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Solid Wood Products

Annual Report

2007

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Report Highlights: Vietnam's exports of wood products reached a record \$1.93 billion in 2006, increasing 24.5% over 2005, in response to continued strong demand. Expectations are that exports for 2007 could climb as high as \$2.4 billion. The United States remains the top buyer of Vietnam's wood product exports, with exports to the USA rising 24.02% over 2005; projections for 2007 suggest an even sharper increase. Vietnam continues to work on decreasing its dependency on wood imports with ambitious plans to increase forest cover to 43% by 2010 and provide up to 6 million cubic meters of sawn timber annually to the furniture industry. Wood imports, nevertheless continue to grow, increasing 14.6% in 2006, in the face of a thriving furniture industry and construction boom. U.S. wood exports to Vietnam also saw a 50% increase over 2005, and all indicators point to an increase of 30% or more in Vietnam's overall wood imports for 2007.

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I. FORESTRY OUTLOOK

Vietnam's Ministry of Agriculture and Rural Development (MARD) reported total forest area in 2006 at 12,873 thousand hectares (tha), with 10,410 tha being natural forest and the remaining 2,463 tha planted trees. Forest acreage has been slowly increasing in response to government initiatives; in 2006 total forest area increased 3.66% over 2005. While both forest types have been growing in area, it is planted forests that account for much of the growth, increasing 6.6% since 2005 (see table 1).

Forests in Vietnam are classified into three categories, according to function: special-use forests (such as national parks or natural reserves); protection forests (watershed protection, wave-breaker and sea encroachment protection, tie-shielding etc.); and production forest. MARD reports that, in 2006, there were 2,202 tha of special-use forests (17.1% of total forest areas); 5,286 tha of the protection forest (41%); and 5,420 tha of production forest (41.9%).

Vietnam's wood production for 2006 was 3.011 million cubic meters (m³) which is an increase of 11.4% over 2005. Wood is produced almost exclusively from planted forests as MARD limits the exploitation of natural forests through a quota system. In 2006, MARD allowed 300,000 m³ of timber to be harvested from natural forests. The quota for 2007 has been reduced by half to only 150,000 m³ in an effort to protect natural forests. MARD now mandates that as of 2007, the quota for wood exploitation from natural forests will be revised annually and the quota amount will be correlated to the forest management capabilities of the companies authorized to manage areas of natural forests.

Table 1: Vietnam's Forest Area and Wood Production

Forest Types	2002	2003	2004	2005	2006
Total forest area (1,000 ha)	11,784	12,095	12,306	12,419	12,873
<i>Of which:</i>					
Natural forest (1,000 ha)	9,865	10,000	10,088	10,328	10,410
<i>Timber forest (1,000 ha)</i>	<i>7,772</i>	<i>7,855</i>	<i>7,926</i>	<i>8,169</i>	<i>8,192</i>
Planted forest (1,000 ha)	1,919	2,090	2,218	2,311	2,463
Wood production (1,000 m ³)	2,428	2,435	2,627	2,703	3,011

Source: MARD and General Statistical Office (GSO)

Wood produced from planted forests is primarily used for paper production, in the mining industry, as fuel wood, and to produce wood chips for export. Only a small amount of planted wood (mainly rubber, acacia and pine) is suitable for furniture. Statistics on the proportion of wood from planted forests used in the wood processing sector (furniture industry) is not available, but post estimates this at about 400,000 - 500,000 m³.

II. WOOD PROCESSING SECTOR

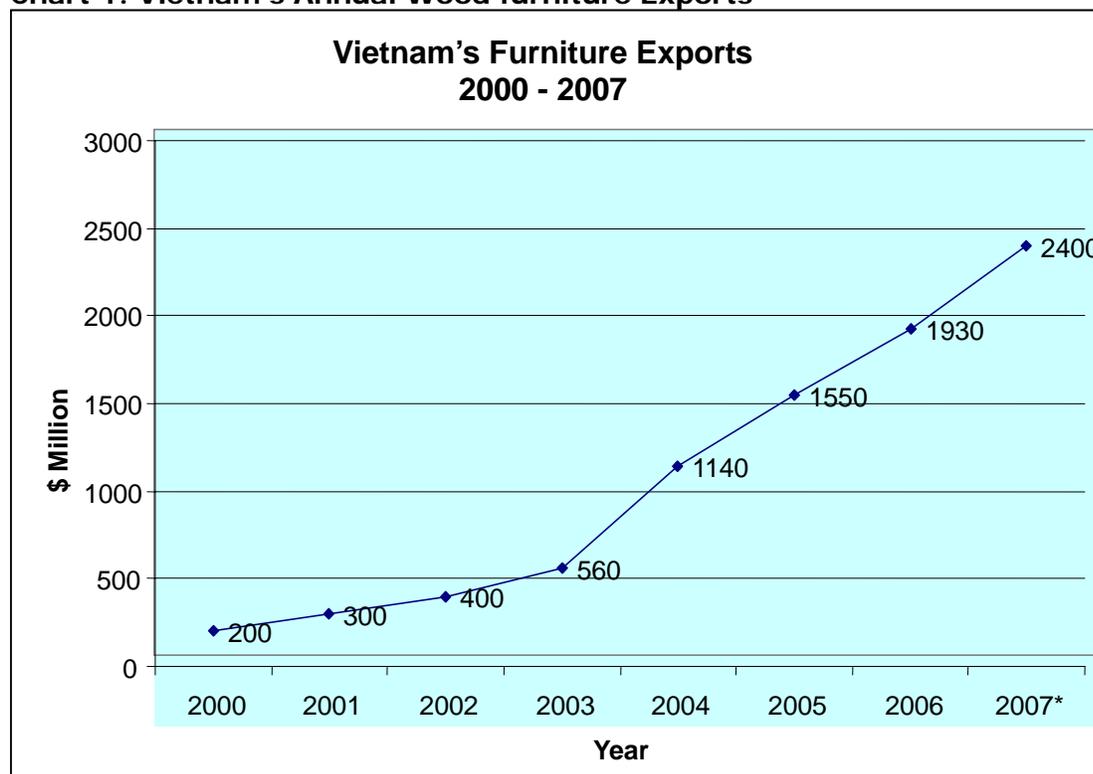
II.1. Furniture Industry

Vietnam's wood processing industry is largely composed of furniture manufacture for the export market. Over the past six years, the furniture industry experienced rapid growth, with an annual average growth of about 48%. Currently, there are some 2,000 wood processing enterprises, with about 250 of these being Foreign Direct Invested (FDI) companies. Vietnam's lower wage scale relative to its neighbors has helped attract FDI companies in this sector as has the U.S. anti-dumping case against bedroom furniture imports from China.

Vietnam's wood furniture exports

Vietnam's wood product exports reached a record \$1.93 billion in 2006, for a year-on-year increase of 24.5%. Demand continues to be strong and expectations are that exports for 2007 will reach \$2.4 billion. The market for Vietnam's wood furniture spans across 120 countries and territories, but it is the United States, Japan, the United Kingdom and China that are the major destinations, accounting for over 60% of export value in 2006. Also noteworthy is the huge increase in exports to China during the first ten months of 2007; exports were almost double that of the same period the year before. (see Table 2)

Chart 1: Vietnam's Annual Wood furniture Exports



(*): Estimated data

Source: Ministry of Trade and other trade sources

The United States is the biggest market for Vietnam's wood furniture

The United States is by far the largest market for Vietnam's wood furniture products. Growing from only \$13 million in 2001, Vietnam's wood product exports to the United States reached \$744 million in 2006; more than 38.5% of total exports and over 2.6 times greater than the next largest importer, Japan. Exports for 2007 are set to continue the growing trend as figures for the first ten months have already surpassed total exports for 2006 at a record \$772 million, an increase of over 27 percent more than the same period last year. (see Table 2)

Table 2: Top Ten Markets for Vietnam's Furniture Exports (\$ million)

Country	2005	2006	Annual Growth %	2006 Jan - Oct	2007 Jan - Oct	Ten-month Growth %
USA	600.00	744.10	24.02	607.68	772.00	27.04
Japan	240.87	286.80	19.07	224.64	257.80	14.76
United Kingdom	114.93	135.70	18.07	113.94	157.30	38.06
China	60.34	94.00	55.78	71.07	140.70	97.97
France	74.20	83.90	13.07	63.15	64.60	2.30
Germany	75.31	70.00	-7.05	51.92	66.10	27.31
South Korea	49.68	65.70	32.25	53.55	68.10	27.17
Australia	41.87	54.50	30.18	44.50	47.50	6.74
Taiwan	40.63	50.30	23.81	41.19	37.70	-8.47
Holland	45.44	45.70	0.57	38.11	35.50	-6.85
Total	1,343.27	1,630.70		1,309.75	1647.30	

Source: Ministry of Industry and Trade (MOIT)

Imports of wood and forest products

Vietnam continues to be a growing market for wood materials in general and US hardwoods in particular for the following reasons:

- Limited domestic supply;
- Limited supply from neighboring countries;
- A blossoming construction industry; and
- An expanding wood furniture export industry.

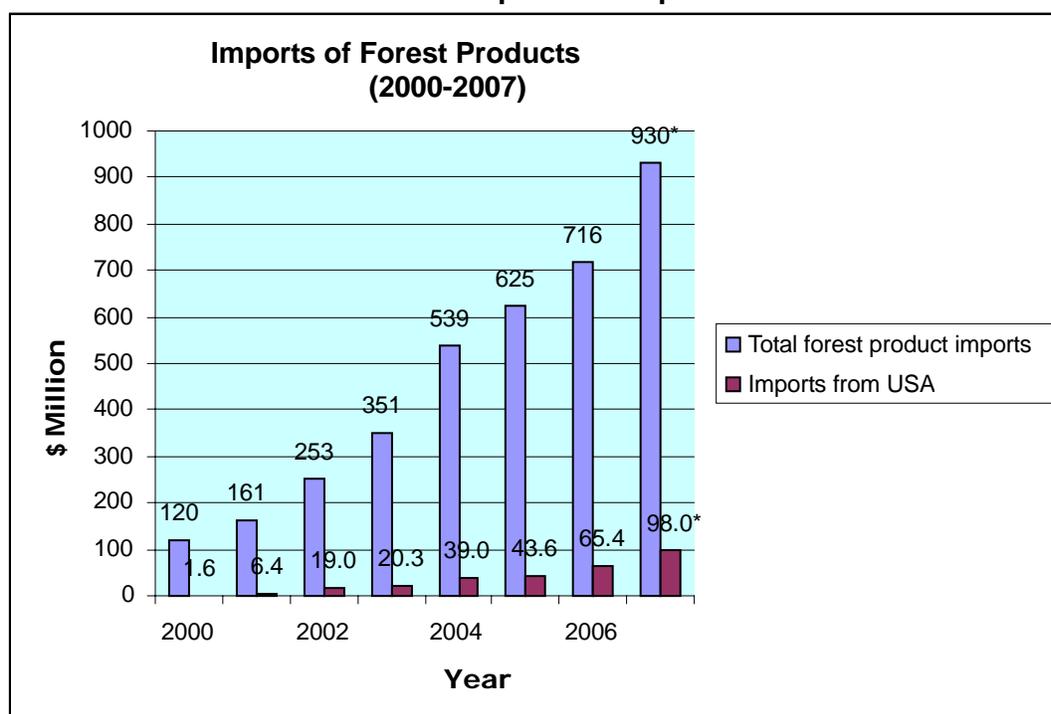
Over the last six years, Vietnam's import of wood and forest products increased dramatically from only \$120 million in 2000 to \$716 million in 2006; an increase of almost 500%. Wood imports for 2006 increased 14.6% over the previous year. Wood imports from the United States also saw significant increases over the last six years, with an annual average growth of over 109%. U.S. wood imports to Vietnam for 2006 increased 50% over the previous year and expectations are that exports for 2007 will have a similar increase. Given Vietnam's continued expansion in the furniture industry and a growing construction industry, the demand for wood is expected to continue to rise. Current projections are that imports for 2007 will increase about 30% up from 2006. (see table 3 and chart 2)

Table 3: Vietnam's annual forest product imports, by value (\$million)

	2000	2001	2002	2003	2004	2005	2006	2007*	Average growth 2000-2006
Total forest product imports	120	161	253	351	539	625	716	930	35.64%
Imports from USA	1.6	6.4	19.0	20.3	39.0	43.6	65.4	98.0	109.29%

(*): estimated data

Source: Ministry of Industry and Trade, BICO, Industry sources

Chart 2: Vietnam's annual forest product imports

(*): estimated data

Source: Ministry of Industry and Trade, BICO, Industry sources

Malaysia is the largest supplier of wood and forest products to Vietnam, supplying almost 19% of Vietnam's exported forest products, by value. While Malaysia's dominance is unthreatened by any of Vietnam's top ten suppliers, as outlined in Table 4, what is worth noting is the considerable growth in imports from other suppliers of tropical woods. Imports from Myanmar, in particular, had a sharp increase in 2006 and the trend appears to continue in 2007, though at a lesser pace. Wood exports from the United States and all major suppliers also saw significant increases over the previous year, while imports from Malaysia had the lowest increase. (Table 4)

Table 4: Top ten suppliers of forest products to Vietnam (Unit: \$ million)

Country	2005	2006	Annual Growth %	2007 Jan - Oct	2007 Jan - Oct	Ten-month Growth %
Malaysia	128.00	133.74	4.5	113.3	116.64	2.9
Laos	50.00	59.73	19.5	50.6	90.51	78.8
Cambodia	44.23	52.60	18.9	44.6	58.89	32.1
USA	43.60	65.40	50.0	56.0	77.34	38.1
China	23.78	61.43	158.3	52.1	80.48	54.6
Thailand	21.00	38.56	83.6	32.7	49.84	52.5
New Zealand	18.21	34.18	87.7	29.0	43.40	49.8
Brazil	15.41	27.71	79.8	23.5	35.71	52.1
Myanmar	7.54	34.61	359.0	29.3	44.00	50.0
South Africa	4.17	12.58	201.6	10.7	9.06	-15.0
Taiwan	22.50	27.50	22.2	23.1	30.03	30.0
Papua New Guinea	7.20	9.50	31.9	7.8	13.10	68.0
Total	385.64	557.54		472.62	649.0	

Source: Industry sources

Imports of logs, sawn woods and veneers

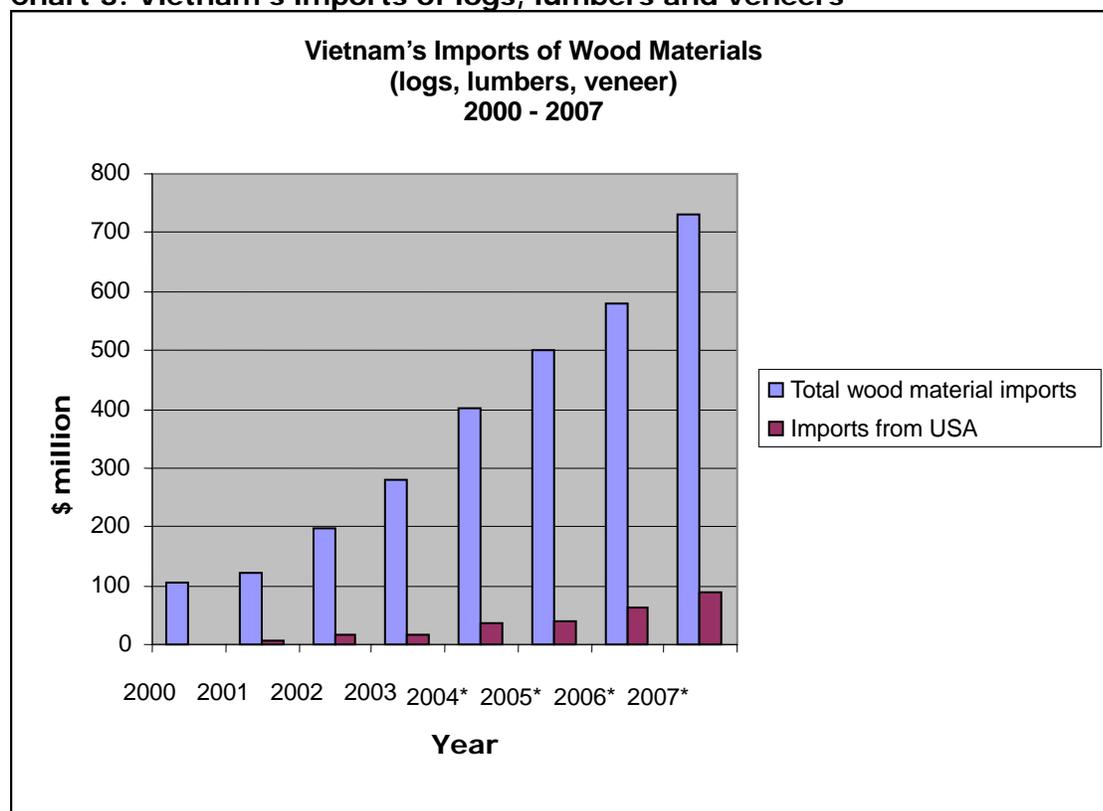
Much of Vietnam's wood and forest product imports are concentrated in logs, sawn lumber and veneers, which account for around 80%, with the rest being engineered wood. Table 5 and Chart 3 below provide an estimate of Vietnam's imports of logs, lumbers and veneers for 2000 through 2007. U.S. exports of these products are estimated to account for around 10.9% of the total for 2006 and are projected to account for about 12.3% of the total for 2007.

Table 5: Vietnam's annual wood imports (logs, lumber & veneers) (\$million)

	2000	2001	2002	2003	2004*	2005*	2006*	2007*
Total imports	104	123	197	281	400	500	580	730
Imports from USA	1.52	5.3	15.8	17.3	37	41	63.1	90

(*) Estimated data for 2004 - 2006

Source: Industry sources

Chart 3: Vietnam's imports of logs, lumbers and veneers

(*) Estimated data

Source: Industry sources

U.S. exports of wood and forest products to Vietnam

The United States has supplied wood materials to Vietnam since 1999/2000. With only a 1.3% share of the wood import total in 2000, U.S. wood product exports have grown to a market share of about 9.1% in 2006. In 2006 U.S. wood and forest products exports to Vietnam increased to \$65.4 million, up 50% from the previous year, (see table 6) and thus making the United States the second largest supplier to Vietnam by value. U.S. exports of hardwood lumber, logs and veneer saw significant increases in 2006 as did softwood logs and veneer, which both had record exports, increasing 136.3% and 137.4% respectively over 2005.

U.S. forest product exports to Vietnam continues to increase, and during the first nine months of 2007, wood exports totaled \$75.2 million, increasing nearly 61.6% over the same period last year (see table 6).

For hardwood, Yellow Poplar, White Oak, Ash, Red Oak and Walnut lumbers are the top export species to Vietnam. The most popular species for logs are Yellow Poplar, Cherry, Red Oak, White Oak and Walnut.

For softwood, Cedar, Yellow Pine and Douglas Fir lumbers are the top export species to Vietnam. The most popular species for logs are Western Red Cedar, Port Orford Cedar, Ponderosa Pine and Yellow Pine.

Table 6: Summary -- U.S. Forest Product Exports to Vietnam (Unit: \$1,000)

COMMODITY	JANUARY - DECEMBER					JANUARY - SEPTEMBER		
	VALUES IN 1000 DOLLARS					COMPARISONS		
	2002	2003	2004	2005	2006	2006	2007	%CHNG
HARDWOOD LUMBER	11,101	11,301	22,901	26,655	43,433	30,567	46,778	53.03
HARDWOOD LOGS	4,682	5,916	9,998	9,701	13,284	9,257	18,784	102.92
HARDWOOD VENEERS	1,262	1,439	2,898	1,936	2,843	2,141	2,820	31.71
SOFTWOOD VENEERS	978	465	582	795	1,887	1,361	257	-81.12
SOFTWOOD LOGS	20	61	277	593	1,401	1,183	3,582	202.79
OTHER WOOD PRODUCTS	99	270	1,726	2,714	1,176	960	1,805	88.02
OTHER PANEL PRODUCTS	16	40	32	329	726	537	0	--
SOFTWOOD LUMBER	11	69	407	492	287	220	1,058	380.91
SOFTWOOD CHIPS	0	0	0	0	138	138	0	--
HARDWOOD PLYWOOD	0	0	56	104	96	96	0	--
TOTAL	18,958	20,337	39,023	43,571	65,359	46,520	75,203	61.66

Data Source: Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics

Competition facing U.S. wood and forest product exports

U.S. hardwoods face strong competition from lower cost woods from Europe, particularly Germany, Belgium, France and former Soviet republics. Reportedly Canada has also been actively engaged in conducting workshops since last year to introduce its wood species to Vietnam's furniture industry as well as establishing exclusive local distributors for its woods.

Constraints to the use of U.S. woods in Vietnam's furniture industry

The lack of a large, existing distribution network for U.S. hardwoods is a constraint to increasing the customer base and expanding the market, particularly among smaller manufacturing operations. Most potential users have few available options outside of importing U.S. wood products directly or buying in large quantities from trading firms. End users' purchasing decisions are therefore usually based on what is locally available.

II.2. Vietnam's Construction Industry

Vietnam's economy has been growing at a rate of 8% or more in recent years, making it the second fastest growing economy in Asia. This strong economic growth has attracted considerable foreign investment, with reportedly up to \$10 billion in Foreign Direct Investment (FDI) in 2006. Large urban areas like Ho Chi Minh City and Hanoi, in particular, have been experiencing a construction boom, especially in high-end housing and apartment buildings and new and refurbished resort hotels and commercial and office buildings. This trend is expected to continue for at least the next five years. In fact, the construction industry has reportedly had a 20% increase over last year during the first 11 months of 2007, with housing developments adding over 30 million square meters with a total housing value of \$4.4 billion. These developments present great export opportunities for U.S. forest products both in terms of interior fixtures, fittings and furnishings.

Marketing and Trade

Beyond the furniture market, the demand for quality housing and hotels should lead to an increase in U.S. exports of forest products to Vietnam, particularly hardwoods for interior design and decoration, and softwoods and engineered woods for construction applications. Although, much of Vietnam's U.S. hardwood imports are bound for export markets through the furniture industry, there is some local demand by the construction market. Local application of U.S. forest products, particularly hardwood as flooring material, is still limited due to a lack of understanding of the physical properties and appropriate application. There is nevertheless a small but growing demand from the middle and upper classes for high quality solid wood doors, windows and flooring.

Exporters of U.S. forest products should target architects, construction companies and real estate and interior design firms to educate and heighten awareness on how U.S. hardwoods can complement, enhance and add value to construction projects. Real estate developers, interior designers and architects show a distinct preference for tropical woods and substituted products made from plastic as they are more familiar with these products. Raising this group's professional capacity to incorporate U.S. forest products into their designs and plans will require education about U.S. grading rules and the use of character marked/lower grade forest products for interior fittings and construction support.

Recently, Savimex – a big furniture and interior design company in Ho Chi Minh City featured American white oak in its interior design service business. Savimex, which specializes in marketing high quality interior products to apartments and office buildings, was successful in its promotion efforts which culminated in a deal with Indochina Park Tower (located in the heart of Ho Chi Minh City) to supply all U.S. white oak wooden interiors to all 100 apartments in this building.

No official data is available on the amount of wood and forest products being used in the construction and interior design industry, so post is unable to determine the impact on imports of U.S. wood products.

III. POLICY

Import Tariff

The import duty on logs, lumber and veneers is zero percent.

Vietnam's Forestry Development Strategy for 2006-2020 approved

On February 5, 2007, Prime Minister Nguyen Tan Dung signed Decision No.18/2007/QD-TTg to implement Vietnam's Forestry Development Strategy. This strategy intends to develop 16.24 million ha of land for sustainably managed and protected forests. Among the targets set for this Strategy are 8.4 million ha of production forest by 2020, with an increase in forest cover to 43% by 2010, and 47% by 2020. The projected cost to implement this strategy is VND 106,759.06 billion (# \$6,654 million). Funding is expected to come from the public sector as well as private industry and foreign direct investments.

Under this strategy, Vietnam anticipates producing 6 million m³ of sawn timber per year to support the wood processing industry as well as 320 thousand m³ of particle board and 220 thousand m³ of MDF board. These resources are expected to generate export earnings of up to \$7 billion annually from wood products and about \$0.8 billion from non-timber products. *(more details on this strategy is available from Post upon request)*

Forest Certification - Vietnam plans to grant forest certificate for 30% of forest areas by 2020

As outlined in the Forestry Development Strategy for 2006-2020, Vietnam has a goal of granting forest certification to 30% of its total forest area. The Department of Forestry in the Ministry of Agriculture and Rural Development (MARD) is currently working with the World Bank to develop standards/procedures to grant Forest Certification (FC). Post will follow up on this program.

Reportedly Vietnam's exporters of wood and forest products are being increasingly asked by furniture importers (especially from EU countries) for evidence of Forest Certification (FC). The industry in Vietnam reports that there are now about 130 wood processing plants certified as meeting the International Forest Stewardship Certification (FSC) standard. However, only a few thousand hectares of forest are certified as meeting the FSC standards. Thus, in order for Vietnam's wood producers to produce wood products for contracts requiring FC, they must use imported wood materials with FC, which considerably increases their production cost.

The FSC requirement which has been strongly focused by many outdoor furniture buyers from Europe (mainly Germany, U.K, Denmark) has not yet affected U.S. hardwood trade. This requirement has only been applied to wood species used to make outdoor furniture while American hardwood species are not suitable for outdoor furniture. Some major importers/distributors of American hardwood reported that the FSC requirement has had minimal impact thus far. However, according to SGS, the largest certifier of FSC in Vietnam, in coming years, indoor furniture buyers may also start requiring evidence of FSC.