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The Vietnamese Forest Products Market

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The United States economy is experiencing the worst economic downturn since the Great Depression with unemployment continuing to hover around 9 percent while economic growth remains stagnant. The forest products industry has been particularly hard hit by this economic downturn due to the collapse of the housing sector. Between 2005 and 2010, housing starts plunged from 2.1 million units to 587,000 units and they are expected to fall to 565,000 in 2011 before recovering slightly in 2012 (fig. 1). There are a number of factors that are hindering a housing recovery; including a large number of foreclosures, the large unsold inventory of unsold new and used homes, an extremely tight credit market, and high unemployment. The decline in the housing sector has held down lumber prices and between 2005 and 2010, framing lumber prices declined approximately 27 percent. U.S. lumber production has also declined sharply in response to the low number of housing starts , dropping from 51 billion board feet in 2005 to 29 billion board feet in 2010.

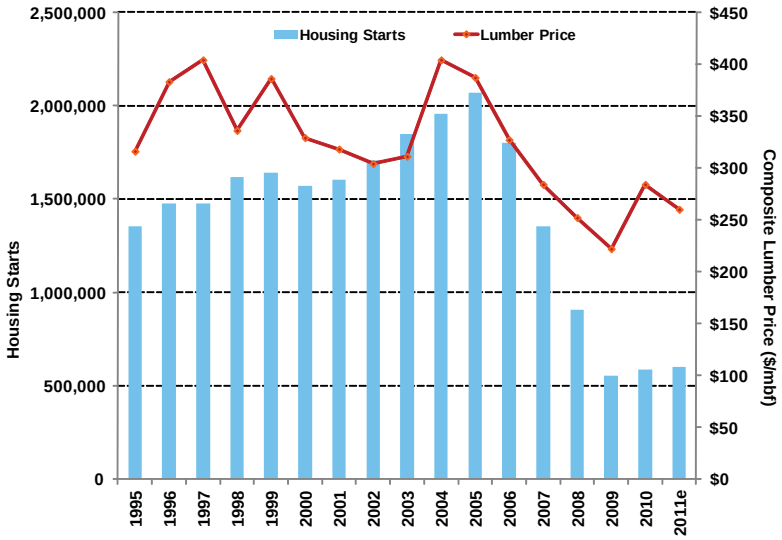

Figure 1: Lumber price and housing starts
(Source: Census Bureau and Random Lengths Stud Lumber Price Composite Index)

The one bright spot for the U.S forest products industry since the start of the economic downturn has been the strengthening demand for wood products in offshore markets. Between 2005 and 2010, US exports of wood products have increased from $5.85 billion to 6.78 billion and they were up by an additional 15.9% through the first eight months of 2011. Strong offshore demand has allowed US forest product manufacturers to partially offset the U.S. economic downturn by selling into global markets.

One market that has experienced strong growth over the past decade is Vietnam. As they prepared to enter the World Trade Organization, Vietnam opened their markets to foreign suppliers; creating tremendous opportunities for U.S. forest products manufacturers. As a result, US exports of wood products grew from $1.6 million in 2000 to an estimated $181 million in 2011, making Vietnam the 8th largest market for US wood products. In order to better help US wood manufacturers and exporters assess potential opportunities in Vietnam, this article will provide an overview of the Vietnamese market for wood products.

Background

Vietnam is one of only five major communist states today. The government is controlled by the Communist Party of Vietnam (CPV) which oversees politics at the national, local municipal and provincial levels. Although the national assembly is elected by popular vote, the candidates are selected by the CPV. The current prime minister is Nguyen Tan Dung, who has been a member of the CPV since 1967. He was elected in June 2006 at the 11th National Assembly's mid-term election.

Vietnam is a tropical country with a land area of 331,210 square kilometers, about the size of New Mexico. The country is bordered by China to the north, Laos and Cambodia to the east, and the Gulf of Thailand, the Gulf of Tonkin and the South China Sea to the West. As of 2010, the World Bank estimated that the population of Vietnam was 89 million people. The two largest cities are Hanoi (the political capital: population 6.5 million) and Ho Chi Minh City (formerly Saigon and the economic center: population 7.2 million). The population is comprised of 54 different ethnic groups that speak eight different languages. The majority ethnic group is the Kinh, who comprise approximately 90 percent of the population. An estimated 25 million people live in or around Vietnam's forests and they rely on these forests to provide food, livelihood opportunities,

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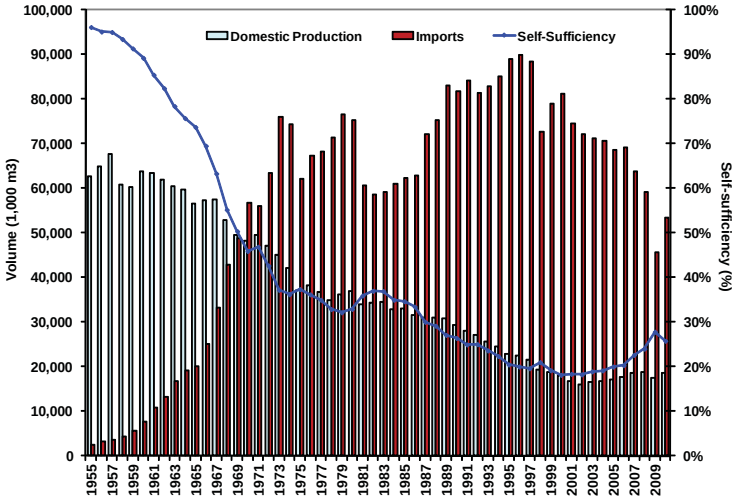
The Center for International Trade in Forest Products addresses opportunities and problems related to the international trade of wood and fiber products. Emphasizing forest economics and policy impacts, international marketing, technology developments, and value-added forest products, CINTRAFOR's work results in a variety of publications, professional gatherings, and consultations with public policy makers, industry representatives, and community members.

Located in the Pacific Northwest, CINTRAFOR is administered through the School of Forest Resources at the University of Washington under the guidance of an Executive Board representing both large and small companies, agencies, and academics. It is supported by state, federal, and private grants. The Center's interdisciplinary research is carried out by university faculty and graduate students, internal staff, and through cooperative arrangements with professional groups and individuals.



Over the past several years, Japanese governments at both the local and national levels, have adopted measures aimed at increasing the use of domestic wood over imported wood. These measures range from an attempted safeguard program to protect local sawmills to the 200 Year House program adopted in 2009 to the Promotion of Wood Use in Public Buildings legislation adopted in 2010 to ongoing prefectural programs that continue to provide subsidies to builders who use local timber in their houses. The most recent measure proposed in Japan, referred to as the Forest and Forestry Revitalization Plan, was developed in 2009 by the Ministry of Agriculture, Forestry and Fisheries and was passed by the Legislature in 2011. The goal of this measure is to increase the wood self-sufficiency rate in Japan from the current 26% to 50% by 2020 through a combination of reforms and subsidies designed to expand the timber supply and increase the use of domestic wood in construction. This measure, if successful, would have a serious adverse impact on the competitiveness of US wood products in Japan and undermine the ability of US manufacturers and exporters to compete in Japan.

Japan is a timber deficit country that requires substantial volumes of imported timber to meet its domestic demand for wood. To a large degree, wood demand in Japan is tied to housing starts and approximately 57% of the new homes in Japan were built using wood in 2010. This reliance on imported wood has always caused a certain tension in Japan where forests cover two-thirds of the country and there is an extensive sawmill industry skewed heavily to small, rural sawmills using inefficient and out-dated technology. A relatively high cost structure has made both the forestry and sawmill industries uncompetitive on a global scale and, as a result, lower cost imported wood products have become an important source of supply for the Japanese economy.

Over the years, the Japanese government and the forest products industry have tried a number of strategies to improve the competitiveness of the forestry and sawmill sectors. Despite the closure of more than 13,000 sawmills over the past twenty five years (the number of sawmills has dropped from 20,256 in 1983 to 6,865 today), the Japanese sawmill industry remains uncompetitive and plagued by small, inefficient sawmills located in rural areas far from the main demand markets. It is against this backdrop that the regulatory initiatives designed to protect the domestic forestry and sawmill industries from international competition must be viewed. The most recent regulatory initiative aims to develop a system of subsidies and regulations designed to expand the volume of timber harvested from domestic forests while favoring the use of domestic wood in the construction of both public buildings and residential homes. An example of the types of programs being used to expand the market for domestic wood include: 1) providing preferential treatment for domestic wood within the CASBEE-Sumai green home building program, 2) providing subsidies at the prefectural level to increase the share of local wood used in post and beam wooden homes and 3) and providing subsidies at the national level to target an increase in the market share of domestic timber to 50% by 2020.

This complex combination of regulations and subsidies could have a serious impact on the forest products industry in the US, particularly in the Pacific Northwest. With the US economy mired in the on-going economic crisis, and housing starts at a historically low level, export markets have been the one bright spot in an otherwise dismal economic landscape for the forest products industry. With housing starts projected to reach just 565,000 in 2011 and domestic demand for wood products at historically low levels, US exports increased from $5.2 billion to 6.8 billion between 2009 and 2010 and they have been up an additional 15.9% through the first eight months of 2011. Japan is the third largest destination for US wood exports, with exports of wood products increasing from $517 million in 2009 to $634 million in 2010 and through the first eight months of 2011, US exports to Japan were up an additional 16.2%. More importantly, exports from the Pacific Northwest (Washington and Oregon) represent 79.6% of total US forest products exports to Japan, totaling $510 million in 2010 and these are up by 11.2% in 2011.

Clearly any program designed to reduce the competitiveness of imported wood in Japan would have serious implications for forest products manufacturers in the Pacific Northwest, many of whom are located in rural, timber-dependent communities who have been particularly hard hit by the economic crisis. Given the new Forest and Forestry Revitalization Plan that is being implemented in Japan, along with the myriad of existing subsidy programs designed to expand the use of domestic wood in construction, it is critical that the US undertake research designed to understand the potential implications of these programs on the competitiveness of US wood products in Japan. In the coming months CINTRAFOR will be working to develop a partnership of companies, industry associations and government agencies to support a program designed to identify and quantify the broad range of subsidies (particularly at the prefectural level) that have been implemented and assess the competitive impact of the Forest and Forestry Revitalization Plan on US forest products within the Japanese market.

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herbal medicines, and a variety of eco-system services.

Vietnam is an emerging economy that is rapidly emerging as an alternative to China as a global manufacturing hub. They are a member of the World Trade Organization and the ASEAN Free Trade Zone. Vietnam's 2010 GDP was US$103.6 billion and the economy has maintained relatively strong growth during the global recession (fig. 2). While U.S. GDP growth was -2.6% in 2009 and 2.7% in 2010, the Vietnamese economy grew at annual rates of 6.3% and 5.3% over the same two year period.

The Vietnamese currency is the Vietnamese dong (VND) which is a semi-fixed rate currency that is allowed to fluctuate within a narrow band. As of October 2011, the dong was trading at around VND 20,721 to US$1. A number of economists have suggested that the Vietnamese government appears to be pursuing a weak currency policy to maintain the competitiveness of its products in export markets and to help mitigate its current trade deficit.

The Vietnamese economy is considered attractive by many multi-national corporations due to its relative political stability, low labor wages, favorable investment policies and strong GDP growth. Two factors that are helping to attract foreign direct investment into Vietnam are China's rising wages and the strong work ethic and high skill level of Vietnamese workers. As China's economy continues its strong growth, wages have risen substantially (particularly along the eastern coast of China where much of the wood manufacturing industry is located). As a result, Vietnam has become more competitive as a global manufacturing hub. One proxy for wages is GDP per capita on a purchasing power parity basis. In 2010, China's per capita GDP on a PPP basis was estimated at US$7,400 compared to Vietnam's which was just was US$3,100. Vietnam's per capita GDP is similar to that of Indonesia and the Philippines.

One unique characteristic of Vietnam's economy is the blend of socialism and capitalism. Following the conclusion of the Vietnam War in 1975, Vietnam entered a period of economic isolation from most countries outside of the Soviet Bloc. During this period of isolation, the Vietnamese economy, which was exclusively controlled by the state, experienced a variety of problems including over capacity within the heavy industry sector, unsustainable subsidies for state controlled industries, inefficient agricultural practices and a heavy reliance on dwindling level of foreign aid from the Soviet Union. In response to these problems, a liberal faction of the socialist government began to champion market reforms within a socialist framework. The result was the Doi Moi Reform, adopted after the Sixth Party Congress in 1986, which was designed to develop the private sector and allow competition with state owned enterprises (SOE). The Doi Moi Reforms focused on establishing property rights, pursuing socio-economic development, and facilitating the gradual transition from a state controlled economy to one that allowed for market mechanisms.

Since 1992, Vietnam has pursued a policy of privatization by selling some SOEs to the private sector, creating partial privatization through selling stock in some SOEs, and closing inefficient SOEs. This has led to the creation of three types of enterprises: state owned enterprises, state/non-state joint enterprises, and privately owned enterprises. A majority of the privately owned entities tend to be smaller, with 98 percent of them having less than 200 employees.

One big step for Vietnam's economy was joining the World Trade Organization (WTO). Vietnam applied to the WTO in 1995 and was admitted in 2007. As a condition of joining, the WTO placed a number of conditions on Vietnam regarding the restructuring of their economy. One of the main focuses of the WTO agreement was to increase access

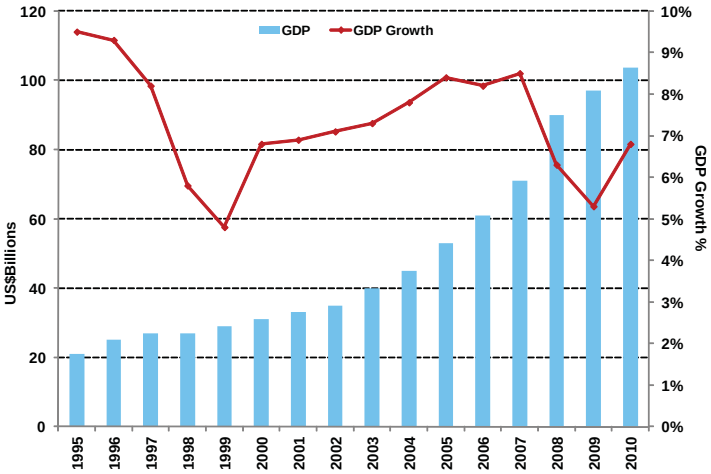

Figure 2: Vietnam GDP and GDP growth (Source: World Bank 2011)

to the Vietnamese market for foreign companies, a move that has greatly benefited U.S. forest product exporters.

While privatization and trade liberalization efforts continue, there are some underlying concerns regarding Vietnam's economy. Perhaps the biggest is the high rate of inflation and the government has been struggling to bring this under control for several years. In 2008, the inflation rate in Vietnam was 23% although this decreased to 6.5% in 2009. However, rising global commodity prices, in combination with an overheated domestic economy, led to an increase in the inflation rate to 12% in 2010 and it is projected to rise to 17% in 2011. Another area of concern has been Vietnam's growing trade deficit. Between 2009 and 2010, Vietnam's exports increased 27 percent from US$57 billion to US$72 billion percent while imports increased 29 percent from $65.4 billion to $84.3 billion. As a result, the trade deficit jumped from $US8.4 billion to $US12.3 billion, a 72.2% increase, and the Vietnamese government projects that the trade deficit in 2011 will be $US14.5 billion. Much of the growing trade deficit can be attributed a rapid increase in Vietnamese imports from China.

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Table 1. Vietnam's forest area (unit = 1000 hectare)

	Total	Natural forest	Planted forest
Red River Delta	130.4	58.2	72.2
North East	3026.8	2173.1	853.7
North West	1504.6	1394.5	110.1
North Central Coast	2466.7	1977.3	489.4
South Central Coast	1271.4	984.4	287.0
Central Highlands	2962.6	2809.9	152.7
South East	967.1	726.5	240.6
Mekong River Delta	334.3	53.8	280.5
Vietnam TOTAL	**12,664**	**10,178**	**2,486**

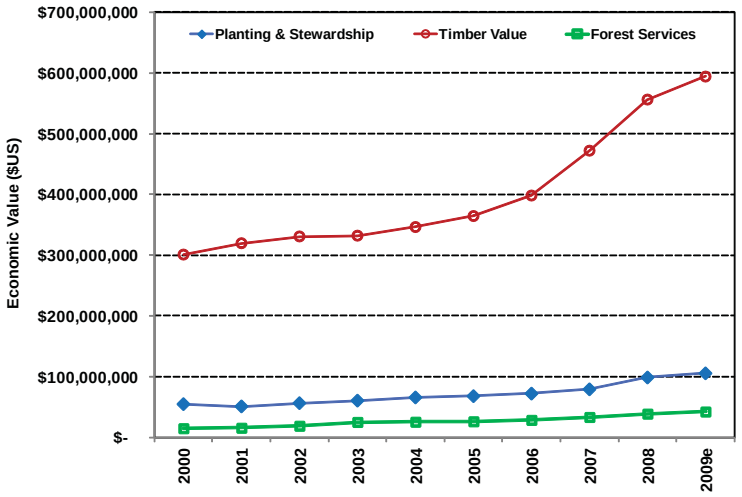

Figure 3: Economic value of forest related activities in Vietnam.
(Source: Vietnam GSO 2011)

Forest Policy

Vietnam's forests have been declining recently due to logging, slash and burn agriculture, and increasing infrastructural development. It is estimated that between 1990 and 1995, Vietnamese forests lost 135,000 hectares annually, although the most recent report from the UN Food and Agriculture Organization suggests that deforestation between 2005 and 2010 declined to just 1,000 hectares per year. Vietnam's recent forest policy has included maintaining a stable supply of timber for the wood products industry, protecting natural forests, and expanding reforestation efforts. Today's forest policy is part of an evolution that has a long history. Some of the earliest forest policy records show that King Ly Thai To in the ninth century initiated taxes on products originating from the forest including timber, fruit, herbs, and rhinoceros horns. During the French Colonial Period, the forest policy consisted of a series of regulations that affected the harvesting of both timber and non-timber forest products, timber taxation, and penalties for illegal activities.

After gaining independence in 1954, Vietnam was divided into North Vietnam and South Vietnam and each state established separate forest management policies. North Vietnam, which was governed by the Democratic Republic of Vietnam, had a state controlled forest policy that was centrally planned and the majority of the forests in the North were under the management of state forest enterprises and co-operatives. Forest policy focused on regulating forest products harvesting and land clearing activities for agriculture. In contrast, the forests in South Vietnam were governed by the Saigon government and managed through the Fishery and Forestry Department which controlled forest management, harvesting rights, and other forest management issues. In contrast to the central planning model adopted in the North, South Vietnam's forest management policy was more market-based.

Following the conclusion of the Vietnam War, North and South Vietnam were unified and the country became the Socialist Republic of Vietnam. While forest industries in the North experienced little change, all of the industries in the south were nationalized. Forestry related policies were centralized, including afforestation policy, harvesting quotas, forest product transportation, and stewardship policies. Management of Vietnam's forests was controlled at four levels: the national level, the provincial level, the district level, and the local commune level. Vietnam's blend of socialism and capitalism created a unique forestry sector that was dominated by SOE's prior to 1990. The SOE's involved with forestry and the forest products industry were called State Forest Enterprises (SFE's). In addition to forestry and forest related commerce, SFE's were also responsible for implementing socio-economic development policies through forest related activities in the mountainous regions, including forest protection, afforestation projects, and establishing forest economic zones. As a tribute to their effectiveness, the SFE's successfully established 1.4 million hectares of plantation forests between 1961 and 1990.

As Vietnam's economy began to move towards decentralization, the State substantially reduced funding for the SFE's. The goal of the decentralization policy was to establish forest entities that could operate independent of government funding. Within a very short timeframe the SFE's went from being government agencies to entrepreneurial ventures, and in order to survive without government funding, SFE's began harvesting and selling forest products at an unsustainable pace. The government's decentralization policy had the unintended consequence of causing severe deforestation. In order to reverse this trend, in 2003 the Politburo passed a measure that classified forests into two categories; industrial forests and public forests. Industrial forests were designed to self-finance their management operations through harvesting and other forest product industries and the responsibility for the management of these forests was brought under forestry corporations. One example of such a corporation is the Vietnam Forest Corporation (VFC), an integrated forest products company that was established in 1995. VFC manages forests and manufactures forest products including furniture, wood panels, and specialty wood products.

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The second category of forests established under the 2003 decree was public forests that were designated to perform public services and provide ecosystem benefits. These public forests were placed under forest management boards. Some SFE's became forest protection management boards that were responsible for forest protection, reforestation, afforestation, and fire suppression. While the purpose of the forest management board is to provide the public with forest-related services, they also have the authority to charge fees and raise revenues in order to offset the cost of performing some of their forest management activities.

Vietnam's Forestry and Forest Products Sector

Vietnam has 12.7 million hectares of forest, which cover about 38 percent of the country and the majority of Vietnam's forests are located in the central and northern regions. The country has an aggressive reforestation policy and planted forests now comprise about 20 percent of the total forest area.

Vietnam classifies forest economic activity into 3 categories: planting and stewardship, timber production, and forest activities and services. The total value of these three categories of economic activity was estimated to be US$745 million in 2009, with timber harvesting and production activities accounting for 80 % of the total value while planting and stewardship and forest related activities and services accounted for 14% and 6%, respectively. All three of these activities have been increasing over the past ten years with the value of timber production doubling during this time period (fig. 3).

The main categories of secondary manufacturing activities within the forest products industry include furniture, lumber and wood products, and paper. The value of furniture production is the largest component of the forest products sector, representing an estimated value of US$4.1 billion in 2008. Furniture production is followed by paper products and lumber and wood products with manufacturing output of US$1.9 billion and US$1.6 billion, respectively (fig. 4).

The Vietnamese Market for Wood Products

In order to understand Vietnam's forest products market, it is important to understand Asia's total forest products market and how Vietnam compares relative to other Asian markets. In 2010, the total value of U.S. wood products exports (HS 44) was US$6.8 billion. Canada was the largest market for US wood exports, accounting for US$2.1 billion followed by China at US$1.2 million. In the first eight months of 2011, the value of U.S. forest products exports has been up 16% over the same period in 2010. One statistic that stands out is that forest product exports to China in the first 8 months of 2011 have doubled and in 2011 China is projected to be the largest importer of US wood products in the world. The other major forest products markets for US wood products include Japan (up 16.2% through August 2011), Mexico (up 10.6%), South Korea (up 9.3%), the UK (up 5.1%), Italy (up 5.8%), Vietnam (down 9.2%) and Germany (down 7.6%) (fig. 5). Exports of wood products to Vietnam are expected to drop to approximately $US150 million in 2011 down from a high of US$156 million in

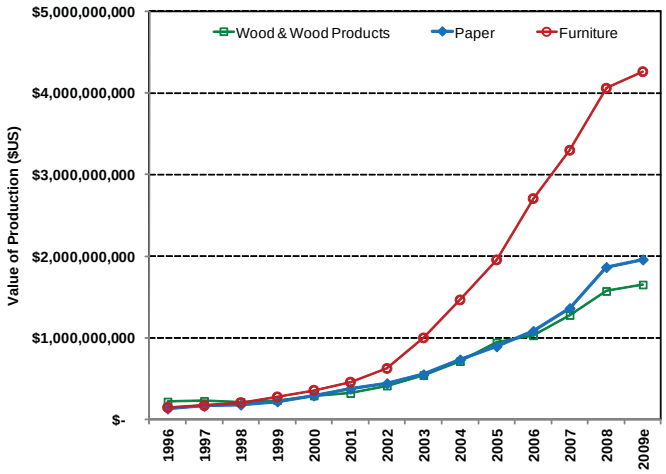

Figure 4: Value of forest related production in Vietnam.
(Source: Vietnam GSO 2011)

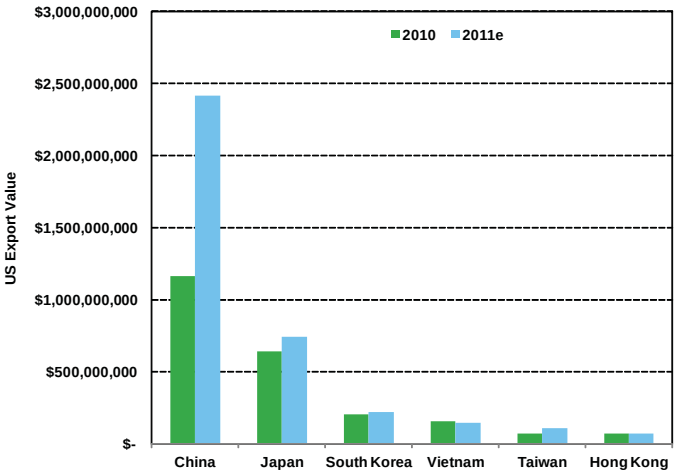

Figure 5: Value of US forest products exports to Asian countries.
(Sources: Vietnam GTIS 2011)

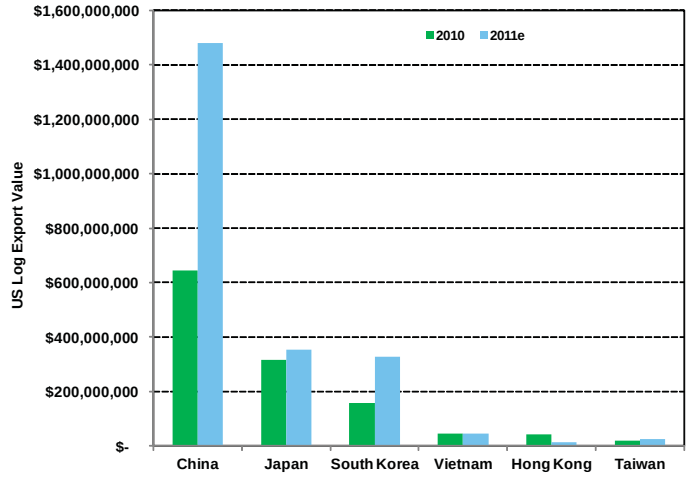

Figure 6: Value of US log exports to Asian countries.
(Sources: Vietnam GTIS 2011)

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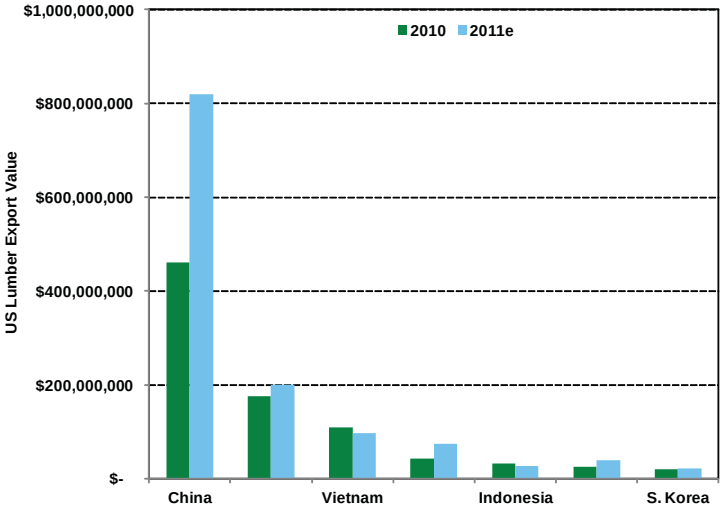

Figure 7: Value of US lumber exports to Asian countries.
(Sources: Vietnam GTIS 2011)

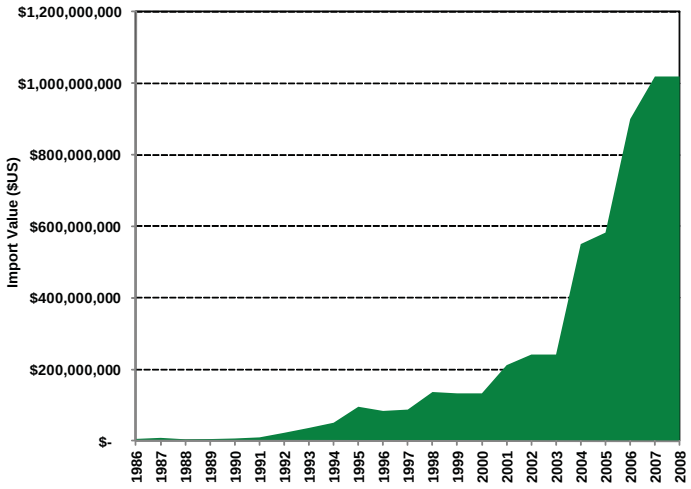

Figure 8: Total Vietnam forest product imports.
(Sources: FAO 2011)

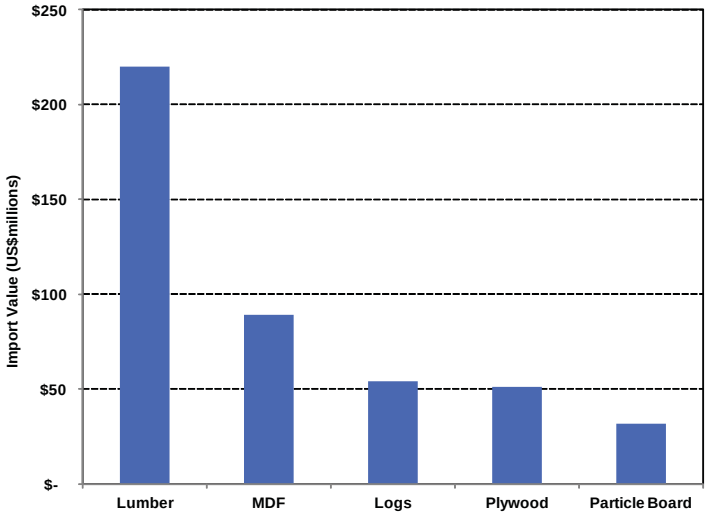

Figure 9: Vietnam forest product imports by category.
(Sources: FAO 2011)

2010.

The total value of U.S. log exports was US$1.9 billion in 2010 and these were up by 34% through August 2011, with China being by far the largest U.S. log export market. In 2010, the U.S. exported a total value of US$643 million of logs to China and this is projected to double in 2011 (fig. 6). Japan is the second largest log export market, importing US$315 million worth of US logs in 2010 and this is projected to increase to US$353 million in 2011. South Korea is now the third largest Asian market for U.S. logs at US$159 million in 2010 and this is projected to reach US$159 million in 2011. U.S. log exports to Vietnam were US$44 million in 2010 and this is projected to increase slightly to US$45 million in 2011.

U.S. lumber exports totaled US$2.2 billion in 2010 and they were up by 18% through the first half of 2011. China represents the largest share of this increase, and in 2010 they surpassed Canada to become the largest export market for U.S. lumber (fig. 7). In 2010, U.S. lumber exports to China were US$460 million and this is projected to almost double to US$819 million in 2011 (fig. 7). In comparison, US lumber exports to Canada totaled US$455 million in 2010 and were projected to drop to $US426 in 2011. U.S. lumber exports to Japan in 2010 were US$176 million and this is projected to increase to US$200 million in 2011. Vietnam is the third largest Asian export market for U.S. lumber (6th largest overall), importing US$108 million in 2010, although lumber exports to Vietnam are projected to drop to about US$97 million in 2011. Other important Asian markets for US lumber include Taiwan (US$43 million in 2010), Indonesia (US$31 million) and the Philippines (US$26 million).

Vietnamese Forest Product Imports

Vietnamese forest product imports have been expanding rapidly, reaching approximately US$1 billion in 2010 (fig. 8). Vietnamese imports of wood products have increased substantially since 2003 as economic reforms began to take hold and the country opened its markets to world trade. The largest categories of wood products being imported into Vietnam include lumber, MDF, logs, and plywood. The total value of lumber imported from all countries in 2009 was US$280 million, followed by fiberboard (US$139 million), logs (US$114 million), plywood (US$76 million) and particleboard (US$22 million) (fig. 9).

Vietnamese Log Imports

Vietnam log imports totaled approximately US$54 million in 2009 with hardwood logs representing over 90% of total log imports by value and 55% by volume (FAO 2011). The increasing volume of log imports, particularly hardwood logs, reflects the rapid growth of Vietnam's furniture industry as well as growth in other wood processing sectors. The major softwood log suppliers to Vietnam in 2009 were the U.S., New Zealand, Costa Rica, and South Africa. Vietnam softwood log imports from the US were reported to total US$3.6 million with a quantity of 58,586 cubic meters, imports from New Zealand were reported at US$1.4 million with a quantity of 23,534 cubic meters, imports from Costa Rica were

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US$656,000 with a quantity of 10,748 cubic meters, and imports from South Africa were US$468,000 with a quantity of 7,677 cubic meters (fig. 10).

The major hardwood log suppliers for Vietnam in 2009 were Uruguay, the US, Malaysia and Belgium (FAO 2011). Vietnam hardwood log imports from Uruguay were valued at US9.2 million with a volume of 35,000 cubic meters, imports from the US were valued at US$1.8 million (31,000 cubic meters), imports from Malaysia were US$1.2 million (18,000 cubic meters) and imports from Belgium were US$1.3 million (7,000 cubic meters) (fig. 11).

Total U.S. log exports to Vietnam in 2009 totaled 93,586 cubic meters with an estimated value of US$5.4 million. Hardwood log exports in 2010 were 99,228 cubic meters or 89% of the total. U.S. log exports to Vietnam have tripled since Vietnam joined the WTO in 2007 and they are projected to increase slightly in 2011. The top three U.S. hardwood log species exported to Vietnam in 2009 were yellow poplar, red oak and other oak species. Vietnam imported 37,964 cubic meters of yellow poplar from the U.S., 25,673 cubic meters of other oak species and 5,468 cubic meters of red oak (fig. 12). The U.S. also exported 58,586 cubic meters of softwood logs to Vietnam in 2009 with a value of US$3.8 million. While hardwood log data is generally broken down by species, a majority of the softwood log data is combined under the general listing of "coniferous" and is difficult to break out individual species.

Vietnam Lumber Imports

Vietnam imported a total of US$280 million worth of lumber in 2010, with almost half of the lumber imports being softwood lumber. Overall, Vietnamese lumber imports have been increasing, although the global economic downturn appears to be impacting Vietnam's lumber imports. As of August 2011, the volume of lumber imports by Vietnam was down by over 10%.

The major hardwood lumber suppliers to Vietnam in 2009, by value and volume, were the U.S., Brazil, China and Malaysia (FAO 2011). The U.S. was the largest hardwood lumber supplier to Vietnam in 2009 with a value of US$59.8 million (72,000 cubic meters). Hardwood lumber imports from Brazil had a reported value of US$22.5 million (60,000 cubic meters), while hardwood lumber imports from China had a value US$13.3 million (17,000 cubic meters) and hardwood lumber imports from Malaysia totaled US$5.7 million (6,000 cubic meters) (fig. 13).

The top three supplier countries for softwood lumber to Vietnam in 20109 were New Zealand, Chile and Finland. The United States was the sixth largest supplier of softwood lumber to Vietnam. Vietnam softwood lumber imports from New Zealand were reported at US$37.9 million (217,948 cubic meters), while imports from Chile were US$9.6 million (54,927 cubic meters) and imports from Finland were US$6.9 million (39,751 cubic meters) (fig. 14).

Total U.S. lumber exports to Vietnam in 2009 were

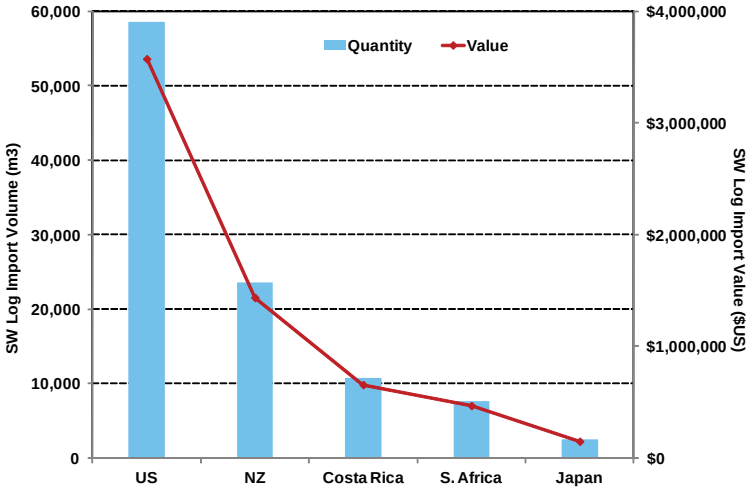

Figure 10: Vietnam softwood log imports by major supplier countries in 2009 (units = cubic meters and US$) (Sources: FAO 2011)

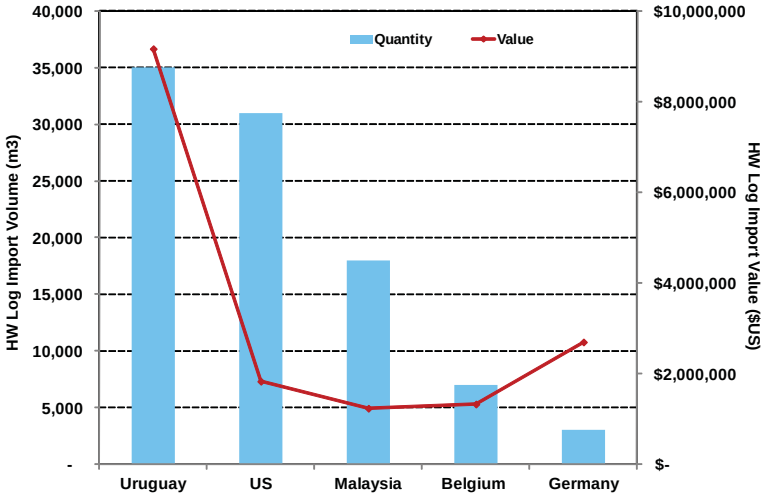

Figure 11: Vietnam hardwood log imports by major supplier countries in 2009 (units = cubic meters and US$) (Sources: FAO 2011)

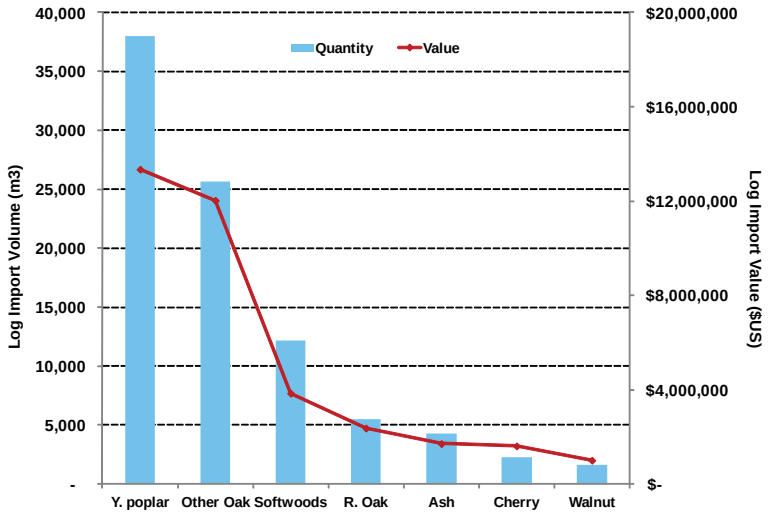

Figure 12: U.S. log exports to Vietnam in 2010 by species (units = cubic meters and US$) (Sources: USITC 2011)

Vietnamese Market continued on page 8

Vietnamese Market continued from page 7

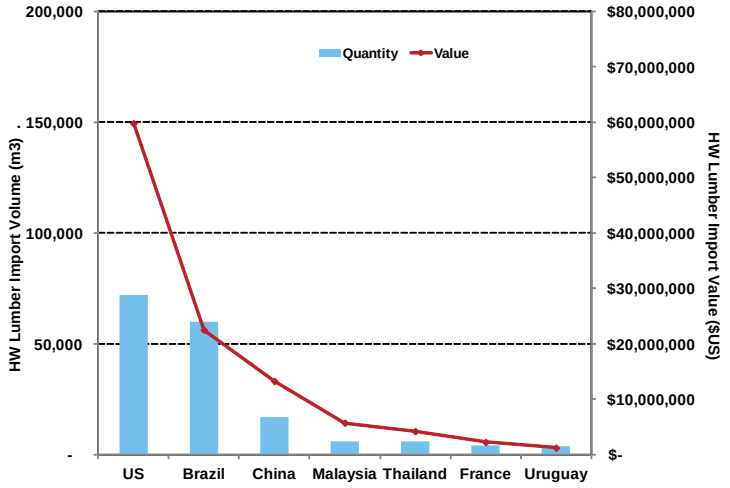

Figure 13: Vietnam hardwood lumber imports by major supplier countries in 2009 (units = cubic meters and US$)

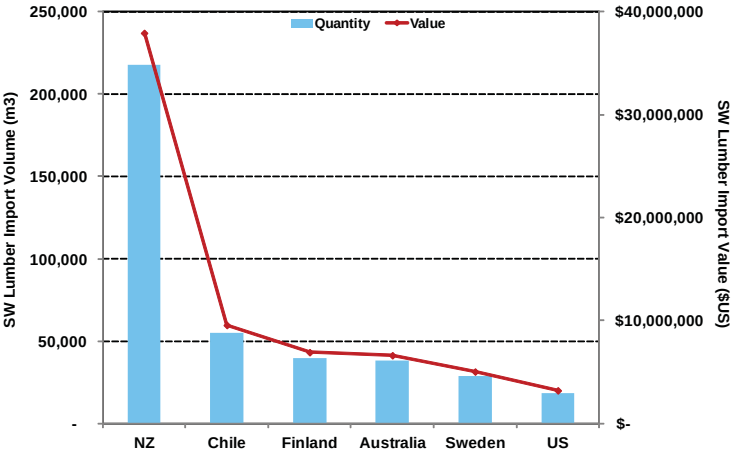

Figure 14: Vietnam softwood lumber imports by major supplier countries in 2009 (units = cubic meters and US$) (Sources: FAO 2011)

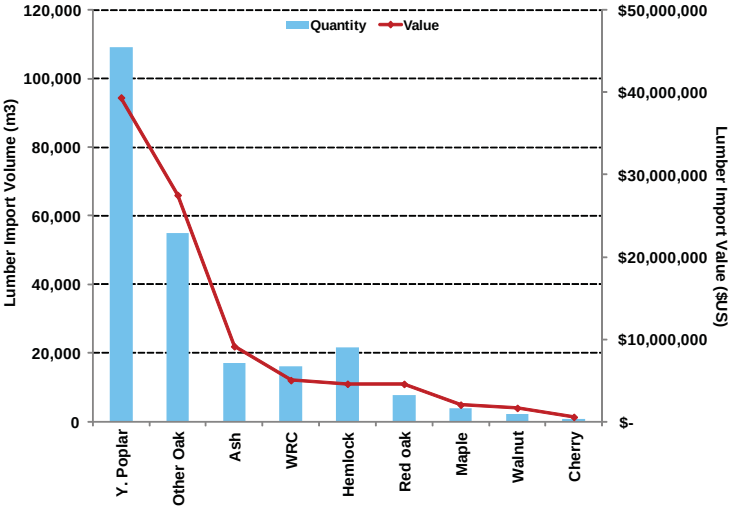

Figure 15: U.S. lumber exports to Vietnam in 2010 by species (units = cubic meters and US$) (Sources: USITC 2011)

90,443 cubic meters with an estimated value of US$63 million and this increased to 273,859 cubic meters in 2010 valued at US$108 million. Hardwood lumber exports were 244,469 cubic meters in 2010 or 89% of the total. U.S. lumber exports to Vietnam have almost tripled since 2006. The top three U.S. hardwood lumber species exported to Vietnam in 2010 were yellow poplar, other oak species and ash. Vietnam imported 109,126 cubic meters of yellow poplar lumber from the U.S. with a value of US$39 million, 54,939 cubic meters of other (non-red) oak with a value of US$28 million and 17,111 cubic meters of ash with a value of US$9 million.

The main U.S. softwood lumber species exported to Vietnam in 2010 were hemlock, pine and Douglas-fir. The U.S. exported 21,761 cubic meters of hemlock with a value of US$4.6million followed by 2,934 cubic meters of pine with a value of US$692,334 and 1,072 cubic meters Douglas-fir with a value of US$242,066 (fig. 15).

Conclusions

Vietnam's economy is unique in its blend of socialism and capitalism. The economy consists of state owned enterprises, partially state owned enterprises, and non-state owned enterprises. This is important to understand because doing business with state owned enterprises, whether 100 percent or partial, requires more relationship building than private companies.

United States forest product exports to Vietnam have been steadily climbing. In 2010, the total value of U.S. log exports to Vietnam was US$47 million and the value of lumber exports was US$108 million. The main driver for Vietnam's forest product imports is their furniture industry. Vietnam has limited forest resources and the government has initiated measures to protect their native forests as well as to restrict the movement across the borders of logs illegally harvested in neighboring countries. Additionally, in 2008 the US expanded the Lacey Act to include a ban on importation of illegally-harvested wood products. While the amended Lacey Act puts the burden of proof on the US government to show that wood products imported from Vietnam were manufactured from illegally harvested wood, US importers must exercise due diligence in ensuring the sourcing of their wood products. The recent problems experienced by some companies who have imported tropical hardwood suggests that one strategy to reduce risk is to source wood products manufactured from hardwoods sourced from the US. US wood exporters would be wise to emphasize this fact when supplying wood products to manufacturers in Vietnam who will be re-exporting the finished products back into the US.

The rapid growth of Vietnamese demand for imported wood shows that there are strong opportunities for US wood products in Vietnam. Continued growth within the furniture sector, which is strongly oriented towards outdoor furniture, could provide new opportunities for naturally durable US wood species such as redwood, western red cedar and Alaska yellow cedar. More research into species use within the Vietnamese furniture industry would be useful in identifying opportunities where US wood species might be substituted for tropical hardwood species (particularly those of somewhat uncertain provenance).

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