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Report Highlights:

Vietnam's wooden furniture exports have soared from \$135 million in 1998 to over \$535 million in 2003. Vietnam's furniture exports to the United States will jump from under \$10 million in 2001 (before recent tariff changes) to over \$110 million in 2003. U.S. forest product (mostly hardwood lumber) exports to Vietnam have also increased from \$0.7 million in 1998 to \$19 million in 2002. The Vietnamese wood processing industry relies on imported wood because of limited local supplies and the absence of a sustainable forest certification program in Vietnam.

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Vietnam Forestry

According to the Forestry Protection Department of the Ministry of Agricultural and Rural Development (MARD/FPD), Vietnam's 2002 total forest area was 11,784 thousand hectare (tha), an increase of 8% compared with 2001's area. Most of the new area results from the Government's reforestation ("Five Million Hectare") program. Vietnam's forest area includes both natural and planted forests. The natural forest area is about 9,865 tha, of which 7,772 tha is timber forest (see table 1). The natural forest is concentrated in the Tay Nguyen (Central) Highlands, Southeast, South Coast and North Coast regions. Dac Lac province (in the Tay Nguyen Highlands) has the largest natural forest of 980 tha, followed by Gia Lai (728 tha) and Kon Tum (602 tha). The natural forest area in Nghe An province (in the North Coast region) is about 636 tha.

Vietnam's total wood (lumber and pulp wood) production increased from 2,122 thousand metric tons (tmt) in 1999 to 2,428 tmt in 2002, mostly due to an increase in wood production from planted forests.

Table 1: Vietnam's Forest Area

	1999	2000	2002
Total forest area (ha)	10,995,060	10,915,592	11,784,589
of which			
Natural forest (ha)	9,470,737	9,444,198	9,865,020
<i>Timber forest (ha)</i>	<i>7,553,208</i>	<i>7,779,647</i>	<i>7,772,416</i>
Planted forest (ha)	1,524,323	1,471,394	1,919,569
Wood production (thousand m3)	2,122	2,375	2,428
of which natural timber exploitation (estimate.)	400	350	300
Forest covering rate (%)	33.4	33.2	35.8

Source: MARD's Forestry Protection Department and Vietnam's GSO

Vietnam's wood production includes wood from both natural and planted forests. Most of the wood from the planted forests is low quality wood from fast growing trees like acacia and eucalyptus. More than 80% of the planted wood is used as raw material for the paper industry. A small part of the planted forests (around 300-400,000 m3) has better quality wood (rubber, pinewood) and is used in the wood processing (furniture or handicraft) industry.

The Government of Vietnam grants an annual quota to cut around 300,000 m3 of natural wood to provinces with natural forests. However, the actual natural wood production is much higher than

the Government's quota because of illegal logging. It is difficult to quantify the amount of illegal timber production, but it could be as high as 200,000-250,000 m³. Various reports from MARD/FPD, and other observers, have noted that illegal cutting is widespread throughout the country.

MARD's data indicates that Vietnam's forest coverage rate increased from 33% in 2001 to 35.8% in 2002. Vietnam plans to increase the forest-coverage rate to 40% by 2010 through various reforestation programs.

Vietnam wood processing industry

Vietnam's wood processing capacity is expanding to meet increasing demand from both domestic and overseas markets. According to a report from the Forest Development Department of MARD (MARD/FDD), there are more than 1,500 enterprises involved in wood processing and trading. Only about 450 companies are active as furniture exporters, with about 120 companies focusing on out-door furniture, while 330 companies are starting to manufacture indoor furniture.

The wood processors and traders include 100 percent foreign invested companies, joint-venture firms, state-owned enterprises, and local private-sector companies. Due to the Government's open policy on foreign investment, many foreign companies from Singapore, Taiwan, Malaysia, Norway, China and Sweden are investing in Vietnam's wood processing sector. These foreign-owned and joint venture companies contribute considerably to the rapid rise of Vietnam's wood exports, particularly to the United States.

Wood processors are unevenly allocated; they are concentrated around Ho Chi Minh City (HCMC) and the coast regions. Most of the large wood importers and furniture exporters are located in HCMC, the South Coast, and Tay Nguyen provinces. According to the Ministry of Trade (MOT), HCMC is the home of more than 30% of wood processing companies, about 15% of wood processors are located in the Red River Delta, while 15 percent are in the North Central region, and about 13% are in the South Coast and Central Coast region. A small number of wood processors (ranging from 1% to 7%) are operating in other regions.

Vietnam's wood processing capacity is estimated at 2.2-2.5 million m³. However, the actual running level is between 55-60% of total capacity. Post estimates Vietnam's annual wood domestic consumption (for non-pulp use) at 1,400-1,500 thousand m³.

Vietnam (official) forest product imports

In 2002, Vietnam's wood sector spent about \$250 million (a record high) on imports of wooden materials and products. Imports of log wood and sawn wood account for more than 77% of the total import value. Asian countries, including Laos, Cambodia, Myanmar, Indonesia and Malaysia, were the key log and sawn wood suppliers to Vietnam. Other suppliers include Solomon Islands, New Zealand, Sweden, Brazil and the United States.

Table 2: Vietnam's 2001-2002 Forestry Product Imports (Thousand Dollars)

	2001	2002

Log wood imports total	68,656	74,567
of which from key supplying countries		
+ Laos	30,084	11,193
+ Indonesia	14,077	2,693
+ Malaysia	11,329	36,191
+ Myanmar	1,688	2,872
+ Solomon Islands	1,756	3,678
+ United States	1,472	4,701
Sawn wood import total	55,527	122,345
of which from key supplying countries		
+Cambodia	16,738	27,443
+Laos	4,618	24,707
+New Zealand	2,464	7,769
+Malaysia	3,593	6,969
+Taiwan	4,294	4,252
+Thailand	3,166	3,281
+United States	3,828	11,218
Wood panel imports total	34,494	47,525
of which from key supplying countries		
+Germany	1,929	2,348
+Indonesia	6,694	7,788
+Malaysia	15,116	16,802
+New Zealand	84	1,009

+Singapore	1,059	1,724
+Taiwan	1,466	2,026
+Thailand	2,276	6,014
+United States	714	2,391
Wood product imports total	1,897	8,550
Forest products imports total	160,574	252,987

Source: Trade Contacts

Post estimates Vietnam's 2002 total log and sawn wood imports at 600-660 thousand m3. In addition, a lot of wood was imported from unknown (not officially recorded) sources.

Vietnam's timber supply

Vietnam's wood supplies are from many different sources including the government quota on natural timber exploitation, recorded legal imports and unknown supply (illegal logging and unknown-imported sources). Table 3 presents our best estimates -- which are still very much up for discussion. Another problem is developing good conversion ratios for converting a wide range of logs and sawn lumber into cubic meters of wood.

Table 3: Vietnam's Timber Supply (Thousand cubic meters - m3)

	Legal timber production	Recorded legal imports	Unknown supply	Total supply
2000	350	500	500	1,350
2001	300	470	300	1,070
2002 est.	300 (natural wood log) 300 (planted wood)	600	300	1,500

Source: Trade Contacts and Post Estimates

U.S. Wood Exports to Vietnam

In 2002, the United States exported forest products valued at \$19 million to Vietnam, an increase of 198% compared with 2001's level. About 50-60 percent of the total value was from hardwood exports. According to a local importer of U.S. hardwood, furniture made from U.S. hardwood is well appreciated in the domestic market.

Table 4: Summary -- U.S. Forest Product Exports to Vietnam (Thousand Dollars)

	2000	2001	2002	Jan.-Sep. 2003
Total forest products	1,602	6,355	18,958	12,496

Of which: Hardwood lumber	751	3,860	11,101	6,378
Log and chips	301	1,472	4,701	4,048
Panel products	164	714	2,391	1,396

Source: U.S. Bureau of the Census Trade data, compiled in FAS BICO report.

Table 4B: Hardwood Details – U.S. Exports to Vietnam – Thousand Dollars

Commodity Detail		1998	1999	2000	2001	2002	Jan-Sep 2003
Hardwood Lumber Type	HS Code						
LMBR,R, WHT OAK	4407910060	20	20	78	2,406	7,478	3,690
HLUM OTHR R TEMP	4407990090	0	0	0	76	902	945
LMBR,D, RED ALDR	4407990031	37	352	44	249	427	596
LMBR,R, ASH	4407990065	38	180	58	88	369	313
LMBR,R,HARD MAPL	4407990020	131	71	215	181	301	143
LMBR,R, OTH MAPL	4407990021	0	0	67	91	300	301
LMBR,D, WHT OAK	4407910061	0	0	0	49	272	0
LMBR,R, RED OAK	4407910020	92	238	75	207	239	63
LMBR,R, Y POPLAR	4407990045	0	0	16	32	206	140
LMBR,D, CHERRY	4407990041	0	0	0	51	201	96
LMBR,D, RED OAK	4407910021	33	0	144	68	142	0
LMBR,R, CHERRY	4407990040	0	18	0	0	76	0
LMBR,D, MAPLE	4407990025	0	20	0	0	57	0
HLUM WHT MERANTI	4407260000	0	0	0	17	43	0
LMBR,D, Y POPLAR	4407990046	0	11	41	35	30	31
LMBR,D, ASH	4407990066	0	17	13	27	27	18
LMBR,R, WALNUT	4407990075	0	0	0	0	25	10
HLUM OTHR D TEMP	4407990095	0	0	0	275	7	12
LMBR,R, BEECH	4407920020	0	0	0	4	0	0
LMBR,R, RED ALDR	4407990030	0	0	0	0	0	13
LMBR,D, HICKORY	4407990071	0	0	0	0	0	8
LMBR,D, WALNUT	4407990076	0	0	0	4	0	0
Total Hardwood		351	927	751	3,860	11,101	6,378

Source: US Customs Data and USDA/FAS BICO Commodity Detail Group

Exports of wood products

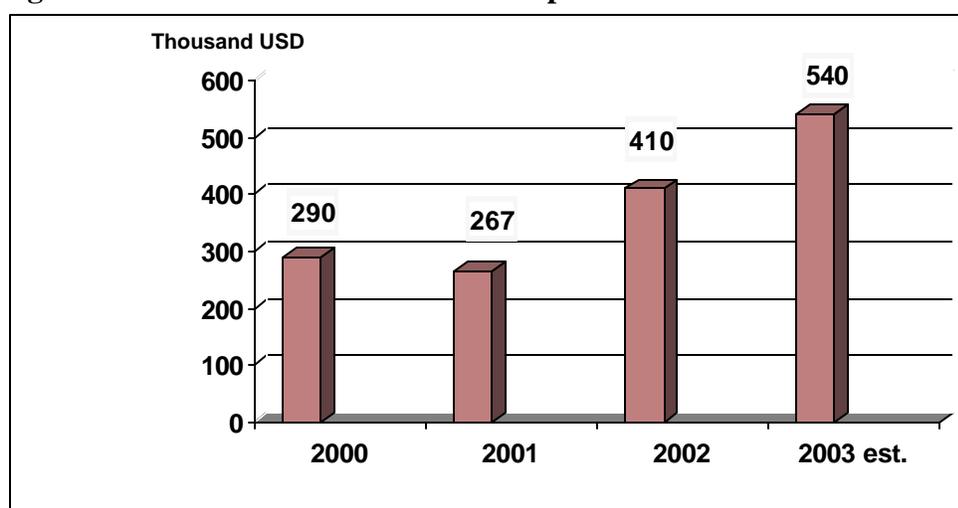
In 2002, Vietnam earned about \$410 million (according to Vietnamese data; other observers feel the export value was much higher) from wood product exports, an increase of 53% compared with 2001. The European Union was the biggest market; it imported more than 43% of Vietnam's

wood products. Asian countries including Japan and Hong Kong took 33% of the market share. About 14% of the product was exported to North America.

According to Vietnam's Customs Department, Vietnam's wood products exports in the first nine months of 2003 reached \$354 million, an increase of 41% compared with the same period last year. Japan, the European Union and the United States were the three key importers of Vietnam's wood products. The Ministry of Trade (MOT) estimates Vietnam's 2003 wood product exports at \$540 million (see figure 1). Some outside observers are estimating that Vietnam's 2003 wooden furniture exports might exceed \$650 million.

According to traders, Vietnam's improving product-quality and good prices compared with products from other Asian suppliers (Thailand, Malaysia and Indonesia) will cause the Vietnamese wood sector to continue growing.

Figure 1: Vietnam's Wooden Product Exports 2000-2003



Source: Based on Ministry of Trade Data and Estimates

Vietnamese furniture exporters are finding many new customers. In 2002, Vietnam exported wood products to more than 133 countries, up significantly from 58 countries in 1998. In the mid-1980s, only Russia and the Eastern European countries would accept Vietnam's wooden products. In other words, as the quality of products has improved, there has been a huge increase in the countries eager to buy Vietnamese furniture.

Although Vietnamese wooden products exports include both indoor and out-door furniture, the out-door furniture (at present) accounts for roughly 90% of total exports. Many companies based in Vietnam are eager to manufacture more indoor furniture so they can reach a year-round (not just seasonal) market. As the indoor furniture sector expands, imports of hardwood lumber will continue to climb.

However, Vietnam's 2004 exports might be constrained by increasing (mostly EU) consumer demands to have a sustainable forest certification system (see Policy section).

Wood products have become a key export item. Vietnam plans to earn \$1 billion from exports of wood products by 2010, and have domestic wood consumption around 2.5-3.0 million m³.

Table 5 – Vietnam’s Wooden Furniture Exports

Vietnam’s Wooden Furniture Exports								
Derived from Importing Country Data and Estimates								
Reporting Country	Thousand Dollars							
	1995	1996	1997	1998	1999	2000	2001	2002
United States	112	188	359	1,014	2,018	7,875	11,031	68,556
United Kingdom			14,540	21,395	33,934	44,242	43,341	61,508
South Korea		3,912	6,563	3,432	9,007	11,713	12,101	17,799
Netherlands			5,110	6,878	14,788	21,384	13,408	13,057
Japan	15,291	29,942	45,657	38,928	51,783	72,052	94,465	108,275
Germany			11,841	10,450	12,827	16,595	13,294	14,754
France			9,569	11,106	12,817	21,088	23,472	27,131
Australia	1,179	2,805	3,453	2,967	7,328	10,963	10,285	17,880
Other	266	20,577	44,869	38,010	58,366	80,296	81,654	96,587
Total	16,848	57,424	141,961	134,180	202,868	286,208	303,051	425,547

Source: Global Trade Atlas Estimates

Vietnam’s forest products exports to the United States are soaring

In 2002, Vietnam’s wooden furniture exports to the United States exceeded \$54 million -- more than five times the 2001 level. This jump was due to the lower U.S. import tariffs charged on Vietnam’s wood products as result of the Vietnam-U.S. Bilateral Trade Agreement (BTA).

As of December 10, 2001, the United States (under the BTA) accords Vietnamese products MFN/NTR (most-favored nation – also called normal trade relations) tariff treatment. As a result, Vietnamese furniture exporters found a new market as U.S. furniture tariffs dropped from 40-60 percent to almost zero.

Vietnam’s forest products exports to the United States continued to go up in the first 9 months of 2003. According to traders, Vietnam’s furniture is readily accepted by U.S. customers because of its quality and lower price than products from other Asian countries like Indonesia and Thailand.

Table 6: Vietnam's Wooden Furniture Exports to the United States

U.S. Furniture Imports from Vietnam	2001	2002	2002	2003
	Thousand dollars		Jan.-Sep	
	Thousand dollars		Thousand dollars	
Selected US 6 Digit HS Categories				

9403.30 --wooden furniture (except seats) of a kind used in offices	\$3.6	\$940.5	\$530.1	\$2,104.3
9403.40 --wooden furniture (except seats) of a kind used in the kitchen	\$2.6	\$2,625.9	\$1,788.5	\$4,286.7
9403.50 --wooden furniture (except seats) of a kind used in the bedroom	\$569.8	\$8,554.0	\$3,483.5	\$22,917.4
9403.60 --wooden furniture, nesoi	\$9,128.5	\$42,353.0	\$27,955.6	\$59,424.4
Total	\$9,704.5	\$54,473.4	\$33,757.7	\$88,732.8

Source: US Customs Data via US International Trade Commission Database

POLICY

Vietnam Government supporting exporters in marketing products

Under a long-standing program sponsored by the Ministry of Trade, exporters who undertake trade promotions, trade missions, or participate in overseas exhibitions are eligible to have 50% of their expenditures for airfare ticket and accommodation costs (for one person per enterprise), booth rental and related costs reimbursed by the Ministry of Finance. The purpose of this policy is to encourage enterprises to develop export markets for Vietnam's products. Furniture exporters can apply for this reimbursement through the Vietnam Forestry Association or through Viet-trade, a trade promotion agency of the Ministry of Trade.

Sustainable Forestry Certificates

Driven by importer (mostly EU) demands and concerns about deforestation, Vietnam is trying to set-up a forest and lumber certification system modeled on the international Forest Stewardship Council (FSC) approach (see www.fscoax.org or www.fscus.org). However, some observers feel that Vietnamese wood processors could pay 30% more for products with the FSC certificate.

According to local companies, about 20% of recently signed contracts require a FSC certificate. This requirement is a major constraint because Vietnam does not have an FSC-type system for local forests or lumber. To fulfill the contracts requiring FSC-wood, manufacturers will have to use imported FSC wood (lumber or logs) from countries that have the appropriate certification system. Post estimates that about 15 percent of the logs/lumber recently imported by Vietnam has had a FCS-type certificate.

Vietnam has been working on an FSC-type system since 1999, when an inter-ministerial committee was formed to develop the necessary laws and implementing guidelines. The committee includes representatives from the many different organizations and ministries having an interest in sustainable forestry – including Vietnam's Forestry Association; MARD's Department of Agricultural and Forestry Processing; MARD's Department of Forestry Development; MARD's Department of Forest Protection; Ministry of Science and Technology; Ministry of Natural Resources and Environment; Ministry of Trade, and the Ministry of Finance.

According to Vietnam's Forestry Association, the committee will circulate a draft FSC system in December 2003 for final government approval. Assuming the final review goes well, Vietnam

plans to release their FSC standards for a sustainable forest management and lumber certification system in early 2004.

If Vietnam's FSC standards are available in 2004, it would still take several years for the system to be set-up and all the traders/manufacturers to be registered. Many wood traders are worried that the FSC system could be too costly (reportedly the draft might suggest an initial \$10,000 registration fee and an annual renewal fee of \$4,000). Therefore, some processors might still find imported wood cheaper than local FSC certificate-bearing wood.

Vietnam has received strong support from international agencies and NGOs to work on the FSC system. The Indochina World Wildlife Fund for Nature (WWF, see www.wwfindochina.org), has been working closely with MARD on sustainable forest management projects in Gia Lai, Dak Lak, Kon Tum, Nghe An and Thua Thien Hue provinces. The objective is to educate local people about sustainable forest management approaches and benefits. The WWF also provides technical expertise and financial assistance to the Vietnam's FSC committee and the Forest Protection Department of MARD (see www.kiemlam.org.vn).

Another NGO working in Vietnam to address tropical forest research, capacity building and sustainable utilization is Tropenbos International (TBI). They are just beginning a new program in Vietnam (see <http://www.tropenbos.nl>) to provide support to the Forest Science Institute of Vietnam as it develops a National Forest Research Strategy. The TBI website contains many links to other groups (NGOs, Donors, Governments, International Financial Institutes, and research institutions) working on sustainable forestry issues.

SGS, an independent inspection company headquartered in Switzerland, is active in providing oversight of the FSC system (ensuring only FSC logs/lumber are being used) to major furniture manufacturers in Vietnam. SGS promotes their Qualifor Forest Certification Program (www.sgs.com/sgsead/nsf/pages/forestry.html) as a forest management and chain of custody system consistent with FSC standards. At least two, perhaps more, Vietnamese wood processors have been certified by SGS as meeting FSC standards (chain of custody for using only FSC certified wood) so they can export furniture with logos promoting their use of sustainable forest products.