

Summary for business entities:

Vietnam's timber exports to Japan during 2018–2021 with a focus on products made using imported high-risk species
and
Vietnam's plantation timber supply chain: good practices to promote legal and sustainable timber products

ITTO Project PP-A/56-342B

“ANALYSIS OF TIMBER LEGALITY ASSURANCE SYSTEMS AND
GOOD PRACTICES IN VIET NAM FOR SUSTAINABLE TIMBER TRADE”

Prepared by Taiji Fujisaki, IGES



Summary for business entities: Vietnam’s timber exports to Japan during 2018–2021 with a focus on products made using imported high-risk species, and Vietnam’s plantation timber supply chain: good practices to promote legal and sustainable timber products

Institute for Global Environmental Strategies (IGES) was established in March 1998 under an initiative of the Japanese government and with the support of Kanagawa Prefecture based on the “Charter for the Establishment of the Institute for Global Environmental Strategies”. The aim of the Institute is to achieve a new paradigm for civilization and conduct innovative policy development and strategic research for environmental measures, reflecting the results of research into political decisions for realising sustainable development both in the Asia-Pacific region and globally.

<https://www.iges.or.jp/en>

The International Tropical Timber Organization (ITTO) is an intergovernmental organization promoting the conservation and sustainable management, use and trade of tropical forest resources. Its members represent the bulk of the world’s tropical forests and of the global tropical timber trade. ITTO develops internationally agreed policy documents to promote sustainable forest management and forest conservation and assists tropical member countries to adapt such policies to local circumstances and to implement them in the field through projects. In addition, ITTO collects, analyzes and disseminates data on the production and trade of tropical timber and funds projects and other actions aimed at developing sustainable forest industries at both the community and industrial scales. Since it became operational in 1987, ITTO has funded more than 1000 projects, pre-projects and activities valued at more than USD 400 million. All projects are funded by voluntary contributions, the major donors to date being the governments of Japan and the United States of America.

© ITTO 2020

This work is copyright. Except for the logos of the ITTO, the Ministry of Agriculture, Forestry and Fisheries (MAFF) of the Japanese government and IGES, graphical and textual information in this publication may be reproduced in whole or in part provided that it is not sold or put to commercial use and its source is acknowledged.

Disclaimer

The designations employed and the presentation of material herein do not imply the expression of any opinion whatsoever concerning the legal status of any country, territory, city or area, or of its authorities or concerning the delimitation of its frontiers and boundaries.

The contents of this report are the sole responsibility of the authors and under no circumstances can be regarded as reflecting the position of the ITTO, the Ministry of Agriculture, Forestry and Fisheries (MAFF) of the Japanese government and IGES.

Table of Contents

- Acronyms 1
- Introduction 2
- 1. Overview of the Vietnamese timber sector 4
- 2. Legal frameworks concerning timber legality in Vietnam 5
 - 2.1. Legal frameworks concerning timber import 5
 - 2.1.1. Risk criteria: geographical risk and species risk 6
 - 2.1.2. Due diligence requirements for importers with high-risk imported timber shipment
7
 - 2.2. Legal frameworks concerning legality of harvest in plantation 8
 - 2.3. Legal frameworks concerning supply chain transaction 9
 - 2.4. Enterprise classification system 10
- 3. Vietnam’s timber exports to Japan during 2018–2021 with a focus on products made using imported high-risk species 11
 - 3.1. Overview of the study 11
 - 3.2. Results 11
- 4. Vietnam’s plantation timber supply chain: good practices to promote legal and sustainable timber products 13
 - 4.1. Overview of the study 13
 - 4.2. Results 13
 - 4.2.1. Forestry cooperatives 13
 - 4.2.2. Measures taken by processing companies to control supply chain 14
- 5. Points that could be helpful for due diligence when importing timber products from Vietnam 14
- Appendix 17
 - Appendix 1. Vietnam’s exports of timber products to Japan and the presence of high-risk species in products, January 2018–June 2021 17
 - Appendix 2. Summary of case studies: measures taken by processing companies 20
- Reference 21

Acronyms

CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
FLEGT	Forest Law Enforcement, Governance and Trade
FPD	Forest Protection Department
MARD	Ministry of Agriculture and Rural Development
MDF	medium density fiberboard
PL	packing list
SFMP	Sustainable forest management plan
USD	United States dollar
VNTLAS	Vietnam Timber Legality Assurance System
VPA	Voluntary Partnership Agreement

Introduction

Vietnam plays an important role in the global timber supply chain. The country now ranks second in Asia and fifth globally in timber product export value. At present, Vietnam supplies timber products to over 140 countries and territories (MARD, 2021a).

In Vietnam, plantations of *Acacia spp.* have emerged as an important resource for the forestry industry and export, while supporting the rural economy and generating income for rural households. At the same time, Vietnam relies on imported raw materials from a large number of sources to manufacture timber products to the development and expansion of the timber industry. Annually, Vietnam imports 5–6 million m³ of logs and sawn timber, 30–40% of which are tropical species, and the remaining 60–70% are temperate species (Cao *et al.*, 2021).

To realize trade of legally and sustainably produced timber and timber products, an important strategy for importers is to collect information, assess risks, and reduce risks as necessary (due diligence). On the other hand, it should be noted that the timber industry in Vietnam may involve a large number of timber suppliers and traders with several layers of transactions, which makes supply chains challenging to trace and causes difficulty in legality verification and may pose a challenge for businesses importing timber from the country in conducting due diligence. In our interview survey with 15 Japanese businesses that procure timber products from Vietnam, eight answered that they import or may have imported products made from imported timber, of which six companies expressed their concerns, such as ‘they do not know the origin of timber used in the products,’ ‘they do not know how the imported high-risk timber species are used in Vietnam and where they are consumed’ or ‘it is difficult to check the legality of products made from imported timber.’ Also, some companies expressed that they could not ensure the legal origin of products made from domestic plantations since the origin of harvest cannot be identified, and documentation to verify legality is not available, even though they regard the risk of planted species as low.

To help address such challenges and promote the trade of legal and sustainable timber and timber products, this ITTO project, PP-A/56-342B "ANALYSIS OF TIMBER LEGALITY ASSURANCE SYSTEMS AND GOOD PRACTICES IN VIET NAM FOR SUSTAINABLE TIMBER TRADE" conducted studies and developed two technical reports:

- **Vietnam’s timber exports to Japan during 2018–2021 with a focus on products made using imported high-risk species.** Using risk criteria stipulated by the Vietnam legal framework, this technical report identifies the high-risk imported species in timber products exported from Vietnam and generates recommendations for stakeholders in import countries.
- **Vietnam’s plantation timber supply chain: good practices to promote legal and sustainable timber products.** Focusing on the domestic plantation timber supply chain, this technical report discusses forestry cooperatives and measures taken by downstream processing companies, which support demonstrating timber legality and/or traceability of the timber supply chains.

This summary report shares the findings of the two technical reports and provides information that assists in the due diligence when importing timber from Vietnam.

The report is organized as follows: Chapter 1 provides an overview of the Vietnamese timber sector; Chapter 2 describes the Vietnamese legal framework concerning timber import, harvest in domestic timber plantations, and supply chain transactions; Chapter 3 shares the key results of our studies on trends in high-risk imported timber species used in products exported from Vietnam to Japan; and Chapter 4 summarizes good practices based on interview surveys, focusing on Vietnam's domestic plantation forest production and supply chain. Based on the study's findings, Chapter 5 presents points that could be helpful for due diligence when importing timber products from Vietnam.

1. Overview of the Vietnamese timber sector

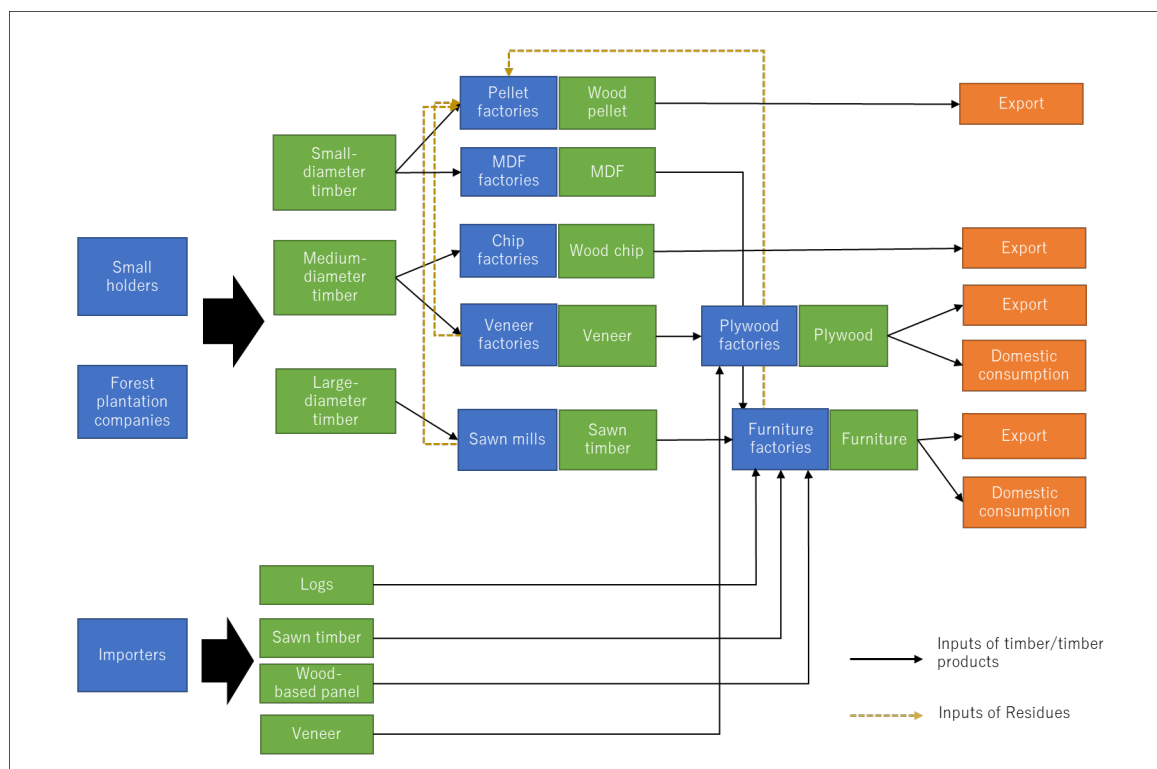


Figure 1 Simplified timber supply chain in Vietnam

Sources: To and Cao (2022) and consultations with supply chain stakeholders in 2022.

Figure 1 illustrates the simplified overall timber supply chain in Vietnam. Timber sourced from Vietnam forests originates mostly from plantations, where households are the main suppliers. State-owned and private forest companies also supply plantation timber for commercial purposes. Characteristics of the timber supply chain in Vietnam vary from region to region depending on local factors, including the accessibility of raw timber and other materials for production, existing processing facilities, infrastructure, and market access. For instance, a majority of wood pellets exporters from the south (where domestic plantation timber is scant) may use residues from imported timber for export.

Harvested plantation trees enter the supply chains of different product types, usually according to size. In general, smaller logs and small parts of logs are used for wood pellet production, medium-sized ones are for veneer and chip production, and larger ones are traded to saw mills and used for furniture production. Also, smaller logs and parts are used

for wood-based panels such as medium density fiberboard (MDF), which is used for furniture products. In terms of plantation timber species, MARD (2021b) reports that in 2020 acacia plantations were 1.95 million ha, accounting for 56% of the total production plantation forests, followed by pine (0.248 million ha, 7%) and rubber (0.248 million ha, 7%), eucalyptus (0.134 million ha, 3.8%). The remaining 0.955 million ha (26.2%) was indigenous and fruit trees. It is estimated that around 1.6 million ha of plantation forests are managed by smallholders contributing to the livelihoods of more than 1.2 million families (Vu *et al.*, 2018). In addition, local traders play a critical role in the timber industry, coordinating the distribution and supply of raw materials and linking supply and demand at the local level. On the other hand, it should be noted that complex supply chain involving a large number of timber suppliers and traders with the several layers of transactions make supply chain challenging to trace and causes difficulty in legality verification.

Timber imports also plays an important role in the development and expansion of Vietnam's timber industry. Annually, Vietnam imports 5–6 million m³ of logs and sawn timber, 30–40% of which are tropical species; the remaining 60–70% are temperate species (Cao *et al.*, 2021). In addition, Vietnam imports wood-based panels, prominently particle boards, fiberboard, and plywood. Imported wood-based panels are used in indoor furniture (e.g., bedroom furniture, kitchen, and office furniture) for export. Imported veneer is used for some plywood face-backs. It is assumed that imported timber of mainly temperate species are used for export products, while tropical species are consumed mainly domestically, although the size of the domestic market in particular is not well reported.

2. Legal frameworks concerning timber legality in Vietnam

This section describes some key elements of the Vietnamese legal framework for timber legality, including imported timber products, the harvest of domestic timber plantations, supply chain transactions, and the enterprise classification system.

2.1. Legal frameworks concerning timber import

The Vietnamese government has committed to excluding illegal timber from all supply chains. This commitment was reflected in a voluntary partnership agreement (VPA) the government signed with the European Union (EU) on 19 October 2018 and came into force on 1 June 2019.

To translate this commitment from the VPA into domestic legislation, the government issued Decree 102 promulgating the Vietnam Timber Legality Assurance System (VNTLAS) on 1 September 2020. Decree 102 came into force on 30 October 2020. The legality of timber and timber products imported into Vietnam is subject to Decree 102.

2.1.1. Risk criteria: geographical risk and species risk

Decree 102 highlights that the control of timber imports is undertaken based on the risk criteria including geographical risk (divided into 2 categories: positive and non-positive geography) and timber risk (divided into 2 categories: low risk and high risk). Its Article 5 details the criteria for geographical risk identification, and Article 6 of the decree focuses on the criteria for species risk identification.

A source country is considered low risk if it meets one of following criteria:

- It has a timber legality assurance and Forest Law Enforcement, Governance and Trade (FLEGT) licensing system in place.
- It has a national regulatory framework on due diligence for entire supply chains that is recognized by VNTLAS.
- The Governance Effectiveness Index of the country is 0 or higher (using the World Bank’s most recent Global Governance Index) and the regulatory framework on the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) implementation of the country is ranked and announced as Level I by the CITES Secretariat and meets one of the two following criteria: (i) the country has a bilateral agreement with Vietnam on timber, or (ii) the country has a national timber certification system recognized by Vietnam.

Under Decree 102, a source country that does not meet one of above criteria is considered as non-positive geographical area. Notably, a source country refers to the country of export and does not necessarily represent the country of harvest.

Imported species are considered as high-risk if they are:

- listed in the CITES Annexes;
- critically endangered and rare species listed in Category IA and Category IIA according to Vietnam’s regulations;
- being imported into Vietnam for the first time; or

- threatened with extinction in the country of harvest or illegally traded as identified by Vietnamese authorities.

Imported species are identified as low-risk if they do not have any of these characteristics.

The Vietnamese Ministry of Agriculture and Rural Development (MARD) has published the list of the positive geographies and the list of imported species on the website of MARD’s Forest Protection Department.¹ Imports from countries that are not on the list of the positive geographies or imports of timber species which are not on the species list are considered high-risk imported timber shipment. In general, under Decree 102, almost all tropical timber species imported into Vietnam were high-risk, as they were from countries not listed in the positive geographical area list.

2.1.2. Due diligence requirements for importers with high-risk imported timber shipment

Decree 102 prescribes importing dossier and due diligence requirements for importers, with high-risk imported timber shipment. If the imported timber is considered high-risk shipment and not subject to CITES permit or FLEGT permit, the importer is asked to provide information in Form 3 (Declaration for imported timber source) of Decree 102

Table 1 Structure and contents of Form 3 (Declaration for imported timber source) of Decree 102

Section	Contents
Part A	asks for information of Packing list (same information stipulated in Form 1 or Form 2 of Decree 12.
Part B	distinguishes if the imported timber shipment is low- or high-risk according to the criteria in Articles 5–6 mentioned above.
Part C	requires the importer to provide three additional documents: (i) A voluntary certification or a national certification document from the source country that meets all criteria set out in the VNTLAS. (ii) A permit or document from relevant authorities in the source country that proves legal harvest.

¹ www.kiemlam.org.vn

	(iii) In the absence of a permit/document required under (ii), the importer has to provide alternative documents to prove the legality of harvest. If this is the case, then the importer needs to indicate clearly what the document is and who the issuing authority is. The importer also must provide the information concerning the exporter and the country of harvest, and the reason for the absence of a harvest permit. If the importer fails to provide information as required under then they are asked to provide other documents for substitution. In this case the importer needs to indicate clearly what the document is, the country of harvest, and the name and address of the exporter.
Part D	Requests the importer to provide information on the regulatory framework concerning timber export in the source country (e.g., export ban, export permit) for certain types of timber or certain timber species. In addition, Form 3 requests the importer to identify risks associated with the import and to conduct activities to mitigate those risks.

Source: Forestry Agency of Japan (2022)

If the timber shipment is low-risk, the importer does not need to fill in Part C and D of Form 3. If it is high-risk, that means timber is species risk or comes from non-positive geographies, importer is required to provide additional documentation and declaration according then the importer is requested to complete information in Parts C and D. In addition to providing additional documentation, the importer is requested to exercise due diligence to mitigate risk when they bring high-risk timber shipment into the country.

2.2. Legal frameworks concerning legality of harvest in plantation

Regarding domestic plantations, the legality of timber harvesting is built on land use rights. For smallholders, the primary timber producers in Vietnam, there are a number of evidence/documents to prove land use rights² that are recognized and listed in FLEGT-VPA. Among them, the Certificate of Land Use Rights, usually referred to as Red Book introduced by the Land Law of 1993, is mostly mentioned in the interview surveys, as a legal proof of land use rights and, thus serving as a key prerequisite for producing the legal timber. It should

² These include: Decision on land allocation; Decision on land allocation, forest allocation; Land use right certificate; Decision on land allocation; Decision on land leasing; Decision on forest allocation together with land allocation, land leasing; Decision on forest allocation; Forestry book; One of the types of papers on land use rights as stipulated in Article 100 Land Law 2013; Confirmation of the Commune People's Committee that land is currently used and free to dispute subject to the cases regulated in Article 101 Land Law 2013; and Forest protection contracts with other holders.

be noted the land allocation process to smallholders in Vietnam was started in early 1990s, and the issuance process of the Red Book is still ongoing, and not all smallholders have been granted Red Book. Several alternative documents are, therefore, used in practice to demonstrate forest use rights, such as a written confirmation from the Commune People's Committee that the given land is currently used and is not subject to any dispute.

Plantation timber is also harvested under the land allocated to the state and private organizations. To harvest forestry plantations under the State and private organizations, forest owners have to develop a Sustainable forest management plan (SFMP) and need approval from Provincial People's Committee, stipulated by Circular 28/2018/TT-BNNPT.³ SFMP is a long-term forest management plan covering harvesting, monitoring, and other management activities. Before harvesting, forest owners have to prepare and send a harvesting plan⁴ to competent agencies for approval of the fund for afforestation and to the local Forest Protection Department for monitoring during the harvesting process. Notably, SFMP and harvesting plans are not compulsory for households.

2.3. Legal frameworks concerning supply chain transaction

The Vietnamese legal framework regulates transactions of timber products along the supply chain. Circular 27/2018/TT BNNPTNT stipulated that a “packing list” of forest products must be prepared by the forest product owner at each stage of the supply chain: after harvesting and when trading or transporting forest products. It includes the following information:

- Name and contact details of forest product owner
- Business registration certificate/enterprise ID No. (if the forest product owner is an enterprise).
- The origin of forest product (i.e., plantations, natural forests, imported timber)
- Time of transport
- Invoice number (if any)
- Vehicle (license plate/vehicle number)
- Origin and destination

³ Circular 28/2018/TT-BNNPT is found at <https://thuvienphapluat.vn/van-ban/Tai-nguyen-Moi-truong/Circular-28-2018-TT-BNNPTNT-sustainable-forest-management-431327.aspx>

⁴ Circular 28/2018/TT-BNNPT provides the format of the Harvest plan, which specifies the species, year of planting, and the name of the granting authority for the planting cost, areas and volume of planned harvest, timber removal and transportation routes, forest protection and forest fire prevention measures, and afforestation plan.

- Detail of forest product (product name, species, quantity, unit)

Following Circular 28/2018/TT-BNNPT, it is understood that the first owner of Forest product ("Forest product owner 1") prepares a packing list 1 (PL1) when harvesting and keeps the original version of the list. Also, "Forest product owner 1" prepares a packing list 2 (PL2) when trading timber to the next owner ("Forest product owner 2"). "Forest product owner 2" receives and keeps the original PL2, while "Forest product owner 1" keeps the copy. Accordingly, the packing lists are prepared, received, and kept, conveying information about the forest products along the supply chain. As the Vietnamese legal framework takes a self-declaration approach for timber legality, a packing list is critical to demonstrate the legal origin and transaction of products and to identify the product's origin.

Notably, Circular 28/2018/TT-BNNPT was recently replaced by Circular 26/2022/TT-BNNPTNT issued on December 30, 2022 and came into force by February 15, 2023, which revised some parts of 28/2018/TT-BNNPT, including forms of supply chain documents. However, the principle approach and rules pertaining to the domestic timber supply chain remain the same.

2.4. Enterprise classification system

Stipulate by Decree 102, wood processing and export enterprises in Vietnam are classified into Category I or II depending on whether they meet government criteria. Article 12 of Decree 102 (Classification of Wood Processing and Export Enterprises) states that a Category I enterprise must meet the following criteria:

- Complies with the legal requirements concerning enterprise establishment and has been in operation for at least one year between the establishment and the classification time.
- Complies with timber legality requirements under Decree 102 and MARD's requirements on management and traceability of timber origin.
- Complies with the reporting procedure requirements under Decree 102 and the requirements for retaining legality documentation.
- Has not committed any criminal act or been given administrative penalties of 25 million Vietnamese dong or larger for engaging in illegal logging, transportation, trading, or processing of forest products.

Category II enterprises are those that fail to meet all of the above criteria.

As of January 2023, 152 companies engaged in both timber processing and exports are listed as Category I enterprises.⁵ The enterprise classification system under Decree 102 is still under development. It is expected to serve as a crucial mechanism for importers of Vietnamese timber products to assess the legality of products in the future as it indicates the legal compliance of Vietnamese companies in a transparent manner. It is also anticipated that different management regimes will be applied to exports according to the Category of the exporting company.

3. Vietnam's timber exports to Japan during 2018–2021 with a focus on products made using imported high-risk species

3.1. Overview of the study

Based on the criteria stipulated by the Vietnam legal framework, the study identifies the high-risk imported species in timber products exported from Vietnam to Japan, and generates recommendations for stakeholders in import countries. The level of risk was identified based on (i) the detailed examination of the Vietnam customs trade data concerning timber products exported from Vietnam to Japan from January 2018 to June 2021; (ii) the insights derived from key respondent interviews; and (iii) the questionnaire survey completed by Vietnamese timber importers concerning the due diligence. In this study, products are considered to be high-risk when Vietnamese exporters use imported timber species classified as high-risk timber under Decree 102.

3.2. Results

This research highlights some key findings concerning the use of high-risk species in the timber products exported to Japan:

- Importer high-risk species made in the products exported to Japan were small in value and had been reducing. The share of timber products made from imported high-risk timber showed a slight downward trend of 0.3% (2018), 0.4% (2019), 0.2% (2020), and 0.2% (January-June 2021). In addition, the number of high-risk tree species used in

⁵ http://www.kiemlam.org.vn/Desktop.aspx/List/Go_hop_phap/Danh_sach_cac_Doanh_nghiep_che_bien_va_xuat_khau_go_nhom_I/

products has decreased, from 13 in 2018 to 11 in 2019 and 2020 and 10 in the first half of 2021.

- Among the high-risk species used in products, keruing (*Dipterocarpus spp.*), Faux acajen (*Khaya senegalensis*), padauk (*Pterocarpus spp.*), sapelli (*Entandrophrag spp.*), and white meranti (*Dipterocarpus spp.*) were the most common. These species were imported to Vietnam from Cambodia, Laos, and African countries.

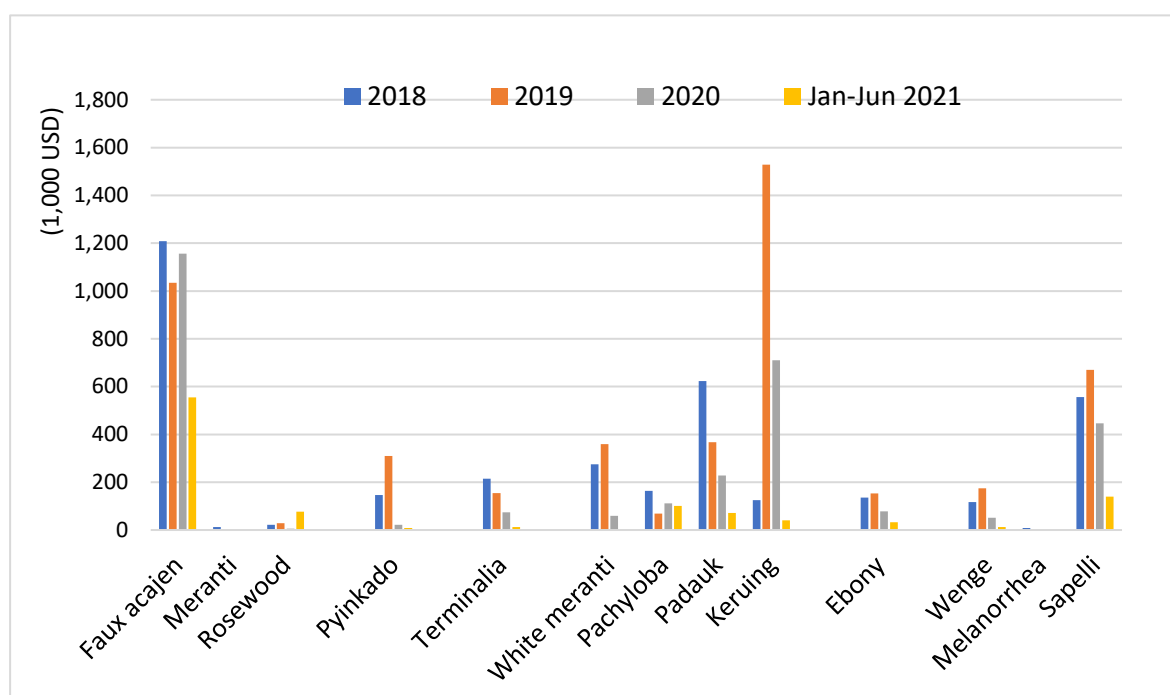


Figure 2 Value (USD) of the products containing high-risk species exported to Japan, January 2018–June 2021

Appendix 1 presents results for the high-risk tree species identified by product type and their percentages in values. Key findings include:

- The use of high-risk species varied among the product groups. In value terms, sawn timber shows the highest percentage of risk species used, at 11.9%. However, the export volume was insignificant, and no risk species were found in 2020 and 2021. High-risk species were also identified in the products of flooring (HS 4409), packing (HS 4415), joinery (HS 4418), tableware (HS4419), marquetry (HS 4420), and other articles of wood (HS 4421) at a rate between 1% and 5% in terms of value.
- High-risk species were also found in the products that use wood-based panels as key materials (e.g., office furniture, kitchen furniture, bedroom furniture). However, the

likelihood of high-risk species being used in these products was very low. High-risk species were not found in a wood chips, pellets, and plywood. However, some products may use tropical hardwood species for the face/back of plywood, without declaration.

4. Vietnam's plantation timber supply chain: good practices to promote legal and sustainable timber products

4.1. Overview of the study

Focusing on the domestic plantation timber supply chain, this study discusses forestry cooperatives and measures taken by downstream processing companies as good practices to support legal and sustainable timber trade by increasing the transparency and traceability along the timber supply chain and supporting a verifiable basis for legal claims.

There have been an increasing number of export-oriented wood processing companies in Vietnam which have entered into legally binding contracts or agreed relationships with timber producers. In such a linkage model, households often form forestry cooperatives, which have emerged as a key strategy for commercializing their wood products (Hintz *et al.*, 2021). Also, the form of a cooperative has drawn attention in Vietnam as a way for households to obtain a group certification.

The study applies a case study approach to discuss good practices. The report discusses mainly acacia plantation and supply chain from stallholders, as it is Vietnam's most important timber source. Qualitative data were obtained from in-depth interviews as well as semi-structured interviews. In total, 22 interviews were undertaken from October 2022 to January 2023.

Based on the interview survey, the report details findings on two forestry cooperatives, one association of forest owners, and five processing companies that have developed/strengthened links with timber producers.

4.2. Results

4.2.1. Forestry cooperatives

The cooperative model has the potential to help ensure and verify the legality of timber production and the supply chain and to contribute to sustainable forest management. Its organizational procedure helps guarantee legal timber production by member households and monitor and report forestry activities of the member households. Also, the cooperatives'

operation transforms the supply chain collective and more traceable than the timber supply chain of the individual households-local trader model. Cooperatives also bring technical and financial support/investment opportunities from outsiders (e.g., buyers, aid agencies) and others and are expected to be a window for group certification of forest management in Vietnam. On the other hand, their development is highly dependent on outside factors (e.g., market and investment opportunities usually associated with foreign markets). An information platform connecting the supply and demand side, such as a comprehensive information website on forest cooperatives, could be effective for its development.

4.2.2. Measures taken by processing companies to control supply chain

There are different measures taken by downstream processing companies that enhance the capacity to control the supply chain, support the verification of the legality, and promote sustainable forest management. Appendix 2 shares the results of interview survey with five companies. These include not only the application of forest certification, also strengthened linkage with timber producers and other supply chain actors, checks and control of supply chain documents, and engagement in forest management. From a legality perspective, a simple and fixed supply chain would improve traceability and prevent informal or unknown-sourced timber from entering the supply chain. Some processing companies interviewed stressed the importance of cooperation with local traders for sustainable and rational timber procurement.

5. Points that could be helpful for due diligence when importing timber products from Vietnam

Based on the results of these studies, the following points are considered helpful for conducting due diligence for timber products imported from Vietnam. Although timber exports from Vietnam vary in volume and product type depending on the destination country and may also differ in terms of the timber species used in the products, the insights based on the findings of the studies are applicable to all countries importing timber products from Vietnam.

- Evaluate the illegal risk of timber imported from Vietnam by the source of timber (i.e., domestic plantation timber or imported timber). It is important to know the species used in the product and distinguish whether the species is Vietnam's plantation timber or imported.

- Check whether their Vietnamese suppliers are classified as Category I or II enterprises according to the Vietnam government classification system. This is a part of the risk evaluation of their supply chains. It is noted that the Vietnamese enterprise classification list is ongoing and not yet complete.

If imported wood is used

- Be familiar with the high-risk species identified under Vietnam's Decree 102 and, determine the species and country of origin. Then, refer to the risk criteria and published lists to verify if the imported wood products use species that are high risk under Vietnam's Decree 102.
- If imported products contain high-risk species as defined by Decree 102, ask the supplier to obtain and share a copy of Form 3 (Declaration of origin of imported timber) of Decree 102. It provides information on the importer and supplier of the imported high-risk timber in question and what document was used to demonstrate the legality.

It is important to understand that the Vietnamese legal frameworks may include different risk understanding and criteria from importing countries. Accordingly, importers may need to evaluate the risks following criteria set in importing countries, using information included in Form 3 and the documentation used for import into Vietnam. The understanding and cooperation of suppliers is critical to obtain the necessary information for the risk assessment including the copy of Form 3. It should be noted that only two years have passed since the enactment of Decree 102, and the due diligence concept and practice are still at an early stage in Vietnam.

Imports of timber products made from domestic plantation timber

Based on the findings, it is recommended that importers consider the following points to understand what kind of timber sources and supply chains their suppliers in Vietnam have established:

- Types of domestic timber sources
- Relationship with timber sources
- Relationship with supply chain actors

Types of domestic timber sources that should be considered include individual households, households under groups such as forest cooperatives, households using the land of state-owned forest companies, and forest companies themselves. As the survey demonstrates, cooperatives can help ensure and verify the legality of timber production and provide good opportunities for processing companies to invest and obtain legal and certified timber. However, a mechanism is needed to facilitate communication between forestry cooperatives and downstream operators in Vietnam.

It is also critical to consider how importers can work with Vietnamese suppliers to help establish, maintain, or improve supply chains. As the case studies demonstrate, some processing companies in Vietnam not only source timber materials but have also invested in and developed their suppliers' capacity. In our interviews, timber growers and forest cooperatives stressed that sustainable forest plantation management needs stable timber demands and consumption. To that end, the processing companies pointed out that, to make such approaches effective, it is essential to build sustainable relationships with business partners of importing countries.

Appendix

Appendix 1. Vietnam's exports of timber products to Japan and the presence of high-risk species in products, January 2018–June 2021

Product	Overview of export	Presence of high-risk species in products
HS 440122 (Wood chips)	The most important product exported to Japan. The annual export value was around \$400–500 million US (over 3 million tons). Acacia was commonly used, eucalyptus, and pine (domestic plantation timber) were also used.	No high-risk species identified in the products from January 2018 to June 2021.
HS 440131 (Wood pellets)	One of the major products exported to Japan. The annual export volume in 2020 was 1.2 million tons, valued at nearly \$160 million US. Raw materials used to produce wood pellets include sawdust, shavings, twigs, and planted timber with a diameter of about 2 cm or less. Acacia was commonly used, also rubber tree, eucalyptus, and pine.	No high-risk species identified in the products from January 2018 to June 2021. However, some proportion of pellets may be produced from the residues of high-risk species, depending on their sources.
HS 4407 (Sawn timber)	Export value is small and has been substantially decreasing. In 2020 the export value was below \$170,000 US. The exported volume was 550 m ³ . In the first half of 2021 it was less than \$70,000 US. The exported volume was about 300 m ³ .	Although the volume and value of high-risk tree species are small, their percentage is relatively high compared to other products in value terms: in 2018, it was \$61,000 US (22.4%), and in 2019, less than \$31,000 US (11.8%). No high-risk species were identified in products between January 2020 and June 2021.
HS 4409 (Flooring)	7,000–8,000 m ³ , \$7–8 million US/year. Over 20 species used in the products. Exports have been decreasing since 2019. Commonly used species are benzoe (<i>Ficus religiosa</i>) and acacia (domestic plantation), poplar, pine, and oak (imported).	Five high-risk species identified in products between January 2018 and June 2021. Although the volume and value of exports of products made from high-risk tree species decreased significantly, the percentage of exports was higher than for other product groups. In value terms, the percentages were 6.5% in 2018, 2.6% in 2019, 1.4% in 2020, and 3.2% in 2021 Jan-Jun.
HS 4412 (Plywood)	One of the major products exported to Japan. Annual export value is around \$40–50 million US. Acacia is commonly used, also eucalyptus and styrax (<i>Styrax tonkinensis</i>)	No high-risk species identified in the products from January 2018 to June 2021. However, some products may use tropical hardwood such as ocume, bintangor, and MLH for the face/back of plywood. Due to the lack of requirements and the small proportion of these species used in the product, exporters usually do not declare these species.

		The species most commonly used for face-backs is birch, which is imported mainly from China, although some birch may be harvested in Russia and traded via China.
HS 4415 (Packing)	Export value is small (under \$1 million US/year). Commonly used species are pine, acacia, and rubber (domestic plantation).	Faux acajen was the only high-risk species found in products. The value and share of exports of the products containing this species were highest in 2019, at approximately US\$17,000 (2.2%).
HS 4418 (Joinery)	One of the major products exported to Japan. Annual export value is around \$50 million US. Of the 40 species used in these products, rubber (domestic plantation timber), oak, ash, and pine (imported) are most prominent.	Five high-risk species were identified in products exported between January 2018 and June 2021. The export value of the products using high-risk species increased from 1% of the total export value of this product group in 2018 to 3.6% in 2019 and stayed at this level in 2020. It then dropped in the first half of 2021. Keruing and padauk were most commonly used.
HS 4419 (Tableware)	Annual export value is about \$20 million US. Styrax and magnolia (domestic plantation timber) are commonly used.	The high-risk species faux acajen and sapelli were used in these products. However, sapelli has not been used since 2019. The highest percentage of exports of the products made from high-risk species was 2021 Jan-June, at 1.9% in terms of value.
HS 4420 (Marquetry)	Annual export value is small, at around \$4 million US. Rubber (domestic timber), chestnut, pine, and oak (imported) are commonly used.	Five high-risk species were identified in products, most notably acajen and sapelli. The value of products made from high-risk species accounted for 1.6% (in 2018) to 3.1% (in 2021 Jan-Jun) of the total export value of products in this group.
HS 4421 (Other articles of wood)	Annual export value is over \$40 million US. Around 20 species are used in these products each year, of which rubber and styrax are most common.	Three high-risk species were identified in these products, most commonly sapelli. The share of the products that used high-risk species was highest at 1.3% in 2019, then decreased.
HS 9401 (Seats)	One of the most important export product groups. Annual export value is around \$120 million US. Export has been expanding. Rubber, acacia (domestic), eucalyptus (both domestic and imported), and oak (imported) are commonly used.	Five high-risk species were identified in exported products, with faux acajen making up the biggest proportion of the high-risk species export value. The value of products made from high-risk species ranged from 0.4% (in the first half 2021) to 0.9% (in 2018) of the total export value of this product group.
HS 94033 (Office furniture)	An important product group exported to Japan. Annual export value is around \$80 million US. Rubber (domestic), oak, ash, and pine (imported) are commonly used.	Three high-risk species were identified in the products. However, the level of risk was very low at 0.002-0.050%.
HS 94034	An important export product group. Annual export value is \$60	There was only one high-risk species identified in the products. The

(Kitchen furniture)	million US. Rubber, acacia (domestic), and pine (imported) are commonly used.	export value of products using this species was very small. Since 2019 there were no high-risk species in the products.
HS 94035 (Bedroom furniture)	One of the most important exported products. Annual export value is \$110 million US.	Highly negligible. Rosewood was identified in some products in 2018 but the export value was very small. Since 2019 no high-risk species have been identified.
HS 94036 (Other wood furniture products)	An important product group exported to Japan. Export value is around \$110 million US per year. Rubber, acacia (domestic), pine, walnut, and oak (imported) are commonly used.	Five high-risk species were identified in products between January 2018 and June 2021. The value of products using high-risk species ranged from 0.26% to 0.35% of the total export value of this product group.

Appendix 2. Summary of case studies: measures taken by processing companies

Company	Main Products	Certification	Domestic timber sources	Linkage with sources	Linkage with other supply chain actors	Supply chain document to ensure the legality	Forest management
Company A	Furniture	FSC-CoC	State-owned forest companies	Contractual relationship	Contractual relationship with sawmills	<ul style="list-style-type: none"> Packing list 	No direct linkage
			Smallholders	No direct linkage			
Company B	Wood pellet	FSC-CoC FSC-FM Group certification	Smallholders	Contractual membership relationship and	Contractual relationship with local traders	<ul style="list-style-type: none"> Copy of Red Books/written confirmation from local authorities Packing list made by smallholders 	Provide technical and financial investment Monitoring
Company C	Wood pellet	FSC-CoC FSC-FM Group certification	Smallholders	Contractual membership relationship and	Contractual relationship with local traders	<ul style="list-style-type: none"> Copy of Red Books/written confirmation from local authorities Packing list made by smallholders ID information of smallholders and local traders 	Provide technical and financial investment Monitoring
Company D	MDF	FSC-CoC FSC-FM	Plantations of the subsidiary company	Owner	-	<ul style="list-style-type: none"> Copy of Red Books/written confirmation from local authorities Packing list made by smallholders 	Investment (Plantations of subsidiary company)
			Smallholders	Direct purchase or via local traders	Sales relationship with local traders		
Company E	Sawn timber	FSC-CoC FSC-FM Group certification	Smallholders/cooperatives	Contractual membership relationship and	Invested/contractual relationship with sawmills	<ul style="list-style-type: none"> Packing list 	Provide technical and financial investment Monitoring

Reference

- Cao, T.C., Tran, L.H., and To, X.P., 2021. A market update report on Vietnam's timber import as of August 2021. A report from VIFOREST, BIFA, FPA Binh Dinh, HAWA and Forest Trends. The full report in Vietnamese language is available at:
https://goviet.org.vn/upload/aceweb/content/FN_Viet%20Nam%20Nhap%20khou%20go%20nguyen%20lieu%208%20thang%202021.24.9..pdf.
- Forestry Agency, 2022. Report on the Provision of Information Related to Illegal Logging. "Clean Wood" Promotion Project in FY2021: Vietnam (in Japanese)," https://www.rinya.maff.go.jp/j/riyou/goho/jouhou/pdf/r3/r3report_5.pdf
- Hintz, K. S., Kimengsi, J. N., & Pretzscha, J.. 2021. How do smallholder forest farmers' organisations manage and commercialise wood products? – A global systematic review. *Forest Policy and Economics*, 128, 102460.
doi:<https://doi.org/10.1016/j.forpol.2021.102460>
- Ministry of Agriculture and Rural Development (MARD) 2021a. Proposal on the sustainable and effective development of wood processing industry sector in 2021 – 2030 period (Draft in August 2021, Vietnamese version).
- Ministry of Agriculture and Rural Development (MARD), 2021b. Báo cáo kết quả thực hiện năm 2021 và triển khai nhiệm vụ trồng trong năm 2022 lĩnh vực lâm nghiệp [Report on 2021 result and plan for implementation of major tasks in 2022 for forestry sector], dated 29 December 2021.
- To, X.P., and Cao, T.C., 2022. Legality of Plantation Timber in Vietnam, Some shortcomings and policy recommendations. A report from VIFOREST, BIFA, FPA Binh Dinh, HAWA and Forest Trends
- Vu T., P. and Tan Phuong, Nguyen H., T., Tiina H., and Simola, N.,2018. Workshop report on Enhancing smallholder forestry towards sustainable and profitable forest management in Vietnam. Hue City, 28-29 September 2018