

WORKSHOP IDENTIFIES ISSUES AND OPPORTUNITIES AS VIETNAM SEEKS TO MEET GROWING INTERNATIONAL DEMAND FOR LEGAL WOOD PRODUCTS

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On October 8-9, 2009, 30 officials from the wood processing, forest protection, and management and planning departments of the Ministry of Agriculture and Rural Development (MARD), the customs department of the Ministry of Finance, and the Environmental Police of the Ministry of Public Security, and representatives from companies, business associations, and NGOs, met in Nam Dinh to discuss the challenges Vietnam's wooden furniture exporters face in complying with new laws that ban wooden products made from illegally cut timber entering major international markets.

In 2008, Vietnam exported US\$2.8 billion of wooden furniture, up from US\$2.4 billion in 2007 and US\$560 million in 2003. This phenomenal growth, coupled with domestic supply restrictions, has driven an equally rapid growth in Vietnam's timber imports, which supply 80% of the furniture industry's timber demand. In 2008, 63% by value of Vietnam's furniture exports went to the US and EU. However, changes in these markets in response to growing consumer demand for legal wood products are putting new demands on Vietnamese exporters and creating uncertainty about future market access.

The Nam Dinh workshop was co-organized by IUCN, MARD, and VIFORES, the Vietnam Timber and Forest Product Association, which represents 151 timber and wood processing companies. This workshop was the third in a series that IUCN has convened over the last 18 months as part of a multi-stakeholder process, involving government, business, and civil society, to help Vietnam understand and respond to new market requirements. The workshop targeted government officials responsible for supporting industry efforts to comply with these requirements and thereby ensure continued access to major export markets.

The workshop included presentations on the wooden furniture supply chain from the forest to the shop floor; market trends and opportunities for Vietnam's wooden furniture industry, and local industry examples of timber supply chain management. The workshop also included a visit to the Nam Dinh Wood Company, which has an exclusive furniture export agreement with IKEA, the international home products retailer. IKEA had a turnover of US\$30 billion in 2008.

In 2003, the EU launched the Forest Law Enforcement, Governance, and Trade (FLEGT) Action Plan, a global initiative to improve forest governance and ensure that only licensed, legal timber enters the European market. The Action Plan offers Vietnam and other wood product suppliers to the EU the opportunity to negotiate a Voluntary Partnership Agreement (VPA) under which all wood products exports to the EU from that country would be licensed. VPAs have so far been signed with Ghana and the Republic of Congo. In 2010, the EU is expected to approve a regulation that requires all timber traders, domestic producers and importers, to demonstrate due diligence in ensuring that they do not place any illegally harvested timber or timber products on the market. If a country has signed a VPA, its licensed exports to the EU will be considered to have been legally harvested and so satisfy the due diligence requirement.

In 2008, the US Congress amended the Lacey Act, which introduced new declaration requirement for importers of plant and timber products. The declaration requires details such as species, country of harvest, and shipment value. This requirement is being enforced in

phases: importers of wooden furniture have until the end of September 2010 to start submitting declarations for all of their shipments.

The FLEGT Action Plan and due diligence regulation are specific about what cannot be sold in the EU and the Action Plan provides support to countries to help them adjust to the new requirements. The Lacey Act, however, not only requires detailed product information but also compliance with both US laws and the laws of all source countries. Also, whereas previously the Lacey Act only addressed foreign suppliers, who may have had no assets in the US and were therefore beyond the reach of the act, the amendment targets importers and authorizes confiscation of goods, fines, and imprisonment in cases of non-compliance. Given the strict penalties and that fact that ignorance will not be accepted as a defense in any prosecution, the amendment is expected to encourage importers, and by definition exporters, to rely on well documented supply chains.

A major challenge facing Vietnamese wooden furniture companies that export to the EU and US is securing legal sources of timber. Vietnam's national logging quota from natural forests has declined rapidly and now stands at 200,000 m³. While there may be an opportunity to increase this quota, it would require far-reaching reforms in natural forest management that ensured that quotas for specific forests were based on sustainable yields. Vietnam's domestic timber supply comes from its plantations, which produced 5 million m³ of timber in 2008. Most of the 2.7 million hectares of plantation, however, were established to produce low-value timber for pulp and paper and wood chips.

About one-third of plantations belong to households. While these plantations should provide a significant income source, there are no commercially viable examples of business-household joint ventures. One problem is that timber plantations require a 10-year rotation compared with 4 years for pulp and paper, which offers a quicker and more attractive cash flow. Another problem is tenure and contract security. Pisico had half of its plantation in Binh Dinh taken back by the people's committee to reallocate to households. And even when contracts exist between companies and households, they can be broken with impunity. KfW, the German development bank, is experimenting with a household payment structure that links payment to contract compliance and may offer a viable model.

Truong Thanh and Pisico have established 20,000 and 10,000-ha plantations, respectively, to supplement their timber imports. The Nam Dinh Wood Company, which does not use imported timber, buys from large numbers of plantations in four different provinces. This increases transaction costs and the risk of incomplete documentation because many plantations are household enterprises with limited formal management and documentation systems. This also makes it difficult to secure FSC certification for household plantations (Vietnam's only FSC-certified plantation is a pulp and paper plantation in Quy Nhon). Meanwhile, plantation timber quality is declining because of poor silvicultural practices and excess demand. Whereas trees with 25-cm diameter were once common, only trees with 20-cm diameter are now available; the smallest diameter that can be used to make furniture is 18 cm.

The Nam Dinh Wood Company is therefore supply constrained: to grow it needs to access more legal timber. In 2008, the President of IKEA met the Prime Minister of Vietnam to ask for permission to acquire 200,000-ha of land on which to develop a plantation but the negotiations failed. Indeed, there is currently no significant foreign investment in Vietnam's plantations. This has broader significance because if Vietnam could expand its domestic timber supply it will reduce pressure on countries with weak forest management and potentially benefit from an international REDD market.

Workshop presentations by Truong Thanh, Pisico, and Nam Dinh Wood Company showed that these companies have already put in place supply chain management systems and (in the case of Truong Thanh) an FSC-certified chain of custody (COC). At present, 178 FSC COC certificates have been issued in Vietnam. As there are about 700 wooden furniture exporters in Vietnam, this suggests that up to 25% of these companies could meet EU and US regulations. These companies could form a core group that supports modernization industry-wide. Since Truong Thanh, Pisico, and Nam Dinh Wood Company established supply chain management systems without consulting each other, there is clearly scope for business to business information exchange and learning.

Moving the whole industry, not just a few leaders, to a more sustainable footing is important because of the reputational damage that a few rogue companies can cause. This risk was demonstrated by the 2008 EIA/Telapak report on timber exports from Laos to Vietnam, which damaged Vietnam reputation, not just its wooden furniture sector. If similar reports were released, Vietnam's access to the EU and US markets would be jeopardized with the potential loss of hundreds of thousand of jobs. The future of the industry is therefore linked to Vietnam's international standing as an exporter of ethically produced goods. Vietnam cannot compete with China on price, but it can build a respected national brand that capitalizes on its stable and relatively equitable society, a functioning government administration, and rich natural and cultural heritage.

At the workshop, it was pointed out that since VPAs were originally designed for countries that export unprocessed timber to the EU and given the progress that some companies have made in modernizing their supply chains, Vietnam may not wish to negotiate a standard VPA. Alternative arrangements that involve independently verified private sector COC systems may be more suited to Vietnam's case as an exporter of finished wood products.

The workshop was an opportunity for government officials to hear from industry representatives about the progress they have made, the challenges they face, and how government can support them in adjusting to new international market requirements. While some companies may already be in a position to meet these requirements, growing the sector as a whole needs government to put in place a supporting enabling environment through a mix of information, incentives, and regulation.

The following next steps were agreed upon. First, in consultation with other ministries, companies, business associations, and international partners, MARD will prepare a National Action Program on FLEGT and Lacey Act and submit it to the Prime Minister for approval. Second, VIFORES and HAWA will coordinate industry input to the Action Program and will work with members to prepare and disseminate COC guidelines and other practical information. Finally, IUCN will collaborate with WWF and other member organizations to continue to facilitate this multi-stakeholder process.