellite image dated 6 January 2011

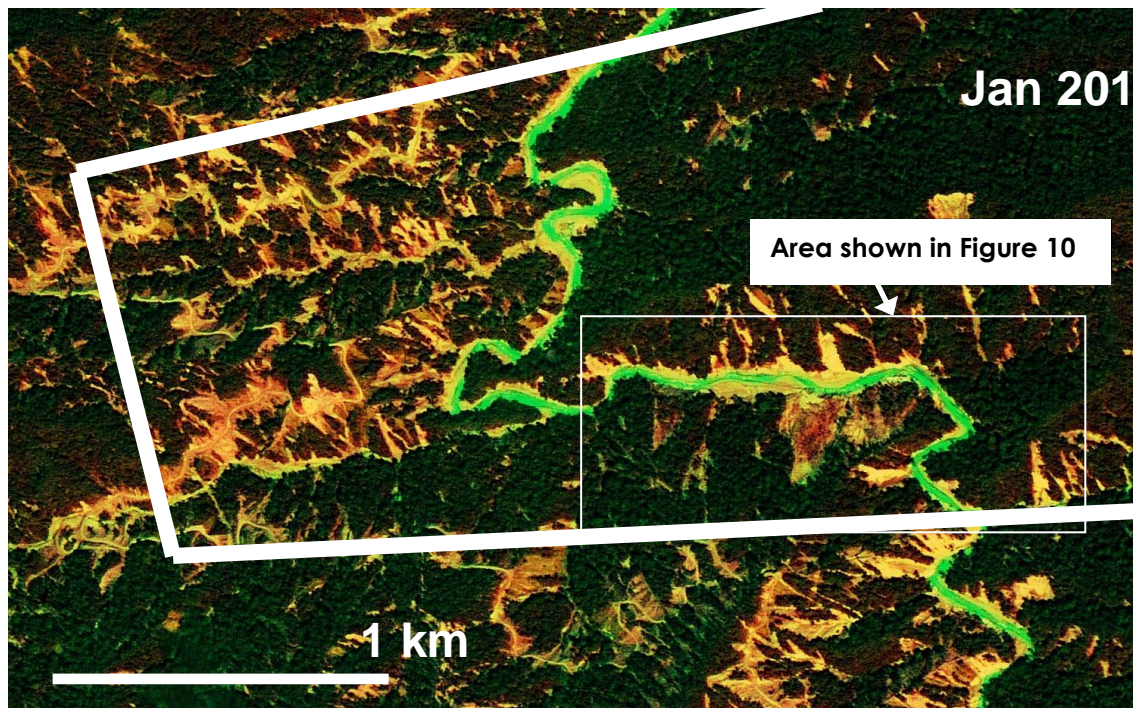


Figure 9: SPOT satellite image taken on 6 January 2011 showing landslides along the Melatai River in WTK's concession area T/3476, see Figure 5 for location. The Melatai River is coloured green. WTK's license area is located West of the river.

Figure 9 shows among other things a large landslide within T/3476 covering an area of 10 hectares, 500 metres along the river on the western side of the Melatai River (the area within the white rectangle and in the close up in Figure 10). Based on satellite images, it appears that the logging in this concession was finished in 2007. Logging will, however, reduce the ability of the vegetation to hold the soil in place, which can reduce slope stability many years after logging.⁴⁵ In the area where the large landslide occurred, the slope appears to have a gradient of 36 degrees.⁴⁶



Figure 10: Close-up of a landslide on the South bank of the river

Assumed illegal logging

The Council is not familiar with which requirements WTK has to comply with because timber licenses, Forest Management Plans and other necessary permits have not been made available to the Council. The Council has nevertheless been informed that requirements normally follow a

⁴⁵ Sidle et al. 2006: Erosion processes in steep terrain – Truths, myths and uncertainties related to forest management in Southeast Asia; in *Forest Ecology and Management* 224 (2006) pgs. 199-225. According to the Authors, timber harvesting with subsequent regeneration of secondary forests reduces rooting strength for up to two decades after initial cutting.

⁴⁶ Estimate based on elevation above sea level as provided by Google Earth Pro.

standard format, including requirements pertaining to logging on steep slopes, riparian buffer zones and along roads.⁴⁷ As mentioned previously, this means that logging is not permitted on slopes exceeding 35 degrees (Class IV terrain) and that timber harvesting and clearance within an area of 20 metres from permanent water courses must be avoided. Logging roads must be designed to ensure that erosion and siltation of streams and rivers are kept to a minimum. Moreover, there are requirements for buffer zones along roads, limiting the total width of the road clearance to 60 metres for main roads, 50 metres for secondary roads and 40 metres for feeder roads. Thus, it is likely that the clearing of forest for more than 20-30 metres from either side of a logging road is illegal.⁴⁸

Satellite images from different parts of WTK's license area T/3476 show that the company has cleared forest right up to the banks of rivers and on slopes that appear to be Class IV terrain. When it comes to road construction it appears that the clearance of forest along the roads is systematically much wider than the standard limits. An example of this is shown in Figure 11 where the width of the cleared area at the point of measurement is 123 metres, which is not exceptional along the length of road shown.

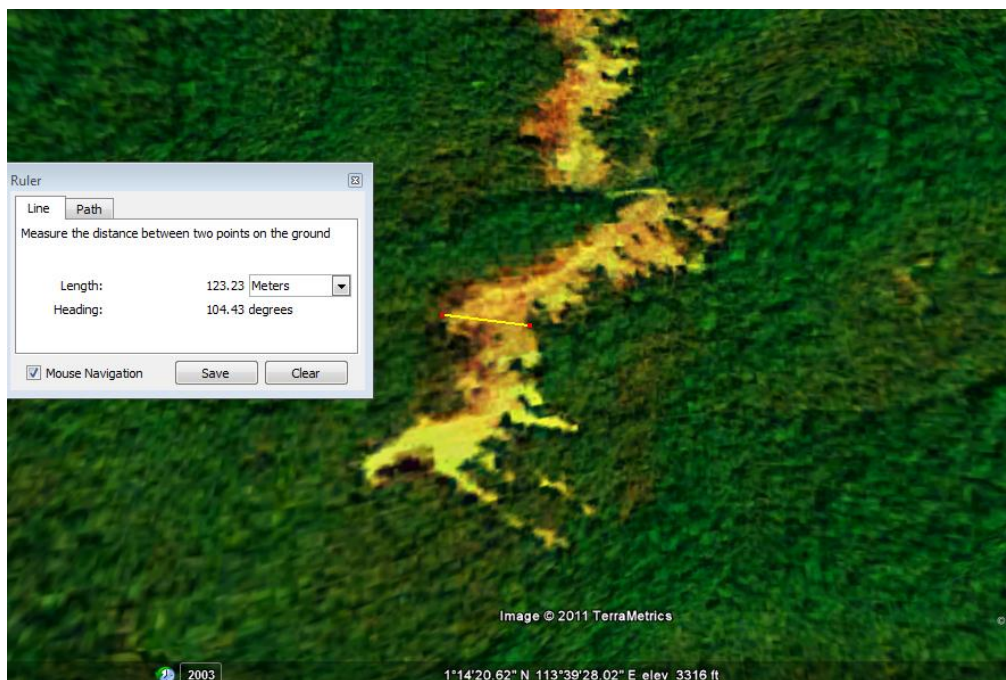


Figure 11: Google Earth Pro image from January 2011 showing logging road within WTK timber license T/3476 (for location see Figure 6)

Based on the information available to the Council concerning forestry requirements in Sarawak, WTK's practices in T/3476 appear to be in breach of requirements aimed at reducing the environmental damage associated with logging. The Council finds that the company's practice in this concession area shows signs of being systematic, and that it has caused extensive and long-term damage to the forest which may adversely affect the regeneration of the forest, biodiversity and ecosystem services.

The logjam in the Melatai River basin in October 2010

In October 2010, Malaysia's longest river, the Rajang River, was filled with 300,000 m³ of logs and debris in a length of 50 kilometres (see Figure 12). The Sarawak Land Development Minister

⁴⁷ Confirmed in a meeting between the Council's secretariat and the Sarawak Forest Department, NREB, the Forestry Corporation and other government bodies in Kuching, Sarawak on 17 October 2011.

⁴⁸ See the Council on Ethics recommendation to exclude Samling Global for more information about forest management requirements in Sarawak.

James Masing described the incident (the so-called logjam) as an ecological disaster,⁴⁹ and two people were reported killed and one missing as a result of the incident. Chief Minister Abdul Taib Mahmud immediately promised a thorough investigation of the case.⁵⁰ A number of government bodies took part in the investigation, including the Sarawak Forest Corporation (SFC) and the Natural Resources and Environment Board (NREB).⁵¹ According to media reports, the preliminary conclusion was that sudden and unusually heavy rainfall had caused a number of landslides in the Melatai River Basin, causing large volumes of soil and debris to flow into the Melatai River and finally into the Rajang River.⁵² According to the SFC, logging did not cause the incident.⁵³ To the Council's knowledge, the final report of the investigation has not been published so far.



Figure 12: The “logjam” on the Rajang River in Sarawak, October 2010.⁵⁴

Many local politicians, NGOs and members of the public have questioned SFC's conclusion and claimed that extensive and illegal logging activities were the main cause of the landslide. Among others, Sarawak Land Development Minister James Masing⁵⁵ and a previous director at the SFC⁵⁶ stated that the landslides were caused by intensive and uncontrolled logging.

The government has confirmed that the logjam originated from the Melatai River basin. There are five timber licenses encompassing the Melatai river basin, of which WTK is the licensee in four and the contractor in the fifth (see Figure 13).⁵⁷ Analysis of a series of Landsat satellite

⁴⁹ The Malaysian Insider, 8 October 2010: *State minister says Rajang logjam an ecological disaster*,

<http://www.themalaysianinsider.com/mobile/malaysia/article/state-minister-says-rajang-logjam-an-ecological-disaster/>.

⁵⁰ Borneo Post, October 9, 2010: *One missing in river; two buried in mud*, <http://www.theborneopost.com/2010/10/09/one-missing-in-river-two-buried-in-mud/>.

⁵¹ Borneo Post, October 11, 2010: *CM: We will probe cause of logjam*, <http://www.theborneopost.com/2010/10/11/cm-we-will-probe-cause-of-logjam/>.

⁵² The Borneo Post, 9 November 2010: *Logjam triggered by various factors*, <http://www.theborneopost.com/2010/11/09/%E2%80%98logjam-triggered-by-various-factors%E2%80%99/>.

⁵³ Borneo Post, 21 Oct 2010: *Massive debris not due to logging activities – Len*, <http://www.theborneopost.com/2010/10/21/massive-debris-not-due-to-logging-activities-%E2%80%93-len/>.

⁵⁴ Sarawak Indigenous Community News, 8 October 2010: *Rajang a river of logs!*, <http://sarawaknews.wordpress.com/2010/10/08/kapit-a-river-of-logs/>; image copyright yadiputra9 photography.

⁵⁵ New Straits Times, 14 October 2010: *Sarawak area a 'war zone' owing to excessive logging*, http://www.nib.com.my/archives/text/view/54673262?pos=1&hide_header=1&resultset=nsstpec%3Awww/cross-search/search.php%3A_1340086914%3Aresultset.

⁵⁶ Suara Sarawak 15 March 2011: *Ex-forestry director was lying about logjam, says colleague*, <http://www.barubian.net/2011/03/ex-forestry-director-was-lying-about.html>.

⁵⁷ A presentation by the Sarawak Forest Corporation on the logjam in October 2010 showed the number of the license areas in the Melatai River Basin.

images stretching back to 2005 demonstrates that the only area where significant new logging has occurred during the last 5 years is the eastern portion of WTK's T/3476 concession (see Figure 5). Available information suggests that WTK has logged forest in riparian buffer zones, in steep terrain and along roads which seem to have contributed to considerable erosion and landslides in this concession area. In the Council's opinion, it cannot be ruled out that WTK's forest operations have contributed to the logjam.

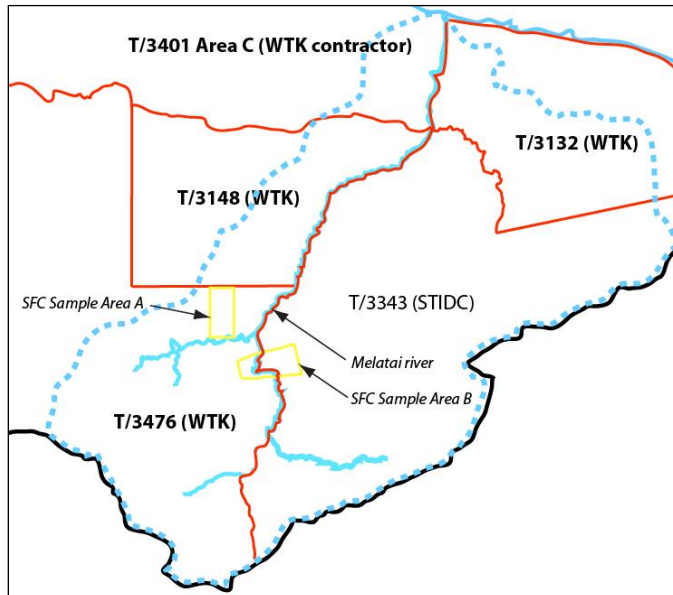


Figure 13: Timber licenses in the Melatai river basin. WTK is the licensee of T/3148, T/3132, T/3476 and the contractor in Area C of T/3401. The Sarawak Timber Industry Development Corporation (STIDC) is the licensee of T/3343.

4.3 Re-entry logging without an EIA

According to the Natural Resources and Environment (Prescribed Activities)(Amendment) Order, 1997, First Schedule, Article 2 (i), companies must have completed an Environmental Impact Assessment (EIA) approved by the Natural Resources and Environment Board (NREB) before undertaking re-entry logging in areas larger than 500 ha. Environmental impact assessments are also mandatory for the approval of land clearing and the establishment of plantations. These requirements were introduced in 2005.

To the Council's knowledge, WTK has received approval for an EIA for re-entry logging within timber license T/3148 and for re-entry logging in single coupes in T/3081 and T/3082. The EIA for the re-entry logging being carried out by WTK in T/3148 was approved in October 2009, after re-entry logging had been going on in the area for more than 8 years.⁵⁸ Information from other EIA reports for adjacent concessions and logging areas indicate that WTK has carried out re-entry logging in a number of its timber license areas – T/3080, T/3081, T/3064 and T/3132.⁵⁹ Yet no EIAs for these areas seem to have been carried out, as no record of such was found in NREB libraries. It cannot be ruled out that WTK has been exempted from the EIA requirement, although the NREB has informed the Council that no such exemptions are allowed for under the NREB ordinance.⁶⁰

⁵⁸ Ecosol Consultancy Sdn Bhd 2009: *Environmental Impact Assessment for the Re-entry Timber Harvesting of Hill Forest within the Entuloh-Melatai FMU under Timber License No. T/3148*.

⁵⁹ Ecosol Consultancy Sdn Bhd. 2009: *Environmental Impact Assessment for the Re-entry Hill Logging under Timber License No. T/3433*, p. C2-17 (map with T/3080, T/3081, T/3064 all labelled as re-entry logging); EIA for T/3148 (see footnote 58), October 2009, pg. C2-17 (map with T/3132 labelled as re-entry logging).

⁶⁰ Confirmed in a meeting between the Council's secretariat and the Sarawak Forest Department, NREB, the Forestry Corporation and other government bodies in Kuching, Sarawak on 17 October 2011.

5 Information provided by the company

5.1 WTK's communication with the Council

On 9 December 2010, the Council sent a letter to WTK requesting information and documents pertaining to the company's forest operations and the company's sustainable forestry practices. A follow up email was sent to WTK on 25 January 2011. WTK has not responded to the Council's request.

The Council sent the draft recommendation to WTK on 24 February 2012. The company has been contacted by the Council several times by telephone and by email, the last time on 10 April 2012. WTK has not responded to the Council.

5.2 WTK's position

WTK provides little information about its forest operations. In its Annual Report 2010, the company states:

'The WTK Group is committed to adopt and implement sound forest management practices to ensure forestry is economically, environmentally and socially sustainable. With strict adherence to the prescriptions of forest management plan in every concession area, the Group abides by the rules and regulations pertaining to cutting cycles, yield, annual allowable coupes, cutting rules, logging blocks, inoperable forest, obligatory species, merchantable tree sizes, enumeration and log measurement.'⁶¹

The company also states that all requirements regarding road construction are followed, and that it conducts environmental impact assessments to ensure that forest operations cause minimal environmental damage. In addition, WTK has highlighted its work on sustainability certification under the Malaysian Timber Certification System (MTCS). The company has so far invested about USD 3.85 million (RM 12 million) in this work. No units have yet been certified.

The 2009 WTK Annual Report states that the company is working to obtain MTCS certification of its forest plantations against a new standard for plantations issued by MTCS in 2009.⁶² This is not mentioned in the 2010 or 2011 Annual Reports.

6 The Council on Ethics' assessment

The Council on Ethics has assessed whether there is an unacceptable risk that WTK is responsible for severe environmental damage as per paragraph 2, third subsection, of the Ethical Guidelines. In this case, the Council has emphasized the environmental damage associated with the conversion of tropical forests to plantations, environmental damage associated with logging, and the fact that the company's practices seem to breach normal requirements and therefore can be assumed to be illegal. Illegal logging reinforces the environmental damage associated with forest operations and may in itself provide a basis for exclusion under the criteria for severe environmental damage.

In its assessment, the Council has emphasized the scale of the damage and to what extent it causes long-term and irreversible impacts, whether the damage is a result of violations of national laws or international norms, and what the company has done to mitigate impacts.

⁶¹ WTK Annual Report 2011, <http://www.wtkholdings.com/report.html>.

⁶² WTK Annual Report 2009, <http://www.wtkholdings.com/report.html>.

As shown in section 2.1, all but one of WTK's license areas overlap with the Heart of Borneo and the Sundaland Biodiversity Hotspot. These are regions with particular important biological values, which are threatened by deforestation and forest degradation.⁶³ WTK has licenses to establish plantations covering an area of about 130,000 hectares. About half of the area will be planted. In the Council's view, there can be no doubt that the removal of more than 70,000 hectares of tropical rainforest in one of the most biodiverse regions on earth will have severe and irreversible impacts on biodiversity and on the ecological services the rainforest provides. The clearing is also likely to have adverse impacts on the remaining 60,000 hectares of forest due to the increased fragmentation of the forest and habitats. The Council emphasizes that the area which is being cleared is home to numerous species which are completely protected in Sarawak, and a number of them are also listed on the IUCN Red List of Threatened Species. All these species are in rapid decline, mainly due to habitat loss caused by logging and the conversion of forests to plantations. A further reduction in their habitats at this scale will increase the risk of endangered species becoming extinct. WTK is familiar with the environmental damages associated with its conversions of forests, as the company's own environmental impact assessments state that loss of biodiversity and the destruction of habitats will be inevitable. In this context the Council notes the UN and World Bank's REDD initiatives which express an international consensus on the importance of limiting the degradation and deforestation of tropical forests as a way to mitigate climate change and biodiversity loss. WTK's conversion of tropical rainforest to plantations stands in stark contrast to international activities to reduce deforestation.

The Council also stresses the environmental damage associated with the harvesting of timber. As the available information is scarce, the Council has assessed WTK's logging practices in only one timber license. This concession is located in the Melatai River Basin, which was the source of one or more landslides (the logjam) which caused severe damages in and along the Rajang River. The forest here appears to be virgin rainforest which had not been logged before WTK started intense logging during 2006-2010. The timber harvesting seems to have caused extensive erosion and numerous landslides along roads, rivers and on steep slopes, resulting in considerable damage to the remaining forest, rivers, flora and wildlife, which may have long term negative impacts on the forest ecosystem in this concession. In the Council's opinion it cannot be ruled out that these practices contributed to the logjam. The Council therefore concludes that WTK's forest operations appear to cause extensive and irreversible environmental impacts.

Based on the information available to the Council, WTK's forestry operations seem to breach numerous government requirements. This applies both to the license area for planted forest and the timber license area which the Council has studied. The research has been limited to three areas in two of WTK's concessions. In these areas WTK appears to have logged outside the concession boundary, in buffer zones along river banks and roads, and on steep slopes, which normally is not permitted in Sarawak. Such areas are normally set aside to protect habitats and to reduce erosion, the pollution of waterways and landslides. In one of the license areas, the Council has estimated that the area which has been illegally logged amounts to about 4,000 hectares. WTK seems also to have started re-entry logging without approved environmental impact assessments as required by law. The Council's knowledge is to an extent limited, as information about requirements and maps have not been available. It is possible that the company is exempted from requirements and that concession boundaries have been changed. The Council has requested such information from WTK, but WTK has not responded. The Council therefore takes the available information as its point of departure and finds it probable that WTK's logging practice is in conflict with government requirements. The Council attaches importance to the fact that this practice is found in all the researched areas, and that the assumed illegal logging appears to have caused extensive environmental damage, particularly in the timber license area studied

⁶³ The World's 10 Most Threatened Forest Hotspots, <http://www.conservation.org/newsroom/pressreleases/Pages/The-Worlds-10-Most-Threatened-Forest-Hotspots.aspx>.

by the Council. In addition, the Council considers that illegal logging in itself is unacceptable and in clear breach of both national and internationally accepted norms.⁶⁴

The Council has assessed WTK's actions to prevent or mitigate environmental damage. The company claims that it is committed to sustainable forest management in accordance with laws and requirements, but does not explain what this means in practice. A large part of WTK's operations include the conversion of tropical rainforest to plantations. In connection with operations of this kind, it has become more usual for companies to identify, protect and manage areas within the license area which are of particular ecological importance, so-called High Conservation Value Forest. The Council attaches importance to the fact that WTK neither seems to have carried out such assessments, nor has implemented other measures to mitigate the environmental impacts associated with the conversion of forest. The same applies to the company's logging practices, where the company has adopted few measures to reduce environmental damage from logging or road building, which in the Council's view aggravates the environmental damage. The Council finds that WTK does little to reduce the environmental damage associated with its forest operations.

Finally, the Council has assessed the future risk of environmental damage. WTK's licenses are all in operation. The timber licenses will expire in 2020, but may be extended beyond then. The licenses for planted forest will run until 2060. This means that WTK will be logging for many years to come. There is no indication that the company will end these operations or substantially change the way in which they are run. The company's unwillingness to share information strengthens the assessment that the practice will continue.

7 Recommendation

The Council on Ethics recommends the exclusion of the Malaysian company WTK Holdings Berhad from the investment universe of the Norwegian Government Pension Fund Global because of an unacceptable risk of the company being responsible for severe environmental damage.

Ola Mestad
Leader

(sign.)

Dag Olav Hessen

(sign.)

Ylva Lindberg

(sign.)

Gro Nystuen

(sign.)

Bente Rathe

(sign.)

⁶⁴ A number of international, comprehensive efforts are made to combat illegal logging in Asia and elsewhere, under the auspices of the EU, the World Bank and individual States. Such initiatives include the EU Forest Law Enforcement, Governance and Trade (FLEGT), and regional FLEG processes supported by the World Bank and the Asia Forests Partnership (AFP), as well as numerous national initiatives aimed at halting the trade of illegal timber and wood products. Malaysia is partner to both EU FLEGT and AFP. See for example <http://ec.europa.eu/environment/forests/flegt.htm> and <http://www.asiaforests.org/>.