

Vietnam: A Forestry Investment Opportunity

With a rapidly growing capacity for wood products manufacturing and a competitive, skilled workforce, Vietnam is likely to continue its rising status as a wood products exporter. While the growing demand for roundwood may be met via log imports, there is also the opportunity to expand the plantation sector domestically in Vietnam. This New Forests Market Update reviews these attractive conditions and outlines the thesis for sustainable forestry investments in Vietnam.

The Vietnamese Wood Products Industry

The surging gross domestic product (GDP) and rising middle class in China and India will drive wood products demand into the foreseeable future. However, they are not the only important wood markets in the Asian region.

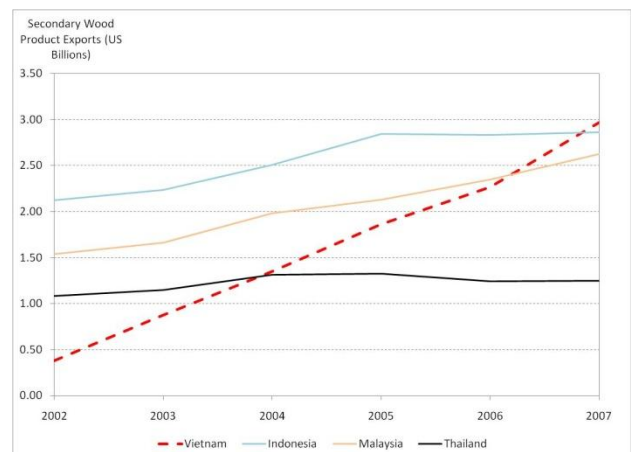
Vietnamese hardwood imports have increased from 1 million m³ per annum in 2003 to nearly 4 million m³ in 2008 and 2009 (in roundwood equivalent terms). At least 80% of this imported volume is re-exported as finished and semi-finished products.

Since 1997 Vietnam has risen to become one of the world's largest exporters of secondary wood products, principally furniture. The Vietnamese Government has set policy goals for the export value of secondary wood products to be USD3.4 billion by 2010 and USD7.0 billion by 2020.¹

The following chart shows how in USD terms Vietnam has risen to eclipse the wood product exports of Malaysia, Indonesia and Thailand. While Malaysia and Indonesia produce large dimension

logs suitable as components for furniture production, Vietnam essentially does not.

Figure 1: Key Asian Secondary Wood Product Exporters

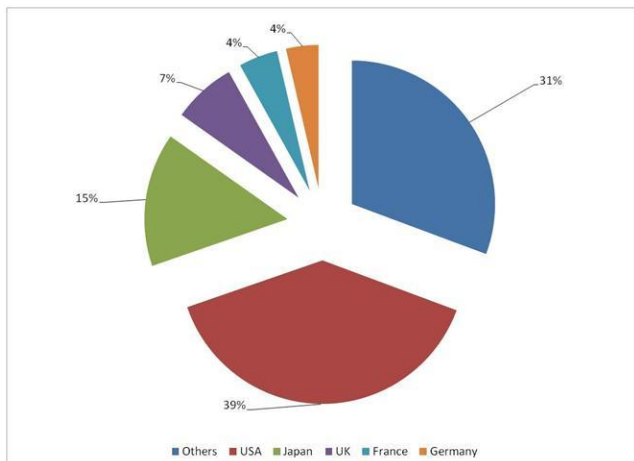


Source: International Tropical Timber Organisation: Annual Review and Assessment of the World Timber Situation (2008).

The key markets for Vietnamese solid wood products are the US, Europe and Japan as can be seen in Figure 2. These markets have either an established or growing interest in environmentally and socially responsible wood product purchasing. Indeed, much of the investment in Vietnamese wood processing infrastructure has come from these countries. Other significant investors have been China, Taiwan and Korea, all capitalising on the high productivity, well-educated and economical Vietnamese labour force.

¹ Source: M. B. Iles *pers. comm.*

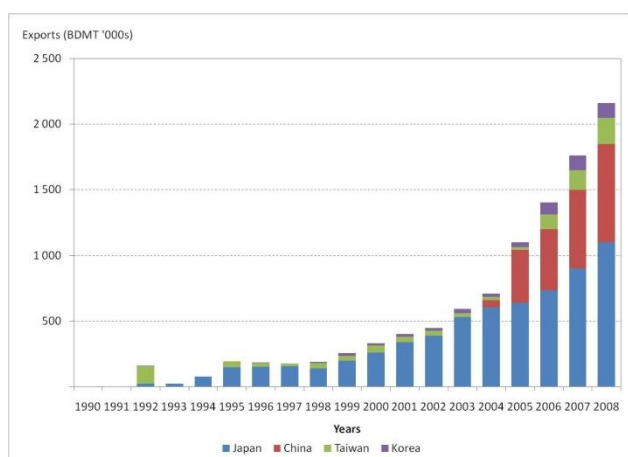
Figure 2: Vietnamese Solid Wood Product Export Destinations



Source: *International Tropical Timber Organisation: Annual Review and Assessment of the World Timber Situation (2008)*.

Another sector of strong export growth is woodchips. Vietnam is a long, thin country with numerous established ports and a proximity to the main Asian chip importers. Since the early 1990s there has been an exponential increase in the number of export chip operations and correspondingly exported chip volumes (Figure 3). Most chip operations are joint ventures between local companies/government corporations and either Japanese, Korean or Taiwanese companies.

Figure 3: Vietnamese Export Chip Volumes



Source: *Changes in Global Markets for Woodchips, Woody Biofuels and Plantation Ownership (Conference – 2008)*

Demonstrating Sustainability

The forest products industry has sought to demonstrate that environmental and social issues are being managed well through the use of performance-based independent product certification schemes. At present the most widely respected system is that of the Forest Stewardship Council (FSC).²

Factories that use FSC-certified wood must attain FSC Chain of Custody certification if their wood products are to carry the standard’s logo.³ Wood product buyers in Europe, the US and Japan have increasingly demanded FSC-certified wood products, and so Vietnam has a relatively high proportion of FSC chain of custody certified factories. Vietnam and the Vietnamese forest processing industry are also currently wrestling with the implications of the 2008 US amendment to the Lacey Act and the ongoing European Union Forest Law Enforcement, Governance and Trade (FLEGT) process. Both are aimed at eliminating illegally-sourced wood products from entering these markets.

The Vietnamese wood processing industry has struggled to meet its demand for wood of verifiable legal origin and FSC-certified wood. It has had to source wood from farther and farther afield and so has faced higher wood costs and has moved from natural forest logs to smaller plantation grown logs – often pioneering the use of new species and supply sources.

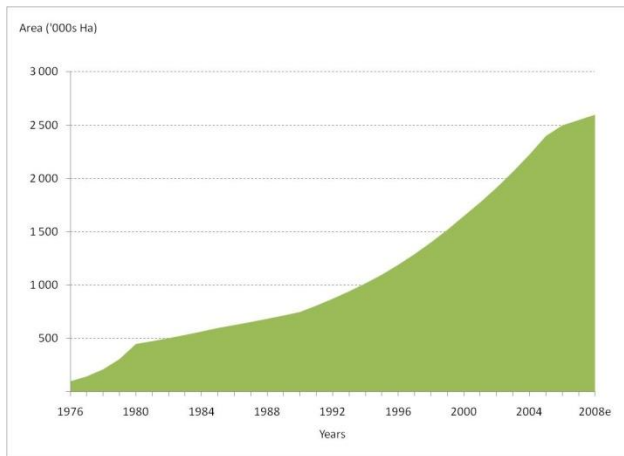
While the wood processing sector has been growing steadily, so too has the Vietnamese timber plantation estate. Figure 4 shows an estimate of how timber plantation areas have grown over the past 20 years. However, it is important to note that

² See www.fsc.org

³ Having FSC Chain of Custody Certification over a supply chain would also cover a processor for chain of custody for other certification systems’ wood.

these plantations are grown for logs for final domestic consumption and the burgeoning export chip market. Of these plantations, only one is FSC certified. That estate has an area of less than 10,000 hectares, and the trees are grown on short rotations for chipwood rather than sawlogs.

Figure 4: Vietnamese Production Plantation Development



Source: New Forests Asia research

Investing in Sustainable Forestry

The Vietnamese forest industry has the following characteristics:

- A large existing and still expanding demand for certified sawlogs but little domestic certified supply;
- Good growing conditions;
- Accessible markets with competitive logistic costs (the export chip mills) for the lower grade logs that are produced as a by-product of sawlog production; and
- A skilled, productive and low-cost workforce.

Importers of wood products are increasingly focused on sourcing their materials from suppliers

with higher social and environmental production standards. There is an opportunity for FSC certification of Vietnamese plantations to benefit the entire supply chain.

Importantly, there is also interest from the Vietnamese government to attract foreign direct investment in forestry plantations. This is bolstered by government incentives for the development of plantations.

Of course Vietnam presents many of the challenges common to other emerging economies for sustainable plantation forestry funded by foreign investors. Aggregating sufficient land to create economies of scale is not as easy as in less populated regions. Working with carefully selected local partners in joint ventures is an important risk minimisation strategy.

New Forests believes there are good opportunities for international investment in the development of Vietnamese hardwood plantations producing FSC-certified small/medium sized logs for the export furniture industry.

More Information

To learn more about New Forests' investment programs in Vietnam and the Asia Pacific, please visit our website (www.newforests.com.au).

