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Vietnam

Solid Wood Products

Market for Forest Products (Hardwoods)

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Report Highlights: Vietnam's domestic supply of wood is declining and imports of solid wood are growing rapidly. U.S. hardwood exporters should carefully consider this market.

Includes PSD changes: No
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I. MARKET OVERVIEW

Once possessed of significant timber resources, Vietnam's forests have been significantly degraded over the past three decades as a result of uncontrolled logging (both legal and illegal), slash and burn agriculture and large-scale migration into previously undeveloped areas of the country. The rapid deforestation which has occurred in Vietnam was particularly intense from 1980 to 1995. During this period the average annual loss of natural forest was 60-70,000 hectares (ha), with an average of from 1.5-2 million cubic meters (m3) of wood being harvested from the country's natural forests every year.

A study carried out by the Asian Development Bank in 1999 found that Vietnam has approximately 10.8 million ha of forested land remaining, of which 9.5 million ha is natural forest and 1.3 million ha is plantation forest. Natural forest is thought to cover only 28% of the country at present, a greater than 50% decrease when compared to 30 years before. Of Vietnam's remaining forests, 6.5 million ha (60%) is classified as production forest, 3.4 million ha (31%) as protected forest, and 850,000 ha (8%) as special use forest.

The unsustainable rate of forest exploitation pursued over the past thirty years has devastated Vietnam's forests, and resulted in the country reversing its role as an exporter of round logs and cut timber and becoming an importer of over 1 million m3 of unprocessed or semi-processed wood in the year 2000. Of this 1 million m3 of imported wood, less than half is thought to have come from legal imports, with the bulk of the remainder having been illegally imported from abroad – primarily from neighboring Laos.

The rapid deforestation which has occurred in Vietnam over the past thirty years has unsurprisingly had a pernicious effect on the country's natural environment. The loss of the forests has negatively impacted Vietnam's rich and unique flora and fauna leaving many endemic species in danger of disappearing from the country altogether. The effects of forest loss and the resulting damage to watershed areas are also being felt through the increasingly severe floods which now occur in the country on a regular basis.

From being an exporter of primarily round logs and raw timber in the 1980s, the early 1990s in Vietnam saw the beginnings of large scale wood processing in the country. First investing in sawmills to produce cut timber for export, Vietnam's wood processing sector has since developed into a significant producer of finished wood products. The sector now produces not only pulp and paper and construction lumber, but also significant amounts of high value products, particularly indoor and outdoor furniture, for export to the European and North Asian markets.

In apparent recognition of the implications of the rapid forest loss occurring in the country, the Vietnamese Government (GVN) has adopted a mix of policies aimed at ameliorating the situation. Perhaps of most note for American wood exporters is the GVN's policy of limiting the cutting of timber in natural forests to a maximum of 300,000 m3 per year for the years from 1995-2010. (This figure is said by experts at the World Wildlife Foundation to be scheduled to fall even further to 200,000 m3 in the year 2001). While illegal logging continues to mean actual cutting is greater than the maximum legal amount, the situation is radically different from the early 1990s when as much as 3-4 million m3 was being extracted every year.

Another policy directed at regenerating Vietnam's forests includes a ban, instituted in 1997, on the export of domestic round logs and semi-processed wood products. While imported logs may still be exported after minimal processing, domestic wood may now only be exported as finished products.

Attempts to make up the shortfall between demand for hardwoods in Vietnam and the restricted domestic supply through the cultivation of plantation forests have as yet generated unsatisfactory results. While ambitious plans have been tabled – including the “five million hectares” program which aims to plant five million hectares of new trees throughout the country by the year 2010 - the necessary investment and forest management skills to make these projects a success has so far been lacking.

The 1998 industrial wood supply from plantation forests was estimated at 1 million m3, a figure expected to increase to as much as 5 million m3 by the year 2010. Although this figure seems promising, plantation wood in Vietnam is primarily fast growing species - such as eucalyptus – more suitable for home construction and pulp and paper production than for the production of high value products for export. It is doubtful that plantation forests in Vietnam will affect the necessity to import continuously large amounts of hardwoods from abroad in the near to medium term to supply Vietnam’s export oriented wood processing sector.

With annual demand for industrial large diameter (greater than 20 centimeters in diameter) logs expected to continue to rise from 1999’s figure of approximately 1.5 million m3 and a limitation on extraction from natural forests of 300,000 m3 a year, Vietnam will clearly have to rely on large amount of imports to meet the needs of domestic processors. This reliance on imported wood is likely to increase in the near to medium term if, as expected, the domestic wood processing industry maintains its current steady growth and domestic cutting is restrained as planned. The GVN is encouraging local wood importers and processors to make up the difference between domestic demand and supply by imposing zero to five percent tariffs on wood raw materials depending on the value chain of the material. This is opposed to the 40% tariffs applied to finished wood products.

The limitation of 300,000 m3 to be taken from natural forests has coincided with strict limitations on logging being commenced by neighboring Laos and Cambodia – previously significant sources of wood for Vietnam’s wood processors. The combined effect has been to require Vietnam to look continuously farther afield for the raw materials needed to supply its expanding wood processing industry. The leading sources of lumber and log wood in Vietnam now include Malaysia and Indonesia (countries which are both said to be considering logging bans or restrictions), with Laos still supplying relatively large amounts of illegally logged wood. Other countries exporting notable quantities of wood products to Vietnam include Sweden, Myanmar, Canada and New Zealand.

Table 1: US exports of forest products to Vietnam – 1995/99
(in thousands of dollars)

Products	**1995**	**1996**	**1997**	**1998**	**1999**
Logs and chips	0	0	0	0	574
Hardwood lumber	0	113	137	351	927
Softwood and treated lumber	0	0	87	0	37
Panel products (including plywood)	118	31	17	14	35
Other value added wood products	101	328	69	344	143

As Table 2 above indicates, current US exports of forest products to Vietnam are small although they have grown significantly in terms of value over recent years. The effects of the restricted cutting in Vietnam’s forests can be seen to be taking its effect with the increased imports of logs and hardwood lumber from the US beginning in 1998 and 1999.

Advantages	Disadvantages
Over the past thirty years Vietnam's natural forest resource base has been greatly reduced making the country increasingly dependent on imported timber.	Despite the GVN's restrictions on domestic logging, much illegal logging still occurs in the country.
The GVN has limited extraction of wood from domestic natural forests to 300,000 m3 per year for the period from 1995-2010.	Vietnam currently imports significant amounts of illegal timber from Laos, thus reducing the amount of legal imports.
A number of countries which have supplied Vietnam with timber in neighboring Vietnam have already imposed or are considering the imposition of logging bans.	Vietnamese wood processors are as yet unfamiliar with American hardwood species and lack knowledge of how to use American hardwood products.
Vietnam's wood processing sector is experiencing stable growth as the country's finished wood products are finding markets in Europe and Asia.	Technological capacity in Vietnam's wood processing sector is still weak meaning products which require sophisticated processing – such as veneer – do not yet have a market in the country.

II. MARKET SECTOR OPPORTUNITIES AND THREATS

As noted above, Vietnam has gone from being an exporter of round logs and timber to being a net importer of these and other wood products. Over the past decade, the country has developed a substantial wood processing industry. Beginning with relatively simple timber processing, the country now has a considerable number of firms – both local and foreign invested – manufacturing high value added products such as indoor and outdoor furniture and other products for the domestic market and for export.

Market size, structure and trends

Table 2 below is indicative of the recent growth in demand for wood imports required to supply the country's wood processing industry. With an estimated 1 million m3 of wood imported in the year 2000, imports of wood are likely to continue to rise in the near to medium term.

Table 2: Volume of wood imported into Vietnam and exploited from domestic forests from 1997/00*

(Unit: cubic meters)

Year	Domestic production	Imported
1997	522,000	400,000
1998	444,000	500,000
1999	300,000	800,000
2000	300,000	1,000,000

* *The year 2000 figure is an estimate.*

Despite the current lack of raw materials, Vietnam has a number of strengths that augur well for the continued growth of its wood processing industry – the primary driver of wood imports. The sector has a relatively high level of competent management and is blessed with a surplus of low cost, skilled labor. Recent investment by both domestic and foreign firms has significantly upgraded the equipment base in the industry and land prices are relatively low. The lowering of tariff barriers to the US market, which would occur – as seems likely – with the ratification of the recently signed bi-lateral trade agreement between Vietnam and the US, should provide a further impetus to the sector. Growth in Vietnam's wood processing sector will naturally translate into increased demand for imported wood given the limited nature of domestic supplies.

Industry sources confirm that current domestic demand for hardwood products in Vietnam is small, primarily as a function of the country's low level of socio-economic development. Furniture and other products manufactured from imported wood are generally too expensive for Vietnamese consumers. The economic slowdown the country has experienced over the past several years has also reduced domestic demand for wood for construction and for the fit out of offices and hotels. Nonetheless, per capita incomes in Vietnam are rising and the continued – if slowed – growth of the country's economy indicate that domestic demand for wood furniture, lumber and other wood products will inevitably rise.

While domestic demand is currently flat, Vietnam's furniture manufacturers are rapidly developing markets for their products in Europe (Germany, Scandinavia, France), Northeast Asia (Japan, Korea, Taiwan and China) and Australia. Most of these export products are produced from imported logs and lumber. Although generally familiar working with tropical species, a number of Vietnamese companies have some experience working with temperate hardwood species.

Exports of furniture and other wood products to the United States have to date been insignificant primarily due the high tariffs placed on Vietnamese products due to the lack of normal trading relations between the two countries. Should tariffs fall, however, significant opportunities should open up for Vietnamese furniture manufacturers to access the American market. This will also increase the likelihood of Vietnamese manufacturers choosing US hardwood logs and lumber for their processing activities.

A recent visit to Vietnam by the American Hardwood Export Council determined that demand for American veneer and other high value added products such as flooring, dimension and plywood is likely to remain limited in the near future. Currently, few Vietnamese wood processors have the necessary technology to process sliced veneer for production of furniture and other products. However, it is believed that as the number of furniture manufacturing companies increases (as the sector attracts more investment from Japan, Taiwan and Korea), the lamination skill and equipment to process veneer will be available in Vietnam in the future.

Entry strategy

Given the impending normalization of trade relations between Vietnam and the US, American exporters of wood products should begin the process of making contacts with Vietnamese manufacturers and researching the Vietnamese market. Vietnamese partners should be carefully researched to ensure they have the financial capital and the business capacity to carry out their undertakings.

Another important step to be taken is that of educating Vietnamese wood processors about US hardwood products. In general, there is a lack of knowledge of US hardwoods regarding grading, species, applications, physical properties and supply among the timber trading and interior design companies in Vietnam, most of which only have experience handling species from Laos, Cambodia, Burma, Malaysia and Indonesia.

US exporters should also be aware of the fact that many Vietnamese furniture manufacturers work as contractors for foreign furniture buyers in Taiwan, Japan, Europe and elsewhere. Efforts to promote US wood exports to Vietnam should take this arrangement into account and focus sales efforts on the appropriate decision makers.

Company profiles

The majority of wood processing enterprises in Vietnam are concentrated in the central coastal cities of Quy Nhon and Danang, the highland towns of Pleiku and Kontum and in Ho Chi Minh City. Although exact figures are not available, the total of Vietnamese owned wood processing companies numbers in the hundreds with the majority employing less than one hundred persons. A number of large processors, employing more than 500 persons, are concentrated in the greater Ho Chi Minh City area.

Foreign investment in wood processing in Vietnam has been relatively limited to date with a total of around 80 projects - with total registered investment capital of approximately $165 million - having been established. Rather than going through the difficult process required to establish an investment in Vietnam, many foreign firms prefer to work with Vietnamese manufacturers on a contract basis. This is the case with one Scandinavian producer of outdoor furniture which is exporting over 1,000 20 foot containers of products from Vietnam annually. Other foreign companies, seeking to ensure quality control and on time delivery, among other concerns, have established successful joint ventures in the country. One such joint venture between a Vietnamese company and a Norwegian investor exports over 500 containers of garden furniture annually with over 90% going to the European market.

III. COSTS AND PRICES

As domestic wood resources have dwindled, imported logs and other wood products are taking up an increasing portion of the wood consumed in Vietnam and have become a major influence on domestic wood pricing. As a result, prices for most wood products in Vietnam are now close to international parity prices.

As noted above, the GVN is encouraging the import of wood in order to protect its remaining forests. This encouragement is primarily in the form of low tariff rates. Vietnam’s import tariffs for logs and lumber are set at zero percent and the tariffs for veneer and more value added wood products range from 1 to a maximum of 5 per cent. While VAT of 10% is imposed on the sale of wood products in Vietnam, such sums may be reimbursed if and when such products are re-exported.

IV. MARKET ACCESS

The GVN is actively encouraging the import of wood into Vietnam in order to supply the country’s wood processing sector and provide an alternative to further exploitation of Vietnam’s dwindling forest resources. In addition, the GVN provides a number of incentives – such as tax holidays and preferential rates – to foreign companies which invest in the processing of wood products in the country.

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