



# How Viet Nam is prepared to meet legal requirements of timber export markets

Nguyen Ton Quyen and Tran Huu Nghi



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## Foreword

Viet Nam has a strong timber industry, with about 3,400 timber processing companies in operation. In 2010, timber export revenue ranked fifth among exported commodities, reaching about US\$ 3.4 billion. The current trend of industry shows the rapid expansion of the sector.

The Vietnamese timber industry is export-oriented, with the US and EU as the two major destinations, accounting for about 80 percent of the timber export revenue. Recently, the governments of the US and EU have developed initiatives aiming to prevent the trade of illegal timber products in their markets. The EU's Forest Law Enforcement, Governance, and Trade (FLEGT) Action Plan, the recent EU's Timber Regulation, and the US's Lacey Act are the key initiatives.

Viet Nam's forestry sector and timber industry will be affected by these initiatives. To prepare the country to meet the legal requirements from the US and EU markets, the Vietnamese government has been negotiating with EU on a FLEGT Voluntary Partnership Agreement (VPA). With this VPA Viet Nam will be better positioned to meet all requirements with regard to the legality of the timber products exported to the EU.

In this report the possible impacts of FLEGT VPA and Lacey Act on the forestry sector in Viet Nam are explored. The report nicely describes the current situation of the country's forest sector including the legal and institutional framework governing the country's forest resources. The report highlights some positive signs of the industry's move towards more responsible timber trading and sustainable forest management, with an increasing number of companies applying a timber tracking system for controlling the legality of the timber.

The report has carefully analyzed both positive and negative impacts of FLEGT VPA, EU Timber Regulation, and Lacey Act on timber industry and beyond. Such an analysis is very important, not only for the government of Viet Nam and the EU to decide on the scope of a FLEGT VPA, but also for a broader set of stakeholders who will be affected by the signing of a VPA in the future.

Meeting legal requirements set out by FLEGT and Lacey Act is not an easy job. The report has highlighted some profound constraints, for example those associated with existing land tenure structure in particular for a large number of smallholders and timber processors. The report has suggested some important recommendations in order to prepare the country to move toward more responsible timber trading and sustainable forest management.

Viet Nam is organizing, together with the Netherlands and Finland, a "Country-Led Initiative (CLI) on Enhancing and Promoting Legal Timber Production and Trade" in the framework of the United Nations Forum on Forests (UNFF). The Ministry of Agriculture and Rural Development (MARD) has commissioned this report, produced by Tropenbos International Viet Nam in cooperation with the Viet Nam Forest and Timber Product Association (VIFORES),

to be presented at this CLI. The analysis of the timber industry in Viet Nam in light of the increasing international requirements to verify legal production will benefit the discussions at the CLI. MARD would like to thank and congratulate TBI Viet Nam and VIFORES for this useful report and welcome any comments from all of you.



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## Summary

In 2010, Viet Nam earned a total of US\$ 3.4 billion from furniture exports, the US and EU serving as the main export destinations. This report aims to provide some initial assessments of the impacts of the newly emerged export market requirements on the legality verification of timber products, particularly the EU's Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan, EU Timber Regulation, and the US Lacey Act. In addition, it describes key forest policies and initiatives aiming at promoting sustainable production and trade of timber and timber products.

The report illustrates that some parts of the industry have been gradually moving towards more responsible timber production and trading. This is reflected by an increasing number of companies with reliable wood tracing systems, the use of more reliable and certified wood, and effective collaboration between wood companies and smallholders. In recent years the government of Viet Nam has initiated several policy reform processes to stimulate the forest sector, including the timber industry.

Despite these initiatives, a number of difficulties exist that are preventing the upscaling of the sustainable timber production and responsible timber trading in the country. The difficulties include the lack of funding for investment into forest plantations, high transaction costs triggered by small landholdings and processors, and complexity of land tenure system, among others.

Viet Nam has entered a negotiation process with the EU on a Voluntary Partnership Agreement (VPA), a means of putting the FLEGT-licensing system into effect. VPA-negotiations are centered around the development of a robust Timber Legality Assurance System (TLAS), comprising five elements: (i) a clear definition of timber legality; (ii) a mechanism to control timber as it moves around the country; (iii) a government endorsed institution to verify that laws have been complied with and the control system is being applied with sufficient rigor; (iv) a licensing authority for exports, and (v) an independent institution to monitor the functionality of the whole system.

Forests in the country are only able to supply 20-30% of the necessary raw material for the timber processing industry; the remaining 70-80% has to be imported. Viet Nam is currently importing timber and wood products from more than 100 countries and territories with a total of more than 600 vendors. Controlling the legality of timber imports is one of the biggest challenges for developing a TLAS and signing a VPA with the EU. To date, there is no mechanism in place to address this difficulty.

Most of the timber processing companies in Viet Nam are small scale and do not have a wood tracing system in place. With the limited resources available, many of them are not ready and cannot afford this kind of system. Given the current structure and situation of the timber industry, its heavy dependency on timber imports, the large number of smallholders without legal land titles, and the lack of support and commitment from the government in



promoting sustainable forest management and timber trade, a TLAS covering the whole timber trade, a nation-wide TLAS, might be difficult to implement in the short run. It is therefore anticipated that the country will limit the scope of its TLAS to the key supply chains exporting to the EU, i.e. the limited scope TLAS. Such a limited scope TLAS will give the country time to prepare for future upscaling to a nation-wide TLAS.

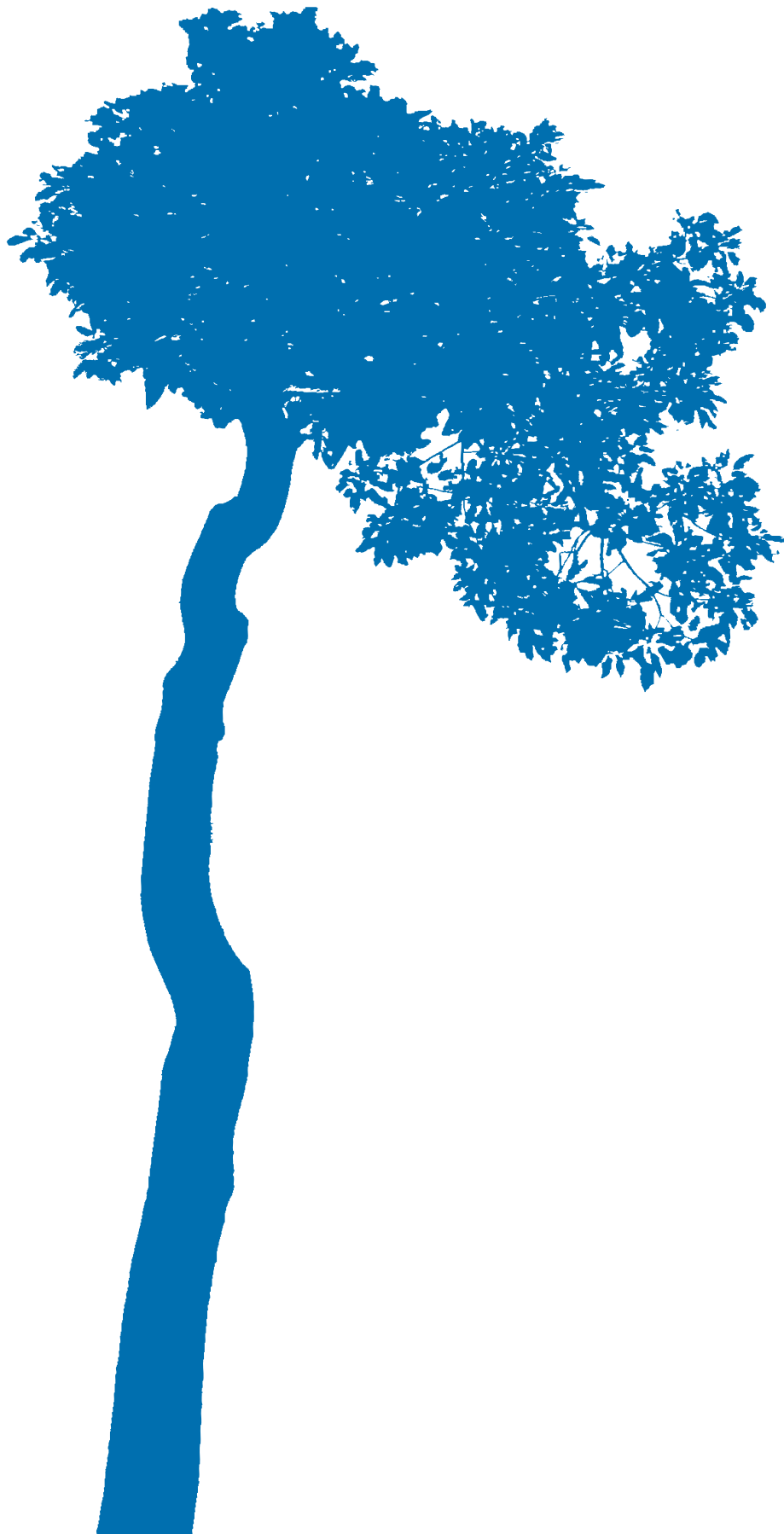
Alongside the adoption of a limited scope TLAS, the government should design a concrete action plan for arriving at a nation-wide TLAS to prepare the country for the future. The plan should include activities aimed at promoting sustainable forest management, granting land use titles to smallholders, encouraging the adoption of transparent wood tracing systems, and increasing the use of certified wood. Mechanisms such as bilateral trade agreements with key timber importing countries should also be explored and developed. Stakeholders should be well-informed, in particular the small producers and landholders, about the emerging requirements of legality verification. Good practices should be promoted and exercised by timber enterprises.

In general, the FLEGT VPA, the EU Timber Regulation and the US Lacey Act will impact the timber industry and forest governance in Viet Nam. The timber industry will have to adapt to these emerging legal requirements of their main export markets. A clear advantage is that Viet Nam has already piloted some FLEGT and REDD+<sup>1</sup> initiatives on which it can further build. Synergies between the two should be created in order to mobilize more resources to strengthen the country's capacity to achieve sustainable forest management and responsible timber trade in the future.

## Acronyms

CLI	Country Led Initiative
CoC	Chain of Custody
DARD	Provincial Department of Agriculture and Rural Development
EIA	Environmental Investigation Agency
EU	European Union
FDI	Forest Direct Investment
FLEGT	Forest Law Enforcement Governance and Trade
FSC	Forest Standard Certification
GFTN	Global Forest & Trade Network
LUC	Land Use Certificate
MARD	Ministry of Agriculture and Rural Development
MB	Management Board
MDF	Multi-Density Fiber
MOF	Ministry of Finance
MONRE	Ministry of Environment and Natural Resources
NTFP	Non Timber Forest Product
PA	Protected Areas
PC	People's Committee
PFES	Payment for Forest Ecosystem Services
REDD+	Reducing Emissions from Deforestation and Forest Degradation in Developing Countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries
RWE	Round Wood Equivalent
SFE	State Forest Enterprises
TFT	Tropical Forest Trust
TLAS	Timber Legality Assurance System
UK	United Kingdom
UNFF	United Nation Forum on Forest
UNREDD	United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries
US	United States of America
VAT	Value Added Tax
VIFORES	Viet Nam Forest Products and Timber Association
VPA	Voluntary Partnership Agreement
WWF	World Wildlife Fund

<sup>1</sup> REDD+ is the UNFCCC mechanism which places a value on standing forests and compensates governments for verifiable reductions in emissions from deforestation and forest degradation.



# 1 Introduction

The wood processing industry in Viet Nam has been expanding substantially in recent decades. By 2009, there were approximately 3,400 wood processing enterprises in operation, with this number expanding at an average annual rate of about 18%.

The Vietnamese wood industry is export-oriented. In 2010, the total export revenue derived from furniture exports reached US\$ 3.4 billion. This makes furniture exports the fifth biggest export earner for the country. Furniture made in Viet Nam is being exported to many countries in the world.

Annually, about 6 million cubic meters (m<sup>3</sup>) of round wood equivalent (RWE) are needed to feed the wood processing industry. Around two-third is imported from abroad and the remainder comes from domestic sources. In other words, the industry strongly relies on timber imports. Currently, Viet Nam is importing timber from more than 600 vendors from more than 100 countries. With so many different import sources, controlling the legality of timber imports has been a challenge for Vietnamese authorities and companies.

The EU and the US are the two biggest importers of Vietnamese furniture. Export revenue derived from these two markets account for more than 80% of total export revenue. In recent years, the governments of the US and EU have developed measures for preventing illegal timber entering their markets. Regarding the US market, recent amendments to the Lacey Act (2008) has made it unlawful to import, export, transport, sell, receive, acquire or purchase any plant taken or traded in violation of the laws of the US or relevant foreign laws. On the other side of the Atlantic, the EU Timber Regulation (2010) requires all timber operators to establish a “due diligence” system which will minimize the risk of handling illegal timber. The EU Timber Regulation is part of the EU Forest Law Enforcement, Governance, and Trade (FLEGT) Action Plan, an initiative developed in 2003 to prevent trade associated with illegal timber in EU markets. These requirements will have substantial impact on the wood processing industry and forest governance system in Viet Nam. In October 2010, the Vietnamese government decided to enter into FLEGT VPA negotiations with the EU, with the Ministry of Agriculture and Rural Development (MARD) leading the negotiation team from the Viet Nam side. One of the core components that will be included in the VPA for negotiation is the establishment of a Timber Legality Assurance System (TLAS) to guarantee that all timber products produced in Viet Nam are legal. The operation of TLAS in Viet Nam will ensure that only timber products made from legal wood are imported into the EU.

MARD has requested Tropenbos International Viet Nam to prepare a country case study on the initiatives and experiences in promoting legal timber production and trade. In this report “*How Viet Nam is prepared to meet legal requirements of timber export markets*” the results of this study are presented which focused on the following objectives:

- » Studying the current status and future policy orientation of Viet Nam on timber production and processing and export of furniture.

- » Reviewing some key policies and programs on sustainable forest management (e.g. reducing illegal timber, using sustainably produced timber).
- » Reviewing some good examples of production, processing, and exporting companies, and highlighting factors and mechanisms which produce success.
- » Studying the potential impacts of FLEGT and Lacey Act on Viet Nam's timber processing industry.
- » Projecting future export markets and highlighting challenges for the Vietnamese timber industry.

This report was compiled based on data collected from various sources. First, a research team from the Viet Nam Timber and Forest Products Association (VIFORES) conducted interviews with key officials from MARD and its branch offices at the provincial level, the Ministry of Industry and Trade, and the Customs Department under the Ministry of Finance. In addition, the team consulted 15 wood processing companies representing different categories of industry. Next, the team synthesized existing reports on relevant issues and existing legal framework on the topics. Finally, the team visited a field site and interacted with some key stakeholders including smallholders who have been engaging in smallholder forest certification in the countryside.

The report consists of five main sections. After a brief introduction, chapter 2 provides an overview of the general forestry situation and forest tenure in Viet Nam, followed by an overview of the existing legal framework and mechanisms for enhancing timber production in chapter 3, including the use of 'clean' timber in industry and trade promotion. In chapter 4 the status of the wood-processing industry is presented, after which some potential impacts of upcoming export market requirements, particularly the EU Timber Regulation and the Lacey Act, on the timber industry and other stakeholders are described in chapter 5. Chapter 6 presents some existing production and management initiatives currently being undertaken in the country. Chapter 7 concludes the report with a summary of the key findings and some recommendations.

## 2 The general forestry situation in Viet Nam

### 2.1 Forest area and management

By the end of 2009, Viet Nam had 13.2 million hectares (ha) of forests, of which 10.3 million ha (78%) are natural forests and the remaining 2.9 million ha (22%) are plantation forests (Forest Protection Department, 2010).

Forests in Viet Nam are divided into three main types according to their function. *Special use forest* – mainly protected areas (PA) – accounts for almost two million ha. *Protection forest* totals 4.8 million ha. Protection forests are set aside for the protection of watersheds, soil, and the environment. *Production forest* amounts for 6.3 million ha, of which 4.1 million (66%) ha are natural forests and the remaining 2.1 million ha (34%) are plantation forests. The purpose of production forests is to produce wood and wood-based products, and for agroforestry production. Figure 1 shows the proportionality of the three different types of Vietnamese forests.

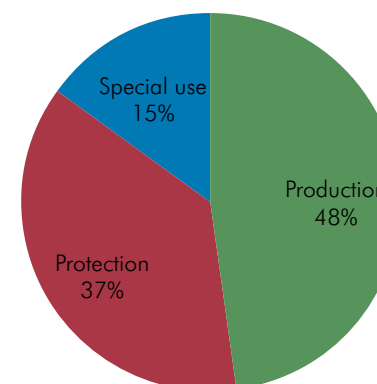


Figure 1. Proportion of different types of forest by area (ha). Source: Forest Protection Department, 2010.

The structure of state forest management in Viet Nam is set up from central to commune levels with functional agencies and administrative bodies of the state (UNREDD and MARD, 2010). At the national level, MARD is responsible for management of forest resources through the Viet Nam Forest Administration (VNFOREST), which is divided into four key departments: Forest Protection (focusing on law enforcement), Forest Utilization (forest production), Forest Development, and Nature Conservation (forest conservation).

Provincial Departments of Agriculture and Rural Development (DARD), MARD's branch offices, manage forests in the provinces. Each DARD is subject to its respective Provincial Peoples' Committee with regard to their budgets for operation and personnel. DARD conducts forest management through its Departments of Forest Development and Forest Protection. At the district level, forests are managed by the division of agriculture belonging to the district People's Committee. Each district's department of forest protection helps the division to manage the forests within the district. At the commune level, there is government



staff in charge of agriculture and forestry issues. This staff is supported by field level forest protection agents from the district's forest protection department.

## 2.2 Forest user groups

Viet Nam's 13.2 million ha of forests are currently managed by eight forest user groups: Management Boards (MB), Households, People's Committees (PC), State company, organisations, economic entities, army and the community. Figure 2 shows the proportion of the forest area managed by different groups. Table 1 presents details of the forest areas managed by each group. The three biggest user groups in terms of forest area under their control are management boards (MB), Households, and People's Committees (PC).

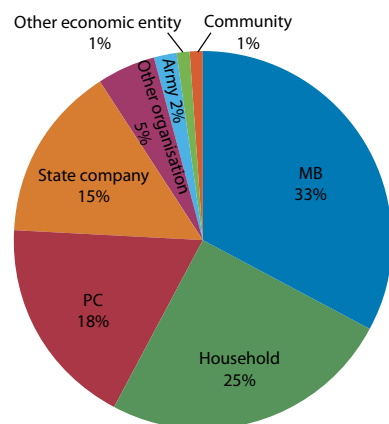


Figure 2. Proportion of forest areas managed by forest user groups. Source: Forest Protection Department, 2010.

**Management boards (MB)**, are government bodies tasked with managing the largest forested areas, 4.3 million ha of forest, or 32.5% of the total forest area in the country. About 88% of this area are natural forests, and usually fall under the categories of special use forests (PA), and protection forests. The remaining 12% are plantation forests.

The second largest forest user group is **households** (3.2 million ha). Since the mid-1990s, the government has implemented a policy of forestland allocation under which forestland, mainly land with production forests, has been allocated to individual households for production purposes. In total, about 1.3 million households in the country have received plots of forestland.

About 61% of the lands allocated to households are natural forests; however, these forests tend to be of much lower quality compared to those managed by MB. Households own the largest area of plantation forest in the country (1.3 million ha, or 68% of the total plantation forest of the country).

**State companies**, formerly State Forest Enterprises (SFE), manage about 2 million ha of forest, 75% of which are natural forests and the remaining 25% are plantation forests. At present, 2.4 million ha of forests in the country, or 18% of the total forest area nationwide have not yet been allocated to any forest user group, but are managed directly by communal People's Committees (PC)– the lowest level of state administration in the country. About 83% of these areas are natural forests. According to the Forest Protection and Development Law (issued in 2004), and Land Law (2003), local authorities represent the state to manage

land and forests in the areas, thus cannot be a forestland user group. However, these areas have not been allocated to forest user groups owing to the proximity between the forest and residential area, lack of budgeted funds for allocation and weak coordination between MARD (which manages forests) and the Ministry of Environment and Natural Resources (MONRE) (which manages land).<sup>1</sup> In many areas, CPCs fail to protect forest land because they lack the capacity and resources to do so (MARD, 2010).

About 1% of the forest in the country has been allocated to the **community**, 2% to the **army** and 5% to **other organizations** such as the farmer union, and youth organizations, for management purposes. To date, the legal status of the community has not been recognized. This has posed an ample constraints for the community to derive benefits from the forest they manage.

The process of the issuance and granting of land use certificates (LUCs) to forest user groups has been slow. In total, only 30-40% of the lands allocated to different groups have received LUCs (MARD, 2010).

Table 1. Forestland area (ha) managed by forest user groups as of 31 December 2009

	Main forest types managed by the group	Natural forest	Plantation forest	Total	
Forest user groups	Management board	Special use forest & protection forest	3,818,718	499,774	4,318,492
	State company	Both protection forest & production forest	1,551,473	492,779	2,044,252
	Other economic entities	Protection & production forest	27,219	64,318	91,537
	Army	Protection forest	196,027	47,661	243,689
	Household	Mainly production forest with poor quality	1,961,517	1,325,553	3,287,070
	Community	Mainly production forest; some protection forest	171,395	19,989	191,383
	Other organizations	Both protection & production forest	575,378	84,556	659,935
	People's Committee	Mainly production forest in remote areas	2,037,578	384,907	2,422,485
Total area			10,339,305	2,919,538	13,258,843

Source: Forest Protection Department, 2010

<sup>1</sup> Information from Mr. Hua Duc Nhi, MARD's Vice Minister, provided to the audience in the Forest Sector Support Partnership Annual Review Meeting, Hanoi, 25 January 2011.

# 3 Key forest policies in Viet Nam

Since the promulgation of the *Doi Moi* (renovation) policy in the 1980s, the forestry sector in Viet Nam has undergone substantial changes. Traditional forestry that emphasized timber exploitation has changed to socialized forestry, which has opened doors for broad participation in forest production, forest protection, and processing of timber from plantation forests in order to meet the wood demands of domestic and foreign markets (MARD, 2007). Key drivers of this process include policy changes not only in the forestry sector, but also in other sectors such as foreign commerce. This section describes the most important examples.

## 3.1 Sustainable forest management

### 3.1.1 Viet Nam forestry development strategy 2006-2020

In 2007, the government of Viet Nam approved the Viet Nam Forestry Development Strategy 2006-2020 which established a legal and institutional framework for the development of the forestry sector. The main objective of the strategy is “to sustainably establish, manage, protect, develop and use 16.24 million ha of land planned for forestry; to increase the ratio of forest cover up to 42-43% by the end of 2010 and 47% by 2020; to ensure wide participation from various economic sectors and social organizations in forest development and increase their contributions to socio-economic development, environmental protection, biodiversity conservation and environmental services supply; and to reduce poverty and improve the livelihoods of rural mountainous people ” (MARD 2007:4)<sup>2</sup>. MARD aims to do this through three development programs and two supporting programs:

#### (i) Sustainable forest management and development program

This program focuses on implementation of sustainable forest management. Some key indicators to be achieved include (a) at least 30% of production forests certified according to sustainable standards; (b) afforest one million ha by 2010; enrich 0.5 million ha of poor forests; (ii) elevate total wood production to 9.7 million m<sup>3</sup> per year by 2010 and 20-24 million m<sup>3</sup> per year by 2020; (c) provide small timber for pulp processing: 3.4 million m<sup>3</sup>/year by 2010 and 8.3 million m<sup>3</sup>/year by 2020.

#### (ii) Forest protection, biodiversity conservation, and environmental services program

This program aims to effectively protect existing forested areas. Some key activities of the program include (a) strengthening law enforcement mechanisms to contribute to reducing violations of forest laws and regulations; (b) developing and consolidating protected areas; (c) piloting and scaling up community-based forest management projects.

Another important aspect of this program is the establishment of markets for ecosystem services, which has been undertaken in Viet Nam only recently. In 2008, the government

<sup>2</sup> However, some key targets such as forest cover and total timber production set for 2010 were not met (MARD, 2010). It is unlikely that the 2020's targets will be met, given the large deficit of funding in implementing the Strategy (Vietnam Development Report 2011: Natural Resource Management).

piloted a policy on payment for ecosystem services – Decision 380, or the Payment for Forest Ecosystem Services policy (PFES) – in two provinces in the country. The policy mandated that ecosystem service users – hydropower plants, water supply companies, and tourism companies – pay providers (many of which are local households) for services including water supply and circulation, soil erosion prevention, landscape beautification, and carbon sequestration.

Results from the pilot strongly motivated the government to draft and issue Decree 99 in 2010, which mandated nationwide implementation of payment for ecosystem services. The Forest Development Strategy estimates that by 2015, revenue derived from watershed protection and eco-tourism will be US\$ 300 million and US\$ 200 million respectively (MARD, 2007). In addition, carbon sequestration is a promising source of additional revenue for forest protection.

#### (iii) Forest product processing and marketing program

The main objectives of this program are to reorganize the wood and non-timber forest product (NTFP) processing industries and strengthen the production capacity of the forest product industry to meet the basic demands for both domestic and foreign consumption. Table 2 presents some key indicators to be achieved by 2020:

Table 2. Some key indicators by 2020

Key indicators	Target
Total capacity of sawn timber	6 million m <sup>3</sup> /year
Production of particle boards	320,000 m <sup>3</sup> /year
Production of MDF boards	220,000 m <sup>3</sup> /year
Value of exported wood products	US\$ 7 billion/year (equaling 3.5 million m <sup>3</sup> )
Non Timber Forest Product exports	US\$ 0.8 billion/year

#### (iv) Program on research, education, training and forestry extension

This program focuses on capacity building for university students and government staff in the areas of sustainable forest management and forest processing. Following this program, research will focus on some key fields such as bio-technology, high-yield plantations, agroforestry, and improvement of processing technologies for the wood industry. Training will be designed for university students, local officials, and workers in relevant industries. Extension services will be provided particularly to local households with regard to forest protection, production, and management skills.

#### (v) Program on renovating forestry sector institutions, policy, planning and monitoring

This program prioritizes the development and improvement of policies, institutions, and legal systems in a way that better reflects local concerns and contributes to sustainable forest management. In addition, policies will be developed and updated to guide the restructuring of state-owned forest enterprises.

The three development programs and two supporting programs detailed above serve as a core framework for the development of the Vietnamese forestry sector. There are also a number of specific policies and regulations promoting this goal.

### 3.1.2 Forest protection and development law

Enacted in 2004 and based on the 1991 Act on Forest Protection and Development, this law calls for activities related to forest protection and development. It is designed and implemented in a way that contributes to sustainable forest management, and complies with socio-economic development planning and the forestry sector development strategy. In addition, the Law provides a legal framework for mobilizing investment in forest protection and development from non-state actors. Realizing that improvement of livelihoods of forest-dependent households is one of the key factors contributing to sustainable forest development, the Law specifies legal supporting mechanisms for investing in rural upland infrastructure and enhancing local livelihoods. Under the Law, a number of activities that harm forest environments have been banned. These include unplanned and unpermitted timber logging and poaching of wildlife.

### 3.1.3 Environment protection law

The Environment Protection Law of 2005 has a number of articles requiring sustainable forest use and management. For example, it mandates that individuals and organizations take responsibility for the protection of flora and fauna; harvesting flora and fauna species must comply with regulations; and that individuals and organizations must use resources in a way that complies with government land use planning. In addition, the Law bans mining activities which would damage forest resources.

### 3.1.4 Land law

The Land Law of 2003 classifies forestland as agricultural land, thus there are no specific requirements for the use and management of forestland. Under the law, forestland is grouped into three main groups: forestland for production forests, forestland for protection forests, and forestland for special use forests (protected areas). The use of land, as mandated by the law, must comply with effectiveness and efficiency requirements from the government and must contribute to environment protection.

### 3.1.5 Other land policies

There are a number of regulations resulting from recent laws governing the use and management of forestland and forest resources. For example: Decision 139 in 2004 imposed administrative fines in protection and management of forestland and forest resources; Decision 48 in 2002 codified a list of endangered species banned from harvesting or hunting; Decision 08 in 2001 provided a legal framework for management of production, protection and special use forests; Decision 178 in 2001 created guidelines for benefit-sharing of revenues derived from forestland and forest resources; and decision 192 in 2003 created a protected area management strategy until 2010.

Further details on these and other forest and forest-management-related regulations can be found in a compilation made by the Directorate of Forestry and the Japanese International Cooperation Agency (2010).

### 3.1.6 Government programs

The 661 Program, which commenced in 1998 and was completed in 2010, had three main objectives pertaining to sustainable forest use and management. The program aimed

to plant 3 million ha of forests, primarily production forests, and improving the quality of 2 million ha of protection and special use forests. The program's environmental objectives were to improve forest cover to 43% in 2010 and to contribute to environment protection, natural disaster mitigation, and biodiversity conservation.<sup>3</sup> Socio-economically, the program aimed to improve the livelihoods of rural poor and provide adequate raw materials for expansion of the wood industry.

In accordance with government objectives, timber harvesting from natural forests has been substantially reduced. The number of state-owned forest enterprises declined from 265 in 1993 to 114 in 2004, and further to 101 in 2010 (Cao Chi Cong, 2011). The number of harvesting compartments (logging areas) also dropped from 562 in 1993 to 179 in 2004 (ibid). These correspond to the reduction of harvesting areas from 31,000 ha to 5,400 ha during the same period of time. From 2006-2010, the annual harvesting quota was around 200,000 m<sup>3</sup> round wood equivalent (RWE), a sharp reduction from around 1 million m<sup>3</sup> RWE in 1990 and 250,000 m<sup>3</sup> RWE in 2003 (ibid.).

Despite such policy initiatives, many constraints still remain. The Viet Nam Development Report 2011 estimates that the costs for achieving all key targets set by the Viet Nam Forest Development Strategy 2006-2020 amounts to roughly US\$ 400 million annually over 14 years. However, the current annual investment level from public and private sources is only US\$ 50-60 million, or about 12-15% of the total budget needed. As a result, many key targets have not been achieved. For example, by 2010 forest cover was only about 39%, 4% lower than the targeted figure. Total forest area currently under FSC certification is only 15,000 ha, almost nothing compared to the target of 30% of production forests (equaling about 1 million ha) certified under the sustainable forest management scheme. Sustainable forest management models have so far been in the piloting phase, with no lessons learned and no legal mechanisms for scaling up. The country continues to import 70-80% of its timber from abroad, almost the same as the amount imported before promulgation of the strategy. Allocation of forestland to forest user groups has not yet finished, with more than 2 million ha of land still in the hands of communal PC. Law enforcement is weak, reflecting different loopholes in the policies and abuse of power by local officials tasked with enforcing the policies (Hughes, 2008; Proforest, 2009; Forest Trends, 2010; UNREDD and MARD, 2010).

## 3.2 Policies and regulations related to forest production, wood processing, and exports

There are a number of policies which directly impact development of forest plantations and production of wood in the country. A comprehensive list of laws and regulations is compiled and presented in the Appendix. This section mainly focuses on some key laws and regulations.

### 3.2.1 Policies affecting supply and demand

The Land Law and Forest Protection and Development Law make up the key policy framework promoting the development of forest plantations and production of wood in the country. Under this framework, the government's Decree 02 issued in 1996 stipulates the allocation

<sup>3</sup> However, this objective was not fulfilled. By the end of 2009, forest cover was 39.1% (Department of Forest Protection, MARD, 2010).

of forestland to individual households and other groups for production purposes. Decree 02 serves as a foundation for households to establish their plantation forests.

The law on enterprise, establishment passed in 1999, was a landmark for private sector development. Under this law, the private sector was recognized by the state as a key sector of the economy. This law, together with government's Decision 46 in 2001 on management of import-export commodities, and the USA-Viet Nam trade agreement signed in 2005, provided opportunities for competition in the private sector including wood processing companies, resulting in booming growth throughout the last decade. The total number of wood enterprises in 2009 is almost six times higher than in 2000. This surge in supply combined with growing foreign demand resulted in export revenues in 2009 more than seven times higher than in 2000. Tax exemptions, tax holidays, and favorable government credit programs for small and medium enterprises also made important contributions to the rapid expansion of the wood industry in Viet Nam.

### 3.2.2 Policies on raw material production

There are a number of policies issued by the government in recent years that relate to the production of raw materials. The Land Law, Forest Protection and Development Law, Viet Nam Forestry Development Strategy, and Decree 02 mentioned above are just some of the important policy initiatives for the establishment and expansion of plantation forests in the country. The government's Decree 23 in 2006 allowed the renting and leasing of land to individuals and organizations. Decree 106 in 2004 and Decree 20 in 2005 enabled conditions for households participating in the government's forest plantation program to access government credit. In addition, Decision 147 in 2007 and Decision 131 in 2009 provided accessibility to government loans for the establishment of plantation forests and other production activities. Under Decision 37 in 2004, the government would cover some costs related to transportation of products produced by companies located in the Northwest region. MARD's document 1186 in 2009 provided guidance for the establishment of joint ventures and collaboration in establishment of plantation forests linked with the wood processing sector.

### 3.2.3 Taxes and customs

There are a number of policies and regulations issued in order to regulate and promote wood processing and exports. Changes in government policies and regulations, however, have been frequent as mentioned earlier. Policies on import-export of wood and wood products are good examples of the frequent changes in government policy. In December 2005, the Ministry of Finance (MOF) issued Circular 113 on exemptions to the value added tax (VAT) for imported wood to be used for export. However, in June 2007, MOF issued Circular 55 to replace Circular 113, and the new rules stated that companies importing wood for export must pay VAT. Circular 55 was then once again replaced by Circular 79 in 2009, which required that companies importing wood pay VAT and then would have to file tax returns once they export their product.

To describe another example of changing tax policies, in December 2007 MOF issued Decision 106 on exempting export taxes for products made from plantation timber, and from imported wood. In September 2008, however, MOF issued letter 11270 stipulating that a 10% tax will be imposed on products made from imported wood. Less than a month later MOF issued Decision 123, imposing a tax on all products belonging to group 44.03

(round logs or semi-processed wood). According to this decision, almost all wood from Viet Nam, including those from plantation forests, would be taxed. According to VIFORES, this decision was a sign that the government did not encourage forest plantation.

In 2009, MOF changed its policy on export taxes four times, resulting in certain products belonging to group 44.07 (flooring, laminated wood, veneer made from plantation timber) being exempted from export taxes. This policy aimed to support Vietnamese wood enterprises, but in fact provided opportunities for Chinese wood companies to make use of the tax exemption to import huge amounts of these products into China and then export the final products back to Viet Nam.

In general, government policies and regulations have provided a solid foundation for development of the wood industry in Viet Nam. The negative side of government reforms is that frequent changes in the policy framework make it difficult for wood processing companies to comply with the changes. Furthermore, so far many of these policies, particularly those promoting forest plantations, have not been implemented on the ground because banking institutions, particularly the commercial ones, have been hesitant in providing long term credit to forest plantation companies and households.<sup>4</sup> This means wood processing enterprises and local households lack the financial capacity to establish plantations.

The section below goes on to describe Viet Nam's domestic timber industry. The current status can be partly attributed to the policy framework examined above.

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<sup>4</sup> Most of the banks only provide short-term credit (2-3 years). A duration of 6-7 years equaling a tree cycle (e.g. acacia) is needed for the establishment of a forest plantation. To date, most of the banks in the country have not provided any loan with such a long duration. As a result, smallholders and companies have not been able to access credit programs in order to establish forest plantations.

# 4 The timber industry in Viet Nam

## 4.1 Scale of the industry

As of 2009 Viet Nam had about 3,400 wood processing enterprises, 95% of which are privately owned and the remaining 5% are state-owned (Nguyen Ton Quyen, 2011). Around 16% of the total enterprises receive foreign direct investment (FDI). There are a number of countries which have invested in the wood industry in Viet Nam. Taiwan currently has the highest number of enterprises in Viet Nam (183), followed by the Republic of Korea (38), UK (29), Japan (27), and China (26). The presence of cheap labor, strong export facilities such as big sea ports, and availability of raw materials sourced within Viet Nam and abroad are often cited as the main factors attracting foreign investment to the Vietnamese timber industry.

All the companies with FDI investment are export-oriented and are mostly located in the south, particularly Binh Duong, Dong Nai provinces and Ho Chi Minh City. They are financially strong and their export markets are more stable compared to non-FDI-companies.

From 2000-2009, the total number of enterprises increased rapidly, at about 18% per year. Wood processing companies are equally distributed between the north and the south. Export revenue, however, is mainly derived from companies in the south.

The wood-processing industry in Viet Nam is small-scaled, both in terms of labor force and total capital invested in production. Using the labor criteria set by the government, out of 3,400 enterprises operating in 2009, 46% are super small, 49% are small, 1.7% are medium, and 2.5% are large-scale<sup>5</sup> (General Statistics Office, 2010).

Small-scale enterprises expanded the fastest, at about 57.4% per annum (as compared to an 18% average increase), followed by super-small enterprises (35.8%). The number of medium and large-scale enterprises increased very slowly, at about 2.7% and 4.1% respectively during the same period.

Using criteria for total capital investment set by the government, about 93.3% of the enterprises are super-small and small; only 5.5% are medium and 1.2% are large-scale. In 2008, the company with the biggest investment had around US\$ 8 million and was foreign-owned. In general, foreign-owned companies have bigger capital investments than their Vietnamese counterparts. Figure 3 shows development trends of timber processing companies for 2001-2010.

<sup>5</sup> According to the government's Decree 56 dated 30 June 2009, enterprises in the area of agriculture and forestry are defined by the number of laborers and total capital investment. Super-small enterprises have 10 laborers or less, small enterprises have 10 to 200 laborers and a total capital investment of 20 billion VND (US\$1 million US) or less, and medium enterprises have 200 to 300 laborers and a total capital investment of 20 billion to 100 billion VND (US\$ 1-5 million). The decree does not specify criteria for large-scale enterprises, but the common understanding is that large-scale enterprises have more than 300 laborers and a total capital investment over 100 billion VND (US\$ 5 million).

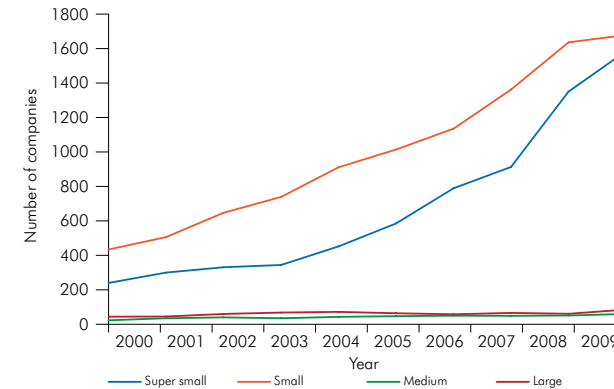


Figure 3. The development trends of the timber processing industry by year. Source: General Statistics Office, 2010

The roughly 3,400 wood enterprises in Viet Nam can be divided into two main groups (Figure 4) according to market orientation- export or domestic. Companies in the first group target export markets directly (hereafter export companies). To date, there are about 500-600 such companies. Companies in the second group, accounting for the remaining number in the total, do not have direct access to export markets but may be related to export markets through export companies. These companies fall into three sub-groups: subcontractors, companies selling materials (timber trading), and companies focusing on domestic markets.

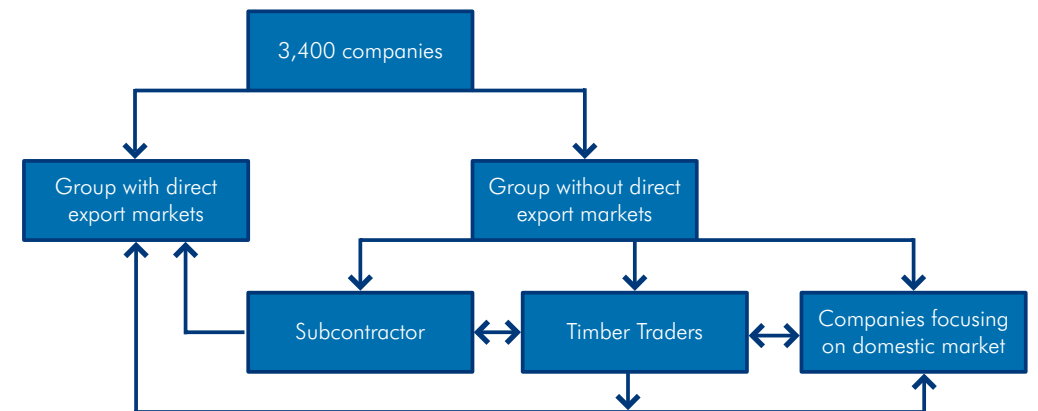


Figure 4. The structure of wood processing companies in Viet Nam

## 4.2 The raw materials situation

Annually in Viet Nam, around 6-7 million m<sup>3</sup> RWE are needed for the furniture industry (Nguyen Ton Quyen, 2009, 2011). In 2009, the total volume of timber harvested from Viet Nam was 3.88 million m<sup>3</sup> RWE of which 3.7 million m<sup>3</sup> (95%) are from forest plantations and the remaining 0.18 million m<sup>3</sup> RWE from natural forests. Timber harvested from plantations is generally small, so most of the production is used for woodchips. On average, Viet Nam has to import about 4-4.5 million m<sup>3</sup> RWE each year for furniture production, or about 70-80% of the total wood needed for the industry.

By 2009, Viet Nam had 2.9 million ha of plantation forests (see table 1). On average, the area covered by plantation forests increases about 100,000 – 200,000 ha per year. The Viet Nam Forest Development Strategy 2006-2020 sets a target that by 2020 the total area



of plantation forests in Viet Nam will be 4 million ha. This means another 1.1 million ha of new forest area will be needed for plantation forests by 2020. However, the availability of land for forest plantations has been a big issue, as most of the land that could be used for forest plantations has already been allocated to households and other user groups. At present, owing to a lack of financial resources, many households in the uplands are unable to establish their own plantations and there is no government credit program that provides long-term credits (e.g. 6-7 years, the cycle for softwood trees) to plant trees. In addition, the land allocated to households is small and fragmented so it is difficult to establish large-scale plantations. As a result, it is unlikely in a short period of time to establish large forest plantations to produce enough timber to feed the growing domestic industry. This forces the country to continue importing 4-4.5 million m<sup>3</sup> RWE per year on average.

### 4.3 Import-export situation and trends

#### Export markets

In 2010 Viet Nam exported furniture and wood products to more than 100 countries and territories (Nguyen Ton Quyen, 2011). The total export revenue was US\$ 3.4 billion, a 34% increase as compared to export revenues from 2009. The four biggest foreign markets are the US, EU, Japan, and China, accounting for about 90% of total exports. Figure 5 shows the expansion in revenue from these four markets during the period of 2001-2009.

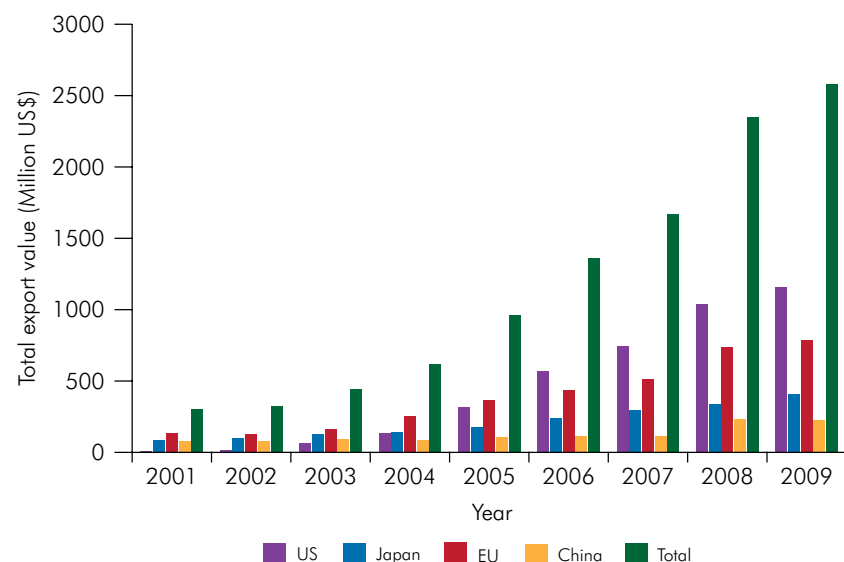


Figure 5. The expansion of exports in the four largest markets. Source: Customs Department, 2011.

Export revenues derived from the four main markets show a substantial increase over time. In 2001, the total export revenue derived from timber products from the US market was only US\$ 9.4 million; by 2010 the amount was more than US\$ 1.1 billion. The revenues derived from Japan, EU, and China also indicate strong market expansion. During the period of 2001-2009, the export revenue derived from Japan and EU markets increased more than four times and six times respectively. China has been emerging as an important export market for timber products from Viet Nam, with the total export value reaching US\$ 358.5 million in 2010.

In 2010, export revenue derived from the US and EU markets show a reduction compared to 2009. Total export revenue derived from Germany, France, Spain, Denmark, Finland, and Greece declined (see table 3). However, as expressed by some Vietnamese enterprises interviewed, this does not necessarily reflect a permanent reduction. Rather, it is attributed to two main reasons: (i) the economic situation in Europe and the US has not yet revitalized after the global economic recession, and (ii) the main wood products exported to EU and the US markets are primarily composed of outdoor furniture, and market demands for these products have declined in recent years.

Furniture exports to China in 2010 increased substantially, at a rate of about 80% compared to 2009. This trend has been on-going, reflecting the importance of the Chinese market for Vietnamese furniture and wood products. Common exports to China include art and handicrafts as well as indoor furniture produced from high value timber, some of which originates from Laos. During our visits to provinces in Viet Nam bordering Laos, the research team observed many Chinese traders coming into the area to procure high-market-value timber imported to Viet Nam from Laos in order to re-route it directly to China. In 2010 for example, about 24,000 m<sup>3</sup> of sawnwood imported to Quang Tri province of Viet Nam from Laos were exported to China. This is equivalent to US\$ 32.6 million. Up to May 2011, about 55,000 m<sup>3</sup> of wood imported to Quang Tri province from Laos were exported to China, totaling US\$ 71.98 million in export value (Customs Department of Quang Tri, 2011). In other words, wood imported to Viet Nam from Laos and exported to China is of very high market value.

In the last 2-3 years, China has been importing rubber wood from Viet Nam. As expressed by Vietnamese wood enterprises during our interviews, this has inflated the price of rubber wood in Viet Nam, making it difficult for domestic enterprises to procure rubber wood at acceptable prices.

In addition to the top four foreign markets noted above, rapid expansion of export markets for Vietnamese furniture and wood products has been observed in Taiwan, Hong Kong, and Singapore. As table 3 below shows, export revenue in 2010 derived from Taiwan, Hong Kong, and Singapore increased with 22%, 59%, and 74% respectively compared to revenues from these markets in 2009. These three countries are unique in that they are not only final destinations for Vietnamese export products, but also serve as transit hubs through which furniture and wood products from Viet Nam reach bigger markets elsewhere, particularly the EU and US. Some respondents to our interviews suspected that some companies use these countries as transit hubs in order to reduce their tax burden in bigger markets.

In recent years, the government and domestic wood enterprises have been trying to explore new markets for furniture and wood products from Viet Nam. These newly emerging markets include the United Arab Emirates (UAE), Russia, Poland, the Czech Republic, Hungary, India, Turkey, Kuwait, and some other countries. Though the export revenue derived from these markets is still small compared to that derived from the main markets, these new markets show potential for expansion, as reflected by a rapid increase in revenues. In addition, these markets are not as environmentally sensitive as the US and EU markets, thus it is easier for products from Viet Nam to access these markets.

Table 3. Export revenue (US\$ millions) derived from the 30 largest markets in 2010 and 2009

No	Country	2010	2009	Value change (US\$ million)
1	United States of America	1166.1	1157.3	+8.8
2	Japan	413.9	355.9	+58.0
3	China	358.5	228.9	+129.6
4	United Kingdom	185.6	156.6	+29
5	Korea (Republic)	119.0	120.0	-1.0
6	Germany	99.9	111.2	-11.3
7	Canada	73.7	58.9	+14.8
8	Australia	72.6	63.0	+9.6
9	France	66.1	70.8	-4.7
10	Netherlands	58.7	59.4	-0.7
11	Taiwan	42.7	34.9	+7.8
12	Italy	32.9	31.0	+1.9
13	Hong Kong	30.3	19.0	+11.3
14	Belgium	27.4	24.6	+2.8
15	Turkey	25.6	7.4	+18.2
16	Malaysia	23.9	17.1	+6.8
17	Sweden	18.7	18.4	+0.3
18	Spain	16.9	27.0	-10.1
19	India	14.1	12.3	+1.8
20	Denmark	13.4	17.7	-4.3
21	Ireland	11.6	11.1	+0.5
22	Singapore	11.0	6.3	+4.7
23	New Zealand	10.6	9.5	+1.1
24	Poland	8.4	8.8	-0.4
25	Finland	5.8	8.3	-2.5
26	United Arab Emirates	5.7	6.3	-0.6
27	Thailand	5.7	2.9	+2.8
28	Greece	5.5	8.8	-3.3
29	Puerto Rico	5.5	4.1	+1.4
30	Austria	4.8	5.8	-1.0

Source: Customs Department, 2011, 2010

In 2010, the US was the largest market for Vietnamese furniture and wood products, accounting for 34% of total export revenues. This was followed by the EU, Japan, China, and Korea.

Since 2000, the US market for Vietnamese furniture and wood products export has expanded substantially. In 2004, the proportion of export value derived from the US market was 28.5% - a sharp increase from 2.7% in 2000. By 2009, the proportion was nearly 40%. Meanwhile, the shares of furniture and wood products exported to Japan and the EU

show corresponding inverse trends. In 2000, the proportions of export value to Japan and EU were 24.3% and 37.7% respectively; in 2004 these were 16% and 33%; by 2009 these proportions were 14.2% and 27.9%. Importantly, these figures mean that the US export market has been expanding rapidly along with the evolution of the economic relationship between Viet Nam and the US, and this trend is on-going. Both Japan and the EU markets are expanding too but at a slower pace relative to the US, meaning it is not as easy for wood enterprises in Viet Nam to accelerate exports to Japan and the EU. In other words, markets for furniture products in Japan and EU are more settled compared to the US market.

#### 4.4 Timber imports into Viet Nam

Data from Customs Departments show that in 2010 Viet Nam spent about US\$ 1.2 billion importing about 3.5-4.0 million m<sup>3</sup> RWE of timber and wood products from 105 different countries and territories (36 countries and territories from Europe, 26 from Africa, 19 from Asia, 19 from North America and Latin America, and 5 from Asia Pacific). In total, this trade involved more than 600 individual vendors from these 105 countries and territories.

Of the products imported to Viet Nam, logs account for around 15% of total import revenue, sawnwood 55%, and MDF, particle board, plywood and veneer account for the remaining 30%. Table 4 presents data on imports from the largest ten source countries, with the total import value from these ten markets accounting for more than 74% of total import value.

Table 4. The ten largest timber and timber products exporters to Viet Nam.

No	Country	Total import revenue (US\$ million)		
		2010	2009	Value change (US\$ million)
1	Laos	162.7	96	66.7
2	China	157.9	181.1	-23.2
3	United States of America	140.3	109.5	30.8
4	Malaysia	107.2	116.2	-9.0
5	Thailand	67.6	57.0	10.6
6	New Zealand	66.0	59.7	6.3
7	Myanmar (Burma)	49.8	41.8	8.0
8	Cambodia	44.3	38.4	5.9
9	Cameroon	33.7	28.7	5.0
10	Brazil	31.3	26.4	4.9

Source: Customs Department, 2011, 2010.

Except for imports from China and Malaysia which show reductions in 2010 compared to 2009, imports from the remaining eight largest markets in 2010 indicate an increase, ranging from 10% to 70%. This highlights two important points: (i) the Vietnamese timber industry is expanding at a rate that cannot be matched by growth in domestic supply, and (ii) the industry is still heavily dependent on raw materials from abroad. There is no clear sign that Viet Nam will shake this dependence on imported raw material in the near future.

In 2010, Laos surpassed China to become the largest timber exporter to Viet Nam, with a total import value of almost US\$ 162.7 million, up from less than US\$ 96 million in 2009.

Products imported from Laos into Viet Nam are primarily sawnwood and roundwood. A large volume of timber imported into Viet Nam is from development areas (i.e. hydropower plants and agro-business projects).

Despite some reduction in import value to Viet Nam in 2010 compared to 2009, China is still the second largest timber and wood product exporter to Viet Nam. Products exported to Viet Nam from China are mainly MDF.

In 2010, Myanmar and Cambodia were the 7<sup>th</sup> and 8<sup>th</sup> largest timber and wood products exporters to Viet Nam. Import value from these markets in 2010 increased about 15-18% compared to 2009. Products imported from Cambodia are exclusively sawnwood, whereas products from Myanmar are both sawnwood and roundwood.

Timber coming from Laos, Cambodia, and Myanmar is very important for the development of the timber processing industry in Viet Nam. However, timber harvested from these countries is very controversial. Various reports have highlighted loopholes in the legal frameworks of those countries with regard to the harvesting of timber (Baird, Ian 2010; EIA and Telapak, 2008; EIA, 2011; Global Witness, 2007; Barney, 2010; Forest Trends, 2010; EIA, 2011). The legality of Vietnamese timber could also be called into question.

## 5

## Legal requirements of timber export markets

As mentioned earlier, the Vietnamese wood processing industry is export-oriented. The US and EU are the most important export markets, with more than 80% of export revenues derived from these markets. In 2008 the US government amended the Lacey Act, making it unlawful for operators to place illegally harvested wood on the US markets. The EU recently instituted a similar mechanism, the EU Timber Regulation, applicable from March 2013, requires primary import agents to perform their "due diligence". To date, many Vietnamese wood processing companies have been exporting furniture to these markets and will be affected by these new regulations. The following section briefly introduces these market regulations and gives some projected impacts on different stakeholders.

### 5.1 FLEGT and the EU Timber Regulation

In 2003 the EU adopted the Forest Law Enforcement, Governance, and Trade (FLEGT) Action Plan to address the problem of illegal logging and trade in related products. The principle instruments of the FLEGT Action Plan are the bilaterally negotiated Voluntary Partnership Agreements (VPA) between timber producing countries and the EU. These agreements establish control and licensing procedures to ensure that only legal timber products from partner countries enter the EU. The EU has been negotiating VPAs with a growing number of countries since late 2006. Viet Nam is in the midst of formal VPA negotiations.

A FLEGT VPA is a trade agreement.<sup>6</sup> Once the agreement is agreed upon between the EU and the timber producing country, the agreement becomes a legally binding document for both parties. Under this agreements the exporting country develops systems to verify the legality of its timber exports to the EU. The VPA has four phases:

- i. *Preparation*, during which countries explore the scope of partnership model and assess whether it meets the needs of their forest sectors. Specific activities to be carried out during this phase are informal dialogue, provision of information on FLEGT aims and requirements, governance assessment and stakeholder identification. The results of these activities have to be consulted with different stakeholders through multi-stakeholder processes (government agencies, private sectors, civil society).
- ii. *Negotiation*, during which the partners agree on the standards and assurance systems on which they will base their timber trade agreements. Activities to be implemented are mainly formal bilateral negotiations, concluded by a legally binding agreement on: (i) definition of legal timber; (ii) timber tracking system; (iii) compliance with legality definition and application of tracking system; (iv) issuing FLEGT licenses; and (v) independent monitoring of the whole process. The design and implementation of these activities affect many stakeholders, requiring the creation and application of the design to be consulted with different stakeholders in the producing country.

<sup>6</sup> Description of the VPA is following the EFI Policy Brief 3: "What is a Voluntary Partnership Agreement" – the European Union Approach ([http://www.efi.int/files/attachments/publications/efi\\_policy\\_brief\\_3\\_eng\\_net.pdf](http://www.efi.int/files/attachments/publications/efi_policy_brief_3_eng_net.pdf)).

- iii. *Development*, during which the parties develop a Timber Legality Assurance System (TLAS) as agreed, and assess its credibility. The government is implementing the development of TLAS, supported by donors. Again, these processes have to be observed and informed by stakeholders.
- iv. *Full implementation*, during which the systems are functional and only licensed legal wood can be exported from the partner country to the European market. This means the exclusion of non-FLEGT licensed wood from the EU market. This process is supervised by a Joint Implementation Committee that is established by both sides and informed by stakeholders.

The credibility of each VPA relies on the development of a TLAS. The system to be established must be coherent and reliable, and based on the laws and institutions of the partner country. *An effective system for ensuring legality includes checks of forest operations as well as controlling the transport and processing of timber through different owners, from harvesting to point of export.*

A robust TLAS has five key elements:

- » A clear definition of legal timber
- » A mechanism to control timber as it moves around the partner country
- » A government endorsed institution to verify that laws have been complied with and that the control system is being applied with sufficient rigor
- » A licensing authority for exports
- » An independent institution to monitor the functioning of the whole system

In principle VPAs cover direct trade between FLEGT partner countries and the EU. However, in most negotiated VPAs the timber producing countries have chosen to include the entire timber export trade or even the whole timber sector, including the domestic trade. In order to avoid the risk of circumvention and laundering, the EU also made a commitment in the FLEGT Action Plan to investigate the development of additional measures against the trade in illegally harvested timber. As part of this commitment, the EU has recently passed the Timber Regulation, formally known as the Due Diligence Regulation. The regulation will come into force in March 2013.

According to the regulation, traders first placing timber on the market are required to exercise due diligence in order to reduce the risk of trading in illegal timber products. In practice this means (i) tracking timber flows, (ii) conducting risk assessments, (iii) identifying the country and region of harvest, (iv) describing the products, and (v) having access to documentation on legal compliance.

Timber products which have been legally produced in VPA partner countries will be FLEGT-licensed for legality of production, and only licensed products from these partner countries will be allowed access to the EU. The FLEGT premium is a “green lane” – meaning import procedures required at the border gate of the importing country are simplified for the importer. The average speculation is that timber products exported to EU markets from countries with signed VPAs will be more competitive compared to those coming from non-VPA countries.

More detailed information on the FLEGT Action Plan and the EU Timber Regulation can be found on the website of the EFI FLEGT Facility: [www.euflegt.efi.int/portal/home/flegt\\_intro/](http://www.euflegt.efi.int/portal/home/flegt_intro/).

## 5.2 Lacey Act

In May 2008 the US Congress passed the amended Lacey Act. The law bans the import of illegally sourced plants and their products – including timber and wood products. Relevant sections of the act can be summarized into three main points: (i) prohibition of all trade in plants and plant products (e.g. furniture, paper, or lumber) that are illegally sourced from any US State or any foreign country, (ii) importers are now required to declare the country of origin of harvest and species name of all plants contained in their products, and (iii) establishment of strict penalties for violation of the act, including forfeiture of goods and vessels, fines, and jail time. There are two concurrent components to a violation of the Lacey Act. First, a plant must be taken, harvested, possessed, transported, sold, or exported in violation of an underlying law in any foreign country or the US. This constitutes an illegally sourced plant. Actions triggering this violation include but are not limited to: the theft of plants or removal of plants from an officially protected area; removal of plants without or contrary to the required authorization; and failure to pay the appropriate royalties, taxes, or fees associated with the plant’s harvest, transport, or commerce. Second, a person or company must trade this illegally-sourced plant in US interstate or foreign commerce. Under the Lacey Act, “Illegally sourced” is defined by the content of foreign nations’ own laws.

The Lacey Act requires importers to provide a basic declaration to accompany every shipment of plants or plant products. The declaration must contain: (i) the specific name of any species used, (ii) the country of original harvest, (iii) statement of quantity and measurements, and (iv) statement of value.

More information on the Lacey Act can be found on the website of the Environmental Investigation Agency: [www.eia-global.org/forests\\_for\\_the\\_world/lacey.html](http://www.eia-global.org/forests_for_the_world/lacey.html).

## 5.3 Options for VPA-implementation

The VPA negotiations between Viet Nam and the EU are in an early stage. With financial support from the EFI FLEGT Asia Office, three studies have been conducted in order to provide technical information for the negotiations. The first study was about identification of stakeholder and strategies for engaging different stakeholders into dialogue and negotiation. The second study assessed existing policies and regulations promulgating the legality of timber. The third study explored some key wood supply chains covering both domestic and imported timber. Results from the three studies were presented at the national consultation workshop held by MARD in August 2011. In other words, Viet Nam is now in both preparation and negotiation phase, meaning that information on FLEGT objectives and requirements has been exchanged, governance structure assessed and stakeholders identified and consulted through a multi-stakeholder process. In addition, the government has established two technical teams, one working on TLAS, and the other working on the timber legality definition.

There is a strong belief that the government of Viet Nam will sign a VPA with the EU. No doubt, the implementation of this VPA will impact forest governance and timber industry in particular. The magnitude of the impact is dependent on the VPA arrangements that the two parties will pursue in negotiations; nation-wide TLAS or with a limited scope, operator-based licences or shipment-based licences.



In some partner countries it will be possible to develop and implement a TLAS covering the whole timber trade, a nation-wide TLAS. However, it is unlikely that Viet Nam will be able to develop this country-wide approach quickly, owing to the lack of resources including capacity. As a result, it is anticipated that the country at least in the short run will limit the scope of the TLAS to the key supply chains exporting to the EU. On the other hand, setting up and maintaining two separate supply chains, one for the EU and one for the other export markets, might also require major monitoring and control efforts and investments. By applying FLEGT licensing to all exports, partner countries could gain additional market access to environmentally sensitive markets such as the US (Lacey Act) and Japan (public procurement policies).

**Operator-based licences.** The licensing authority ascertains that a particular operator has a system to control the legal origin of all wood and production. All shipments from the operator would be covered by FLEGT licences as long as period audits show that the approved systems remain effective. The licensing authority may recognize the existing systems being used by the operator, such as certification systems and wood tracing systems (e.g. FSC Chain and Custody - CoC -) as long as those systems meet the requirements from the licensing authority.

**Shipment-based licences.** Under this arrangement, each consignment of timber products to be exported to the EU is individually licensed by the licensing authority. This approach, in which a licensing authority checks evidence of legal origin supplied for each shipment, will generally require a national control system to be put into place that will meet the requirements for legality assurance systems.

Figure 6 presents a visualization of the differences between operator-based and shipment-based licensing systems.

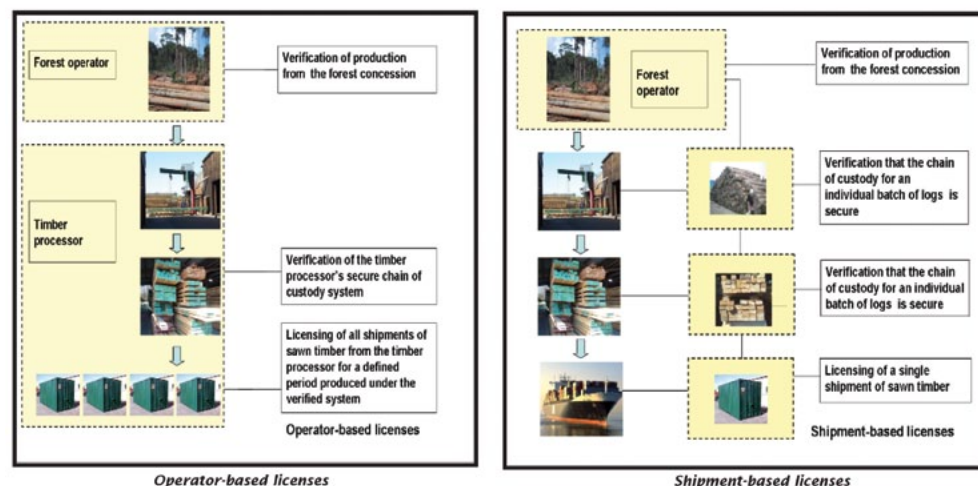


Figure 6. Differences between operator-based and shipment-based licensing systems. Source: FLEGT Briefing Note 3, 2007.

The section below explores possible impacts of the FLEGT VPA, the EU Timber Regulation, and the Lacey Act on different stakeholders.

## 5.4 Impacts of a FLEGT VPA, the EU Timber Regulation and the Lacey Act

### 5.4.1 Impacts on exporting companies

In 2010 there were about 500-600 companies, most of which are medium and large-scale, out of a total of 3,400 with direct access to export markets. Many of them export their products to the US and the EU. Thus the EU Timber Regulation, a FLEGT VPA and the Lacey Act will have a direct impact on their activities. Viet Nam will not be able to produce FLEGT-licensed timber by March 2013, when the EU Timber Regulation is in force. Therefore, in exporting products to the EU and US markets, exporters must demonstrate their "due diligence", including risk mitigation plans. Violation of either of these statutes constitutes illegal activity and is subject to punishment depending on the magnitude of the activity.

To date, when exporting timber products to the US, exporters have to complete a declaration form, with information on country of origin, genus, species, value and volume. Failures or filling wrong information in the form is a subject violation of the Lacey Act.

Exporting companies in Viet Nam can be divided into those exporting to the US and EU markets, and those exporting to other markets. Many companies currently exporting their products to the US and EU markets have been quite well-informed about market requirements on the legality of their products. In fact, many of them have adopted the tracing systems endorsed by internationally recognized organizations such as FSC, Tropical Forest Trust (TFT), or the Global Forest & Trade Network. Many use FSC-certified wood imported from abroad or non-FSC wood imported from reliable markets (e.g. the US, Canada, Australia). Under FLEGT VPA, there is a scope for recognizing these existing systems. In fact, complying with these systems is a precondition for these companies to market their products in the US and EU.

Some exporters to the US and EU markets are using wood from plantation forests in Viet Nam. While there may be risks associated with timber from plantation forests in Viet Nam, as landholders have not yet received land titles, this kind of risk can be minimized in the future as local authorities can verify the legality of timber harvested from plantation forests. The ease or difficulty in legal verification by the local authority depends on the scope of the timber legality definition of Viet Nam.

The second subgroup of exporting companies includes the companies who currently export their products to non-EU and non-US markets. To date, timber legality requirements from the markets outside the US and EU are not as strict as for the EU and US markets. China, for example, does not require strict evidence of the legality of wood. As a result, many companies in Viet Nam are engaging in the export of high value timber, including some export-banned timber species, to China. If the government of Viet Nam, at least in the short term, decides to develop and implement a limited scope TLAS focusing on the key supply chains to the US and EU markets, the companies in the second subgroup will not be affected; it will give these companies flexibility in terms of timber sourcing, at least in the short run.

However, maintaining a limited scope TLAS will not contribute to sustainable forest management in Viet Nam and in neighboring countries that export timber to Viet Nam. The



adoption of a limited scope TLAS may allow the separation between US and EU markets on the one hand and non-US and non-EU markets on the other. The limited scope TLAS would only require the companies with access to the former markets to comply with it.

If the government would opt for a nation-wide TLAS, the companies which have difficulties to comply with the regulations will be affected substantially. Those who are able to comply with the requirements will stay in the markets; by contrast, the companies unable to comply with legal requirements will have to shut down. Therefore, this report suggests that even if the government would opt for a limited scope TLAS (e.g. geographically or only focus on key timber chains to the US and EU markets), these companies should be prepared, learning and adapting to new practices, so that they can comply with the new regulations if they want to maintain their access to markets in the future.

The adoption of TLAS would encourage wood processing companies to establish robust tracing systems such as the FSC CoC to control the legality of the timber inputs. Adoption of a nation-wide TLAS could facilitate a shift in furniture production from quantity to quality, thus adding more value to the products. To date, the number of the companies with FSC CoC in Viet Nam is 269 ([www.fsc.org](http://www.fsc.org)), a sharp increase compared to some years back. It is anticipated that the signing of the VPA and the adoption of a nation-wide TLAS would help increase the number of companies adopting a robust, transparent, and reliable tracing system in the future. Furthermore, the signing of a VPA will encourage wood processing companies to use certified wood. This will help improve the reputation of the Vietnamese wood industry.<sup>7</sup>

#### 5.4.2 Impacts on subcontractors

Many wood processing enterprises in Viet Nam are interconnected through sub-contracting arrangements. A company exporting furniture to the US or EU may have subcontracts with several other companies for producing certain parts of a final product. Sub-contracting arrangements generally help the companies maintain their profit margins and pass the risks (particularly those associated with price, e.g. increases in price for materials such as wood, paint, hardware) on to subcontractors. On the other hand, having too many sub-contractors makes it difficult for companies to control the legality of timber used by subcontractors, thus exposing themselves to different kinds of risk (e.g. those associated with violation of the EU Timber Regulation and the Lacey Act).

If the government of Viet Nam signs a VPA with the EU, subcontractors working with companies exporting products to the EU will also have to comply with requirements concerning the legality of timber used. This also applies to the subcontractors of companies trading with the US. It is not too difficult for subcontractors currently using certified timber and having tracing systems in place to comply with legal requirements. However, subcontractors who do not have such systems in place might have difficulties in maintaining their market access, since they cannot verify their legal production. Such subcontractors would be the ones currently sourcing timber from various sources, particularly those associated with risks, such as the Mekong region, and for those who have not yet prepared for complying with market requirements. The adoption of a TLAS may include incentives to subcontractors to improve their practices. A limited scope TLAS may allow the subcontractors without having robust wood tracing systems in place to enjoy their flexibility, at least in the short term.

<sup>7</sup> Vietnam has been portrayed by different organizations as a country using illegal wood imported from neighboring countries. This has given the Vietnamese wood industry a bad reputation.

However, as the government of Viet Nam may want to adopt a nation-wide TLAS, some subcontractors could be negatively affected if they are not prepared. Therefore, it is advised that the subcontractors should prepare themselves as soon as possible, e.g. by learning and adopting good practices. Adopting good practices, however, means increasing costs. Some subcontractors with sufficient resources can afford these costs; others may not. As a result, the adoption of a TLAS, particularly nation-wide, may lead to the shrinking of the number of wood processing enterprises in the future.

#### 5.4.3 Impacts on timber merchants

At present, the exact number of timber merchants is not known; estimates say that there are hundreds, with many merchants buying timber from multiple vendors.<sup>8</sup> The difficulty in recording the number of the merchants reflects the overlap among different categories of stakeholders. Many timber merchants are timber processors. Many wood processing companies are directly involved in the import of wood from abroad, not only for their own use, but also for sale. Controlling the legality of timber procured by these companies is a challenging task. One of the biggest challenges for the design and application of a TLAS for Viet Nam is not how to control the legality of the timber domestically produced, but how to control the legality of the timber imported to the country particularly from high risk countries such as Laos, Cambodia, and Myanmar.<sup>9</sup>

To date, there has been no mechanism established to control the legality of timber imported to the country. The average perception of Vietnamese authorities on the legality of timber imported to the country, particularly from the high risk countries mentioned above, is that as long as importers demonstrate evidence of legality of the timber, the import should be allowed, banning it would be a violation of the World Trade Organization's Free Trade Agreement.<sup>10</sup> According to the authorities the imported timber would be considered legal if the following conditions are met: (i) the companies harvesting timber pay appropriate timber royalties as required by the exporting government; (ii) logs are hammered by forest protection authorities in the exporting country; (iii) reliable trading contract between a seller (exporter) and a buyer (importer); and (iv) timber species are not banned for export.<sup>11</sup>

As the VPA negotiations have just started in Viet Nam, it is not clear whether the average perception of the government on the legality of timber imported to the country will be recognized by the EU. Given the complexity of the timber import, Viet Nam may need to develop mechanisms such as bilateral trade agreements with the key timber exporting

<sup>8</sup> As mentioned earlier, there are more than 600 vendors from 100 countries currently selling wood to Vietnam.

<sup>9</sup> The government of Laos prohibits the export of logs and sawn wood harvested from natural forests, but salvaging timber from hydropower construction sites tends to be associated with illegality (ProForest, 2009). Land conversion and timber harvesting outside the designated areas and under-reporting of harvesting volume are observed (Forest Trends, 2010). Loopholes in the legal framework exist, allowing illegal logging to occur (Forest Trends, 2010; Global development solution, 2005). In Cambodia, most of the export-oriented logging is illegal and unsustainable (ProForest, 2009). Timber logging is associated with corruption (Global Witness, 2007). Huge forest areas have been converted into rubber plantation. This allows large-scale clear cutting to take place (ibid.) In Myanmar, large quantities of timber are being smuggled out of the country ([www.illegal-logging.info/approach.php?id=80](http://www.illegal-logging.info/approach.php?id=80); ProForest, 2009). It is likely that illegality is associated with Myanmar's export of timber to China and other destinations, including Viet Nam (ProForest, 2009).

<sup>10</sup> This view has been expressed by Vietnamese authorities in all the meetings on FLEGT and Lacey Act.

<sup>11</sup> These four conditions are clearly expressed by the authorities in meetings on FLEGT and Lacey Act. The view has been agreed upon by the wood industry.

countries, particularly Laos and Cambodia. However, developing such an agreement is time consuming. In addition, enforcing such an agreement requires a lot of effort from both sides as it may require a substantial change in the existing governing system of the forestry sector, particular for the import-export.

In Viet Nam, the timber harvest from natural forests in the country is around 150,000-200,000 m<sup>3</sup> RWE per year (Cao Chi Cong, 2011). There is evidence that the annual logging quota have been abused, as some companies harvest timber outside government designated areas to increase the volume of timber harvested. If the government of Viet Nam signs a VPA with the EU, companies involved in the trading of the timber harvested from natural forests in Viet Nam may need to introduce a reliable tracing system to make sure that the timber traded meets the legality requirements.

A large volume of timber harvested from plantations comes from state-owned enterprises. To date, these state-owned enterprises are managing large areas of production forests (see table 1). The recent visits of the research team to some wood exporting companies in the south of Viet Nam currently selling their products to the US and EU, revealed that the companies procured acacia wood from several state companies in provinces in the North: Bac Kan, Yen Bai, and Phu Tho. Many state-owned enterprises established plantations on recently acquired lands. A TLAS will have direct impacts on these enterprises, as many of them have not yet been granted land titles, they lack a legal foundation demonstrating their legal ownership of the land, thus to the trees on the land. Land conflicts between local households and the enterprises resulting from unclear land boundaries and overlapping claims are quite common in many areas (To Xuan Phuc, 2007). Adopting a TLAS even with a limited scope will affect these companies, as they need to have land titles demonstrating legal ownership of the land. Securing the titles costs time and money. As a result, some companies, particularly those in conflict with local villagers, may not be able to obtain the titles quickly. This means that their market access is jeopardized. The adoption of a TLAS may on the other hand provides a good opportunity to settle claims on land in a fair and transparent way.

#### 5.4.4 Impacts on companies focusing on domestic markets

To date, there has been no reliable data on domestic consumption of timber products. But experienced people<sup>12</sup> speculate that about 80% of furniture products consumed in the country is imported from neighboring countries such as China, Malaysia, and Thailand, and that the remaining 20% is mainly produced by Vietnamese-owned, small-scale enterprises (Nguy Hong, 2010a)<sup>13</sup>. The companies selling their products in the domestic market procure wood from various sources in the country, such as plantations and household gardens (ibid). Experienced people also believe that the total volume of timber used for furniture in domestic markets is the same as for export.

While most of the products sold in domestic markets are made from average and low-value timber, for example particle boards such as plywood and multi density fiber(MDF) that target

<sup>12</sup> They are key people in the timber associations, and directors of wood processing companies.

<sup>13</sup> This statement seems to be contradictory because Vietnam has been known as a timber processing hub, exporting a large amount of furniture abroad. However, furniture products exported particularly to the US and EU markets are different from those consumed domestically. This is because consumers in Vietnam use different kinds of furniture (e.g. style, species) from those for export markets.

low-and-middle-income consumers (Nguy Hong, 2010b), some products with high value are destined for high-income consumer groups. In recent furniture fairs in Ho Chi Minh and Binh Dinh, many companies presented their products made from high value timber such as Huong (*Pterocarpus macrocarpus*), Trac (*Dalbergia tonkinensis*). A wood company in Thai Nguyen province offered a bed made from a piece of Nghien (*Burretiodendron hsienmu*) at a price of around US\$ 90,000; another company in Gia Lai province in the Central Highlands offered a small wood-crafted statute made out of Trac at a price of US\$15,000. By law, these species are banned from commercial use.

Many companies, particularly the small ones, do not care about the legality of the wood they use. This is mainly because consumers in the country do not ask for legal timber, but care more about the price and design of the product.

The signing of a VPA and the adoption of a nation-wide TLAS, including domestic timber trade, will substantially affect domestic markets for timber products. To date, many companies targeting domestic markets are not able to comply with strict requirements on the legality of the products. Our interviews with some handicraft villages in the North of the country revealed that almost all producers are small-scale and household-based. According to these producers, almost no customers have asked about the legality of the products. In other words, customers do not care about the legality of the products. With no requirements from customers and in the face of weak law enforcement, producers are not interested in adopting a tracing system to control the legality of the wood. Such a system is costly; many small producers cannot afford it.

A limited scope TLAS may not affect small scale industry supplying the domestic market. But in the long run, if the government upscales the TLAS to nation-wide, small scale producers could be negatively affected if no measurements are taken to prepare them to meet legal requirements. The adoption of a nation-wide TLAS may force many small producers, who have limited resources, to shut down and consolidate the position of large scale companies with strong resources.

#### 5.4.5 Impacts on smallholders

In Viet Nam, more than 3 million ha of forestland are currently managed by more than 1 million households. Less than 50% of the households have obtained their land use titles, and the remaining are still waiting for their land use certificates (UNREDD and MARD, 2010).

As mentioned earlier, some wood processing companies exporting their products to the US and EU markets are currently procuring raw materials (mainly acacia) from local households. The adoption of a TLAS, even with a limited scope, will affect the households, particularly those currently supplying wood to the companies exporting their products to the US and EU markets.

The households lacking land titles may be excluded from the market when a TLAS is introduced in Viet Nam. However, the adoption of a TLAS may also play a vital role in fostering the granting of land use certificates to local households, thus strengthening land access for smallholders.

In the short run, the adoption of a limited scope TLAS may not affect smallholders, particularly those who only supply wood for domestic markets. In the long run, if the government upscales

the TLAS to nation-wide, these smallholders will be affected if they have not obtained the land use certificates. To prepare smallholders for integration into the global market for wood products, the government should accelerate the process of granting land titles to smallholders.

As analyzed above, the signing of a VPA and the implementation of a TLAS will impact various stakeholders in Viet Nam. In general, a VPA will help Viet Nam move toward more sustainable forest management and a more responsible and environmentally friendly wood processing industry. In the short run, however, the adoption of a nation-wide TLAS will have substantial impacts on forest governance in the country, particularly the disadvantaged groups such as smallholders and producers. Even if the government of Viet Nam opts for a VPA with a limited scope in the first stage, it is recommended that it should be prepared to upscale to a nation-wide TLAS. The establishment of such systems will take time and requires a lot of resources. But given the importance of the timber industry sector, not only for the country's GDP but also for accommodating a large labour force, resources should be allocated for preparation.

Different initiatives on adopting reliable tracing systems to verify timber legality, sustainable forest management, responsible wood processing and trade, and efforts to reduce emissions from deforestation and forest degradation (REDD+) are being piloted at the local level. These may serve as an important foundation for facilitating the transition toward more sustainable forest management in the country. The following section describes such initiatives.

## 6 Some sustainable forest management initiatives

### 6.1 Applying reliable systems for controlling the legality of wood

The FSC CoC tracks FSC certified wood through the production chain – from the forest to the consumer, including all successive stages of processing, transformation, manufacturing and distribution.<sup>14</sup> It provides the link between responsible production and consumption, thereby enabling the consumer to make socially and environmentally responsible purchasing decisions (ibid.). The FSC CoC certification helps improve market access, particularly in the country where the consumers are socially and environmentally sensitive, like those in the US and EU.

By January 2008, a total of 148 wood companies in Viet Nam has been granted FSC CoC. The number increased to 157 in September of the same year. As of January 19th, 2010, the total number is 183. To date, 269 FSC CoC certificates have been granted to wood companies in Viet Nam.<sup>15</sup>

The increase in number of companies with FSC CoC shows an important move in the industry toward a more responsible timber industry. The signing of a VPA could give a strong impetus to the industry to obtain more FSC CoC in order to maintain and expand market access.

Currently, the WWF's Global Forest and Trade Network (GFTN) is operating in Viet Nam. This initiative aims to eliminate illegal logging and improve the management of valuable and threatened forests. The GFTN-Viet Nam facilitates trade links with a global network of responsible buyers, helping to stimulate a vibrant Vietnamese forest industry.<sup>16</sup> Additionally, the GFTN-Viet Nam provides a framework by which producers and processors can work towards credible certification while receiving the benefits of being members of the GFTN-Viet Nam (ibid.) To date, GFTN Viet Nam has a total of 13 members, with a total of 482,222 m<sup>3</sup> (RWE) traded per year, and a total area of 9,500 ha of forest under sustainable forest management (ibid.)

### 6.2 Commercial plantations by VIJACHIP<sup>17</sup>

The Viet Nam Forest Development Strategy 2006-2020 emphasizes that in order to reduce the dependency of the country's timber industry upon raw materials from abroad, plantation forests should be established and expanded rapidly. Recent years have witnessed efforts by

<sup>14</sup> [www.fsc.org/chainofcustody.html](http://www.fsc.org/chainofcustody.html)

<sup>15</sup> As required by different buyers in the US and EU, Tri Tin timber processing and export company in Binh Dinh province, for example, has adopted various tracing systems such as FSC CoC and TFT. To make sure the timber used is legal, Tri Tin uses a lot of FSC wood imported from other countries.

<sup>16</sup> [gftn.panda.org/gftn\\_worldwide/asia/vietnam\\_ftn/](http://gftn.panda.org/gftn_worldwide/asia/vietnam_ftn/)

<sup>17</sup> Information of this model is obtained from the presentation "Lien doanh giữa khu vực công nghiệp chế biến gỗ tư nhân và khu vực lâm nghiệp nhà nước trong phát triển rừng nguyên liệu" [collaboration between privately-owned and state-owned wood processing companies in the area of forest plantation]. This presentation was made by Vu Long at the Forum on Vietnam Forestry, Binh Dinh City, March 2011.

wood companies to acquire forestland to establish their own forest plantations. However, as large areas of production forest have already been allocated to individual households, it is difficult for companies to acquire land. In response to the difficulty, company-household collaboration for the development of forest plantations has been established in some areas. The collaboration of SOJITZ company, some state companies, and smallholders in five provinces (Quang Tri, Thua Thien Hue, Da Nang, Quang Nam, and Quang Ngai) is such an example.

VIJACHIP is a joint venture between Japanese-owned SOJITZ and five Vietnamese forest companies in the provinces mentioned above. Established in 1993, the joint venture's main activity is to plant forests and produce wood chips for export to Japan. In order to secure adequate raw materials, the joint venture collaborates with smallholders in establishing forest plantations. Through VIJACHIP, the Vietnamese companies, as partners, are able to access loans from SOJITZ for the establishment of forest plantations. With that line of credit, Vietnamese companies were able to collaborate with smallholders in the provinces to establish 13,062 ha of forests between 1993-2001 period. VIJACHIP has tried four different collaboration arrangements with local households, which are detailed below.

*First type of collaboration.* The Vietnamese companies in the joint venture provided credit originally obtained from the SOJITZ loan to local households who joined the collaboration. Households using loans from the joint venture were obliged to sell wood to the joint venture with the price determined by the market at the time of harvest. However under this arrangement, eligibility criteria for the household loans were quite restricted, as each household joining the collaboration had to have at least 10 ha of land. In addition, they had to have mortgage property worth about 30-40% of the total loan. Following the joint venture, if one ha of plantation could provide 50-60 m<sup>3</sup> of wood at the time of harvest, net profits per ha of forest per tree cycle (7 years) for each household would be roughly US\$ 500-600. Two wood species were introduced to the households by the joint-venture; eucalyptus and acacia. However, many households who planted eucalyptus did not gain a profit owing to the low production of eucalyptus. Only households growing acacia gained profits.

*Second type of collaboration.* The joint venture covered all costs incurred by the establishment of plantations. In return, the households had to repay all the costs in wood, with a total of 50 m<sup>3</sup>/ha/7 years as observed in Quang Tri province. Households were entitled to the remaining wood after paying the joint venture.<sup>18</sup> From the perspective of the companies, collaboration of this kind helps protect benefits for the joint venture, but from the perspective of household, the collaboration was not fair for them, as all risks associated with production were passed on to them. Households also expressed concerns that the volume of wood paid to the joint venture in exchange for loans was very high, with companies capturing most of the profits generated from the plantation.

*Third type of collaboration.* The joint venture covered all the costs incurred by establishment of plantations and in return received 70-75% of the total wood harvested. This type of collaboration was able to motivate households to increase productivity of the plantations. Risks associated with production and investment were shared between the joint venture and local households.

*Fourth type of collaboration.* The joint venture covered all the costs incurred by establishment of plantations, which were then reimbursed at the time of harvest. Total benefits derived from the harvest after subtracting costs were divided equally between the companies and households. This collaboration is very recent with no wood harvested yet, so economic gain for all parties involved has not been calculated. That said, it is likely that with a 50% share in the total profits, households will get more benefits relatively to what they get from the other types of collaboration.

In all likelihood, collaborations between companies and local households in the establishment of forest plantations are among the very few remaining options for expanding forest plantations in the country, through which more wood could be produced for the timber processing industry and thus reducing dependency on timber imports would be reduced. The four types of collaboration described above raise some important points:

*Up-front investment.* For many smallholders, up-front investment for establishment of plantations is not available. To date, there has been no government credit program with favourable conditions (e.g. long-term credit, minimum of a tree cycle, with low interest rate) for smallholders. Loans from commercial banks are available, but those loans are usually short-term (2-3 years) with high interest. In addition, procedures for accessing these loans require a lot of paperwork, often beyond the capacity of smallholders. As a result, local households are unable to access a consistent line of credit.

Collaborations with companies help smallholders address this lack of up-front investment capital. Collaborations have potential to be a win-win solution, for the company lacking land and the smallholder lacking funds. However, sustainability of the collaborative model depends very much on distribution of both risks and benefits between the companies and households.

*Benefit sharing.* Benefit sharing is one of the key factors influencing the sustainability of the model. Companies investing in plantations expect good returns in exchange for their long-term investment into the plantations. Households entering into the collaboration with their land and labour as their investments also expect equal shares of the total benefits derived from the harvest. But how much of the share is considered "equal" between the two? Benefit sharing is very much dependent on the negotiating skills of each party. This means that smallholders with limited knowledge and information of markets are in a weaker position compared to the companies. The fourth collaboration type between VIJACHIP and local households mentioned above could be considered the most equal benefit sharing model between the two parties. However, equality is not only important for benefits, but also for risks.

*Risk sharing.* There are a number of risks associated with collaborations between companies and households. Companies under budget constraints may drop their investment at some point. Households with financial difficulties may want to harvest wood prematurely, or sell the plantation to a third party. They may also want to sell wood to other people to get higher prices instead of selling wood back to the companies. Risks of this kind could be mitigated, for example, through a contract signed between the two parties, and risks could be shared equally between the two. Collaboration type four initiated between VIJACHIP and local households mentioned above could be a good example for both benefit and risk sharing.

<sup>18</sup> This volume is different depending upon different locations.

In sum, collaboration between companies and smallholders could be an option for addressing the constraints associated with the lack of land and funding for establishment of forest plantations. However, success of the model is dependent upon a number of factors including the equal distribution of benefits as well as risks.

### 6.3 Smallholder forest certification

An example of smallholder forest certification exists in Viet Nam. With financial and technical support from the World Wildlife Fund (WWF) through their project on smallholder group certification, 118 households with a total of 316 ha from 5 villages in Quang Tri province formed a group and received FSC certification for their plantation forest (acacia). On average, each household joining the project has less than 3 ha of forest. The price premium for the certified wood is about 40-50% (Le Thuy Anh, 2010; interview with Le Thuy Anh, 2011).<sup>19</sup>

The smallholder forest certification group includes several households who voluntarily joined the group in order to manage their forestland in a sustainable way. Through the project, technical support, including FSC introductory workshops, was organized for government officials and local households. In addition, smallholders were taught forest management techniques and FSC management planning. Regarding group structure, four distinct layers were established (Figure 7).

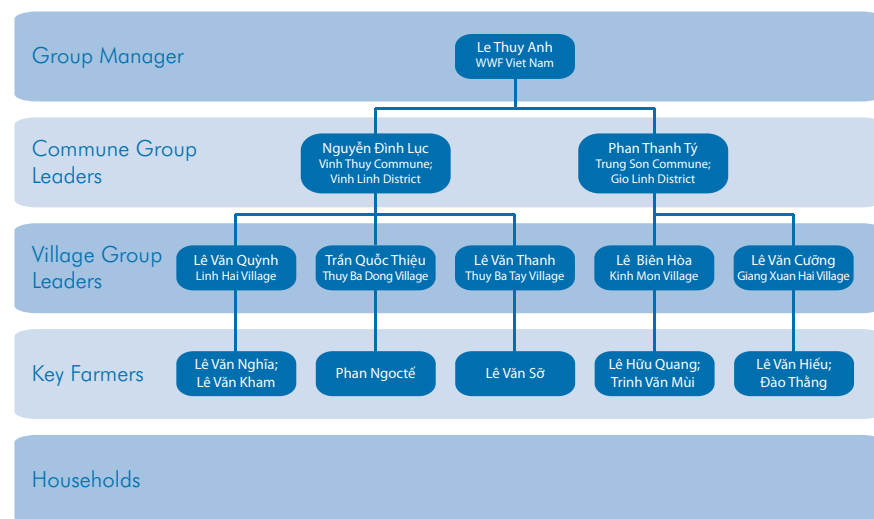


Figure 7. Structure for smallholder group certification in Quang Tri province. Source: Schrader and Le Thuy Anh, 2010.

At the lowest level there were households who decided to come together based on their own interests. These formed the household group. The households eligible for the project were those holding land use certificates. Letters for joining the group were expected from interested households. Once in the group, they were responsible for technical work such as pruning, selective harvesting, and taking care of the trees.

<sup>19</sup> Le Thuy Anh. Success story: Quang Tri smallholder forest certification group. Presentation made at Beira, November 2010. Interview with Le Thuy Anh, April 2011.

At the village level, households belonging to the same group voted for a group leader (see table 5). The group leader assigned a key person from one of the households of the group to assist him, particularly to provide technical guidance to participating households. The village group leader was responsible for coordinating technical and administrative work. Specifically, he checked eligibility of households to join the group, registered households if they met all requirements, conducted annual checks of households' forest areas, and organized annual meetings for households.

Table 5. Different layers of group management in Quang Tri.

Level		Contact person
Level 1	Household (forest management unit)	Member of group at village level
Level 2	Households collaborate with each other forming a group at the village level (village group)	Leader of village group
Level 3	Groups at the village collaborate with each other forming commune group (commune group)	Leader of the commune group
Level 4	Provincial Forest Development department (Group manager)	Group manager

Source: Schrader and Le Thuy Anh, 2010.

At the next level of hierarchy, village group leaders voted for commune group leaders. The commune leaders coordinated forest management plans with the communal People's Committee. In addition, the leaders coordinated the selling of wood after harvest, collected feedback and complaints from households, and provided information related to important policies and decisions to the households.

At the highest level of the group structure was the group manager, who was given the task to provide training to village group leaders and their assistants on technical issues. The manager also provided support to complete the forest management plan and business plan for the group, as well as linking customers (companies buying wood) and villagers. Administratively, the manager has to sign all documents related to certification, to make work plans for annual assessments, to coordinate certification assessments, to organize meetings with all village and commune group leaders, and to manage the village certification fund. Rules and regulations were established for members of the groups. Rules and regulations stipulating a process for households wishing to withdraw from the group were also developed. Once in the group, households can coordinate with each other in buying seedlings and harvesting and selling wood.

This smallholder forest certification group is the first pilot model in Viet Nam. The price premium derived from the wood will likely help scale-up the model in the future, albeit with some constraints. First, there is always the danger that farmers will come upon financial difficulties and sell their wood early, thus negatively affecting the whole group. Second, sustainable forest management is still a very new concept to farmers, thus it will take time for them to understand how the concept can work on the ground. Third, group leaders have big responsibilities while their capacity is often limited, making it difficult for them to fulfill their responsibilities. Fourth, the plantation area for each household is small, driving up total



transaction costs. Smallholders themselves usually cannot afford these costs. For the model to be sustainable, the certification area must be at least 2,000 ha.

Though still in the piloting stage, smallholder group certification has potential for addressing the problem of high transaction costs incurred by smallholders in Viet Nam. Group certification with certified wood provided to the wood processing industry would make an important contribution toward sustainable forest management, while at the same time providing more economic benefits for smallholders.



## 7 Conclusion

This report has focused on the impacts of newly-emerged export market requirements, particularly the EU FLEGT, the EU Timber Regulation, and the US Lacey Act. We have described some key policies, government programs, and projects aimed at promoting sustainable production of timber resources and sustainable forest management. We have shown that despite these policies, programs, and projects a number of difficulties still exist, such as lack of funding for investment in forest plantations, high transaction costs, and risks associated with the production, processing, and marketing of products. The biggest constraint for the government of Viet Nam and the Vietnamese timber industry in meeting legality requirements is how to control the timber chain, particularly the imports. This, together with other difficulties, has prevented the scaling-up of sustainable production of timber and sustainable forest management projects nation-wide. Meanwhile, policies on taxes, customs, and enterprise formation have given way to the establishment and expansion of the wood processing industry, but frequent changes in policies have made it difficult for enterprises to comply.

The wood processing industry in Viet Nam has been expanding rapidly and the current trend for expansion of the sector continues. However, the sustainability of the sector is in question due to its heavy reliance on timber imports and the lack of reliable mechanisms for controlling the legality of the timber imports. There are risks associated with the legality of wood imported into Viet Nam from certain sources, particularly from the Mekong countries. To date, focus of furniture production and export has been on quantity rather than quality, thus the product has limited added value.

Recent years have seen the development and implementation of market-based regulations on timber legality, particularly in the US and EU markets. With the US and EU as the main export markets for Vietnamese furniture products, new legislation such as the EU Timber Regulation and the Lacey Act will have direct impacts on the Vietnamese timber industry. The Government of Viet Nam decided to enter into negotiations with the EU aimed at eventually signing a Voluntary Partnership Agreement (VPA). This will have impacts on the timber industry and the general forest governance structure of the country. The magnitude of the impacts will largely depend upon the scope of a Timber Legality Assurance System (TLAS) to be developed and agreed upon between the two parties; a limited scope TLAS or a nation-wide TLAS. The current structure of the wood processing industry, the land tenure system, the heavy dependency of the timber industry on timber imports, and the lack of support and strong commitment from the government in promoting sustainable forest management, responsible timber trading, and producing enough raw material to substitute the imports, means that the country is not ready for the adoption of a nation-wide TLAS. To start with, the government may want to opt for a limited scope TLAS, focusing on key supply chains to the EU and the US markets. Meanwhile it is recommended that the government should design a concrete action plan to prepare the country for the adoption of a nation-wide TLAS. Such a plan should include activities aimed at promoting sustainable forest management and fastening the process of granting land use titles particularly to smallholders and state forest

enterprises. The plan should also include concrete mechanisms and encourage the wood industry to use more certified wood and apply reliable wood controlling systems. Some examples have been described in the report. Resources should be allocated and efforts should be made to upscale these examples.

To control the legality of timber imports, the government of Viet Nam may want to consider developing bilateral trade agreements with some key timber exporting countries, particularly Laos and Cambodia, under which systems for controlling the legality of timber import and export will be designed. Developing such agreements is time-consuming. It is advisable that the government of Viet Nam starts exploring such options with the governments of Laos and Cambodia quickly.

Concrete and accessible information on FLEGT VPA, EU Timber Regulation, TLAS and Lacey Act should be compiled and passed on to stakeholders, particularly small scale traders, producers and smallholders, in order to prepare these groups to integrate into the global market. These groups may not have direct access to global markets, but changes in markets in general and legal requirements on timber legality will affect them sooner or later. The lack of such preparation may produce negative impacts on them in the future.

Efforts should be made in order to encourage the timber industry, particularly the enterprises lacking reliable wood tracing systems, to set-up and apply a proper code of conduct so that good practices are exercised. Business-to-business initiatives under which responsible producers collaborate with responsible processors/exporters should be promoted. Success of such models would generate important examples for other companies to follow.

Viet Nam is now joining both FLEGT and REDD+ initiatives. VPAs focus on legality assurance and forest governance, while REDD+ is primarily about conserving forest carbon stocks. There are potential synergies between the two; both initiatives address the same underlying causes of deforestation and forest degradation and both benefit from an inclusive, transparent multi-stakeholder strategy and implementation process. By creating synergies resources can be mobilized to strengthen the country's capacity to achieve sustainable forest management and responsible timber trade in the future.

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## Appendix

List of laws and policies that apply to the activities of timber trading and timber processing industry (1990-2007)

No	Names of policy	Dated
<b>I</b>	<b>Macro-policies</b>	<b>1991,1998</b>
1.	Law on Export - Import Tax	1994,1998
2.	Law on Domestic Investment Promotion	1995
3.	State Corporate Law	1996,2000
4.	Law on Foreign Investment in Viet Nam	1997
5.	Commercial Law	1997
6.	Value Added Tax Law (VAT) <ul style="list-style-type: none"> <li>Circular No. 187/1998/TT-BTC dated December 29, 1998 of the Ministry of Finance providing additional guidance on value added tax for the activities in capital construction, production and processing of product of agriculture and forestry</li> <li>Decree No.79/2000/ND-CP dated December 29, 2000 guiding the implementation of the Value Added Tax Law</li> </ul>	1997
7.	Law on enterprise income tax <ul style="list-style-type: none"> <li>Decree No. 30/1998/ND-CP dated May 13, 1998 of the Government guiding the implementation of the Law on enterprise income tax</li> <li>Decree No. 26/2001/ND-CP dated June 4, 2001 of the Government on amending and supplementing a number of articles of the Government's Decree No. 30/1998/ND-CP dated May 13, 1998 on the implementation of the Law on enterprise income tax</li> </ul>	1998
8.	Law on Enterprise	1999
9.	Decision No. 46/2001/QĐ-TTg dated April 4, 2001 of the Prime Minister on the management of goods export and import in the 2001-2005 period	2001
10.	Customs Law, 2001, 2005	2001,2005
11.	Enterprise Law	2005
12.	Law on Investment	2005
13.	AFTA Trade Agreement	2000
14.	Trade Agreement VN- USA	2005
<b>II</b>	<b>Micro-policies (specifically on timber processing)</b>	
15.	The Decision NO. 99/CT dated April 24, 1989 by the President of the Council of Minister on promoting the export of products that are made of good	1989
16.	The Decision NO. 146/1991/QĐ-HĐBT dated on April 30, 1991 by the President of the Council of Minister on exporting wood and other forest products.	1991
17.	The Decree NO. 114/HĐBT dated April 7, 1992 on assigning the Ministry of Forestry to manage the activities of import and export.	1992
18.	The Decree NO. 14/CT dated May 10, 1992 by the President of the Council of Minister on assigning the Ministry of Forestry to unify the national management of the timber processing industry.	1992
19.	Decision NO. 642/TTg dated December 29, 1993 of the Prime Minister on the products of wood export and forest products	1993
20.	The Instruction NO. 283/TTg dated June 14, 1993 by Prime Minister about the implementation of exigent measures to protect the valuable and rare source of wood.	1993

No	Names of policy	Dated
21.	The Instruction NO. 462/TTg dated September 11, 1993 by Prime Minister about the close management of forest logging, transportation and timber export.	1993
22.	The Dispatch NO. 595/XNK dated March 24, 1994 by the Ministry of Forestry about the guidance of making plans for the export and import of wooden furniture and forest products in 1994.	1994
23.	Decree NO. 72/CP dated January 1, 1995	1995
24.	Decree NO. 163/1999/ND-CP dated November 16, 1999 of the Government on assigning and leasing forestry land to organizations, households and individuals for stable and long-term use for forestry purposes	1999
25.	Decree NO.79/2000/ND-CP dated December 29, 2000 of the Government detailing the implementation of the Value Added Tax Law	2000
26.	Decree NO. 35/2002/ND-CP dated March 29, 2002 of the Government amending and supplementing lists A,B and C issued in the Appendix to the Government's Decree No. 51/1999/ND-CP dated July 8, 1999 which details the implementation of the Law on domestic investment promotion (amended)	2002
27.	Decree NO. 76/2002/ND-CP dated September 13, 2002 of the Government amending and supplementing a number of articles of Decree No. 79/2000/ND-CP dated December 29, 2000 detailing the implementation of the Value Added Tax Law	2002
28.	Decree No. 95/2002/ND-CP dated November 11, 2002 of the Government amending and supplementing Clause 3, Article 1 of the Government's Decree No. 76/2002/ND-CP dated September 13, 2002 which amends and supplements a number of articles of the Government's Decree No. 79/2002/ND-CP dated December 29, 2000 detailing the implementation of the Value Added Tax (VAT) law	2002
29.	Decree No. 11/2002/ND-CP dated January 22, 2002 of the Government on management of the export, import, and transit of wild animals and plants of various species	2002
30.	Decree No. 86/2003/ND-CP dated July 2003 of the Government on Regulating functions, tasks, powers and Organization structure of the Ministry of Agriculture and Rural Development.	2003
31.	Decree No. 106/2004/ND-CP dated April 01, 2004 of the Government on the state's development investment credits	2004
32.	Decree No. 134/2004/ND-CP dated June 09, 2004 of the Government encouraging the development of rural industry and Decree No. 20/2005/ND-CP dated February 28, 2005 amending Decree No.134/2004/ND-CP	2004
33.	Decree No 149/2005/ND-CP dated December 8, 2005 of the Government on the Law export, import tax.	2005
34.	Decree No.186/2006/ND-CP dated August 14, 2006 of the Government on the regulation management of forest	2006
35.	Decree No. 151/2006/ND-CP dated December 20, 2006 of the Government on the State's investment credit and export credit	2006
36.	Decision No 374/NN-PTLN/QD dated March 30, 1996 of Minister Ministry of Agriculture and Rural Development on the Temporary regulations on the import of wood materials.	1996
37.	The Decision NO. 2375/NN-CBNLS dated December 30, 1996 by the Ministry of Agricultural and Rural Development on promulgating statutes of approving the scheming network and granting enterprises the licenses for processing other types of wood and the Decision NO. 392/NN/CBNLS/QD dated March 19, 2007 the amendment.	1996
38.	The Decision NO. 392/NN/CBNLS/QD dated March 19, 2007 by the Prime Minister of Ministry of Agricultural and Rural Development about the amendment of statutes on approving the scheming network and granting enterprises the licenses for processing other types of wood.	1997

No	Names of policy	Dated
39.	The Instruction NO. 286/TTg dated May 2, 1997 on promoting the exigent measures to protect the valuable and rare source of wood.	1997
40.	The guideline of Government on closing natural forests: to reduce the productivity of wood that is logged from natural forests.	1997
41.	The Decision NO. 2198/CNR dated November 26, 1997 by the Ministry of Forestry on issuing the Classified Board for timber used nationwide.	1997
42.	The Decision NO. 2198/CNR dated November 26, 1977 on issuing temporary Classified Board for timber using nationwide.	1977
43.	The Decision NO. 1124/QD-TTg dated December 25, 1997 by Prime Minister on the export and import of wood and forest products as well as the import of material wood.	1997
44.	The Decision NO. 136/1998/QĐ – TTg dated July 31, 1998 by Prime Minister on making the amendment to some stipulations of procedures for exporting and importing wood and forest products.	1998
45.	The Decision NO. 65/1998/QĐ-TTg dated March 24, 1998 by Prime Minister about the export and import of timber products, forest products.	1998
46.	The Circular NO. 04/TT-BNN-CBNLS dated April 27, 1998 by the Prime Minister of Ministry of Agricultural and Rural Development about promulgating a regulation for enterprises, that own Investment License, will not have to ask permit to operate in timber processing and forest products.	1998
47.	The Decision NO. 661/QĐ-TTg dated July 29, 1998 by Prime Minister about the target, task, policy and organization to implement the project of 5 hectares of forest.	1998
48.	The Decision No.136/1998/QĐ-TTg, dated July 31, 1998 on making the amendment to some stipulations of procedures about wood and forest product export and import.	1998
49.	Decree No. 43/1999/ND-CP dated June 29, 1999 of the Government on the state's development investment credits	1999
50.	Decision No 02/1999/QĐ-BNN-PTLN dated January 5, 1999 of Ministry of Agriculture and Rural Development on the regulation of logging and product forest.	1999
51.	The Decision NO. 47/1999/QĐ-BNN-KL dated March 12, 1999 by the Prime Minister of Ministry of Agricultural and Rural Development on promulgating regulations of the inspection of the transportation, production and trading of wood and forest products.	1999
52.	The Decision NO. 65/1999/QĐ dated March 24, 1999 by Prime Minister about the export of timber products, forest products and the import of material wood and forest products.	1999
53.	The Circular NO. 122/1999/TT-BNN-PTLN dated August 27, 1999 by the Prime Minister of Ministry of Agricultural and Rural Development on giving detailed guidance for the export of handicraft products and finished carpentry products that are made of natural wood.	1999
54.	Decision No. 211/1999/QĐ-TTg dated October 28, 1999 of the Prime Minister on the rates of interest on loans for industrial material forest planting	1999
55.	Decision No. 195/1999/QĐ-TTg dated September 27, 1999 of the Prime Minister on the setting up, use and management of export support fund	1999
56.	Decision No. 52/2001/QĐ-TTg dated April 12, 2001 of the Prime Minister ratifying the norms of timbers to be exploited from natural forests for the 2001-2005 period	2001

No	Names of policy	Dated
57.	- Decision No. 62/2001/QĐ-TTg dated April 4, 2001 of the Prime Minister on the management of goods export and import in the 2001-2005 period. - Circular No. 62/2001/TT-BNN dated June 5, 2001 of the Ministry of Agricultural and Rural Development guiding the export and import of goods subject to the specialized management by the agriculture in the 2001-2005 period - Circular No. 72/2001/TT-BNN dated July 9, 2001 of the Ministry of Agricultural and Rural Development supplementing and amending a number of Points in Circular No. 62/2001/TT-BNN dated June 2001 of the Ministry of Agriculture and Rural Development guiding the export and import of goods subject to the specialized management by the agriculture service under the Prime Minister's Decision No. 46/2001/QĐ-TTg dated April 4, 2001 on the management of goods export and import in the 2001-2005 period	2001
58.	Decision No. 46/2001/QĐ-TTg dated April 4, 2001 of the Prime Minister on the management of goods export and import in the 2001-2005 period	2001
59.	Circular No. 62/2001/TT-BNN dated June 5, 2001 of the Ministry of Agricultural and Rural Development guiding the export and import of goods subject to the specialized management by the agriculture service under the Prime Minister's Decision No. 46/2001/QĐ-TTg dated April 4, 2001 on the management of goods export and import in the 2001-2005 period	2001
60.	Decision No. 1494/2001/QĐ-TCHQ dated December 26, 2001 of the General Customs Department, Provision temporary of customs procedures for export and import	2001
61.	Circular No. 102/2001/TT-BNN dated October 26, 2001 of the Ministry of Agriculture and Rural Development guiding the implementation of the Prime Minister's Decision No. 178/1999/QĐ-TTg of August 30, 1999 promulgating the regulation on, the labeling the goods for domestic circulation and export as well as import goods, regarding commodity forest products, commodities processed from forest products, cereal grains and assorted farm produce seeds in packs	2001
62.	Decision No. 08/2001/QĐ-TTg dated January 11, 2001 of the Prime Minister issuing the regulation on management of special-use forests, protection forests and production forests, which are natural forests	2001
63.	Decision No. 45/2002/QĐ-BTC dated April 10, 2002 of the Finance Minister on the instead of export tariff	2002
64.	Decision No. 04/2004/QĐ-BNN-PTNT-LN dated February 2, 2004 of Ministry of Agriculture and Rural Development issuing the regulation on logging and products forest.	2004
65.	Decision No. 59/2005/QĐ-BNN/PTNT dated October 2005, of the Ministry of Agriculture and Rural Development issuing the regulation on inspection and control of product forest.	2005
66.	The Decision NO. 01/2006/QĐ-BNN-PTNT-KL dated June 1, 2006 on promulgating regulations of management and making the mark for forest trees.	2006
67.	Vietnam Forestry Development Strategy 2006-2020	2007
68.	Decision No. 147/2007/QĐ-TTg dated September 10, 2007 of the Prime Minister on a number of policies for development of production forests in the 2007-2015 period	2007
69.	Document No. 4179/VPCP-NN dated August 12, 2007	2007
70.	The Decision NO. 334/CNR dated May 10, 2008 by the Ministry of Forestry about correcting the classification of wood used in the classified board of eight types of wood	2008
71.	The Dispatch NO. 6145/VPCP-KTN of the Governmental Office about the promotion of the arrangement, renovation and development of state-owned plantation.	30/08/2010
72.	The Dispatch NO. 442/TTg- DMDN by Prime Minister about the privatization of tree garden, forest planting enclosing with the processing units.	15/03/2010
73.	The Dispatch NO. 416/TTg-KTTH by Prime Minister about projects of planting forests that loan from State budgets.	11/03/2010

No	Names of policy	Dated
74.	The Circular NO. 87/2009/TT/BNN-PTNT by of Ministry of Agricultural and Rural Development on guiding about natural forest exploitation with selection.	31/12/2009 Effect 14/02/2010
75.	The Decree NO. 99/2009/ND-CP of Government on the penalization of administrative violation on forest management and protection as well as forest product management	02/11/2009 Effect 01/01/2010
76.	The Circular NO. 24/2009/TT/BNN dated May 5, 2009 by Ministry of Agricultural and Rural Development on giving guidance to the activity of changing protective and specialized forest to productive forest and vice versa after three kinds of these forest have been re-scheming as the Instruction NO. 38/2005/CT-TTg by Prime Minister about recheck and re-scheme three types of forests (protective forest, specialized forest and productive forest).	05/05/2009 Effect 19/06/2009
77.	The Circular NO. 25/2009/TT/BNN of Ministry of Agricultural and Rural Development on giving the guidance to make the statistics, inventory of forest and making files for forest management.	05/05/2009 Effect 19/06/2009
78.	The Circular NO. 13/2009/TT/BNN of Ministry of Agricultural and Rural Development on giving guidance to some matters of the management, usage the source of administrative violation penalization with the action of smuggling, fraudulence in forest management, protection and the management of forest products.	12/03/2009 Effect 26/04/2009
79.	The Instruction NO. 334/CT-TTg of Prime Minister on strengthening the measurements of implementing the project of newly planting 5 hectares of forest.	10/03/2009 Effect 10/03/2009
80.	The Decision No. 380/QĐ-TTg dated April 10, 2008 of the Prime Minister on the pilot policy on forest environment service charge payment	10/04/2008 Effect 10/04/2008
81.	The Joint Circular No. 02/2008/TTLT-BKH-BNN-BTC dated June 23, 2008 of the Ministry of Planning and Investment, the Ministry of Agricultural and Rural Development and the Ministry of Finance guiding the implementation of the Prime Ministers Decision No. 147/2007/QĐ-TTg dated September 10, 2007 on a number of policies on production forest development	23/06/2008 Effect 20/07/2008
82.	The Joint Circular No. 65/2008/TTLT-BNN-BTC dated May 26, 2008 of the Ministry of Agriculture and Rural Development and the Ministry of Finance guiding the implementation of the Prime Minister Decision No. 48/2007/ND-CP dated March 28, 2007 on principles and methods of forests valuation.	26/05/2008 Effect 26/06/2008
83.	The Decision No. 64/2008/QĐ-BNN dated May 23, 2008 of the Ministry of Agricultural and Rural Development promulgating the Regulation on management of production of and trading in industrial and perennial fruit tree varieties	23/05/2008 Effect 20/06/2008
84.	The Circular NO. 34/2008/TT-BNN of Ministry of Agricultural and Rural Development about the amendment to some parts in the Circular NO. 80/2007/TT-BNN dated September 24, 2007 BNN of Ministry of Agricultural and Rural Development that instructed the scheme of agricultural and forestall production enclosing with the process and consumption of forest products; assisted procedures to resettlement zone at Son La hydroelectric power.	14/02/2008 Effect 06/03/2008
85.	The Decision NO. 107/2007/QĐ-BNN of the Ministry of Agricultural and Rural Development enclosing with the Decision NO. 44/2006/QĐ-BNN dated June 1, 2006 by the Minister of Ministry of Agricultural and Rural Development about the amendment to the stipulation of tree management and hammering the trees.	31/12/2007 Effect 25/01/2008
86.	The Dispatch NO. 1940/TTg-NN of the Prime Minister on the policy of dealing the material, that is used for the timber processing industry to export.	13/12/2007 Effect 13/12/2007



No	Names of policy	Dated
87.	The Decree NO. 159/2007/NĐ-CP of the Government on the penalization of the administrative violation in the management, protection of forest as well as the protection of forest products.	30/10/2007 Effect 24/11/2007
88.	The Decision NO. 2740/QĐ/BNN-KL of the Ministry of Agricultural and Rural Development on the approval of forest allocation and leasing period 2007 - 2010	20/09/2007 Effect 20/09/2007
89.	The Decision NO. 147/2007/QĐ-TTg of the Prime Minister on issuing some policies to the forest development for production period 2007 – 2015	10/09/2007 Effect 07/10/2007
90.	The Resolution NO. 48/2007/NĐ-CP of the Government on the principles and measures to assess the value of forest.	28/03/2007 Effect 04/05/2007
91.	The Decision No. 18/2007/QĐ-TTg dated February 5, 2007 of the Prime Minister approving Vietnam's forestry development strategy in period 2006-2020	05/02/2007 Effect 03/03/2007
92.	The Resolution NO. 73/2006/NQ-QH11 of the Vietnam Council on the adjustment of the target and task of the 5-hectare project in period 2006 – 2010.	29/11/2006 Effect 29/11/2006
93.	The Decision No. 186/2006/QĐ-TTg dated August 14, 2006 of the Prime Minister promulgating the Regulation on forest management	14/08/2006 Effect 07/09/2006
94.	Circular No. 186/2006/ND-CP dated August 14, 2006 of the Government promulgating the Regulation on forest management	14/8/2006
95.	The Decision NO. 54/2006/QĐ-BNN dated July 5, 2006 on the announcement of the list of wild animals and plants that are stipulated in the Appendix of the International Trading Convention to the preserved animals and plants.	5/7/2006
96.	The Decision NO. 01/06/2006 dated June 1, 2006 on issuing regulation management of the hammering the tree.	01/6/2006
97.	The Resolution NO. 149/2005/NĐ-CP dated December 8, 2005 of the Government on the detailed stipulation of import and export Law.	08/12/2005
98.	The Instruction NO. 38/2005/CT-TTg dated December 5, 2005 on the recheck and re-scheming three types of forest (protective forest, specialized forest and productive forest).	5/12/2005
99.	The Decision NO. 59/2005/QĐ-BNN dated October 10, 2005 about the stipulation of the inspection and examination of forest products.	10/10/2005
100.	The Decision NO. 40/2005/QĐ-BNN dated July 7, 2005 about the regulation of the exploitation of wood and forest products	7/7/3005
101.	Laws on import and export tax	14/6/2005
102.	The Decision NO. 06/2005/QĐ-BNN dated January 24, 2005 issuing the stipulation of afforestation inspection, recycling promotion and the care and protection for natural forest. This documentation stipulates the procedures for afforestation inspection, recycling promotion and the care and protection for natural forest.	24/01/2005

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