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## Vietnam

## Solid Wood Products

## Update

## 2005

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Report Highlights: Vietnam has quickly become a world-class producer of wooden furniture with exports growing from \$200 million in 2000 to an estimated \$1.5 billion in 2005. To keep pace with this growth, Vietnam's furniture sector heavily relies on imports of wood materials. Imports have increased from \$120 million in 2000 to a projected \$650 million in 2005. U.S. suppliers of wood materials have benefited from this growing market, increasing their exports from less than \$ 2 million in 2000 to a record \$39 million in 2004 and likely \$45 million in 2005.

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## I. VIETNAM FORESTRY OUTLOOK (see table 1)

According to the Ministry of Agricultural and Rural Development (MARD), Vietnam's 2004 total forest area was 12,306 thousand hectares (tha), an increase of 1.7% compared with 2003's area. Most of the increase results from the Government's reforestation ("Five Million Hectare") program which aims to improve the forest cover ratio to 43% by the year 2010. The forest cover ratio (forest / total land area) has improved gradually, from only 28% in 1998 to 37.4 % in 2004, a growth of 9.4% over the last seven years.

Vietnamese forest includes both natural and planted forests. The natural forest area was 10,088 tha in 2004, of which forest with commercially-harvestable timber accounted for 78.5%(see table 1). The natural forest is concentrated in the Tay Nguyen (Central) Highlands, Southeast, South Coastal and North Coastal regions. The Tay Nguyen Highlands that includes four provinces (Kontum, Gialai, Dalak, and Daknong) has the largest natural forest stand with 2,365 tha.

Vietnam's total wood (lumber and pulp wood) production in 2004 totaled 2,443 thousand metric tons (tmt). See table 1.

**Table 1: Vietnam's Forest Area and Wood Production**

	2000	2002	2003	2004
Total forest area (1,000 ha)	10,915	11,784	12,095	12,306
Of which				
Natural forest (1,000 ha)	9,444	9,865	10,000	10,088
Timber forest (1,000 ha)	7,779	7,772	7,855	7,926
Planted forest (1,000 ha)	1,471	1,919	2,090	2,218
Wood production (1,000 m3)	2,375	2,428	2,435	2,443

Source: MARD and Vietnam's GSO

- Annual quotas for wood logging from natural forests are set by MARD; the total quota is currently 300 thousand cubic meters (t.cu.m) annually.
- According to trade sources, taking into consideration illegal cutting, actual harvests from natural forests could be as high as 550-600 t.cu.m per annum.
- A small part of the planted forests (around 300-400 t.cu.m) has better quality wood (rubber and acasia) and is processed for furniture or handicrafts.

## II. VIETNAM WOOD PROCESSING SECTOR

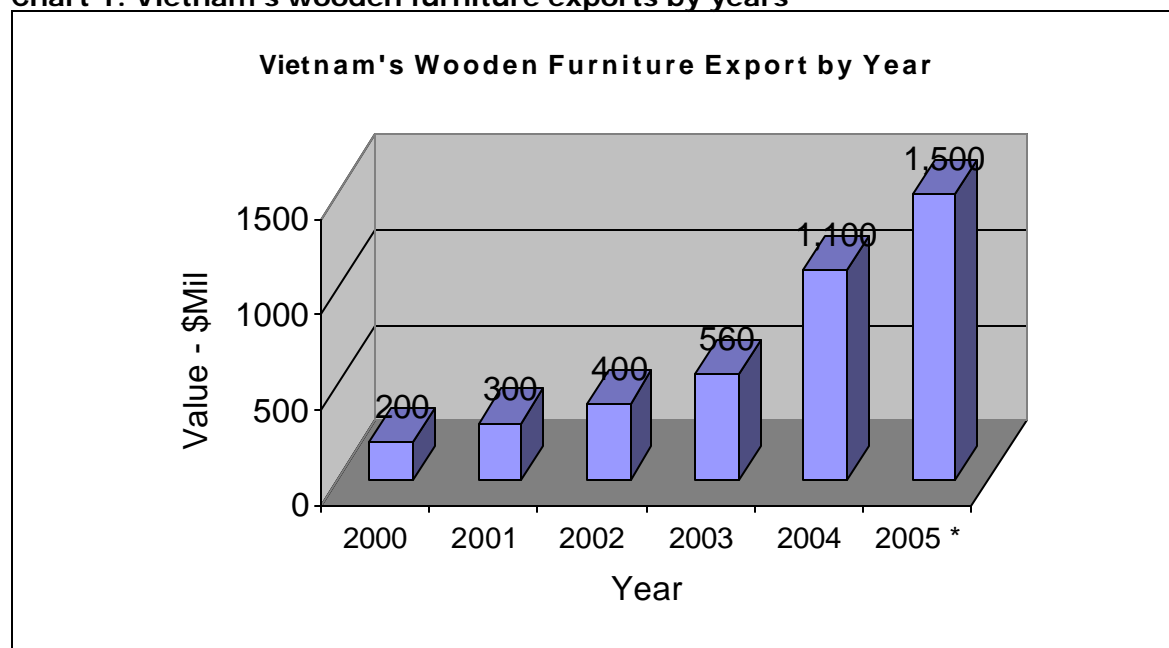
The wood processing industry, mainly wooden furniture for exports, has been growing at about 50% per annum during the last five years. Vietnam is currently home for more than 2,000 wood processing enterprises. Of this total, about 800 mainly small to medium size companies are active in furniture exports. From 2000 to 2005, there have been more and more foreign direct investments (FDI) in this sector. Vietnam's low wages relative to neighboring countries has helped spur the growth in Vietnam. Also helping has been the U.S. anti-dumping case against bedroom furniture imports from China. .

### Vietnam exports of wooden furniture products (see chart 1)

According to Vietnam's Ministry of Trade, Vietnam's wood products exports in 2004 totaled \$1.1 billion, a year-on-year increase of 94%. The United States, Japan, and the European Union were the three largest importers..

In the first ten months of 2005, Vietnam's wood products exports set a new record of nearly \$1.2 billion, an increase of 43 % in comparison with the exports over the same period last year. Vietnam's 2005 exports of wood products is projected to reach \$1.5 billion (see chart 3). Vietnamese wood products for exports (mainly indoor and outdoor furniture) has emerged as one of the top four export earners for the country. During the period 2000-2005, Vietnam furniture exports have grown at an average rate of 50% per annum.

**Chart 1: Vietnam's wooden furniture exports by years**



Source: Trade sources

### The United States Has Become the Biggest Market for Vietnam

The United States is the fastest growing import market for Vietnam wooden furniture products. From only \$13 million in 2001, Vietnam exports of wooden products to the United States reached \$380 million in 2004 and it continues to grow at a very fast pace in 2005. During January-October 2005, Vietnam exports of wooden products to the United States already set a new record of \$440 million. Of the total, Vietnamese bed-room furniture exports reached \$250 million which accounted for the second largest share of the United States bed-room furniture market after China. According to Vietnam's Ministry of Trade, the United States has become the biggest import market for Vietnamese wooden furniture with its import turnover in 2005 likely to reach over half a billion US dollars.

## III. DEMAND FOR WOOD MATERIALS

### Vietnam's Demand of Wood Materials

Vietnam's wood supplies are from many different sources, including the government quota for natural timber exploitation, recorded legal imports, and unknown supplies (illegal logging and unknown imported sources). Table 2 presents the best estimates. These estimates are

particularly difficult given the problems of developing good conversion ratios for Vietnam to change a wide range of logs and sawn lumber measures into cubic meters of wood.

According to trade sources, Vietnam's 2004 demand for wood materials for the furniture industry was about 2.5 million cubic meter of wood, of which 1.5 million cubic meters was imported (see table 2). According to wood experts, of total wood imports, wood logs accounted for 65% and the rest was sawn wood.

**Table 2: Vietnam's Timber Supply (Thousand cubic meters – t.cu.m)**

	Legal timber production	Recorded legal imports	Unknown Supply	Total supply
2000	350	500	500	1,350
2001	300	470	300	1,070
2002	300 (natural wood log) 300 (planted wood)	600	300	1,500
2003	700	1,000	300	2,000
2004	700	1,500	300	2,500

Source: Trade Contacts and Post Estimates

### Vietnam Forest Product imports

Vietnam is a growing market for wood materials in general and for US hardwood in particular for the following reasons:

- Limited domestic supply.
- Limited supply from neighboring countries.
- Fast growing Vietnam wooden furniture industry (for exports).

In 2004, Vietnam's wood processing industry spent about \$522 million on imports of wooden materials and forest products, a year-on-year increase of 48%. Imports of forest products in 2005 are projected to reach a new record of \$650 million, an increase of 25% compared with 2004's imports. Vietnam imports of forest products in 2000-2005 have increased at an average rate of 40% per annum. To meet the growing demand for wood, Vietnam imports of forest products will continue to increase in coming years (see table 3 and chart 2).

Of the total imports, wood logs and sawn wood accounted for 80%. Malaysia, Laos, Myanmar, and Indonesia were the main Asian suppliers to Vietnam. Suppliers outside Asia included Papua New Guinea, Solomon Islands, South Africa, the United States, and Brazil.

Malaysia is the biggest supplier of forest materials to the Vietnamese market with 18% of total Vietnam imports. Key imported items from Malaysia were medium density fiber board, and wood logs, namely Chò-Parashorea Stellain-Kurry, Tram- Acasia, rubber etc.

The United States has supplied wood materials to Vietnam since 1999/2000. From only 1.3% of total imports in 2000, imports of U.S. wood products have greatly improved to take about 7.5% of total imports in 2004. 2004's exports of forest products from the United States to Vietnam reached a record of \$39 million, a year-on-year increase of 91% (see table 3), of which, hardwood lumber, logs and veneer were \$22.9 million, \$10.2 million and \$3.4 million, respectively.

U.S. forest product exports to Vietnam continue to increase in 2005. During the first nine months of 2005, U.S. exports of forest products to Vietnam already totaled \$32 million, an increase of nearly 20% compared with exports of the same period of last year, of which, hardwood lumber, logs, and veneer were \$19.816 million, \$7.894 million, and \$1.7 million,

respectively. Over the last five years, imports of US wood materials have grown at a very high rate of 121% per annum.

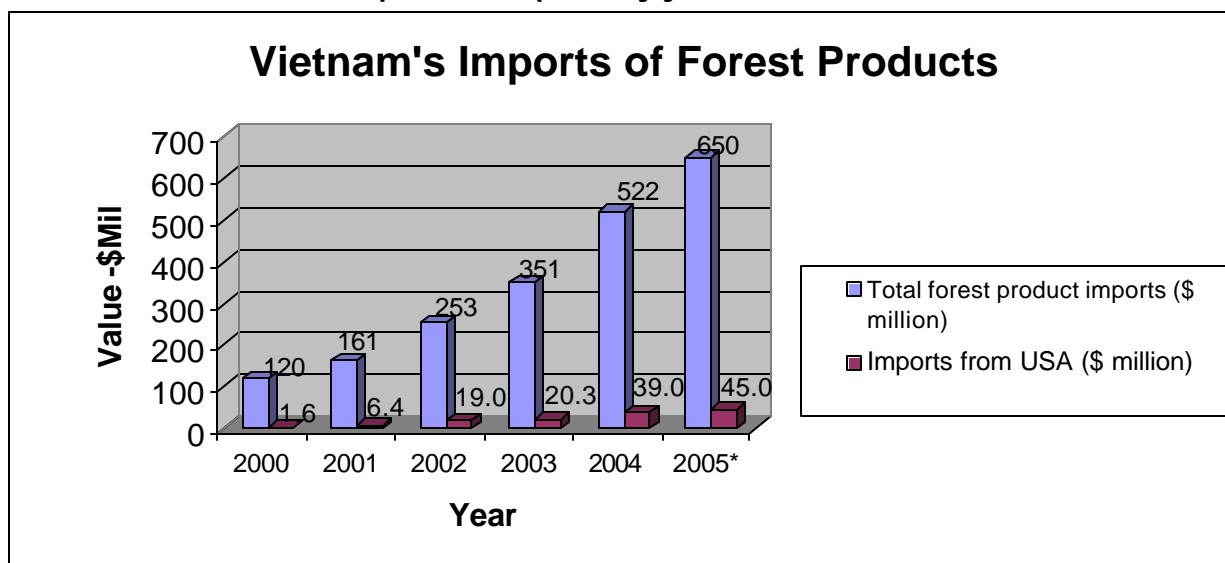
**Table 3: Vietnam’s forest product imports by years (\$million)**

	2000	2001	2002	2003	2004	2005*	Average growth in 5-year period
Total forest product imports	120	161	253	351	522	650	40%
Imports from USA	1.6	6.4	19.0	20.3	39.0	45.0	121%

Source: Trade sources

(\*) Data in 2005 is projected.

**Chart 2: Vietnam’s forest product imports by years**



(\*) DATA PROJECTED

Looking only at imports of logs, lumbers and veneers, table 4 (chart 3) shows our estimates.

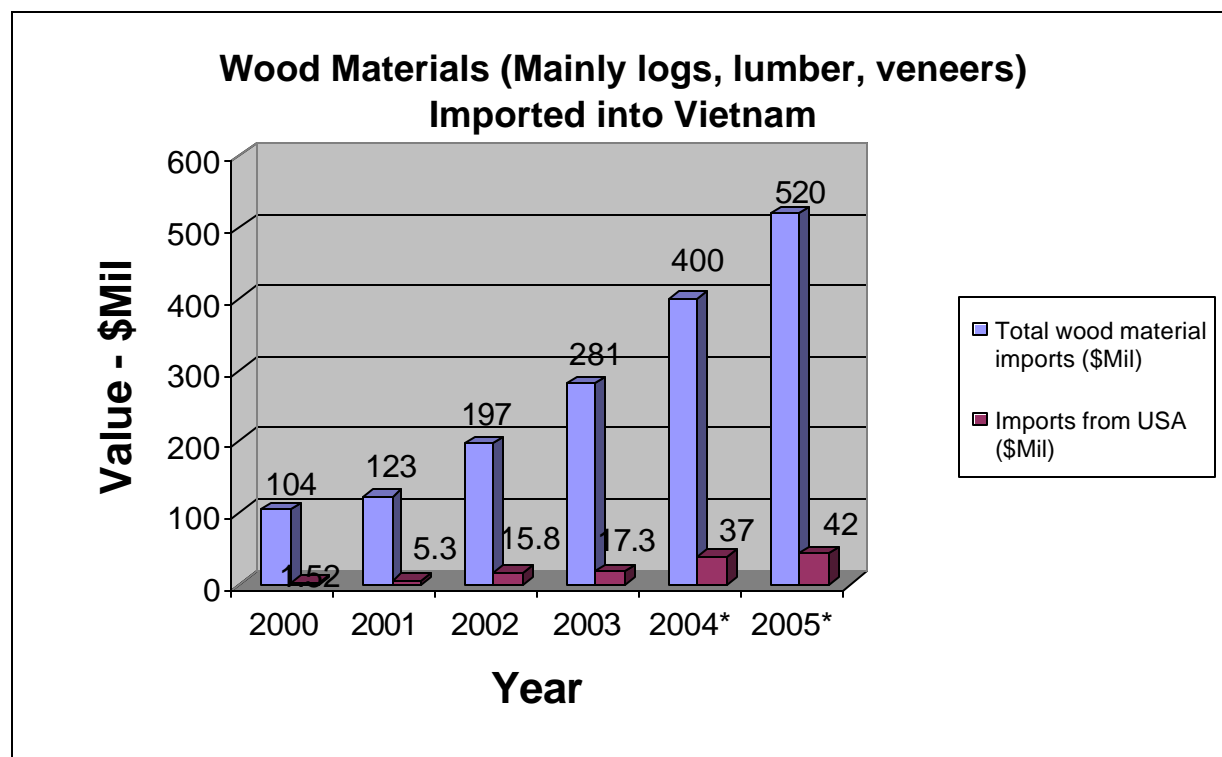
**Table 4: Vietnam’s wood materials (mainly logs, lumbers & veneers) imports by years**

	2000	2001	2002	2003	2004*	2005*
Total wood material imports (\$Mil)	104	123	197	281	400	520
Imports from USA (\$Mil)	1.52	5.3	15.8	17.3	37.0	42.0

Source: Trade sources

(\*) Estimated 2004 and projected 2005

**Chart 3: Vietnam imports of wood logs, lumbers and veneers**



(\*) DATA ESTIMATED

Table 5: Summary -- U.S. Forest Product Exports to Vietnam (Thousand Dollars)

AREA/ <u>COUNTRIES</u> OF DESTINATION AND COMMODITIES EXPORTED		JANUARY - DECEMBER					JANUARY - SEPTEMBER		
		<u>VALUES</u> IN 1000 <u>DOLLARS</u>					COMPARISONS		
		<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>	<u>2005</u>	%CHNG
VIETNAM	HARDWOOD LUMBER	751	3,860	11,101	11,301	22,901	16,100	19,816	23.08
	HARDWOOD LOGS	226	1,438	4,682	5,916	9,998	6,967	7,413	6.40
	HARDWOOD VENEERS	54	691	1,262	1,439	2,898	1,821	1,299	-28.67
	SOFTWOOD VENEERS	29	0	978	465	582	277	403	45.49
	SOFTWOOD LUMBER	32	0	11	69	407	165	373	126.06
<b>TOTAL</b>		<b>1,602</b>	<b>6,355</b>	<b>18,958</b>	<b>20,337</b>	<b>39,023</b>	<b>27,049</b>	<b>32,431</b>	<b>19.90</b>

Data Source: Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics

**POLICY****Import Tariff**

The import duty for logs, lumber and veneers is zero percent.

**Vietnamese Government Supports to Furniture Exporters**

Under a long-standing program sponsored by the Ministry of Trade, exporters who undertake trade promotions, trade missions, or participate in overseas exhibitions are eligible for a 50% reimbursement of costs applied to airfare and accommodations, booth rentals and other related costs. The purpose of this policy is to encourage enterprises to develop export markets for Vietnamese products. Furniture exporters can apply for this reimbursement through the Vietnam Forestry Association or through Viet-Trade, a trade promotion agency of the Ministry of Trade.