



EC–Vietnam Round Table on Meeting Market Demands for Legal and Sustainable Wood Products

Summary Report

18 April 2008, Hanoi, Vietnam



The International Union for Conservation of Nature



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BACKGROUND AND PURPOSE OF ROUND TABLE

An important aspect of international efforts to combat illegal logging and associated forest crime is building markets for legal and sustainable timber products. The measures being developed for this purpose include private sector codes of conduct, green procurement policies and various timber certification and licensing systems. The European Union's response to illegal logging centres on its Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan. This aims to combat illegal logging through forest governance reform, improved transparency, information exchange and capacity building. A key element of the Action Plan is developing a licensing system for legally produced timber. This will be built up through a series of Voluntary Partnership Agreements (VPAs) between the EU and major timber-producing countries, each setting out the actions and commitments of both parties to tackle illegal logging.

The current emphasis on markets for legal and sustainable timber presents Vietnam with both an opportunity and a threat. Vietnam's fastgrowing wooden furniture export industry has one of the largest shares of FSC-certified wood in east Asia, and the Vietnamese government aims to certify 30% of its production forests by 2020. Currently most certified wood must be imported, however, driving up production costs. Limited domestic production means that the timber industry as a whole depends heavily on imports, and ensuring the legality and sustainability of this supply will present a major challenge.

As a timber importer and processor, Vietnam differs from the timber-producing countries negotiating VPAs. This puts it outside the scope of current VPAs, which focus on timber exports. Nevertheless the intended outcomes of VPAs (improved forest governance, improved market access, and so on) are still highly relevant to national policy objectives, and the government of Vietnam is following developments in other countries with interest. It could join the process at a later stage, though any agreement would require different policy solutions from those of VPAs with timber-producing countries. Any solutions should also address forest protection in countries supplying Vietnam with timber, for example by encouraging Vietnamese importers and processors to adopt responsible purchasing policies (such as the policy of Vietnam's Forest and Trade Network).

The EC-Vietnam round table aimed to launch a dialogue on these solutions by giving key stakeholders the opportunity to learn about changing timber market trends and their implications, and to explore ways of meeting demands for legal and sustainable timber products. More than 60 participants from government, the forest products industry and national and international NGOs reviewed and discussed possible responses to changing market trends, focusing on those that Vietnam and the European Commission (EC) could jointly undertake within the framework of the FLEGT Action Plan.

The round table was coorganised by Vietnam's Ministry of Agriculture and Rural Development (MARD) and the Delegation of the EC to Vietnam, with facilitation provided by IUCN. The roadmap prepared for the meeting is reproduced below. All presentations and a full list of participants can be found on IUCN's website at www.iucn.org.vn

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OPENING AND SCENE SETTING

The EC launched the EU FLEGT Action Plan in 2003 to reduce the amount of illegal timber entering Europe, and under the Plan has been providing support for governance reform and capacity building to countries in Africa, Latin America and Asia, including Vietnam.

The round table was opened by Mr Willy Vandenberghe, Head of Cooperation section, EC Delegation to Vietnam, and Mr Tran Kim Long, Deputy Director General of International Cooperation Department, MARD. Willy Vandenberghe stressed that international customers and governments increasingly want assurances that the timber they buy is from legal sources. The EC launched the EU FLEGT Action Plan in 2003 to reduce the amount of illegal timber entering Europe, and under the Plan has been providing support for governance reform and capacity building to countries in Africa, Latin America and Asia, including Vietnam. The EC looks forwards to work with Government of Vietnam, private sector and civil society to identify measures that Vietnam can take to ensure its imported timber are legal.

Tran Kim Long highlighted Vietnam's past and ongoing work related to FLEGT, and stressed the country's desire to play a more active role in the FLEGT initiative. MARD will coordinate the exchange of information and any negotiations.

The opening of the round table was followed by a scenesetting session outlining the progress and key issues of FLEGT in Vietnam and the wider region. Four presentations were given in this session:

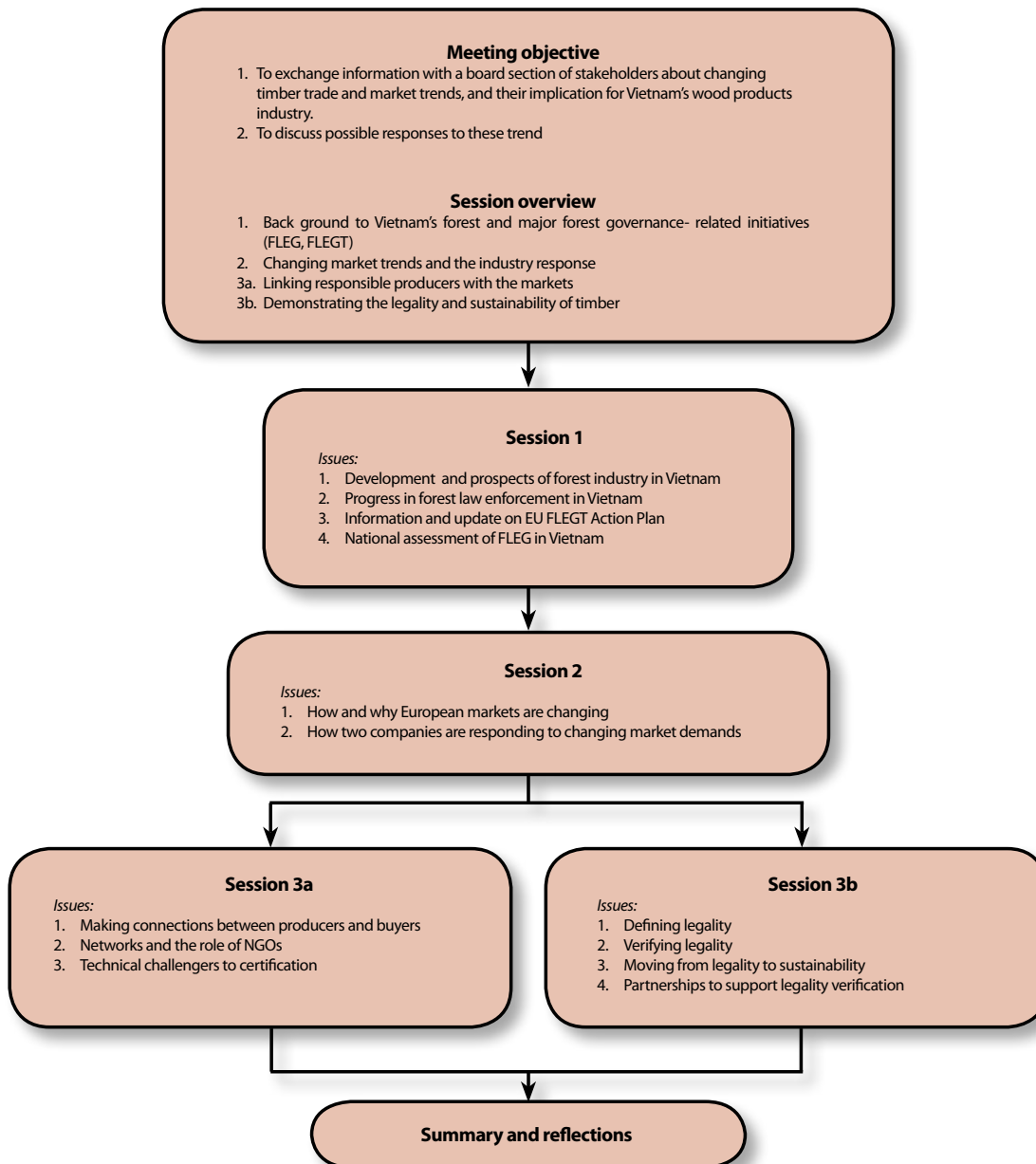


- **Pham Ngoc Mau, MARD:** Some state management orientation on forest products processing by 2020.
- **Nguyen Phi Truyen, MARD:** Operational outcomes of the Forestry Protection Task Force.
- **Flip van Helden and Vincent van den Berk, EC:** Information and update on the EU FLEGT Action Plan.
- **Ross Hughes, Consultant, World Bank:** National assessment of forest law enforcement and governance in Vietnam funded by the EC.

Among the key points to emerge from the presentations was that although Vietnam depends heavily on imports, by 2020 the government expects domestic production to satisfy raw material demands. Reducing its dependence on imports, however, is not the only challenge facing Vietnam's forest products sector. A lack of planning and strategic vision, and weak competitiveness, also limit the sector's growth potential. Reforming the sector and the laws that underpin forest use are key challenges for Vietnam. Though the legal regime for forests has developed quickly it is regressive (i.e. it targets the poor rather than the 'drivers' of forest crime) and offers little deterrent to illegal activities. Law enforcement efforts are focused at the forest level rather than at 'points of sale' such as saw mills and timber yards – and major loopholes and contradictions exist in the legal and policy framework for addressing illegal logging and trade in timber and wildlife (though a new Forestry Protection Task Force is a step in this direction). The World Bank, with financing from the EC, has recently completed an assessment of Vietnam's law enforcement and governance systems. This should give a clearer picture of the main gaps and weaknesses, and help guide future capacity-building efforts.



Round table roadmap

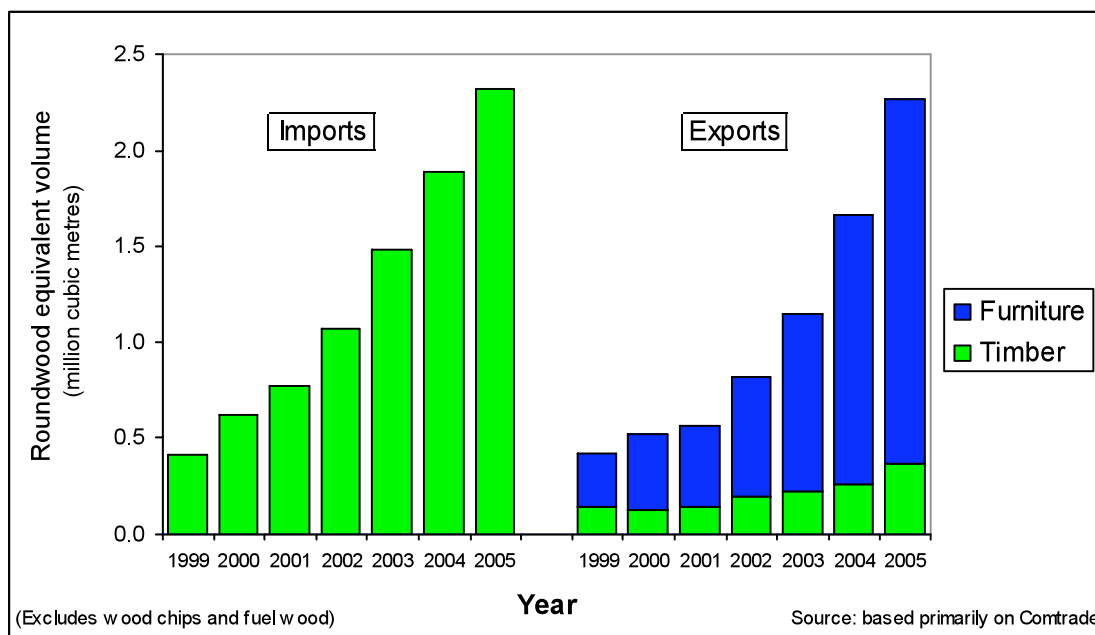


In the discussion after the presentations, it became clear that participants, while aware of Vietnam's law enforcement and governance challenges, were unsure what the FLEGT Action Plan could contribute. There was some confusion over the nature of the Plan (was it a tool, a scheme, or a process), and over the distinction between the acronyms FLEGT (used solely to refer to the Plan) and FLEG (used to refer to regional interministerial conferences or as a catchphrase for different initiatives by government, NGOs, business and others).

Participants also wanted to know how the FLEGT licensing scheme, which currently applies only to four categories of unfinished timber products, could be applied to finished products such as furniture. Flip van Helden, EC, explained that the licensing categories are not exclusive. Each country is free to choose its own path and in Vietnam it would be logical to consider how furniture could be brought into the process. The main goal is to secure mutual benefits for Vietnam and the EU.

A key issue raised in the discussion was the transaction and other costs of negotiating and establishing a VPA. The VPA process is recognised as demanding and time-

consuming, and Vietnam will have to consult widely with national stakeholders on what might be gained from participating, where the costs will lie, and how those costs might be shared. It has taken over four years of discussions in Malaysia, and an agreement has still not been reached. Given existing rates of natural forest loss in Vietnam and the



region, any FLEGT process will have to move rapidly if it is going to make a realistic and practical difference to forest management in Vietnam.

CHANGING MARKET TRENDS AND THE INDUSTRY RESPONSE

In session two of the round table, three presentations fleshed out the picture of how markets are changing and the measures that businesses are taking in response:

- **Jade Saunders, European Forestry Institute:** Illegal wood and “due diligence” in EU timber markets.
- **Rene de Kok, ScanCom Vietnam Ltd:** Market sensitivities and the need for legal products to keep markets open.
- **Nicolas Regouby, Carrefour Global Sourcing Vietnam:** Responsible wood sourcing – Carrefour’s experience and initiatives.

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Public procurement policies aimed at excluding illegal timber were mandated by the FLEGT Action Plan but are the responsibility of individual European member states, not the EC. To date such policies have been developed by the United Kingdom, Netherlands, Denmark, France, Germany and Belgium. They demand third-party verification of legal compliance or sustainable forest management, and cover mainly construction timber, furniture and paper products. The private sector is following suit, with industry associations in the United Kingdom, Netherlands, France and Spain adopting codes of conduct, purchasing policies and other commitments to ensuring legality and sustainability. In the United Kingdom, companies that serve government contracts are moving towards fully verified or certified supply chains. The construction sector has led this shift, but the furniture sector is now starting to follow in response to social housing standards. Outside Europe, governments and industry in the United States and Japan are also adopting green procurement policies, codes of conduct, building standards and other measures to exclude illegal timber.



Both ScanCom and Carrefour are large European buyers of Vietnamese wooden furniture, mainly outdoor furniture. In response to changing market demands and strong NGO pressure, they have each adopted a responsible sourcing policy based on third-party certification of sustainability under the Forest Stewardship Council (FSC). Obtaining FSC-certified wood has proved difficult, however, owing to a limited supply in the region and gaps in the supply chain. Carrefour currently sources its certified wood from Africa and South America. It uses certified Amburana to produce garden furniture in Bolivia and certified eucalyptus to produce furniture in Vietnam. (Carrefour also uses uncertified Acacia from Vietnam and Malaysia for its furniture.) ScanCom has been forced to source all of its certified wood from Brazil.

This is processed at ScanCom's sawmills in Brazil, then shipped to its contracted manufacturers in Vietnam. The entire supply chain from the forest in Brazil to ScanCom's furniture traders is FSC chain-of-custody certified.

For the small and declining proportion of uncertified wood in their supply chains, the companies have adopted basic legality and sustainability criteria. Carrefour is also looking at using the Tropical Forest Trust's Wood Control Systems to ensure that any uncertified wood comes from controlled, legal sources. Both companies are also members of the Vietnam Forest & Trade Network (VFTN), part of WWF's Global Forest & Trade Network (see below). Network participants commit themselves to using only legal and responsible sources of wood, and working towards eventual forest or chain-of-custody certification, or both.

The presentations from ScanCom and Carrefour, and the following discussion, highlighted the sensitivity of international companies to changing consumer or NGO demands. If companies perceive a threat or opportunity they will quickly respond to changing market conditions. The lack of certified wood in Asia, however, is a major obstacle for processors, though it does mean that certified timber producers are, for the time being, price makers.

Companies would like to process wood in Vietnam because of its skilled workforce and low labour costs. If their raw materials cannot be guaranteed as legal, however, they may be forced to shift processing capacity to other countries. So any move to provide assurances of the legality of wood products, such as a FLEGT licensing scheme, is likely to be supported, at least by the larger industry actors.

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LINKING RESPONSIBLE PRODUCERS WITH MARKETS

The third and fourth sessions of the round table were held in parallel. In the session on linking producers with markets, three presentations addressed such issues as how to facilitate market transactions, the role of networks and NGOs in market development, and the technical challenges to certification:

- **Aad van Noort, FSC Netherlands:** Bouwen en Borneo: A marketing approach of FSC Netherlands.
- **Le Khac Coi, WWF:** The role of the Global Forest & Trade Network and Vietnam Forest & Trade Network in promoting legal timber.
- **Vo Truong Thanh, Truong Thanh Furniture:** Solutions for the Vietnam wood processing industry to meet market trends.

The common thread running through these presentations was certification, in particular FSC certification. FSC Netherlands has been promoting the use of certified wood by

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housing developers and associations in the Netherlands. It has used media publicity, websites, study trips and other tools to raise awareness of and create demand for certified wood. Using this demand as leverage, it has concluded mutual agreements with housing associations for the use of FSC-certified timber and paper products. These have increased demand further, drawing in timber traders, building contractors and other buyers and consumers. FSC Netherlands has also used this demand to promote certification of forests in Borneo (where its target area is 600,000 ha) and Papua New Guinea (target area 850,000 ha).

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FSC certification is also an important strategy of the VFTN, which was launched in 2005 and now has seven members from leading wood processing and trading companies in Vietnam. Network members export about 10,000 containers of furniture a year with an export value of US\$150 million. By 2012, the VFTN aims to have an export and trading value of at least US\$500 million a year, or at least 10% of the total export value of Vietnam's wooden furniture industry.

VFTN members can be either trade or forest participants. Trade members must achieve credible chain-of-custody certification for all eligible factories and mills within five years of joining. Forest members must make a publicly documented, time-bound commitment to achieving credible certification for at least one forest management unit within five years of joining. They must also commit to achieve controlled wood certification (or equivalent) on all other units they manage within ten years. The VFTN's preferred certification scheme is FSC, and by 2012 it aims to have certified at least 20,000 ha of forest in Vietnam.

Vo Truong Thanh of Truong Thanh Furniture provided a local perspective of the challenges facing VFTN members in meeting their certification targets. Between 2002 and 2004 the company experienced many problems with certified eucalyptus species

such as *Eucalyptus globulus* and *Eucalyptus diversicolor*, including unstable sources, limited volumes and difficulty in drying and finishing. Certified *Eucalyptus grandis* is less prone to cracking, but unpopular with buyers because it tends to be mixed with *Eucalyptus kamerere*, which is softer and unsuitable for outdoor furniture.

Truong Thanh Furniture joined the VFTN in 2005 because it wanted to diversify its wood sources with wood from both natural and planted forests in progress towards certification. It has found it difficult, however, to persuade buyers to accept uncertified sources. In general, the company sees membership of the VFTN as a short-term solution to obtaining certified raw materials. In the long run, it sees the solution as establishing and certifying forests in Vietnam. In 2007 the company began the first phase of a new programme to establish and eventually certify 50,000 ha of plantations.





DEMONSTRATING THE LEGALITY AND SUSTAINABILITY OF TIMBER

The three presentations in this parallel session focused on how legality is defined and verified, how producers and processors can move from legality to sustainability, and how partnerships can help support legality verification:

- **Christian Sloth, SmartWood:** Introduction to SmartWood Verification of Legal Origin (VLO).
- **Thomas Osborne, TRAFFIC Vietnam:** Guidelines on the definition and verification of legal timber in Vietnam.
- **Arief Perkasa, Tropical Forest Trust:** The Timber Trade Action Plan (TTAP).

SmartWood's VLO programme, and related Verification of Legal Compliance (VLC) programme, respond to the growing demand for verification of legal timber or timber in progress to certification. The VLO programme is voluntary and borrows from SmartWood experience in FSC chain-of-custody certification. It verifies a company's timber tracking from all sources and at all points within a defined scope. Chain-of-custody certification is required for any entity and audited at the forest, at contractors, at sawmills, and at manufacturers.

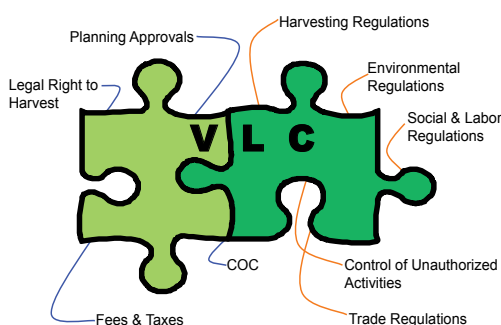
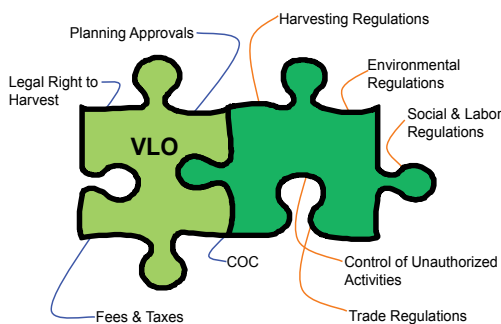
SmartWood has developed generic legality standards. The standard for legal origin requires only a legal right to harvest (proper authorisation, documentation, etc.). That for legal compliance, however, requires not just a legal right to harvest but also compliance with all applicable laws (environmental protection, workers' health and safety, community relations, etc.). VLO is considered the minimum acceptable starting

point for timber tracking; companies with VLO certification are expected to move on to VLC certification and, ultimately, full FSC certification (or a stepwise approach leading to FSC certification) within three years. Hence VLO and VLC are seen as milestones in the process of sustainability certification, not as destinations. Their intended use is for business-to-business communication and internal purposes.

Besides the generic definitions of legality being developed by SmartWood and other certifiers, several countries in Africa and Asia are formulating national definitions of legality. Using the legality standard prepared by Indonesia under its VPA process as a template, TRAFFIC and the Global Forest & Trade Network (with EC financing) are preparing definitions of legal timber for Vietnam and nine other countries. The definition for Vietnam has been developed with balanced stakeholder input and acceptance, though it is intended for use only by the VFTN.

In the ensuing discussion participants returned to the issue of defining and

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Adapted from the Rainforest Alliance's SmartWood program presentation on verification of legal origin

verifying legality, posing the question of how the generic and national definitions now being developed would fit into a future VPA process. Existing VPA processes, for example in Indonesia, cover more than the legal right to harvest. Hence they are closer to VLC (as defined by SmartWood) than VLO. If the legality standard adopted under a VPA were more demanding than either the VLO or VLC standards, would the latter be revised, or would SmartWood (or other private certifiers) use the agreed national standard in place of their generic standard (as they do with FSC-endorsed national certification standards)? Or would the FLEGT licensing scheme established under a VPA replace all private legality verification initiatives? And, if so, what label or logo would producers use to communicate their legal compliance to buyers and traders? The FLEGT licensing scheme does not provide a logo, though the country name alone might be sufficient given the existence of a bilateral trading agreement.

ISSUES AND CONCLUSIONS

The round table fulfilled its broad objectives of exchanging information and ideas about changing market trends and their implications, and discussing responses to those trends. The message that international markets are demanding legal and sustainable timber was clearly communicated in both presentations and discussions. The responses of consumer governments to these demands include procurement policies, legislation and collaboration with producer countries. The responses of industry centre on credible, simple and unified systems to prove legality and sustainability.

◀ The costs of preparing, negotiating and implementing VPAs are still unclear, but will almost certainly vary between countries.

Although there is much interest in VPAs among stakeholders in Vietnam, there is also much uncertainty about their costs and benefits. The costs of preparing, negotiating and implementing VPAs are still unclear, but will almost certainly vary between countries. The experience to date with VPAs has been entirely with timber-producing countries, though the FLEGT licensing scheme can be adapted to processing countries and finished wood products. The choice of products is up to the partner countries themselves, based on an assessment of the potential mutual benefits. The time frame for VPA negotiations is also uncertain, though ongoing negotiations can provide a source of learning and ideas for new partner countries.

◀ Legality does not equal sustainability, though it is a necessary precondition. Ensuring and verifying legality can create a better environment in which to achieve sustainability

Among the main technical issues raised at the round table was defining and verifying legality, and how to link national definitions of legality prepared for VPAs with existing legality verification systems. A further issue is the link between legality and sustainability. Legality does not equal sustainability, though it is a necessary precondition. Ensuring and verifying legality can create a better environment in which to achieve sustainability, and can also be a first step towards a sustainability certificate. Legality assurance also provides an avenue for smaller producers to enter international markets.

The key challenges for Vietnam now include deciding what role government can play in responding to changing market demands. Besides creating a regulatory environment conducive to sustainable forest management and sustainable forestbased economic growth, the Vietnamese government must consider what steps it can take to promote a national dialogue on assuring legality and sustainability. This might include discussion of the need and modalities of a national FLEGT licensing scheme. An important step will be to build on the outcomes of the round table and continue raising awareness of market trends and responses, including VPAs and their implications. Organisations such as the World Bank and IUCN, which are already involved in awareness raising and capacity building, will be able to support the Vietnamese government in this task.

