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Solid Wood Products

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Report Highlights:

From only \$200 million in 2000, Vietnam furniture exports reached \$1.55 billion in 2005 and are projected to climb to a record \$2.2 billion in 2006; a tenfold increase in six years. Accordingly, wood material imports have increased from \$120 million in 2000 to \$625 million in 2005 and are projected to climb to \$720 million in 2006. U.S. suppliers of wood materials have also benefited from this growing market, increasing their exports from less than \$ 2 million in 2000 to \$43.6 million in 2005, with a likely new record of \$61 million in 2006.

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I. VIETNAM FORESTRY OUTLOOK (see table 1)

The Ministry of Agricultural and Rural Development (MARD) reported total forest area in Vietnam for 2005 at 12,419 thousand hectares (tha), which represents an increase of about 1% over 2004. This increase, though small, is largely due to a government reforestation program, dubbed 'Five Million Hectares', which seeks to increase Vietnam's forest cover ratio to 43% by the year 2010. Since 1998, the forest cover ratio (forest/total land area) increased 9.74% for a total forest cover ratio of 37.74% in 2005.

Vietnam's total forest area encompasses both natural and planted forests. As evidenced in Table 1, planted forests accounted for just over 23% of the total forest area in 2005. During this period, the area for planted forests also increased 30% over the 2004 amount. Natural forests, which still account for more than three-fourths of total forest area, are composed of over 80% commercially-harvestable timber. Most natural forests are concentrated in the Tay Nguyen (Central) Highlands, Southeast, South Coastal and North Coastal regions. Of these regions, the Tay Nguyen Highlands have the largest concentration of natural forest, with a forest stand of 2,847 thousand hectares, spanning across five provinces (Kontum, Gialai, Daklak, Daknong and Lam Dong).

Vietnam's total wood (lumber and pulp wood) production in 2005 totaled 2,703 thousand cubic m3 (t.cu m3). See table 1.

Table 1: Vietnam's Forest Area and Wood Production

	2002	2003	2004	2005
Total forest area (1,000 ha)	11,784	12,095	12,306	12,419
Of which				
Natural forest (1,000 ha)	9,865	10,000	10,088	9,529
Timber forest (1,000 ha)	7,772	7,855	7,926	7,700
Planted forest (1,000 ha)	1,919	2,090	2,218	2,890
Wood production (1,000 m3)	2,428	2,435	2,627	2,703

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.
- A small part of the planted forests has better quality wood, mainly rubber and acacia. Each year about 300-350 t.cu.m of these woods are processed for furniture or handicrafts.

II. VIETNAM WOOD PROCESSING SECTOR

The wood processing industry, mainly wooden furniture for exports, experienced rapid growth over the last five years. Annual growth rates were often 50% or more, and 2004 saw an increase of 96% over 2003. The upward trend continues, though at a somewhat less rapid pace. Vietnam currently has some 1,800 wood processing enterprises, 800 of which are mainly small to medium size companies, with 210 of these being Foreign Direct Invested (FDI) companies. Vietnam's low wages relative to neighboring countries has

helped spur the growth of FDI companies in this sector, as has 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, wood product exports in 2005 reached \$1.55 billion, a year-on-year increase of 41%. The Vietnam Forest and Wood Products Association also reported that for the first ten months of 2006, industry exports totaled \$1.9 billion and expectations are that the figure for 2006 could reach as high as \$2.2 billion.

Vietnam-made wooden furniture is now available in 120 countries and territories, but the United States, Japan and the European Union remain the three largest importers. Table 2 shows the top ten countries for the import of Vietnam’s wooden furniture. Together, these countries accounted for over 87% of Vietnam’s total furniture exports in 2005.

Chart 1: Vietnam’s wooden furniture exports by years



(*): Projected data 2006

Source: Vietnam Ministry of Trade and other trade sources

Table 2: Vietnam furniture exports to top ten markets (Value: \$ Million)

Country	2005's Exports	2006 Jan-Oct Exports
USA	600.00	607.68
Japan	240.87	224.64
U.K.	114.93	113.94
German	75.31	51.92
France	74.20	63.15
China	60.34	71.07
Korea	49.68	53.55
Holland	45.44	38.11
Australia	41.87	44.50
Taiwan	40.63	41.19
Total	1,343.27	1,309.75

Source: Vietnam's Ministry of Trade

The United States Has Become the Biggest Market for Vietnam

The United States is the fastest growing import market for Vietnam's wooden furniture products. From only \$13 million in 2001, Vietnam's exports of wooden products to the United States reached over \$600 million in 2005, and this figure has already been surpassed for the first ten months of 2006. Exports of Vietnam's wood products to the United States for January – October 2006 have already set a new record with earnings of almost \$ 608 million. Of this amount, bedroom furniture exports accounts for over \$370 million, the second largest share of the United States bedroom furniture import market after China. According to Vietnam's Ministry of Trade (MOT), the United States has become the biggest market for Vietnamese wooden furniture, with each year outpacing the previous, and expectations are that this trend will continue.

III. DEMAND FOR WOOD MATERIALS

Vietnam's Demand of Wood Materials (table 3)

Vietnam's wood supplies derive from a variety of sources, including the government quota for natural timber exploitation, planted timber cuttings, recorded legal imports and supplies from undocumented sources. In 2005, total timber supply was about 3,400 t.cu.m. of which 650 t.cu.m were from legal timber production, 2,600 t.cu.m was from recorded legal importers and 150 t.cu.m. were from unknown sources. 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. Industry experts estimate that 65%, of total wood imports were logs, with sawn wood, veneers and engineered wood accounting for the remainder.

Table 3: 2005 Vietnam's Wood Timber Supply (Quantity: Thousand cubic meters – t.cu.m)

	Legal timber production	Recorded legal imports	Unknown Supply	Total supply
2005	600-650	2,500-2,600	150	3,300-3,400

Source: Trade Contacts and Post Estimates

Vietnam Forest Product imports (Table 4, table 5, table 6, chart 2 and chart 3)

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 2005, Vietnam's wood processing industry spent about \$625 million on imports of wooden materials and forest products, a year-on-year increase of 16% (see table 4). Pine, rubber and eucalyptus wood (14.5%, 12% and 10.8%, respectively) had the largest share of imported wood, by volume. Malaysia is the largest exporter of wood and other forest material to Vietnam, with Laos coming a distant second at \$50 million. Table 6 provides a list of the top ten forest product supplying countries to Vietnam for 2005 and also the first ten months of 2006. Vietnam's wood imports have increased dramatically over the last six years, up almost 600% since 2000. As the furniture sector continues to expand, it is expected that the demand for wood will continue to grow. (see table 5 and chart 2).

Of total wood material imports, it is estimated that wood logs, sawn wood and veneers accounted for 80%.

2006's imports of wood materials are projected to reach a new record of \$720 million, an increase of 15% compared with 2005's imports (see table 4 and chart 2).

Malaysia is the biggest supplier of forest materials to the Vietnam market with 20.6% of total Vietnam imports. Key imported items from Malaysia were medium density fiberboard (MDF) and wood logs, namely Chò-Parashorea Stellain-Kurry, Tram- Acacia and rubber.

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 2005. 2005's exports of forest products from the United States to Vietnam reached \$43.6 million, a year-on-year increase of 91% (see table 5), of which, hardwood lumber, logs and veneer were \$22.9 million, \$10.2 million and \$3.4 million, respectively (see table 6 for details).

U.S. forest product exports to Vietnam continue to increase in 2006. During the first nine months of 2006, U.S. exports of forest products to Vietnam already totaled \$46.51 million, an increase of nearly 42.5% 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 77% per annum (see table 7).

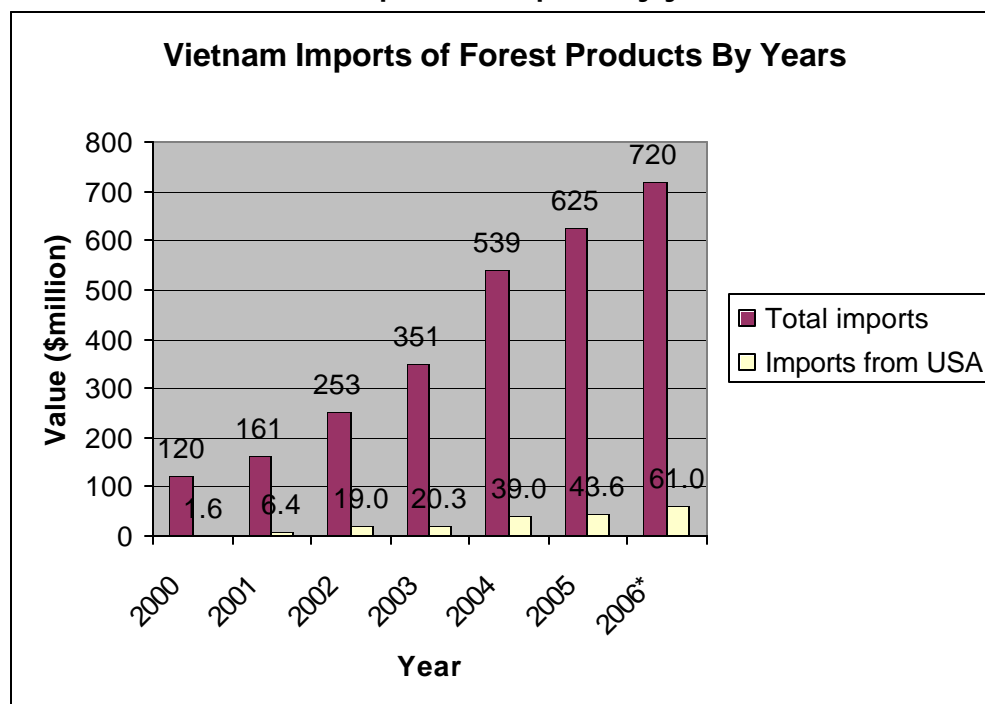
For hardwood lumber, White oak, Yellow Poplar, Ash, Cherry and Maple are the top export species to Vietnam. The most popular species for hardwood logs are Cherry, Red Oak, Yellow Poplar, White Oak and Ash.

Table 4: Vietnam's imports of forest products by years (\$million)

	2000	2001	2002	2003	2004	2005	2006*	Average growth 2000-2006
Total forest product imports (\$ million)	120	161	253	351	539	625	720	42.89%
Imports from USA (\$ million)	1.6	6.4	19.0	20.3	39.0	43.6	61.0	129.15%

(*): Projected data in 2006

Source: Trade sources

Chart 2: Vietnam's forest product imports by years

(*): Projected data in 2006

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

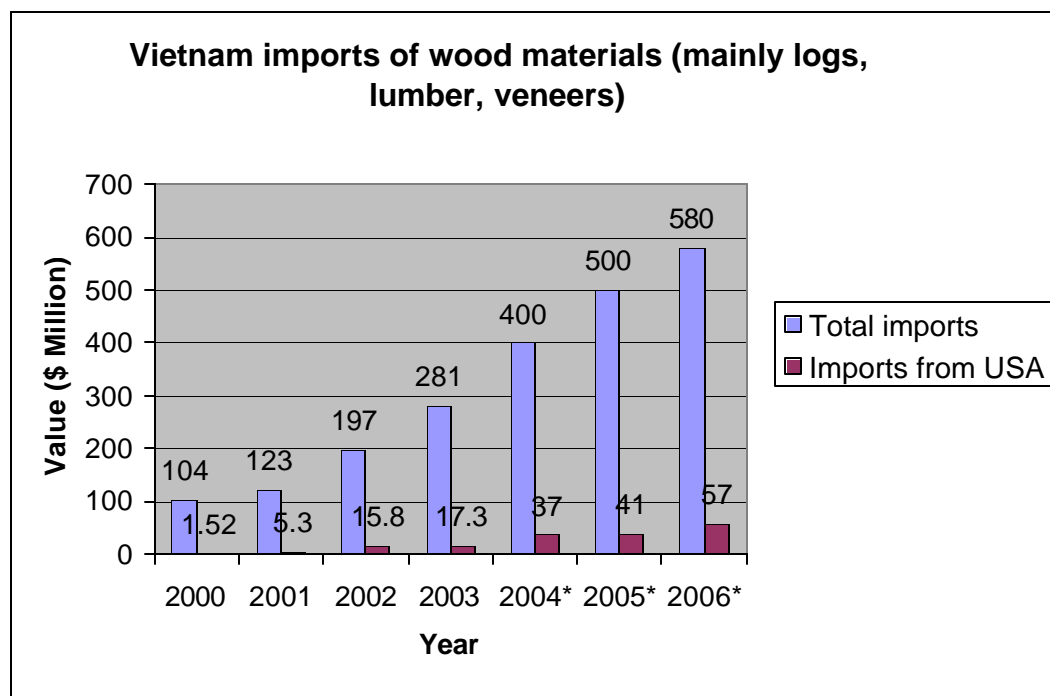
Table 5: Vietnam's imports of wood materials (mainly logs, lumbers & veneers) by years

	2000	2001	2002	2003	2004*	2005*	2006*
Total wood material imports (\$Mil)	104	123	197	281	400	500	580
Imports from USA (\$Mil)	1.52	5.3	15.8	17.3	37	41	57

Source: Trade sources, U.S. Census Bureau

(*) Estimated data 2004, 2005 and 2006

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



(*) Estimated data

Table 6: Top ten forest product supplying countries to Vietnam markets (Value: \$ Million)

Country	2005's Imports	2006 Jan-Oct Imports
Malaysia	128.00	113.34
Laos	50.00	50.62
Cambodia	44.23	44.58
USA	43.60	56.00
China	23.78	52.06
Thailand	21.00	32.68
New Zealand	18.21	28.97
Brazil	15.41	23.48
Myanmar	7.54	29.33
South Africa	4.17	10.66
Total	355.94	441.72

Source: Vietnam Ministry of Trade

**Table 7: Summary -- U.S. Forest Product Exports to Vietnam
(Value: \$ Million Dollars)**

	2001	2002	2003	2004	2005	Jan-Sep 2006	% compared with Jan-Sep 2005 imports
Total forest products	6.36	18.96	20.34	38.96	43.57	46.51	42.5
Total hardwood products	6.02	17.06	18.72	36.15	38.90	41.96	45.9
Total softwood products	0.03	1.01	0.60	1.27	1.88	2.76	117.3
Hardwood lumber	3.86	11.10	11.30	22.98	26.66	30.56	53.4
Hardwood logs	1.47	4.70	5.98	10.27	10.30	9.26	24.0
Hardwood veneers	0.69	1.26	1.44	2.90	1.94	2.14	56.0
Softwood lumber	0.00	0.01	0.07	0.41	0.49	0.22	-43.2
Softwood logs	0.03	0.02	0.06	0.28	0.59	1.18	146.0
Softwood veneers	0.00	0.98	0.47	0.58	0.80	1.36	237.7
Panel/Plywood products	0.71	2.39	2.24	3.64	3.37	4.15	102.0
Other Wood products	0.31	0.75	0.75	1.80	2.76	1.00	-57.0

Source: U.S. Census Bureau, Foreign Trade Statistic

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. The Government of Vietnam has allocated funding of VND160 billion (~US \$10 million) for the overall export promotion program for 2007.

Over VND49.4 billion for Forest Investigation Program

Viet Nam will pour more than 49.4 billion VND (~US\$ 3.1 million) into a forestry resource investigation and evaluation program between now and 2010. Funding for this program was approved by Prime Minister Nguyen Tan Dung on November 9, and will be sourced from the annual budget of the Ministry of Agriculture and Rural Development. The program aims to help relevant agencies conduct comprehensive and consecutive forest investigations on a national scale, thereby working out a strategy to rationally utilize, protect and develop forestry resources for socio-economic development.

Vietnam strategy of 14.3 million hectares of forest by 2020

Viet Nam is currently considering a strategy to sustainably develop 14.3 million hectares of forests by 2020. The proposal for this strategy will be submitted to the National Assembly and the Government for approval. Through this plan, the country hopes to develop 4 million hectares of natural production forests that will supply 45 million cu.m of timber and wood per year and also earn about 4 billion US dollars in export revenues. Approximately 30 percent of production forests are expected to meet international standards.

Since early this year, localities have zoned off protective, special use and production forests for economic development, ecological protection and tourism purposes. They plan to turn 3 million hectares of protective forests into production forests.