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Timber Legality Regulations and their Effect on Wood Products Manufacturers in China and Vietnam

Benjamin Roe, Ivan Eastin, Indroneil Ganguly, Daisuke Sasatani. 2016

Executive Summary

Reports that a substantial proportion of wood raw materials, used by Chinese and Vietnamese manufacturers, are from illegal sources have drawn concern from major consumer countries who recently implemented timber legality regulations. These regulations, which include the Japanese 'Goho-wood' policy, the U.S. Lacey Act, the EU Timber Regulation and the Australian Illegal Logging Prohibition Act restrict the import of illegally harvested wood and are expected to have a direct impact on major wood processing countries, such as China and Vietnam.

This study focused specifically on the wood products industry and business practices in these two processing countries, targeting individual furniture and flooring manufacturers and wood products traders, as a way to clarify and evaluate the effects of timber legality regulations.

Surveys were conducted at trade shows in Ho Chi Minh, Shanghai and Guangzhou in 2013 and 2014 to assess how these regulations influence attitudes and perceptions regarding regulations, firms' use of chain of custody certification, and impacts on the material sourcing and export market decisions of industry managers. Survey responses were evaluated using descriptive statistics, regression analyses, cluster analysis, non-metric multidimensional scaling and analysis of similarity.

The analysis showed that as firms increase in size they reduce domestic sales and show increased awareness and support for regulation, and that firms' awareness of timber legality regulations plays a significant role in whether a firm decides to obtain certification. Analyses showed that Vietnamese firms have lower awareness of regulations while being more supportive of regulations. Chinese firms have higher awareness while having a more negative attitude towards regulations. The findings also highlighted a split between firms with a domestic focus and firms which export to foreign markets suggesting a split in the market which may reduce the impact of regulations. This segmenting of the Chinese market and to a lesser extent the Vietnamese market supports the idea that regulatory leakage is taking place, wherein sales of wood products from suspicious sources are shifting away from regulated markets and towards unregulated markets which are experiencing rapid increases in demand for wood products.

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