

Research Paper

Jade Saunders

Energy, Environment and Resources | December 2014

Trade in Illegal Timber The Response in Vietnam

A Chatham House Assessment

Contents

Summary	2
Introduction	3
Background	4
Media Attention	6
Government Response	8
Progress by the Private Sector	11
Estimated Levels of Trade in Illegal Wood-based Products	15
Conclusions and Recommendations	18
Annex 1: Policy Assessment Scores for 2008 and 2013	19
Annex 2: Methodology	20
Glossary	23
About the Author	24
Acknowledgments	25

Summary

The Vietnamese government has made some progress towards tackling illegal logging and the associated trade. It has negotiated a voluntary partnership agreement (VPA) with the EU, a process that has prompted a review of relevant legislation and improved the government's engagement with civil society. In addition, it has signed agreements with Lao PDR and Cambodia in which it has committed to coordination on forest management and trade. However, there has been little progress in policy reform, and there is still no legislation regulating illegal timber imports.

There is a high level of awareness of illegal logging and associated trade within the private sector: Forest Stewardship Council (FSC) chain-of-custody (CoC) certification has increased rapidly, particularly in the furniture sector. But efforts are hampered by poor access to third-party verified raw material.

Both trade data discrepancies and analysis of trade flows indicate that illegal trade remains a serious problem. The volume of imports of wood-based products at a high risk of illegality is estimated to have increased since 2000, while its share in the volume of total imports of wood-based products gradually declined until 2009 and then increased slightly: they are estimated to have comprised 18 per cent of the total by volume in 2013.

In order to build on its response to illegal logging and related trade, the government should establish a legal responsibility for Vietnamese importers to ensure that their timber sources are legal. Furthermore, to increase domestic demand for legal products, it should establish a public procurement policy requiring the use of verified legal products. Within the framework of the VPA, broad and effective multi-stakeholder engagement will be vital to ensure that a robust timber legality assurance system is developed. In addition, proactive partnerships should be forged with high-risk supply countries to establish legality criteria and indicators that reflect the full scope of the relevant legislation in those countries.

Introduction

Illegal logging is a global problem that is both a result of and a contributing factor to poor forest governance. It undermines efforts to manage forests sustainably and equitably, resulting in deforestation, social conflict and the loss of government revenues. This is not just an issue for forest-rich countries; countries that import and consume wood-based products¹ from countries with high levels of illegal logging contribute to the problem if they import products without ensuring that they are legally sourced.

Chatham House has been engaged in research since 2006 to assess illegality in the forest sector and the response by governments and the private sector to the problem. The aim of its work has been to monitor levels of illegal logging and the related trade and so enable an assessment of the effectiveness of efforts to tackle the problem in producer, consumer and processing countries.²

A methodology has been developed for this assessment based on a number of indicators. For processing countries, those indicators are derived from an examination of the national policy and legal framework and its implementation; analysis of enforcement data; reviews of international and domestic media coverage; a survey of experts and analysis of data on trade between exporter and importer countries as well as data on voluntary verification and certification by timber companies. By drawing on a variety of data sources, this approach provides the most rigorous means of assessing illicit practices. Further details can be found in Annex 2 of this assessment.

Twelve countries were assessed in 2008–09 (the findings published in 2010³) and another six in 2013–14⁴ (published in 2014⁵). In addition, Chatham House undertook a reassessment of the original 12 countries in 2013–14.

This assessment presents the latest findings for Vietnam, which are compared with the situation as reported in 2010. The analysis, undertaken in July 2014, is based on data collected during 2013. Trade statistics and media data were compiled up to the end of 2013 and 2012, respectively, and the policy assessment was made on the basis of the situation as of December 2013, but some more recent developments have been noted as well.

¹ The following terminology has been used in this report: Wood-based products – encompasses all timber-sector and paper-sector products; timber-sector products – includes logs, sawnwood, plywood, veneer, mouldings, joinery and furniture; paper-sector products – includes wood chips, pulp and paper.

² There is considerable overlap between these three categories; all the countries studied are engaged in production, processing and consumption to varying degrees. The indicators for consumer and processing countries are very similar, however, while those for producer countries are quite different, including a range of indicators relating to domestic illegal logging.

³ Lawson, S. and MacFaul, L. (2010), *Illegal Logging and Related Trade: Indicators of the Global Response*. London: Chatham House.

⁴ The countries assessed in 2008–09 were: Brazil, Cameroon, Ghana, Indonesia and Malaysia (producers); China and Vietnam (processing countries); and France, Japan, the Netherlands, the UK and the US (consumers). Those assessed in 2013–14 were: the Democratic Republic of Congo, Lao PDR, Papua New Guinea and the Republic of Congo (producers); Thailand (processing country); and India and South Korea (consumers).

⁵ Lawson, S. (2014a), *Illegal Logging in Papua New Guinea*; Lawson, S. (2014b), *Illegal Logging in the Republic of Congo*; Lawson, S. (2014c), *Illegal Logging in the Democratic Republic of Congo*; and Lawson, S. (2014d), *Illegal Wood Import and Re-export: The Scale of the Problem and the Response in Thailand, South Korea and India*. London: Chatham House.

Background

Vietnam has 44 per cent forest coverage, of which only one per cent is primary, 74 per cent is naturally regenerated and 25 per cent is plantation forest.⁶ In the last decade, forest cover has been growing at an annual rate of one per cent owing to a policy prioritizing industrial timber plantations.⁷ The contribution of the agriculture, forestry and fisheries sector to national GDP increased by nearly three per cent in 2013. In total, the forestry industry employed almost 250,000 people in 2005.⁸

As a result of Vietnam's relatively limited domestic production of high-quality raw materials, its forest products industry imports 40–50 per cent of its raw materials.⁹ It is estimated that in 2010 demand from the wooden furniture industry totalled 6.4 million m³ (roundwood equivalent (RWE) volume), of which around 1.6 million m³ was domestically produced.¹⁰ In 2013, 80,000 m³ of timber were harvested from natural forests, 8 million m³ from plantations and 80,000 m³ from salvage harvesting (that is, from forest conversion for infrastructure, mining or plantations, among other things).¹¹ In the same year, approximately 12 million m³ of wood-based products were imported into Vietnam;¹² the main source countries were China, Lao PDR, Malaysia, New Zealand and the US.

In its 2010 assessment, Chatham House estimated that Vietnam's imports of wood-based products at high risk of illegality accounted for just under one-fifth of its total imports of wood-based products, a marginally smaller share than in the case of China. Furthermore, the assessment noted that although flows of illegal wood from Indonesia had decreased in the previous few years, there had been a significant increase in imports from Lao PDR, Cambodia and Myanmar over the same period, a significant proportion of which was thought to be illegal.¹³

Vietnam's main exports are furniture, woodchips and paper. The main export markets for Vietnamese furniture are the US, Japan and the EU;¹⁴ China is the largest market for Vietnamese woodchips while the US and Taiwan are the largest markets for Vietnamese paper. In 2010 it was reported that some exporters were increasingly keen to serve markets in Russia and the Middle East, partly owing to the challenge of meeting the demands for evidence of legality in the EU and US markets.¹⁵ There has since been an increase in exports to those countries, although this has been in line with overall growth in exports.

⁶ FAO (2010), *Forest Resources Assessment 2010*, at <http://www.fao.org/forestry/fra/fra2010/en/>.

⁷ Ibid.

⁸ This figure is the full-time equivalent.

⁹ See <http://en.baomoi.com/Info/VN-pushes-for-forest-law-pact-with-EU/3/450587.epi>.

¹⁰ European Forest Institute (2011), *Baseline Study 3, Vietnam: Overview of Forest Governance and Trade*; see <http://www.illegal-logging.info/sites/default/files/uploads/baselinestudy3vietnamfinal.pdf>.

¹¹ Vietnamese Ministry of Agriculture and Rural Development (2014), *Forest Sector Development Report in 2013*, at http://www.vietnamforestry.org.vn/mediastore/fsspc0/2014/04/01/Bao_cao_PT_nganh_2013-ENGLISH.pdf.

¹² Because Vietnam does not publish statistics for the volume or weight of its trade in wood-based products, this assessment uses estimates for those amounts based on official statistics for Vietnam's partner countries. Sources used for these include Ministério do Desenvolvimento Indústria e Comércio Exterior (Brazil), Statistics Canada, Servicio Nacional de Aduanas (Chile), General Administration of Customs of the People's Republic of China, Eurostat (EU member states), Badan Pusat Statistik (Indonesia), Trade Statistics of Japan, Korea Customs Service, Malaysia Timber Industry Board and Department of Statistics (Malaysia), Customs Administration (Taiwan), The Customs Department of the Kingdom of Thailand, United States International Trade Commission Trade DataWeb (USA), ATIBT Newsletters (Congo Basin), UN Comtrade and World Trade Atlas.

¹³ Chatham House (2010), 'Chatham House illegal logging indicators country report card', at <http://www.illegal-logging.info/sites/default/files/uploads/CHillegalloggingreportcardvietnam.pdf>.

¹⁴ Quyen, N. T. and Nghi, T. H. (2011), *How Viet Nam Is Prepared to Meet Legal Requirements of Timber Export Markets*. Hue City: Tropenbos International.

¹⁵ Forest Trends (2010), *Timber Markets and Trade Between Laos and Vietnam: A Commodity Chain Analysis of Vietnamese-Driven Timber Flows*, at http://www.forest-trends.org/documents/files/doc_2365.pdf.

Vietnam's private sector and government have both demonstrated increasing awareness of developments in the US and EU markets – the latter through the introduction of legislation on legal forest-product document requirements (see sub-section on legislative framework) and the former through growing demands for evidence of sustainable sourcing. There has been a concerted effort to invest in chain-of-custody (CoC) certification among larger processing companies in Vietnam, particularly in the furniture sector; as a result, the number of such certificates has grown rapidly in the last five years. A number of international agreements committing Vietnam to coordination on forest management and protection, law enforcement and trade have been signed, including with the government of Lao PDR in 2008 and that of Cambodia in 2012; however, neither of those agreements appears to have resulted in a significant mutual reduction in imports or exports at a high risk of illegality. It appears that growth in the production and export of certified products (as opposed to exports by certified companies) continues to be hampered by limited supplies of high-quality certified timber in the region and the high transport costs of sourcing raw material from other regions, as well as an unwillingness among corporate buyers in end-user markets to pay the additional costs associated with full certification. In Vietnam, only 46,000 hectares of forest were certified in 2012,¹⁶ all of which were plantation forest. The country has set a national target of 1.8 million ha of certified forest by 2020.¹⁷

The most significant political development in Vietnam related to illegal logging and associated trade is the VPA negotiation process, which began in 2010 with a meeting between Vietnam and the EU and the subsequent creation of a Forest Law Enforcement, Governance and Trade (FLEGT) task force within the Vietnamese Forestry Administration. Since then, there have been several rounds of formal negotiations between the government of Vietnam and EU representatives, culminating in a roadmap for the completion of the negotiation process, which was published in December 2013.¹⁸ The roadmap entails establishing a legality assurance system (LAS), which includes negotiating a national definition of legality – one that takes into account all relevant forest legislation as well as selected social and economic legal requirements related to forestry, processing and trade – and designing a system to allow for verification and traceability throughout the national forest product sector. A draft legality definition is publicly available on the website of the Vietnamese Forestry Administration,¹⁹ while the draft traceability and verification system has been through an internal consultation process and has also been discussed in a series of public workshops. International NGOs have identified the limited engagement with forest-dependent communities over the development of the draft legality definition as a challenge, and noted the failure of the proposed verification and traceability system to address the legality of imported wood in an adequate manner.²⁰

¹⁶ UNECE and FAO (2012), *Forest Products Annual Market Review 2011–2012*.

¹⁷ Forest Trends (2010).

¹⁸ See http://www.euflegt.efi.int/news/-/asset_publisher/VoA92AEdZlro/content/vietnam-and-eu-chart-course-to-conclude-vpa-negotiations.

¹⁹ See <http://tongcuclamnghiep.gov.vn/default.aspx?com=AuflaNews&page=category&cid=52&mtid=6>.

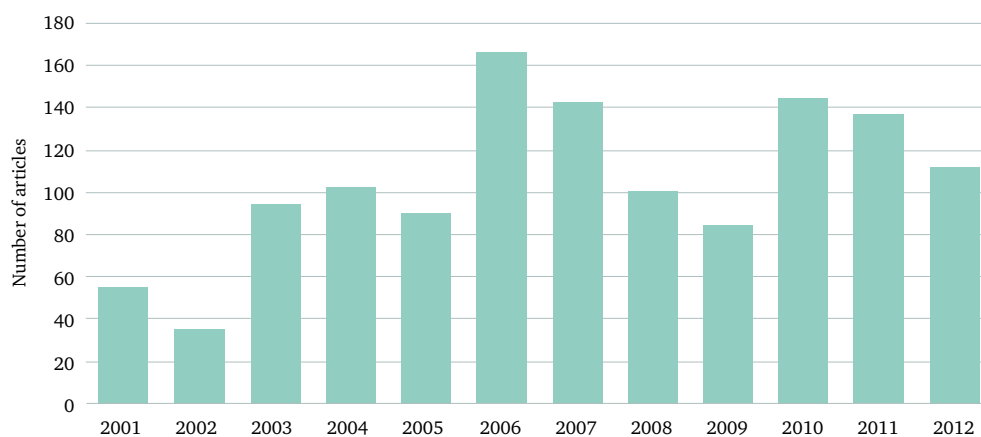
²⁰ Vietnamese Non-Governmental Organization Network and FLEGT (2012), 'Comments on the 5th Draft of Legality Definitions on Timber and Timber Products for the Voluntary Partnership Agreement negotiation [sic.] between the Vietnamese Government and the European Union', at http://loggingoff.info/sites/loggingoff.info/files/VNGO-FLEGT%20Comment%20for%20LD_Sent%20to%20VNF0REST%2001052012_E_Final_0.pdf; and EIA (2013), 'Comments from the EIA on Draft 6 of the "Timber and Timber Product Legality Definition for the Voluntary Partnership Agreement"', at <http://www.eia-international.org/wp-content/uploads/EIA-Comments-on-Vietnamese-Timber-Legality-Definition-Feb-2013.pdf>.

Media Attention

Media coverage provides an insight into levels of public awareness of illegal logging and related trade. While such awareness may not always lead to action, it is important for bringing about change and is therefore useful to monitor. An assessment of the media can also give an indication of the approaches being taken within a country to address the issue. As part of the research undertaken for this assessment, both domestic media sources and the international media were reviewed for the period 2009–12. International media coverage was assessed through the online media database Factiva by searching for English-language articles that referred to both ‘illegal logging’ and ‘Vietnam’. Domestic coverage was reviewed by searching for ‘illegal logging’ in national news sources. A total of 26 newspapers and websites – 25 in Vietnamese and one in English – were searched.²¹

International media coverage of illegal logging has been somewhat inconsistent, peaking in 2006 and 2010 and falling in 2009. The fall coincided, but may not correlate, with a slump in exports owing to the global financial crisis (see Figure 1), while the 2010 peak coincided with the launch of the VPA negotiations. However, it is not clear why other years resulted in particularly high or low coverage.

Figure 1: International media coverage of illegal logging in Vietnam, 2001–12



Source: Factiva.

Domestic media articles on illegal logging and associated trade in Vietnam increased significantly between October 2008 and September 2012, the period covered by the current assessment (see Figure 2). However, that increase was from a base of just eight articles in 2009, increasing to 32. Articles were classified into five categories: government response; private-sector response; illegal logging in producer countries; illegally sourced timber imports; and others/none of the above. In general, the number of articles in each category increased slightly over the four-year period. The private-sector response to illegal logging was most frequently mentioned, followed by the government response. Meanwhile, the VPA negotiations received remarkably little attention:

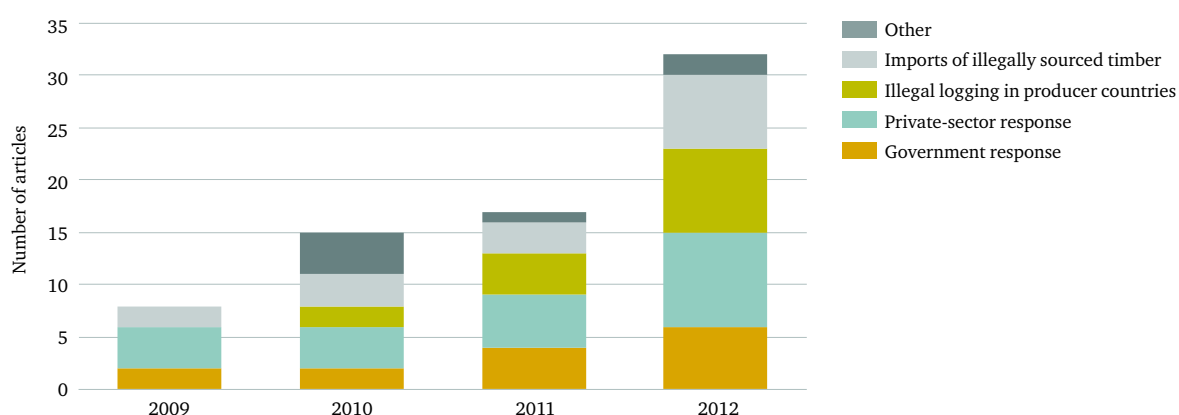
²¹ Vietnamese language: CAND Online, Tienphong, Đại biểu Nhân Dân, Báo Mới, VnEconomy, Doanh Nhân, CAND.com, VTC News, 24h, Báo điện tử Pháp Luật, Báo An ninh Thủ đô, VnExpress, Ngan Hang Online, SGGP Online, Hues, Tuổi Trẻ Online, Ha Tinh 24h, Agro Info, Kien Thuc, Hải Quan Online, Thien Nhen, Tin Nong, Báo Hà Tĩnh, Việt Báo, Sài Gòn Tiếp Thị. English language: Vietnam Exports.

reference was made to them in just three articles during the entire period covered. The limited coverage of the VPA was also noted in a review of the Vietnamese media, undertaken as part of a broader assessment of the level of understanding of, and communication about, the VPA in Vietnam. This found that there were very few analytical studies, with most articles simply reporting on meetings and events, reflecting a fairly low level of understanding of the VPA among reporters; and that more media attention was being paid to climate change.²²

Analysis of the content of articles found that Lao PDR was the country most frequently mentioned in relation to imports of illegal wood-based products to Vietnam. A small number of articles referred to trade in such products from China and Cambodia.

Enforcement activities generated a significant number of articles (15 in total); forest inspections, the confiscation of illegal timber, cross-border cooperation and arrests of those involved in illegal activities were among the subjects covered. In addition, there were six articles about corruption, which suggests an improved willingness in recent years to discuss challenging governance issues.

Figure 2: National coverage of illegal logging in Vietnam, 2009–12*



*Figures are for the year from 1 October to 30 September.

²² Center for Education and Development (CED) & Vietnam Chamber of Commerce and Industry (VCCI) (2014), 'Current understanding and practices on forest law enforcement, governance and trade (FLEGT) and information and training needs on FLEGT of the small and medium enterprises (SMEs) in Vietnam', June 2014.

Government Response

A coherent and transparent policy framework that is effectively and consistently enforced is a prerequisite for tackling illegal logging and the trade in illegal timber. This section assesses the design and effectiveness of Vietnam's policies and regulations. Data are derived from an assessment of the policy framework using a standard framework of questions and scoring for the existence of policies, their design and level of implementation. In addition, data on enforcement and revenue collection have been compiled and a perceptions survey conducted among experts to gauge their views on the government's response.

Policy assessment

Table 1 summarizes the results of the assessments of the situation at the end of 2008 and at the end of 2013:²³ the score given in each policy area is a percentage of the maximum score. The results are discussed in more detail in the following sub-sections, while the detailed policy scores on which this table is based are included in Annex 1.

In the current assessment of Vietnam's policies on illegal logging and associated trade, the country scores poorly in all areas apart from that of domestic law enforcement. However, there has been some improvement in relation to legislation.

Table 1: Summary of policy scores for 2008 and 2013 (as % of maximum score)*

	High-level policy	Legislative framework	Law enforcement	International engagement	Public procurement policy
2008	Red	Red	Red	Red	Red
2013	Red	Red	Orange	Red	Red

*To establish the percentage figures, existence, design and implementation have been weighted equally, as has each sub-question under each major heading. Those policy areas for which only a few questions were formulated (institutional and operational factors; international engagement) are more likely to show change than are the other areas. Shading has been allocated according to the total score under each major heading as a percentage of the possible maximum – scores below 25% are red, those between 25% and 50% orange, those between 51% and 75% yellow and those above 75% green.

High-level policy

There have been some attempts in Vietnam to assess the scale of illegal logging and related trade as well as the policy framework for addressing the problem. In 2009 and 2011 the Forest Protection Department (FPD) within the Ministry for Agriculture and Rural Development (MARD) undertook reviews of the regulation on the inspection and control of the legality of forest products. In 2011 the regulation on the inspection of exported goods – including forest products – was reviewed by the relevant departments at MARD, although it is not clear whether the reviewers' recommendations

²³ The policy scores included in the 2010 report were based on an assessment of the situation at the end of 2008 and those for the current assessment on the situation at the end of 2013.

have been adopted or implemented. In addition, in 2013 MARD approved a proposal to restructure the forestry sector that included some relevant actions – for example, the review and reform of forest-sector financial policies, and their coherent enforcement, are identified as one solution for the development of the forestry sector.²⁴ However, there has been no systematic review or reform process aimed at tackling illegal logging and hence no major improvement since 2010. As a result, Vietnam continues to rate poorly with regard to this indicator.

Legislative framework

There is evidence of some improvement in Vietnam as regards adequate legislation and regulations to prevent illegally sourced timber from being imported or sold. A review of existing legislation and regulations aimed at preventing the import and sale of illegally sourced timber is under way as part of the on-going VPA process. In the meantime, a number of additional pieces of legislation have been enacted to tackle the import of illegal wood. In 2012 these included:

- Circular No. 01/2012/TT-BNN of 4 January 2012, which, issued by MARD, sets out the requirement for legal forest-product documents and forest-product source inspections (replacing Decision No. 59/2005/QĐ-BNN of 10 October 2005). However, it does not address imported wood used in processing;
- Circular No. 42/2012/TT-BNNPTNT of 1 August 2012, which, issued by MARD, amends and supplements some articles of Circular No. 01/2012/TT-BNN of 4 January 2012;
- Decree No. 157/2013/NĐ-CP of 11 November 2013, which revises Decree No. 99/2009/NĐ-CP of 2 November 2009 and regulates administrative penalties in forest management and protection.

As was the case in 2010, there is still no legislation in Vietnam requiring importers to exercise due diligence in relation to purchases of wood at high risk of illegality.

Law enforcement

Customs officials at Vietnam's major importing ports and border points are given training on how to implement new policies, including timber import and export controls. As of May 2010 the General Department of the Customs Legal Department has been responsible for that training, which is considered to be of reasonably good quality.

According to the FPD, the number of violations related to the transportation of and trade in timber has gradually decreased – from 20,106 in 2008 to 14,300 in 2012.²⁵ Similarly, the volume of timber seized during the transport, purchase or sale of timber decreased from 44,112 m³ in 2008 to 35,556 m³ in 2012. Most of the transportation- and trade-related violations involved wood that had been domestically sourced, while the volume of timber imports is negligible. This is because imports are deemed legal as long as they have met Vietnam's import requirements, which are minimal. First, the import duty for logs is zero, so there is no risk of tax evasion.²⁶ Second, although

²⁴ See Decision No. 1565/QĐ -BNN-TCLN at http://vietnamforestry.org.vn/mediastore/fsspc/2013/07/31/Decision_1565QD-BNN-TCLN_MARD_Approval_Forestry_restruture.pdf.

²⁵ See <http://vietnam-redd.org/Web/Default.aspx?tab=newsdetail&zoneid=107&subzone=157&itemid=719&lang=en-US> or <http://www.kiemlam.org.vn/Desktop.aspx/List/Hanh-vi-vi-pham-Luat-BV-va-PT-rung/> (Vietnamese language).

²⁶ The tariffs applied to wood, pulp, paper and furniture ranged from zero to 25 per cent in 2013 (see http://www.wto.org/english/tratop_e/tpr_e/s287_e.pdf).

imported timber must be accompanied by paperwork demonstrating the completion of the exporting country's customs procedures, a certificate of origin, a purchase agreement, and, where relevant, a certificate of plant quarantine, those documents are not systematically validated; and it is not clear if they would be able to provide evidence of legal origin even if they were subject to such validation.

Various in-country sources²⁷ suggest that the illegal timber trade still occurs in some parts of Quang Binh, Ha Tinh and Nghe An provinces, which are on the Vietnam-Lao PDR border, and that most of that trade is in precious species that are listed under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). It is reported that logs are transported to timber-craft villages to produce furniture, primarily for domestic use but also for export to China. The Vietnamese government provides no data on CITES infractions or seizures.

International trade cooperation

Since 2010 there has been some progress in international trade cooperation related to illegal logging. Vietnam has been negotiating a VPA with the EU: three rounds of formal negotiations as well as several internal reviews and stakeholder consultations have taken place. Vietnamese civil society has been increasingly active as regards forest governance issues, establishing a Vietnamese Non-Governmental Organizations (VNGO)-FLEGT Network in 2012; of its 40 members, four play a coordinating role. The network has not only influenced the domestic VPA process; it has also engaged with international NGOs and policy-makers on FLEGT issues. Such developments should improve Vietnam's efforts to tackle illegal logging and the trade in associated products in the medium to long term. However, there is still no publicly available information on the impact of either the memorandum of understanding with Lao PDR on the trade in illegal timber (signed in 2008) or that with Cambodia.

Vietnam has no formalized system in place for sending and receiving enforcement alerts about illegal shipments en route to their destinations. It is reported that the Division of Risk Management at the General Department of Customs is developing such a system; however, the basis on which those alerts would be made is unclear since the Vietnamese customs authorities currently have no responsibility for checking the legality of imports or exports.

Public procurement policy

As was the case in 2010, Vietnam has no public procurement policy for timber or wood products.

²⁷ Based on research undertaken by TRAFFIC in 2013.

Progress by the Private Sector

In addition to examining government measures to tackle the problem of illegal logging, the current assessment evaluates the degree and effectiveness of the response by the private sector. That evaluation is based on a perceptions survey of the private sector, an assessment of private-sector voluntary certification schemes and trade data analysis.

Expert perceptions survey

A survey of perceptions was undertaken among private-sector representatives, including importers, exporters, manufacturers and industry associations. Those who took part in the survey were asked to assess the importance of illegal logging in terms of its impact on prices, customer preferences and the competitiveness of the national market. The number of respondents to the survey was low: 24 in 2013 and 20 in 2010.²⁸ This should be borne in mind when viewing the findings below.

Industry perceptions

Respondents were asked to give their opinion on the importance of legality and sustainability demands relative to other factors influencing the competitiveness of the wood-product industry both in their own country and worldwide over the next five years. The other factors listed were overall economic demand, consumer preference for timber or substitutes, manufacturing costs, the level of regulation and taxation and the level of tariffs. Consumer preference was seen as the most important factor in the context of both the domestic and the international market, followed by demand for certified products and legality verification.

Respondents were also asked to comment on whether their customers had enquired about the legality of products and whether the number of enquires had changed over the previous year. As was the case in 2010, most respondents said that their customers routinely or often made such enquiries, and the majority of respondents reported an increase in the number of these compared with the previous year. This may reflect the importance of the EU and US markets for their furniture products –both the EU Timber Regulation (EUTR) and the Lacey Act were in force for much of the period reviewed. It may also reflect the importance of export markets over domestic consumption.

Compared with 2010, the number of companies that reported purchasing nearly all products with some form of assurance was significantly larger in 2013. In the case of some companies, such assurance meant known country or concession of harvest; but for the majority it meant legality verification or sustainability certification. This suggests that progress has been made by the private sector in improving traceability.

²⁸ The respondents can be broken down as follows: 17 companies (nine manufacturers/exporters and eight importers) and seven industry associations in 2013; and 19 companies (13 manufacturers/exporters and six importers) and one association in 2010.

Industry association actions

Industry associations can play a significant role in encouraging their members to take action aimed at tackling illegality in their supply chains – either through developing voluntary or mandatory codes of conduct or by providing guidance to members on how to undertake due diligence.

Seven industry associations responded to the expert perceptions survey; of these, five had no code of conduct related to the legality of timber, although one was currently drafting such a code. Two associations had a code of conduct in place, but only one of those included a sanction for failure to adhere to its requirements.²⁹

It appears that rather than issuing codes of conduct, industry associations have focused on developing guidance and conducting training in responsible purchasing for their members. All the associations that responded to the survey had training programmes in place, and all reported a slight increase in demand from their members for such training. It was noted by respondents that this increased demand was driven in part by the need for companies to comply with legislation in the US and EU, which are both important markets.

Levels of CoC certification

Certification data

For processing countries, an important indicator of the degree and effectiveness of the response of the private sector to the problem of illegal logging is the extent of the uptake of voluntary legality verification and sustainability certification standards in the sector. As in the case of the 2010 assessment, the current assessment focuses on the uptake of FSC CoC certification.³⁰ It should be noted that the number of companies with FSC CoC certification is an imprecise indicator because those companies do not necessarily handle FSC-certified products.

Figure 3: Number of companies with FSC CoC certification*



*As of October each year.
Source: FSC.

²⁹ Since only one association responded to the survey in 2010, no comparison can be made. But that association did have a code of conduct.

³⁰ Although the Programme for the Endorsement of Forest Certification (PEFC) is used extensively in consumer countries, to date only a relatively small area of tropical forest has been certified under the scheme (with the exception of Malaysia). This means that the FSC is a better indicator across the range of producer, processing and consumer countries.

As noted above, the number of Vietnamese processing companies investing in CoC certification is consistently growing (Figure 3); however the total volume of genuinely certified products manufactured by those companies appears to be constrained. A number of limiting factors have been suggested: inadequate supplies of certified raw material in the country and from among its import sources, the additional cost of sourcing and processing certified raw material and an unwillingness on the part of customers to pay any additional costs. No data are available on the RWE volume of certified raw material produced domestically or imported into the country.

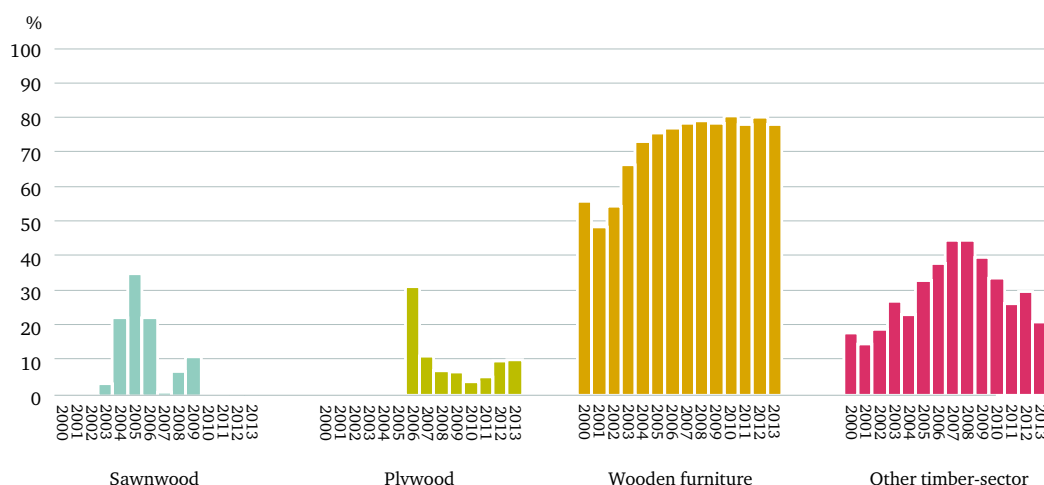
Sensitive market share

Shifts in trade between ‘sensitive’ and ‘non-sensitive’ markets³¹ are an indicator of the response of the private sector to illegal logging and growing demands for legal timber in many major consumer countries. The analysis below is based on trade data (converted into RWE volume) and responses from the private sector to the expert perceptions survey.

Trade data

The RWE volume of timber-sector products exported by Vietnam is growing very rapidly. Sensitive markets account for roughly half of the total. Most exports to sensitive markets are of wooden furniture; in volume terms, three-quarters of all such exports are exported to sensitive markets (up from half in 2001). The RWE volume of Vietnamese exports of several other timber-sector products, primarily plywood and sawnwood, is increasing fast too, as are those of paper-sector products, predominantly woodchips. However, only a small volume of such products is destined for sensitive markets; most are exported to China, Japan, South Korea and Taiwan (see Figure 4).

Figure 4: Percentage of Vietnamese exports of various timber-sector products to sensitive markets in RWE volume, 2000–13



Source: Based on official statistics for Vietnam’s partner countries (see footnote 12 for more details).

³¹ ‘Sensitive’ markets are considered in this context to be the EU, the US, Australia, Canada, New Zealand, Norway and Switzerland. ‘Non-sensitive’ markets are considered to be all other markets.

Expert perceptions survey

All respondents to the survey suggested that there has been a shift in trade towards more sensitive markets in the period reviewed. That development could reflect the increasing dominance of the outdoor-furniture sector, for which the main export markets are the EU and the US. As noted above, the trade data indicate that there has been such a shift in the export of furniture but not of other products.

Estimated Levels of Trade in Illegal Wood-based Products

The extent of the trade in wood-based products that are likely to be illegal was estimated through an evaluation of trade flows and an assessment of trade data discrepancies (see Annex 2 for further details).

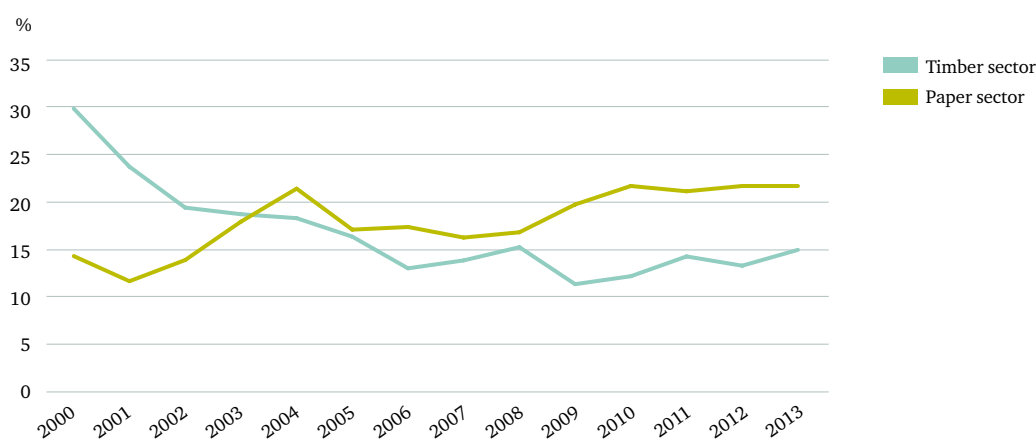
Estimates of illegal imports

The estimated RWE volume of Vietnamese imports of wood-based products at high risk of illegality increased markedly over the period 2000 to 2007, rising threefold from 0.5 to 1.4 million m³. That increase was mainly due to the growth of the country's timber industry as a whole, although an increase in the proportion of wood-based imports from Myanmar and Lao PDR was also a factor.

In 2008 and 2009, the estimated RWE volume of imports considered to be illegal levelled off owing to the global financial crisis, which had a dramatic impact on exports of Vietnamese wooden furniture, resulting in reduced imports of timber into the country. The volume of high-risk imports has since risen again (as have all timber imports), and in 2013 these were estimated at 2.3 million m³.

However, the proportion of high-risk wood-based imports is estimated to have declined: from 21 per cent in 2000 to 15 per cent in 2007, then rising to reach 18 per cent in 2013. The overall decline is due to a significant drop in the proportion of high-risk timber sector products being imported: between 2000 and 2013 this declined from 30 per cent to 15 per cent. In contrast, the proportion of paper-sector products that are likely to have been illegal increased from 14 per cent to 22 per cent (see Figure 5).

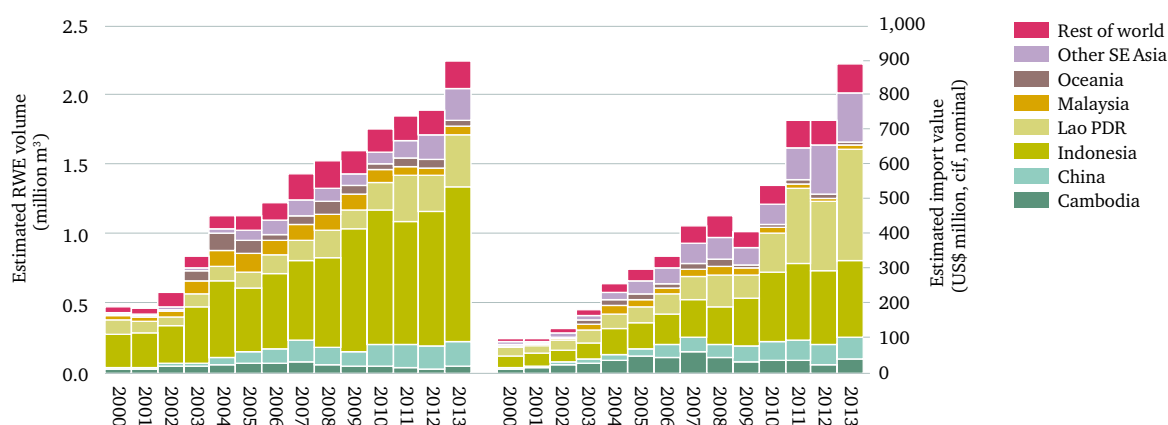
Figure 5: Estimated percentage of imports of timber- and paper-sector products at high risk of illegality (by RWE volume)



Source: Based on official statistics for Vietnam's partner countries (see footnote 12 for more details).

The latter trend is due to increasing volumes of high-risk pulp and paper products being imported from Indonesia. In the timber-sector, Lao PDR also continues to be the source of a large proportion of products at high risk of illegality (predominantly sawnwood and logs). In addition, there are substantial volumes of high-risk imports from China – particularly of plywood and, to a lesser extent, sawnwood and veneer (see Figure 6).

Figure 6: Estimated volume and value of imports of wood-based products at high risk of illegality, by supplying country or region



Source: Based on official statistics for Vietnam’s partner countries (see footnote 12 for more details).

Trade data discrepancies

As Vietnam does not publish statistics on the volume of its trade in wood-based products, discrepancies can be identified only by comparing export values with the corresponding import values. In addition, it should be noted that Vietnam is a transit country for a considerable proportion of reported sawnwood exports.

In the case of Vietnamese trade with a number of countries, the import value of logs and sawnwood reported as imports by Vietnam is higher than the export value of those products reported by the exporting country – for example, logs from Malaysia and sawnwood from Cambodia. This suggests there may be some fraudulent reporting in the producer countries – such practice is unnecessary at the point of import since Vietnam has no import tax on logs.

Data on trade between Vietnam and China are inconsistent for many wood-based products. For example, since 2008 the export value of Vietnam’s sawnwood exports to China has exceeded the corresponding import value reported by China, while the import value of logs reported by China exceeded the corresponding export value reported by Vietnam over the same period. That discrepancy may be attributable in part to fraudulent misclassification – that is, if China reports as logs what Vietnam reports as sawnwood. There are also discrepancies in data on veneer and particleboard exported to Vietnam from China; in the case of both products, the import value reported by Vietnam has been consistently and significantly higher than the corresponding export value reported by China.

In 2010 and 2011 the export value of wooden furniture reported by China as exports to Vietnam significantly exceeded the corresponding import value reported by Vietnam. In addition, Canada has

consistently reported a higher import value of Vietnamese wooden furniture imports than Vietnam reports as the export value, and that discrepancy has increased in recent years.

For most years during the period 2000–13, the import value of paper imports from China reported by Vietnam exceeded the export value reported by China. The same is true of Japan, although the discrepancies were smaller. By contrast, the value of paper exports to Vietnam reported by Singapore in 2010 and 2011 exceeded the corresponding import value reported by Vietnam. It is possible that those discrepancies reflect, at least in part, tax avoidance.

In general, the degree to which such discrepancies can be attributed to illegalities is difficult to determine; but in the case of some commodities – such as those mentioned above – it is likely that fraud is a factor. There is also the likelihood that poor international coordination on product classification plays a role. For example, before 2007 Vietnam reported significant exports of sawnwood to the US, while the latter reported only negligible imports from Vietnam, while the reverse was true for mouldings. Those discrepancies were due to the different classifications used by Vietnam and the US for the two products. From 2007 onwards what had previously been classified as sawnwood was classified as mouldings, as a result of which there are fewer discrepancies.

While for most products the size of data discrepancies has decreased since the early 2000s, it is clear that problems remain. This suggests at the very least that governments in some producer countries supplying Vietnam with logs and sawnwood may be losing significant export revenue. Countries importing Vietnamese forest products may be losing revenue too.

Conclusions and Recommendations

There has been significant improvement in Vietnam in the quality and openness of the national debate about illegal logging and forest governance during the review period of this assessment. The progress made by civil society in the VPA process is noteworthy and may yet result in Vietnam playing a leadership role among forest and rights advocates in the region if VPAs with other countries in the Mekong are initiated. However, the government has made less progress in policy reform: Vietnam still has neither a public procurement policy nor legislation regulating imports of wood-based products.

Levels of awareness and investment among industries in Vietnam are good, particularly compared with those in China. But progress is hampered by limited access to third party-verified raw material.

In the light of the information presented above, this assessment makes the following recommendations to the Vietnamese government:

- Undertake a review of high-level policy for tackling illegal logging and associated trade, including identifying opportunities for domestic policy reform.
- Establish a domestic public procurement policy that creates incentives for the use of verified legal timber products.
- Establish a legal responsibility for Vietnamese importers to ensure that their timber sources are legal.
- Continue to work towards establishing a national timber legality assurance system within the framework of the VPA negotiations. Such a system would allow for the credible validation of the legality of imports of all wood-based raw materials, and should draw on the experience of other countries and be based on broad and effective multi-stakeholder engagement (using the expertise of the private sector and civil society) to ensure it is robust.
- Work in proactive partnership with countries whose exports are at a high risk of illegality to establish legality criteria and indicators that reflect the full scope of relevant legislation, including, where relevant, regulations on timber derived from land conversion/agricultural concessions.
- Support the increased sourcing of certified sustainable raw materials by Vietnamese processing companies with CoC certification so that certified product claims are valid.

Annex 1: Policy Assessment Scores for 2008 and 2013*

	Existence (0–2)		Design (0–5)		Implementation (0–5)	
	2008	2013	2008	2013	2008	2013
<i>High-level policy</i>						
Official review of illegal wood product import/consumption problem	1	1	n/a	n/a	n/a	n/a
National action plan	0	0	n/a	n/a	n/a	n/a
Coordination process for relevant government departments	0	1	n/a	n/a	n/a	n/a
Multi-stakeholder consultation process	0	1	n/a	n/a	n/a	n/a
<i>Legislative framework</i>						
Analysis of existing legislation and regulation	0	1	n/a	n/a		
Enactment of additional legislation	0	1	n/a	3	n/a	3
<i>Law enforcement</i>						
Training for customs and other relevant officials on existing timber import controls	0	2				
<i>International engagement</i>						
Formalized trade or customs arrangement with major trading partners	0	1	n/a	n/a	n/a	n/a
Formalized system in place for sending and receiving enforcement alerts	0	1	n/a	n/a	n/a	n/a
<i>Public procurement policy</i>						
Public procurement policy – existence and implementation	0	0			n/a	n/a
Level of adherence required (e.g., voluntary, mandatory)			n/a	n/a		
Coverage of all wood products, including paper			n/a	n/a		
Independent certification/verification scheme minimum requirement			n/a	n/a		
Assistance for government purchasers (advice, guidance, training, etc.)			n/a	n/a		
Implementation systematically monitored and assessed			n/a	n/a		

*The policy scores included in the 2010 report were based on an assessment of the situation at the end of 2008; and those for the current assessment on the situation at the end of 2013. A grey cell indicates that the answer to the question posed was not scored; an asterisk indicates that the question was not asked in 2010. Policies were assessed according to the following factors: existence (scoring between 0 and 2, whereby 1 indicates partial coverage or a policy under development); design (scoring between 1 and 5, whereby 5 indicates very well designed); and implementation (scoring between 1 and 5, whereby 5 indicates consistent and comprehensive implementation).

Annex 2: Methodology

The methodology employed to undertake the assessment of the 13 countries included in the 2014 Indicators of Illegal Logging and Associated Trade study is based on that developed by Chatham House for its 2010 assessment. Below is a brief overview of the data collection and analysis process. Further explanation of how the indicators were developed can be found in earlier reports.³²

The countries included in the assessment were selected on the basis of the significance of their role in the production and consumption of illegal wood-based products. Four years after the first assessment, the 12 original focus countries continue to account collectively for the majority of exports and imports of such products. Lao PDR is included in the 2014 assessment owing to its increasing importance in the global trade in wood-based products.

Indicators of progress

Chatham House developed a set of standardized indicators to allow a comparative evaluation to be undertaken. The indicators cover four areas:

- a) Media attention;
- b) Government response (assessment of the policy framework and analysis of enforcement data);
- c) Progress by the private sector (assessment of levels of certification and legality verification; expert perceptions survey; and analysis of trade data to assess shifts in trade between ‘sensitive’ and ‘non-sensitive’ markets³³); and
- d) Estimated levels of illegal trade (based on analyses of trade data to assess discrepancies and levels of illegal imports).

An outline of how these data were collected is provided below.

Media attention

The level of attention afforded to illegal logging and related trade in the domestic and international media was assessed using both quantitative and qualitative methods. The volume of articles in the international media was measured through a search of the online media archive Factiva, using the term ‘illegal logging’ and the country name. A similar approach was adopted with domestic media: the search term ‘illegal logging’ was used in English and/or the local language. Online archives were used where possible and physical archives where no such digital records were available. Country partners were asked to identify those newspapers, journals and media outlets that can be considered to qualify as ‘major circulation’.

³² Lawson, S. (2007), *Illegal Logging and Related Trade*; and Lawson, S. and MacFaul, L. (2010), *Illegal Logging and Related Trade. Indicators of the Global Response*. London: Chatham House.

³³ For this study, ‘sensitive’ markets are considered to be the EU, Norway, Switzerland, the US, Australia, Canada and New Zealand. Non-sensitive markets are considered to be all other markets.

The articles were then categorized according to their main focus: enforcement, private-sector response, government response, impacts or 'other'. The search period for domestic media coverage was the year from October to September, while that for international media was the calendar year.

Policy assessment

For each of the countries included in the assessment, an in-country partner was selected by Chatham House to assess the national policy and legal framework for dealing with the issue of illegal logging and related trade. For processing countries, the questions were grouped into five broad categories: high-level policy, legislative framework, law enforcement, international engagement and procurement policy. In addition, enforcement data were collected and incorporated into the policy assessment.

In-country partners were provided with an advisory framework on scoring and the scores from the 2010 assessment, in order to maintain a degree of consistency across countries and between the two assessments. The scores were then reviewed by Chatham House researchers and peer reviewers and amended where necessary.

Expert perceptions survey

A survey of representatives of the private sector was undertaken. Those individuals were asked about the impact of illegal logging on the industry, their perceptions of the private-sector response to the issue and their own experience. A separate (shorter) survey was sent to industry associations to determine their response to the issue.

Levels of CoC certification

To assess the private-sector response, Chatham House collected data on the number of companies in each consumer country that have achieved FSC CoC certification. In theory, FSC CoC-certified companies are those that deal in FSC-certified products. In practice, a considerable number of CoC-certified companies handle few or no FSC-certified products. For this reason, data on CoC-certified companies must be interpreted with some caution. Data on CoC certification in each consumer country were provided by the FSC and analysed by Chatham House.

Analysis of trade data

Trade data were compiled and used to analyse the following:

- Shifts in trade between 'sensitive' and 'non-sensitive' markets.
- Discrepancies between trade data reported by importing and exporting countries.
- Estimates of illegal imports.

Data were compiled from official national trade statistics and from the UN Comtrade database and converted to RWE volume. The following conversion factors were used:

- By volume (m³/m³): sawnwood: 1.8; veneer and mouldings: 1.9; plywood: 2.3;
- By weight (m³/t): particleboard: 2.0; fibre board: 2.5; picture frames and wooden furniture: 2.8; joinery, ornaments and 'not elsewhere specified': 3.5; chips and residues: 1.6; paper: 3.5; and pulp: 4.5.

The level of imports of wood-based products at high risk of illegality was estimated through a detailed evaluation of product flows (for which the term ‘import-source analysis’ was coined). The evaluation involved estimating the RWE volume and value of imports (in US dollars) from official import data for each year as well as the bilateral flow of each category of wood-based product. Those values were then multiplied by estimates of the proportion that was likely to be illegal. That proportion was based on an estimate of the level of illegality likely to be associated with the export of each product category for a given country and year as well as the extent to which importing countries demonstrate a preference for legal (e.g., FSC-certified) products. Further details of how the estimates were made are provided in a methodology paper.³⁴

³⁴ Hoare, A. (2014), *Methodology for estimating levels of illegal timber- and paper-sector imports*. London: Chatham House.

Glossary

CED	Centre for Education and Development
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CoC	Chain-of-custody
DFID	UK Department for International Development
FLEGT	Forest Law Enforcement, Governance and Trade
FPD	Forest Protection Department
FSC	Forest Stewardship Council
LAS	Legality assurance system
MARD	Ministry for Agriculture and Rural Development
PEFC	Programme for the Endorsement of Forest Certification
RWE	Round-wood equivalent
TFT	The Forest Trust
Traffic	The Wildlife Trade Monitoring Network
VCCI	Vietnam Chamber of Commerce and Industry
VNGO	Vietnamese Non-Governmental Organizations
VPA	Voluntary partnership agreement

About the Author

Jade Saunders has been an Associate Fellow of the Energy, Environment and Resources Department at Chatham House since 2002, working extensively on forest governance and the FLEGT Agenda. Between 2007 and 2010 she was a policy analyst at the FLEGT Facility, where she provided strategic advice and support on governance and trade matters to the European Commission in the negotiation and implementation of FLEGT. In addition, she has worked on environmental, developmental and trade issues in areas such as global textile supply chains, natural resources and conflict, marine governance, the trade in illegal ozone-depleting substances, sustainable tourism in least-developed states and climate change. She has degrees in international history and politics (BA, University of Leeds) and social anthropology (MSc, University College London).

Acknowledgments

This assessment was written by Jade Saunders with oversight from Alison Hoare (Chatham House). Research assistance was provided by Adelaide Glover (Chatham House).

Chatham House would like to thank TRAFFIC, which undertook research in Lao PDR; and James Hewitt (consultant), who analysed trade data, including measuring trade data discrepancies and sensitive market share.

Chatham House also thanks Chen Hin Keong (Traffic) and Ho Van Cu (TFT) and an anonymous reviewer for reviewing a draft of this assessment.

This study was conducted with funding gratefully received from the UK Department for International Development (DFID). Additional support was provided by TRAFFIC as part of the RAFT programme, with funding from the Australian government.

The conclusions and recommendations contained in this assessment represent the views of the author, not those of the consultants, reviewers or funders.

Independent thinking since 1920



Chatham House, the Royal Institute of International Affairs, is a world-leading source of independent analysis, informed debate and influential ideas on how to build a prosperous and secure world for all.

Chatham House does not express opinions of its own. The opinions expressed in this publication are the responsibility of the author(s).

© The Royal Institute of International Affairs, 2014

All Chatham House publications are printed on recycled paper.

The Royal Institute of International Affairs
Chatham House
10 St James's Square, London SW1Y 4LE
T +44 (0)20 7957 5700 F +44 (0)20 7957 5710
contact@chathamhouse.org www.chathamhouse.org

Charity Registration Number: 208223