

Sabah TLAS Audit Report

Sabah Legality Standard Principles 1 – 4

Licensee	Anika Desiran Sdn. Bhd.	Reference #	G161-225b
Contact Person	Mr. Henry Choo (FMU Coordinator and Compliance) Norafi Bin Yugas (Forest Plantation Manager)	Date of Report Date of close out	10 March 2018 22 January 2019
Office Address	Suite 1-03, First Floor, Wisma E&C, No.2, Lorong Dungun Kiri, Damansara Heights, 50490 Kuala Lumpur, Malaysia.	Telephone	+603 2094 7922 +6087 345 202 +6019 883 6766
Email	henryc@shcm.com.my	Fax	+6087 345 202 +603 2094 7996
		Approved By	Dr. Kevin T. Grace

Statements

Audit Statement	GFS 014 LVS		
Issuance Date	01 February 2019	Expiration Date	31 April 2019

Assessment Details

Assessment Dates	5 - 9 March 2018 / Close out - 22 Jan 2019 Area suspended from operations in July 2018 due to investigation of illegal logging by Sabah State Government.
Scope of Assessment	TLAS Principles 1 – 4: ITP and NFM
Species	<i>Dryobalanops</i> spp. (Kapur), <i>Shorea inappendiculata</i> (Selangan batu), <i>Parashorea</i> spp. (White seraya), <i>Shorea</i> spp. (Red seraya, Yellow seraya) <i>Neolamarckia cadamba</i> (Laran), <i>Duabanga moluccana</i> (Magas), <i>Octomeles sumatrana</i> (Binuang), <i>Alstonia</i> spp. (Pulai), Lauraceae (Medang), Lithocarpus & Quercus (Mempening), Myristicaceae (Darah-darah), <i>Cotylelobium</i> spp. (Resak batu), <i>Hopea sangal</i> (Gagil), <i>Koompassia malaccensis</i> (Impas), <i>Scaphium</i> spp. (Kembang semangkuk), <i>Annonaceae</i> spp. (Karai), Gluta/ Semecarpus/ Melanochyla & Swintonia (Rengas), <i>Eugenia</i> spp. (Obah), <i>Dialium indum</i> (Keranji), <i>Camposperma auriculatum</i> (Terentang), <i>Tristaniopsis obovata</i> (Pelawan), <i>Koordersiodendron pinnatum</i> (Ranggu), <i>Intsia palembanica</i> (Merbau) and Assam
Lead Assessor	Priera Bagang
Assessor(s)	Dr. Bernd Hahn-Schilling, Dayang Hanisah binti Maidin
FDS Staff	Harry F. Ikok (DFO Ranau), Deiras Juin (ADFO Ranau), Elrimeo Emin (ADFO Ranau)

OBJECTIVES:

- The objective of this checklist is to verify compliance to the Criteria listed in the Sabah Legality Standard as defined by Principles 1 - 4 for Sabah dated 01st January 2015 (**FDS-TLAS-002**).
- Compliance is defined when all applicable criteria are observed to be compliant. A Minor Gap to any indicator does not constitute non-compliance to a criterion. A Major Gap to any applicable indicator does reflect non-compliance to a criterion. Compliance for a criterion where multiple minor gaps are identified in indicators under the criterion may reflect non-compliance to the criterion.
- All issues identified under this standard shall be considered appropriate to the scale and degree of forestry operations undertaken by the parties under the agreement.

Summary Information

Overview of Licensee:

- **Anika Desiran Sdn. Bhd. (Anika Desiran)** is a Sabah registered company involved in Natural Forest Management and Industrial Tree Plantation (ITP) development within **FMU 5**, which comprises a total gross area of **88,920 ha**.
- Land tenure is based on the Sustainable Forest Management Licence Agreement (SFMLA) 10/1997 commencing on 10th September 1997 and expiring on 09th September 2097 for all activities within the concession. *About 12,241 ha of the licensed area have been excised and classified as Class 1 Protection Forest under Nuluhon Trusmadi Forest Reserve; FMU 10 (Ref.#: JPHTN/KGU (FMU10) 600-1/KLT.2 (109) dated 20 December 2016).*
- The previous assessment was conducted in Mar 2017 that resulted in 2 observations (Report #: G161-139).

Land classification	FMP Area (ha)
Total Concession Area	88,920
<ul style="list-style-type: none"> • Area (A) set aside for NFM • Area (B) set aside for ITP* 	<div style="margin-left: 20px;">14,488</div> <div style="margin-left: 20px;">74,432</div>
Production Area	76,463.32
Natural Forest Management Area	67,458.12
Plantation Forest (ITP) & Mosaic - Restoration / Planting (Mosaic)	9,005.20
Class I – Protection Forest Reserve buffer	700.00
Conservation Areas	6,262.58
Riparian reserve	1,392.60
Social - Community & Agriculture	4,101.50

*The 3rd FMP, was approved by the Chief Conservator of Forests (CCF) on 17 October 2017, which is valid from 1st September 2017 to 31st August 2027. The licensed area has been divided into two areas, area (A) and Area (B), for ITP and NFM. **Errors were observed in the FMP that list Area A as NFM and Area B as ITP (see Gap 022/2018 (Minor) - checklist 1.4.2).**

Environmental Context:

- The FMU 5 is located within the Trus Madi Forest Reserve (a Commercial Class II natural forest), which had been logged several times over the past 36 years from 1970 to 2006. **Anika Desiran** received the forest license in 1997 but had since carried out very limited harvesting and stopped all logging operations natural forest in 2006, except for 2 ITP Coupe areas where salvage logging operations were implemented until Oct 2015.
- Although the forests are generally described as degraded, a few faunal studies were carried out in the area, which concluded the area still provides reasonable quality habitat for wild boar, sambar deer, barking deer and mouse deer. Gibbons, Clouded Leopards and Orang-utan were also identified in the area. However, there are no signs of endangered mammals such as Elephants or Tembadau occurring in the FMU.
- Areas containing High Conservation Values (HCV) were identified during the preliminary assessments. The approved third FMP describes 11 compartments, which contain HCV attributes (high biological and ecological values: high altitude forest and species, bird nest caves, waterfalls, water catchment areas and graveyards). In 2015, further studies were carried out to verify and finalize the HCV occurrences in the FMU.

- **Anika Desiran** holds an approved EIA report for its ITP development activities.
- The Director of the Environment Protection Department (EPD) had approved the supplement legality agreement on 20 February 2018.

Social Context:

A Social Baseline Survey has been conducted in FMU 5:

Category	# Villages	Villages
Communities living and farming inside Trusmadi FR	3	Kg. Walou, Kg. Panulangon, Kg. Kanawahon
Communities farming inside Trusmadi FR	6	Kg. Kironggu, Kg. Linayukan, Kg. Langkabong, Kg. Napagang, Kg. Mananam, Kg. Maliau
Communities residing adjacent to Trusmadi FR	7	Kg. Bitoon, Kg. Paus, Kg. Kodop, Kg. Barambang, Kg. Tinanom. Kg. Kitai, Kg. Tiang Lama

- Most of the local communities belong to the ethnic group of Dusun. Their villages are accessible by land and river.
- Rubber tree farms, fruit tree orchards and small oil palm plantations form the main economic crops of the local communities. Subsistence farming is also widely practised by the local communities that plant a mix of traditional crops such as hill paddy, tapioca, maize, sweet potatoes, and vegetables. These food-crops for subsistence purposes.
- Local communities who have settled down in the Forest Reserve in the 50s' and 60s' are very concerned with the acquisition of legal rights to land and resources, which they have occupied through native customary rights. The local communities residing outside but cultivating inside the Forest Reserve also make similar claims. Many of them have submitted land applications with the local authorities, without knowing that the areas located within the Forest Reserve.

Scope of Assessment

- The scope of the evaluation is to verify compliance of Anika Desiran Sdn. Bhd. with the Sabah Forest Management License Agreement (SFMLA 10/97) for FMU 5.
- The assessment is in accordance on the terms of the agreement for the "Sabah Legality Standard Principles 1 - 4 dated 01st January 2015 (**FDS-TLAS-002**).
- Site evaluation to verify and report the level of compliance by Anika Desiran Sdn. Bhd. and contractors to the standard in respect to each of the criteria within this report.
- Compliance is defined when the auditee demonstrates that the indicators consist of none or only minor gaps against any applicable criteria of the standard. Non-compliance to the Sabah Legality Standard occurs when the auditee does not demonstrate adequate compliance to a criterion.

Itinerary of Assessment

Date	Activity
5 March 2018 Monday	Travel to Ranau from Sandakan and Kota Kinabalu. Opening meeting at FDS Ranau District office.
6 March 2018 Tuesday	Field visit to harvesting operation at C57 and C58, stream buffer zones, steep area and base camp.
7 March 2018 Wednesday	Field visit to licensed boundary, stumping, and workshop.
8 March 2018 Thursday	Document review at FDS Ranau District office.
9 March 2017 Friday	Closing meeting at FDS Ranau District office. Return travel to Sandakan and Kota Kinabalu.

Highlights of Assessment

March 2018: (Major Gaps = 3; Minor Gaps = 5; Observations = 2)

August 2018: (Major Gaps = 1; Minor Gaps = 4; Observations = 2)

January 2019: (Major Gaps = 0; Minor Gaps = 5; Observations = 2)

Anika Desiran Sdn. Bhd. has now complied with the Sabah Legality Standard (**FDS-TLAS-002**) as based on the close out report by FDS on 14 January 2019.

Anika Desiran Sdn. Bhd. closed major Gaps 021/2018; 023/2018; 024/2018; however, Gap 026/2018 was raised to major thus the company did not comply with the Sabah Legality Standard (**FDS-TLAS-002**) as a non-compliance was identified for *Criteria 3.1* following the close out report by SFD on 1 August 2018.

FDS has provided a second close out report (Ref. #: JPHTN/SFM (FLEGT) 800-1/7/7/3/11) dated on 14 January 2019 that detailed activities and findings against Major Gap 02/2018 listed in the report.

Summary of status of operations by **Principle**:

Principle 1.

Gap 020/2018 (Minor) – Checklist 1.1.1: The supplementary agreement for FMU 5 area was not made available during the assessment.

March 2018: Gap 021/2018 (Major) – Checklist 2.1.3:

Anika Desiran has not presented Environment Compliance Reports for 2017 and inadequate environment mitigation measures were observed during the assessment.

August 2018: Gap 021/2018 (Major) - Closed

Environment Compliance Quarterly Reports were made available by Ekohandal SB for 2017 and all mitigation measures have been fully implemented (Ref.#: JPHTN/SFM/FLEGT) 800-1/7/7/3/10)

Gap 022/2018 (Minor) – Checklist 1.4.2:

Forest resource data for long-term management planning are outdated and do not reflect the actual stocking conditions. The Annual Allowable Cut for NFM has not been determined, due to lack of reliable resource data. Observed inconsistent and confusing forest zoning data in the approved 3rd FMP.

Observation 001-2018 – Checklist 1.9.1: The rationale for selection of the number of PSPs and their locations within the FMU has not been described.

Principle 2.

March 2018: Gap 023/2018 (Major) – Checklist 2.1.5:

Marking of buffer zones and riparian reserves was not adequately implemented. Riparian areas were observed disturbed by road construction that included direct river access. Identification of steep areas $\geq 25^\circ$ in the Compartment Harvesting Plan for Compartment 58 (5.6 ha) differed with the actual ground conditions.

August 2018: Gap 023/2018 (Major) - Closed

Buffer zones for all rivers / permanent streams have been marked and warning signage at crossings according to EIA requirements have also been erected. Licensee has blocked the access to the riparian areas and planted native seedling for rehabilitation. (Ref.#: JPHTN/SFM/FLEGT) 800-1/7/7/3/10)

March 2018: Gap 24/2018 (Major) – Checklist 2.6.2, 2.6.7, 2.6.10:

No training on safety & health and fire prevention & suppression were conducted for the workers.

August 2018: Gap 24/2018 (Major) - Closed

Training on safety & health and fire prevention & suppression have been conducted as required. (Ref.#: (JPHTN/SFM/FLEGT) 800-1/7/7/3/10)

Observation 002-2018 – Checklist 2.1.10: The performance for AWP compliance 2017 scored at 78%.

Highlights of Assessment

However, the document was not made available during the assessment.

Principle 3.

Gap 025/2018 (Minor) – Checklist 3.1.1:

Three heavy machineries were found without FD registration plate number.

March 2018: Gap 026/2018 (Minor) – Checklist 3.1.2, 3.1.3:

Royalty payment had been paid to receive the Removal pass. However, the company did not maintain copies of the Royalty Receipts and other payment receipt (Premium, Community Forestry Cess, Forest Conservation Fees Forest Rehabilitation Fees as applicable) in their office.

August 2018: GAP 026/2018 (Raised to Major)

Inadequate evidence that the company has made payments for log extraction as many payment receipts were not available in 2017 & 2018 against scaling orders and TDP. Sabah State Government has suspended the concession from operations in July 2018 due to investigation of illegal logging. The investigation by the government needs to be completed and records of production and payment of royalty and associated fees need to be verified.

January 2019: GAP 026/2018 (Raised to Major) – Closed

The company has provided a complete set of royalty payment receipts, scaling orders and TDP's to the royalty paid logs from October 2017 to March 2018 (Ref. #: JPHTN/SFM(FLEGT) 800-1/7/7/3/11 dated 14 January 2019).

January 2019: GAP 028/2019 (Minor) – Checklist 3.1.3

Logs transported to their clients were accompanied with FDS Removal Pass. However, payment receipts for the removal passes were not available during the assessment.

Principle 4.

Gap 027/2018 (Minor) – Checklist 4.1.4:

Anika Desiran did not conduct any community consultation meetings in 2017.

Results:

(Compliance = 15; Non-Compliance = 0)

Gaps raised against indicators & criteria during **March 2018** assessment.

GAP	Type	Checklist	Description
020/2018	Minor	1.1.1	The supplementary agreement for FMU 5 area was not made available during the assessment.
022/2018	Minor	1.4.2	Forest resource data for long-term management planning are outdated and do not reflect the actual stocking conditions. The Annual Allowable Cut for NFM has not been determined, due to lack of reliable resource data. Inconsistent forest zoning data were observed in the approved 3 rd FMP: <ul style="list-style-type: none"> Page ix: Stated Area (A) is 14,488 ha and Area (B) 74,432 ha. Page 39: stated Area (A) set aside for NFM and Area (B) set aside for ITP. Figure 5.1: ITP area (9,005.20 ha) and NFM area (67,458.12 ha). Page 62: ITP zone divided into two areas in Area (A) - 3 compartments and Area (B) 8 compartments.
025/2018	Minor	3.1.1	Three heavy machineries were found without FD registration plate

GAP	Type	Checklist	Description
			number.
027/2018	Minor	4.1.4	Anika Desiran did not conduct any community consultation meetings in 2017.
028/2019	Minor	3.1.3	Logs transported to their clients were accompanied with FDS Removal Pass. However, payment receipts for the removal passes were not available during the assessment.

Status of outstanding Gaps:

GAP	Type	Checklist	Status	Description of Close Out
021/2018	Major	2.1.3	Closed	<p>March 2018: Anika Desiran has not presented Environment Compliance Reports for 2017 and inadequate environment mitigation measures were observed during the assessment.</p> <p>August 2018: Environment Compliance Quarterly Reports were made available by Ekohandal SB for 2017 and all mitigation measures have been fully implemented (Ref.#: (JPHTN/SFM/FLEGT) 800-1/7/7/3/10)</p>
023/2018	Major	2.1.5	Closed	<p>March 2018: Marking of buffer zones and riparian reserves was not adequately implemented. Riparian areas were observed disturbed by road construction that included direct river access. Identification of steep areas $\geq 25\%$ in the Compartment Harvesting Plan for Compartment 58 (5.6 ha) differed with the actual ground conditions.</p> <p>August 2018: Buffer zones for all rivers / permanent streams have been marked and warning signage at crossings according to EIA requirements have also been erected. Licensee has blocked the access to the riparian areas and planted native seedling for rehabilitation. (Ref.#: (JPHTN/SFM/FLEGT) 800-1/7/7/3/10)</p>
024/2018	Major	2.6.2, 2.6.7 2.6.10	Closed	<p>March 2018: No training on safety & health and fire prevention & suppression were conducted for the workers.</p> <p>August 2018: Training on safety & health and fire prevention & suppression have been conducted as required. (Ref.#: (JPHTN/SFM/FLEGT) 800-1/7/7/3/10)</p>
026/2018	Raised to Major	3.1.2 3.1.3	Closed	<p>March 2018: Royalty payment had been paid to receive the Removal pass. However, the company did not maintain copies of the Royalty Receipts and other payment receipt (Premium, Community Forestry Cess, Forest Conservation Fees Forest Rehabilitation Fees as applicable) in their office.</p> <p>August 2018: Inadequate evidence that the company has made payments for log extraction as many payment receipts</p>

GAP	Type	Checklist	Status	Description of Close Out
				<p>were not available in 2017 & 2018 against scaling orders and TDP. Sabah State Government has suspended the concession from operations in July 2018 due to investigation of illegal logging. The investigation by the government needs to be completed and records of production and payment of royalty and associated fees need to be verified.</p> <p>January 2019:</p> <p>The company has provided a complete set of royalty payment receipts, scaling orders and TDP's to the royalty paid logs from October 2017 to March 2018 (Ref. #: JPHTN/SFM(FLEGT) 800-1/7/7/3/11 dated 14 January 2019).</p>

Highlights of Close Out Visit (if applicable)	Dates	22 January 2019
<p>Major Gaps 021/2018, 023/2018 & 024/2018 were evaluated by FDS District office and issued a close out report (Ref. #: JPHTN/SFM/FLEGT) 800-1/7/7/3/10) Dated 1 August 2018.</p> <p>Gap 026/2018 (Raised to Major) is now closed. The company provided a complete set of royalty payment receipts from October 2017 to March 2018 (Ref. #: JPHTN/SFM(FLEGT)800-1/7/7/3/11).</p>		

Observation raised during March 2018 assessment.

OBS	Checklist	Description
001-2018	1.9.1	The rationale for selection of the number of PSPs and their locations within the FMU has not been described.
002-2018	2.1.10	The performance for AWP compliance 2017 scored at 78%. However, the document was not made available during the assessment.

Recommendations
<p>Anika Desiran Sdn. Bhd. has now demonstrated compliance with the Sabah Legality Standard (FDS-TLAS-002) and is recommended to receive a GFS Audit Statement and STCC from FDS.</p> <p>Gap(s)/observation(s) identified in this assessment should be addressed before the next surveillance visit. Action required to close the gap(s)/observation(s) include:</p> <p>Gap 020/2018 (Minor) – Checklist 1.1.1: The company shall keep a copy of the supplementary agreement at their office.</p> <p>Gap 022/2018 (Minor) – Checklist 1.4.2:</p> <ul style="list-style-type: none"> Anika Desiran needs to amend the FMP in respect to the correct area information for Natural Forest Management and Plantation areas. To carry out systematic forest resource assessment, covering the whole NFM net production area. Number of sampling units to be based on the statistical variance of live basal area or standing gross timber volume. To provide a credible estimate of growth and yield projection to form an Annual Allowable Cut. <p>Gap 025/2018 (Minor) – Checklist 3.1.1: To ensure that all vehicles and machineries operated by the harvesting contractors are furnished with FD registration plates.</p> <p>Gap 027/2018 (Minor) – Checklist 4.1.4: The licensee shall ensure communication with communities in regards to operations and to discuss concerns of the communities.</p> <p>Gap 028/2019 (Minor) – Checklist 3.1.3: The company shall maintain the FDS Removal Pass payment receipts in the office.</p> <p>Observation 001-2018 – Checklist 1.9.1: The company shall establish Permanent Sample Plots (PSP), to measure forest conditions and growth of residual stands. PSPs need to be established prior to harvesting to evaluate damage and regrowth of the residual stands.</p>

Observation 002-2018 – Checklist 2.1.10: The company shall retain copies of all AWP compliance records at their office.

The next annual surveillance will be scheduled in March 2019.

End of Summary Report