

Vietnam's Wood Chip Industry:

Status of the Sector in 2012 and Challenges for Future Development

This Information Brief analyzes Vietnam's rapidly growing wood chip sector and discusses challenges for its development. The brief is a summary of a full report available in Vietnamese which was written by Tran Le Huy and To Xuan Phuc.

Partners:



Introduction

In 2011, Vietnam surpassed Australia to become the world's largest supplier of wood chips. Vietnam's wood chip industry has seen dramatic growth over the last decade, with export volumes increasing from 400,000 tons in 2001 to 6.2 million tons in 2012. This represents 20% of the global wood chip trade, worth an estimated US\$ 800 million.

The rapid growth of the industry in Vietnam can be explained by several factors: a) increasing global demand for wood chips, especially from China; b) low levels of capital, technology, and labor are needed to establish a wood chip factory; and c) Vietnamese government policies have incentivized the industry's growth through convenient factory licensing procedures and wood chip export tax exemptions.

This information brief provides an overview of the challenges faced by Vietnam's wood chip sector and argues that the industry is growing unsustainably as it pursues short-term rewards. The findings are derived from a full Forest Trends report which is available in Vietnamese.¹ The authors conclude by recommending that the Government of Vietnam develop a master plan to more adequately regulate the development of the wood chip industry and ensure it is sustainable in the long term. According to Vietnam's Forest Sector Development Strategy through 2020, the government will limit the export of raw materials including wood chips. One way to do this is by eliminating the tax-free status of wood chip exports and imposing an export tax. However, such a tax should be implemented only after a careful study of the dynamics of the wood chip sector, with a particular focus on the actors involved in the wood chip supply chain and factors affecting the distribution of benefits and risks along the chain. Failure to conduct such a study could result in a policy that has negative livelihood impacts on the millions of smallholders supplying raw materials to the wood chip sector.

¹ An unedited English translation of the full report is available upon request. Please contact Phuc Xuan To at pto@forest-trends.org.

Key Findings

Below are the key findings from the full report:

- **Supplies from domestic timber plantations are insufficient to meet the demand from Vietnam's rapidly growing export-oriented wood chip processing sector, especially in the context of competing demands for raw material from the furniture and pulp and paper sectors.** This highlights the unsustainable development of the Vietnamese wood industry which is characterized by internal competition and the pursuit of quick profit. Most of the timber feeding Vietnam's wood chip industry comes from commercial and small-scale plantations. Approximately 70% of Vietnamese wood chips are made from acacia, 27% from eucalyptus, and 3% from melaleuca. On average, plantation area in Vietnam increases approximately 150,000 to 200,000 hectares per year.
- **Vietnam's export-oriented wood chip sector has been experiencing a boom, but this implies a potential bust in the future.** As of 2012, there were 112 wood chip processing factories with a total design processing capacity of up to 8 million tons of dry wood chips per year. This figure does not include 18 other factories with a capacity of 0.8 million tons of dry wood chips per year, which were expected to be put into operation in 2013. If all wood chip factories were operational at 100% of their design capacity, then the required input materials, which would be mainly provided from acacia and eucalyptus plantations, would increase to 18 million tons RWE (round wood equivalent). Given the current state of plantations, it is unlikely Vietnam will be able to supply sufficient input material to the wood chip sector in the future. This reflects the wood chip industry's rapid growth and pursuit of short-term benefits. Given the emerging competition for raw materials from plantations, the rapid growth of the wood chip sector has compromised the furniture and pulp and paper industries.
- **The geographical distance between timber plantations and wood chip processing factories reflects poor planning and leads to transport inefficiencies and increased costs.** Most wood chip factories, especially large-scale factories, are located near major sea ports. Although these locations are convenient for exporting, they are far from timber plantations, making it difficult for large factories to procure enough raw materials. This has led to severe competition among the factories for raw materials. The small-scale factories that are closer to timber plantations face less challenges in procuring supplies, but they report increased costs in loading, transporting, and unloading materials.
- **The growth in Vietnam's wood chip industry has primarily been driven by Chinese demand, but strong dependence on the Chinese market exposes the industry to market risks.** Almost 60% of Vietnam's wood chip exports (by volume) are destined for China and Taiwan, representing approximately US\$ 500 million per year. Chinese consumption of wood chips is expected to increase in the future, fueling further growth of the industry in Vietnam. However, Vietnam's high dependence on the Chinese market could lead to instability from price fluctuations or changes in demand.
- **The Japanese market is more stable than that of China, but Japan demands a higher quality product.** Approximately 30% of Vietnam's wood chips are exported to Japan. However, because Japan demands higher quality wood chips than does China, many Vietnamese producers either cannot access the Japanese market or divert their sales to China in an effort to gain more rapid profits.

Conclusion

Vietnam's wood chip industry has grown very quickly and this growth has led to quick profits in the short-term, particularly from an expanding Chinese market with low standards for product quality. However, these profits have been distributed unevenly along the supply chain, and smallholder plantation farmers have benefited the least while bearing the greatest risks. Furthermore, the increasing competition for timber supplies between wood chip, furniture, and pulp and paper industries is only going to intensify in the future.

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It was written by Phuc Xuan To and edited by Eve Richer.

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To date, the Government of Vietnam has not developed comprehensive policies to regulate the wood chip industry and guide it toward sustainable development. Current policies are fragmented and only target certain segments of the supply chain. As a result of unplanned development, wood chip factories are in competition with one another and with other sectors to acquire raw materials.

A comprehensive plan is needed to guide the development of the sector, taking into account associated industries which require the same raw materials, such as the furniture and pulp and paper sectors. Planning also needs to promote more equal benefit-sharing and risk minimization among actors across the supply chain, from the establishment of timber plantations to the exportation of wood chips.

By developing preferential credit policies which aim to prolong the plantation production cycle, there will be greater incentives to produce larger trees so that more high value timber is produced for the furniture processing industry, hence adding more value to products. Collaboration throughout the supply chain and across the industry will help to incentivize all actors to promote the long-term success of the wood chip sector and timber industry overall.