FOREST PRODUCTS FEATURE ARTICLES

VIETNAM: MARKET FOR FOREST PRODUCTS (HARDWOODS)

The following is an excerpt from a report submitted by the Foreign Agricultural Service's Agricultural Affairs Office in Hanoi on February 5, 2001. The full report can be found on our web site at www.fas.usda.gov/ffpd/attache-reports.htm

Once possessed of significant timber resources, Vietnam's forests have been significantly degraded over the past three decades as a result of uncontrolled logging (both legal and illegal), slash and burn agriculture and large-scale migration into previously undeveloped areas of the country. The rapid deforestation which has occurred in Vietnam was particularly intense from 1980 to 1995. During this period the average annual loss of natural forest was 60-70,000 hectares (ha), with an average of from 1.5-2.0 million cubic meters (m3) of wood being harvested from the country's natural forests every year.

A study carried out by the Asian Development Bank in 1999 found that Vietnam has approximately 10.8 million ha of forested land remaining, of which 9.5 million ha is natural forest and 1.3 million ha is plantation forest. Natural forest is thought to cover only 28% of the country at present, a greater than 50% decrease when compared to 30 years before. Of Vietnam's remaining forests, 6.5 million ha (60%) is classified as production forest, 3.4 million ha (31%) as protected forest, and 850,000 ha (8%) as special use forest.

The unsustainable rate of forest exploitation pursued over the past thirty years has devastated Vietnam's forests, and resulted in the country reversing its role as an exporter of round logs and cut timber and becoming an importer of over 1 million m3 of unprocessed or semi-processed wood in the year 2000. Of this 1 million m3 of imported wood, less than half is thought to have come from legal imports, with the bulk of the remainder having been illegally imported from abroad, primarily from neighboring Laos.

From being an exporter of primarily round logs and raw timber in the 1980's, the early 1990s in Vietnam saw the beginnings of large-scale wood processing in the country. First investing in sawmills to produce cut timber for export, Vietnam's wood processing sector has since developed into a significant producer of finished wood products. The sector now produces not only pulp and paper and construction lumber, but also significant amounts of high-value products, particularly indoor and outdoor furniture, for export to the European and North Asian markets.

In apparent recognition of the implications of the rapid forest loss occurring in the country, the Vietnamese Government (GVN) has adopted a mix of policies aimed at ameliorating the situation. Perhaps of most note for American wood exporters is the GVN's policy of limiting the cutting of timber in natural forests to a maximum of 300,000 m3 per year for the years from 1995-2010. (This figure is said by experts at the World Wildlife Foundation to be scheduled to fall even further to 200,000 m3 in the year 2001). While illegal logging continues to mean actual cutting is greater than the maximum legal amount, the situation is radically different from the early 1990s when as much as 3-4 million m3 was being extracted every year.

Attempts to make up the shortfall between demand for hardwoods in Vietnam and the restricted domestic supply through the cultivation of plantation forests have as yet generated unsatisfactory results. While ambitious plans have been tabled, including the "five million hectares" program which aims to plant five million hectares of new trees throughout the country by the year 2010, the necessary investment and forest management skills to make these projects a success has thus far been lacking.

The 1998 industrial wood supply from plantation forests was estimated at 1 million m3, a figure expected to increase to as much as 5 million m3 by the year 2010. Although this figure seems promising, plantation wood in Vietnam consists of primarily fast growing species such as eucalyptus which are more suitable for home construction and pulp and paper production than for the production of high value products for export. It is doubtful that plantation forests in Vietnam will alter the necessity to import continuously large amounts of hardwoods from abroad in the near-to-medium term to supply Vietnam's export oriented wood processing sector.

With annual demand for industrial large diameter (greater than 20 centimeters in diameter) logs expected to continue to rise from 1999's figure of approximately 1.5 million m3 and a limitation on extraction from natural forests of 300,000 m3 a year, Vietnam will clearly have to rely on large quantities of imports to meet the needs of domestic processors. This reliance on imported wood is likely to increase in the near to medium term if, as expected, the domestic wood processing industry maintains its current steady growth and domestic cutting is restrained as planned.

RUSSIA: ANNUAL FOREST PRODUCTS REPORT

The following is an excerpt from the Annual Solid Wood Products Report submitted by the Foreign Agricultural Service's Agricultural Affairs Office in Moscow on February 27, 2001. The full report can be found on our web site at www.fas.usda.gov/ffpd/attache-reports.htm

Although Russia has some 22 percent of the world's total timber reserves, it accounts for only 2 percent of the world's forest products output. Limited capital, an unfavorable investment climate, and a lack of restructuring hinder development of Russia's forestry potential. In 2001, Russian production of softwood and hardwood logs are projected at 66 million cubic meters and 22.4 million cubic meters, respectively, slightly above 2000 levels. Round wood continues to account for most exports. However, Russia's forestry sector is expanding output of processed wood products in border areas, as several foreign companies are making investments. Annual output of softwood lumber and temperate hardwood lumber is expected to expand during 2001 and 2002. Limited expansion of processed wood products is expected in the near future.

During 2001, most of the forestry sector is expected to show increased levels of wood production in comparison with the previous year. In 2001, Russia is expected to fell approximately 102 million cubic meters of logs, about 2 percent more than in 2000. Russia continues to expand production of processed wood products. In 2001, combined softwood and hardwood lumber output grew 3 percent in response to increased domestic and export demand. Approximately 1.6 million cubic meters of total plywood is expected to be produced in 2001.

Large-scale leasing of forest land and the auctioning of timber stands are currently increasing output. According to the Russian Forestry Service, a combined 70 million hectares (over 2,500 plots) were leased in 2000, 18 percent more than in 1999. In addition, some 30 million cubic meters of standing timber were sold at auctions during 2000. While the privatization of forestry resources remains a hot topic of discussion, the current forestry code restricts prospects for commercial development of the industry. All forestry resources belong to the Federal Government, which decides annually on rates to charge firms for the right to harvest trees. The government issues forestry licenses for cutting timber. Rates are differentiated by each district within provinces, as well as by the density, quality, and distance from the market for each forestry concession.

The lowest production year on record was 1999. Between 1990 and 1999, sawn wood output declined 75 percent, from 75 million cubic meters to 18.7 million cubic meters, according to the Russian State Statistics Committee. At the same time, the quality of sawn wood products suffered, as smaller lumber mills with poor equipment accounted for most of the output. In order to develop Russia's commercial forestry potential, the domestic forest industry will require huge investments to upgrade its aging harvesting and wood processing equipment. Without significant investment to replenish the capital stock and expand production capacity, output of wood products is expected to remain limited. The future of the forestry sector remains uncertain until Russia develops new policies effecting private investment in the forestry sector.

As a result of the weak ruble, domestic companies became relatively inexpensive to purchase. According to Russian Forest Service statistics, purchases of domestic companies doubled from 1996 to 1999. International investors included American International Paper, the Swedish furniture company IKEA, and Stora Euro, a Finnish-Swedish concern. An American investment company reportedly spent some $30 million within the last two years to create a timber company located in the Vologda region, processing and selling logs and sawn lumber domestically and in Europe. However, most of Russia's timber resources are located in remote areas with weak infrastructure. These areas are unlikely to develop the ability to produce high-value wood products to justify exploitation for commercial purposes anytime soon.

The 1998 weakening of the ruble strengthened the domestic wood products industry as foreign goods were priced out of the local market, mergers were encouraged, and domestic wood products became more competitive abroad. Many Russian forestry companies are now benefitting from larger orders, as furniture and construction companies respond to growing domestic demand. However, a significant part of Russian wood products are now being

processed by the timber cutting companies themselves.

In 2001, Russia's forestry exports continued to rise as a weakened ruble improved price competitiveness in world markets. In addition, strong competitiveness between companies in the domestic market led to further price declines. On average, Russia's timber exports are 20 - 30 percent less expensive than competitive products from other countries. According to the State Statistical Committee, Russia's timber complex exported $3.3 billion in timber products in 2000, significantly up from 1998 levels.

The majority of Russia's timber exports are unprocessed logs exported to nearby countries. From Siberia and the Far East, thick logs of oak, ash, pine and spruce are shipped to Japan, China, and South Korea, some of the world's largest timber importers. From Northwestern Russia, logs and semi-processed wood products are exported to Western Europe. In 2001, there was a visible rise in exports of sawn lumber, plywood, pulp, paper and cardboard.

Almost 75 percent of Russia's timber reserves are located in Siberia. However, poor infrastructure and lack of railway connections keep most of these resources out of reach. The European, Northern, and Far East regions have easier access to Moscow and foreign markets. According to the State Forestry Service, Russian timber reserves grew by 335 million cubic meters in 2000, exceeding 75 billion cubic meters.

Russian forestry is now managed by the State Forest Service (Goslessluzhba) as part of the Ministry of Natural Resources. The new service inherited the functions and responsibilities once tasked to the Federal Forestry Service (Rosleskhoz). It is headed by First Deputy Minister of Natural Resources Yuri Kukuyev (previously deputy head of

Rosleskhoz).

According to the Ministry of Natural Resources, Russia intends to begin the process of certifying forests. In 2001, certification of more than 2 million hectares of forest is to take place. Only those forest tracts meeting World Wildlife Fund standards will be certified. An auditor will monitor the ecology of forest tracts.

Given present conditions, export markets represent the most profitable focus for Russia's forestry sector. Several international companies are making investments with the view to develop Russia's export potential. In the near future, European Russia and other regions located close to border areas are expected to increase commercial timber exports. However, without capital development for manufacturing high-value processed products, remote forest areas with the greatest resources are expected to remain commercially underdeveloped.