



## FOREST GOVERNANCE, MARKETS AND TRADE:

### IMPLICATIONS FOR SUSTAINABILITY AND LIVELIHOODS

## QUOTAS, POWERS, PATRONAGE AND ILLEGAL RENT-SEEKING:

### THE POLITICAL ECONOMY OF LOGGING AND THE TIMBER TRADE IN SOUTHERN LAOS

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Ian G. Baird

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## SPONSORING INSTITUTIONS



While the Department for International Development has provided financial support for this publication, the findings and views presented do not necessarily reflect UK government policy.

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*Ian G. Baird*

April 3, 2010

Quotas, Powers, Patronage and Illegal Rent-Seeking: The Political Economy of Logging and the Timber Trade in Southern Laos; © 2009 Forest Trends; ISBN: 978-1932928-43-3

## **ACKNOWLEDGEMENTS**

This study was funded by Forest Trends. The Global Association for People and the Environment (GAPE) also provided some in-kind support to the project. The author wishes to thank Kerstin Canby and Keith Barney for the support they provided and Phuc Xuan To for sharing interesting and useful information about the Laos-Vietnam timber trade. The report could not have been written without the detailed information provided by numerous informants, all of whom must remain anonymous.

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## **ACRONYMS**

DAFI – Development of Agriculture and Forestry Industries (military controlled company)

DAFO – District Agriculture and Forestry Office

DoF – Department of Forestry (central level)

EIA – Environmental Investigation Agency (NGO based in the UK)

FAO – Food and Agriculture Organization of the United Nations

FID – Forest Inspection Department

FLEGT – Forest Law Enforcement, Governance and Trade

FOMACOP – Forest Management and Conservation Project (World Bank supported)

GAPE – Global Association for People and the Environment (NGO)

GoL – Government of Laos

Lao PDR – Lao People’s Democratic Republic

LBA – Lao Biodiversity Association

MAF – Ministry of Agriculture and Forestry

MoC – Ministry of Commerce

NGO – Non-Governmental Organization

NLMA – National Land Management Agency

NPA – National Protected Area

NTFP – Non-timber forest product

PAFO – Province Agriculture and Forestry Division

SUFORD – Sustainable Forestry and Rural Development Project (World Bank supported)

XEFOR – Sustainable Forestry Project (WWF supported)





## SUMMARY AND KEY FINDINGS

Forests are extremely important to the people of Laos. They are the basis for the livelihoods of most of those living in rural areas, especially the poor and Laos' large population of indigenous peoples. Forests are also an important source of government revenue, and Lao forests are being increasingly recognized for the high levels of biodiversity that they support, including many rare and endemic species. They also provide various crucial ecosystem services. However, there are serious doubts—including from within the Lao government—about the sustainability of the country's forestry industry. There are also concerns about the legal status of much of the Lao timber harvested and traded.

This study provides detailed information regarding the complex and interrelated factors associated with timber extraction and logging quotas, commercial rubber plantation development, and cross-border timber trade at the provincial and district levels in southern Laos. It begins by looking at the various links along the commodity chain, and how government officials—particularly forestry officials at the provincial and district levels—are able to personally benefit. The study covers the political economy of logging and the timber trade, as well as the different forms of patronage, clientalism, or illegal rent-seeking that affect the forest sector. Since the political dynamics shift from one type of logging quota to another, this issue is discussed in some detail.

Key findings include:

1. ***Progress in Addressing the Problem of Corruption in the Forestry Sector in Lao PDR:*** The embedded problem of corruption in the logging sector has been acknowledged by many, including the Government of Laos (GoL). To their credit, in recent years the GoL has tried to close many of the loopholes that have contributed to poor governance within the logging sector. Some of these reforms have been relatively successful, and have had a significant impact on reducing instances of corruption. Rules are also being enforced more strictly than just a few years ago. Recent changes in the institutional set-up, in particular the creation of a new Forestry Inspection Department (FID) under the Ministry of Agriculture and Forestry (MAF), have been largely positive, and the increasingly accountable nature of the system has resulted in fewer opportunities for officials to gain inappropriate benefits from logging operations. The FID provides a level of (semi)-independent scrutiny that did not previously exist. The closure of many sawmills has also helped reduce incentives for illegal activities. The export bans placed upon unprocessed timber, and reductions in the sizes of logging quotas, have contributed to reduced opportunities for illegal rent seeking by officials in southern Laos.
2. ***Complex permitting processes provide opportunities for rent seeking:*** The legal framework for securing official approvals in the logging sector is extensive and complex. The intention is to add layers of checks and balances to ensure that officials are subject to oversight and corruption will be limited. However, the numerous permissions and forms of documentation required to obtain logging quotas, and during the harvesting, sorting and transport operations, while important for maintaining accountability, also provide opportunities for officials to gain benefits. Along each step of the process, the clearances required by multiple forest officials as well as local levels of government all represent potential chances for rent-seeking behavior.

The most important opportunities for personally benefiting occur either during the logging quota allocation process, or during the harvesting and sorting stages. Once logs are transported to sawmills or other processing factories, most illegally harvested wood has already been laundered and inventoried so as to become 'legally harvested wood'. The majority of the illegal payments will have been made either in the forest, or at the wood sorting sites. Some additional opportunities exist when clearance and transport permits are issued, but these payments are relatively small compared to others.

This analysis of the timber trade in southern Laos has implications for any efforts to legally verify and track timber, such as through Timber Legality Assurance Systems promoted by the European Commissions' Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan. It follows that most of the governance improvements will need to be targeted at to the timber felling stages, and at log sorting sites.

3. ***Estimated of “facilitation” costs:*** While those surveyed for this report were unable to estimate how much logging companies generally pay high level central and provincial government officials for “facilitating” or approving logging quotas at each stage, they believe that this is probably the largest single expense that logging companies make – possibly more than 20% of total expenditures. An additional 15-20% of total expenses are often made to low and mid-level government officials at both the district and provincial levels. Forestry officials are also under the impression that corruption has not stopped due to administrative and legislative changes, but that it has become more difficult for junior officials to make money, as more power has been concentrated at central level officials.
4. ***Different levels of benefits for officials:*** Not all officials gain the same benefits for the same work or facilitation efforts. It depends on various factors, including the individual characters of officials, and their aggressiveness in seeking benefits. In many ways, it has become an art for company representatives to determine who they need to pay for what, and to avoid paying when such payments are not necessary or even problematic.
5. ***Perceptions on corruption versus patron-client relations:*** Corruption and benefit-sharing based on patron-client relations of various types are not always seen in the same ways as they are in various industrialized countries. Some forms are more socially acceptable than others. Apart from blatant corruption, the benefits of logging and the timber trade are being distributed to government officials in ways that are not seen by all Lao people as being necessarily corrupt, or at least worthy of disdain. Benefit-sharing is often based on patron-client relations of various types, some of which are more socially acceptable than others. Moreover, sometimes corruption and clientalism are intertwined in unusual ways, making boundaries blurrier in the process. Some of what would appear to be accepted as corruption according to international standards appears to occupy different locations in the Lao socio-cultural and political context. Sometimes it is simply considered to be rational payments for services.
6. ***Government transparency:*** Where there is power there are frequently opportunities for patronage or corruption, and the political system and government culture in Laos is not transparent enough to sufficiently limit officials from gaining considerable power, and making use of that power to gain opportunities to benefit from either promoting illegal activities or from simply using patron-client relations to gain benefits.

7. ***Incentives to overstate forest inventories, undermining national planning for sustainability:***  
Weaknesses in the forest inventory processes conducted by the Department of Forestry (DoF) undermine accurate understandings of how sustainable forest management in Laos might be organized and achieved. Strong incentives exist for forestry officials to over-state concession site inventories, because only significant amounts of timber within a production forest can justify a logging quota. Once the logging quota has been obtained, if there is not enough timber in the specific production forests, it becomes possible to launder timber from other areas into approved logging quotas. Without rigorous and valid survey work, there is an insufficient or inaccurate quantitative understanding of the state and health of the Lao forests, and, ultimately, sustainable commercial logging in Laos cannot be guaranteed. In other instances, there are mis-declarations of the extent of unusable wood. This allows companies to argue for increases in their logging quota, causing more forest to be harvested than originally allowed during the initial quota process.
8. ***Legality unclear:*** It is very difficult to confirm whether wood that is exported from Laos has been harvested, transported and sold without any illegalities occurring. There are so many places along the timber commodity chain where it is possible for officials to gain ‘illegal’ benefits that it seems unlikely that any timber is exported from Laos without at least some technical level of illegality being involved.

It is hoped that this study, along with other research conducted by Forest Trends and other colleagues in the Mekong region, will positively contribute to increasing the amount and quality of publically available information regarding forestry and the timber trade in Laos and the Mekong Region more generally.

## INTRODUCTION

The natural forests of Laos are extremely important to the country and her people. They are the basis of the livelihoods of many people living in rural areas, especially the poor and Laos' large population of indigenous peoples. In addition, they are an important source of government revenue, and Lao forests are being increasingly recognized for the high levels of biodiversity that they support, including many rare and endemic species. They also provide various important ecosystem services. Forests still cover a relatively large area in the country, although various estimates exist as to the area of natural forests found in Laos, and the quality of those forest resources.

Despite the fact that the Government of Laos (GoL) has expressed its commitment to the sustainable management of the nation's forest ecosystems and the forest communities which are dependent upon them, many concerns remain regarding the country's forest management and governance situation. Of particular interest is how the burgeoning timber trade with neighboring countries such as Vietnam, Thailand and China is impacting the forests and the forest sector in Laos.<sup>1</sup> These concerns have focused on unsustainable harvesting levels, insufficient local participation in decision-making and forest management, inadequate benefit-sharing with local communities, and corruption involving government officials.<sup>2</sup> Several international donor-supported programs were developed in the 2000s to address these issues, most particularly the World Bank funded Forest Management and Conservation Project (FOMACOP) and Sustainable Forestry and Rural Development Project (SUFORD), and WWF's Sustainable Forestry Project (XEFOR).<sup>3</sup> Non-government organizations (NGOs) have also supported various 'community forestry' projects in Laos,<sup>4</sup> although these projects have only met with partial success,<sup>5</sup> and there have been some clear failures.<sup>6</sup> Often, weaknesses in the forestry sector have been linked to underlying governance issues, including loopholes in the system that have made it relatively easy for officials to unscrupulously benefit from logging operations and the timber trade at various points along the commodity chain. Officials are also not always motivated to work on donor-funded forest management and conservation projects, as there are frequently more individual benefits to be gained from being involved in "status quo" logging operations.

This study provides detailed information regarding the complex and interrelated factors associated with logging and logging quotas, commercial rubber plantation development, and cross-border timber trade at the provincial and district levels in southern Laos. It begins by looking at links along the commodity chain and how government officials—particularly forestry officials at the provincial and district levels—are able to personally benefit. The study covers the political economy of logging and the timber trade, as well as the different forms of corruption, patronage or clientalism that affect the forest sector. Since the political dynamics shift from one type of logging quota to another, this issue is covered in some detail.

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<sup>1</sup> Daviau 2004; Global Development Solutions 2005; Krahn 2005; Jonsson 2006; Stuart-Fox 2006; Hodgdon 2007; 2008; EIA/Telapak 2008; Gregg & Porges 2008; FAO 2008; Baird 2008; Baird & Shoemaker 2008.

<sup>2</sup> Daoroung 1997; Inoue & Hyakumura 1999; Anonymous 2000; UNDP 2002; Stuart-Fox 2006; Hodgdon 2007; 2008.

<sup>3</sup> Hodgdon 2007; Baird & Shoemaker 2008.

<sup>4</sup> Daoroung 1997; Hackman et al. 2009; Hodgdon 2007; 2008.

<sup>5</sup> Inoue & Hyakumura 1999.

<sup>6</sup> Hodgdon 2007; 2008.

This report is mainly based on a series of semi-structured interviews conducted in the Lao language in southern Laos. These interviews were done with key informants, mainly forestry officials working at the provincial and district levels in Champasak and Attapeu Provinces, but also employees of logging companies operating in southern Laos, as well as other officials and knowledgeable observers. A range of published documents related to corruption and the Lao forestry sector more generally are also referred to in this report.

Because of the sensitive nature of the subject matter, it was not possible to interview people indiscriminately. It has also been necessary to keep the identities of those interviewed anonymous. All the interviews were conducted in Champasak and Attapeu provinces between late December 2008 and early February 2009. The ‘snow-ball technique’ was used for the interviewing process, in which each interview helped inform the questions asked at the next interview, with information gradually accumulating, and a broad understanding eventually becoming clear. In some cases, informants were interviewed more than once, as new information received from certain sources indicated the need to interview some people again to ask more detailed questions about particular issues.

## **INFORMATION ON THE TIMBER COMMODITY CHAIN**

To understand how the forest sector works in southern Laos, it is useful to begin by briefly laying out how logging and the timber trade are broadly organized, including how various players are involved in different parts of the commodity chain.

“In the past, logging was monopolised by three large state owned enterprises under the Ministry of Defence. It was based on a complex system of quotas and permissions which suffered from a lack of clear procedures, poor accountability, poor predictability, lack of transparency. “Undue interventions” were considered normal practice. Logging permissions were mainly granted in areas designated for infrastructure or rural development, with permissions often being allocated well before a formal decision to use the land had been secured. There are also examples of projects being abandoned shortly after the logging activities had been completed.

Today the administrative distribution of timber quotas has been replaced by more competitive procedures for the allocation of production forest resources. But while the virtual monopoly exercised by the military enterprises has been abolished, the new system equally seems to lack transparency” (Keuleers 2002: 15).

To understand how logging and timber trade works in southern Laos, and how various actors and officials derive personal benefits, it is useful to understand the legal framework for managing logging and the timber trade, as well as how different players are involved at various points of the commodity chain.

## **DECREE 17/PM 2008**

Decree 17 of the Prime Minister's Office, dated September 22, 2008; and the Ministry of Agriculture and Forestry's (MAF's) follow-up recommendation document regarding the implementation of Decree 17/PM 2008, dated November 7, 2008, have significantly changed the organization of Laos' logging and timber trade, as well as how informal benefit sharing or patronage systems work.

Decree 17/PM 2008 has had a significant impact on forestry and the timber trade in Laos. One crucial change was to transfer certain powers from the Department of Forestry (DoF) to the Department of Commerce. DoF was mandated to only be involved in the monitoring of the timber trade up until the log storage site for logging operations, called the second landing (*'sanam' 2*). Regulatory authority associated with sawmills and wood processing, and exporting timber, was shifted to the Ministry of Commerce (MoC).

MoC, however, lacks skilled field staff with the ability to identify species and measure logs. Initially, there were numerous complaints from logging companies regarding this matter. Therefore, much of this work is still being done by DoF officials, ostensibly until MoC has developed its own capacity. Only time will tell if the transfer of responsibilities will in reality take place, or if inspection mandates will be returned to the Forestry Department in the future.

## **FOREST INSPECTION DEPARTMENT**

As part of a re-organization in 2008, the DoF within the MAF was split into two. A new departmental level institution was created—the *'Kong Kouat Ka Sapha-nyakone Pa Mai'*, or the Forest Inspection Department (FID). Many of the duties previously with the DoF were transferred to the FID, especially those associated with the governance of forest products trade. As one FID official explained in early 2009, "In the past the Forestry people inspected themselves, but now those inspecting have been separated from those being inspected." The FID was given extraordinary and wide-ranging powers to inspect all aspects of the timber trade, including logging, wood processing, and wood export operations. In Attapeu, for example, the FID appears to now be responsible for all timber trade monitoring and enforcement, from the second landing to the border with Vietnam. The creation of the FID can be understood as a sincere attempt by some senior government officials and politicians to reduce conflicts of interest and opportunities for bribery and corruption. With the inspection work being given over to the FID, and timber trading being given to the Department of Commerce, some have speculated that in the future the DoF might just become responsible for promoting and monitoring commercial tree plantations.

The FID operates only at central and provincial levels, with no district offices, and is largely staffed by officials transferred from the DoF and various provincial Forestry Sections. The FID does, however, have the authority to work at the district level. If, for example, a Xe Pian National Protected Area (NPA) government official discovered illegal logging, that official is supposed to report the matter to the FID, as it is their responsibility to enforce the Forestry Law. Inspection units which were previously embedded within district Forestry Units have been stripped of their inspection authority, and are now required to call in the provincial-

level FID when illegal activities associated with wood products are encountered. While district officials are allowed to detain (*'kak'* in Lao) wood, only the FID has the mandate to confiscate (*'yeut'*) wood.

At the provincial level, the FID coordinates with provincial and district offices of the *'Kouat Ka Phak Lat'* (Party and Government Inspection Agency). Prior to the recent re-organization, members of the Party and Government Inspection Agency traveled together with the forestry officials to inspect logging, wood processing, and wood exporting operations. Since 2008, however, the FID has had the mandate to do this alone, although they are still expected to report back to the Party and Government Inspection Agency after actions have been taken.

In the past, one of the obstacles to inspecting logging operations was that before provincial or district officials could do a field survey, they had to receive approval from the district governor. Therefore, if the district governor was involved in illegal logging activities, he could basically block or otherwise impede inspections by forestry officials. However, now that the FID has been established, district chiefs have less power, because, at least according to the law, FID officials are now empowered to conduct document and site surveys without notifying district officials, let alone receiving permission from the district administration. This differs from the Forestry Section of the province or the Forestry Unit of the district, both of whom must gain the approval from the district administration before they can go to the field to do inspections in the district. That said, according to a provincial FID official in Champasak, in reality it is still normal for FID officials to request permission to go to the field from the district administration before initiating an inspection.

Technically, the FID is not required to contact or receive approval from either the Agriculture and Forestry Office (DAFO) or District Chief prior to the initiation of investigation or enforcement actions in the field, especially when time is limited (although they need to inform the District Administration of their arrival *ex post*). In practice, however, the FID officials in both Champasak and Attapeu Provinces generally work directly with DAFO and Forestry Units in the districts, and will often inform and receive a “go ahead” from district chiefs before proceeding with serious actions, such as when important people are implicated in illegal activities. FID officials confess that despite their officially mandated powers, most FID officials lack the confidence to deal with powerful people such as those directly associated with district and provincial chiefs (*chao muang* and *chao khveng*). In reality senior provincial or district forestry officials and politicians can still cause ‘troublemakers’ lots of problems. Still, the new powers given to the Forestry Inspectors are still significant, even if officials are wary about fully using them. Even knowing that they could be used is probably enough to make most district administrations more wary about abusing their powers in relation to logging.

Now when serious overcutting is reported, a special committee (*'kammakan sapbo kit'*) is convened that includes provincial Forestry, Commerce, Finance, and Industry officials as well as an official from the Party and Government Inspection Agency. According to a forestry official, pay-offs are now more difficult, as all members of the committee would need to be involved. According to the same official, “It is now much more difficult for junior forestry official to make money. Only the senior officials still have chances to make money.”

Ironically, the power given to the FID to crack down on illegal activities and corruption in the forestry sector has also made working for the FID a popular job for former forestry officials, as the power of the FID

provides some officials with expanded opportunities for rent-seeking behavior. Power often equates to more opportunities to appropriate material benefits. Therefore, the role of the FID needs to be carefully considered in relation to various aspects of logging and the timber trade, and only time will tell how effective the FID can be in stifling illegal and inappropriate actions by officials. Much will depend on how well the legal system functions, and how civil society in Laos develops over time.

Because the FID has changed the situation considerably, some people have apparently come to hate them. One official said, "Some people want to kill them." Villagers have been known to put nails in wood and placed them along a road in Savannakhet to stop FID officials from going to confiscate illegal chain saws. However, most responses tend to be less draconian.

Overall, the establishment of the FID should be seen as a positive structural step forward, with institutional conflicts of interest reduced and local officials aware of the newly increased risk associated with illegal activities since the creation of the FID.



## SUMMARY OF OFFICIAL LOGGING AND TIMBER EXPORT PROCESSES

All official harvesting processes in Laos start with the allocation of national logging quotas, the most important of all the various quotas in Laos. The development of each year's national logging quota starts when provincial Forestry Sections provide DoF in Vientiane with information regarding (a) the amount of wood required by the various sawmills, furniture makers, and other wood processing factories in each province, and (b) the volume of timber the province would like to harvest that year. Each province's Agriculture and Forestry Division (PAFO) and governor approve these requests prior to them being sent to DoF.

DoF then allocates logging quotas for each province throughout the country.<sup>7</sup> It also divides up provincial quotas between various logging companies based on information provided by provincial officials and companies themselves.<sup>8</sup> The forest where logging is authorized is also specified. The companies are required to provide evidence of sufficient volume and species of timber within their proposed harvesting concession areas. This is done through working with PAFO. This evidence is compiled by forestry officials brought in by the companies to conduct field surveys.

Commercial logging is generally supposed to occur only within the 106 Production Forests (*pa phalit*) that have been designated throughout the country, although some exceptions that allow for logging in other areas can, and have been, granted by the central GoL. For example, a substantial amount of logging has been approved in recent years within reservoir areas for proposed hydroelectric dams.<sup>9</sup>

Once the central GoL issues provincial logging quotas, the provincial governments, including PAFO and the governor's office, are responsible for dividing them up amongst districts within their jurisdictions.

In the past, provincial governments approved their own logging quotas, providing opportunities for rent-seeking behavior from senior provincial officials from PAFO and the governor's office. However, gradually over the last five years, all official quotas, except for individual and district quotas (see below), must be issued by MAF and DoF at the central level. However, in Champasak Province it appears that the provincial government still retains considerable power, such as the power to approve logging operations, and the ability to arrange for companies to proceed with logging authorized through quotas issued by the central government. Contracts between the government and companies are all signed at the provincial level. In contrast, Attapeu Province delegates more authority to district governments. For example, in Samakhixay District, the district government signs all contracts with logging companies. Once the contracts are signed, the district simply informs the provincial authorities that the agreements were signed based on national level logging quotas. As one forestry official put it, "The province proposes quota amounts to the central government, but the district does the real logging work, including signing contracts with companies."

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<sup>7</sup> In 2008 there was no national logging quota allocation for Champasak Province. In 2009, it is expected that Champasak Province will be allocated a national quota of 8,000 m<sup>3</sup>. All the logging is expected to take place in Mounlapamok and Soukama Districts, both of which are west of the Mekong River.

<sup>8</sup> It is important to note that only Lao companies are officially allowed to obtain these logging quotas.

<sup>9</sup> For example, more than 700,000 m<sup>3</sup> of trees have been cut down and cleared off the Nakai Plateau to make way for the Nam Theun 2 dam's reservoir (Voice of America 2009). In addition, over 200,000 m<sup>3</sup> have been cut down in relation to the Xekaman 3 dam project in Xekong Province, southern Laos (Voice of America 2009).

Once a quota has been approved, and a contract has been signed for timber extraction, the logging company with the quota reports to the relevant provincial Forestry Section. Forestry officials are then assigned to monitor actual harvesting. One official is generally assigned to monitor each logging truck. These officials are expected to be on-site in the forest during all logging operations.

Once logs have been harvested, they are moved from the first landing in the forest (*'sanam 1'*) to a log storage site for that particular logging operation, called the second landing (*'sanam 2'*). Here, forestry officials record the quantities and species of logs, and ensure that this inventory coincides with the authorized logging quota. Officials then mark the approved wood, which can subsequently be legally transferred to sawmills and factories (called third landing, or *'sanam 3'*) for processing once government royalties have been paid. These fees are based on the quantity and species of wood inventoried at the second landing.

In the past the timber could also have been transferred directly to the border for export, but for the last few years the export of unprocessed timber has not been allowed. There are, however, exceptions to this rule. These exceptions are crucial, as they are frequently exploited by officials to facilitate logging and timber exporting, and can lead to bad practices and corruption. For example, officials can arbitrarily approve the export of unprocessed wood without any particular reason, thus making it possible for officials to unethically gain benefits from companies that pay them to make decisions that favor them.

As already mentioned above, Decree 17/PM 2008 specifies that the responsibility of forestry officials ends at the second landing. Once at the processing stage (third landing), the Lao timber trade becomes the regulatory responsibility of the MoC<sup>10</sup>.

After the wood has been at least partially processed (*'mai kbeung samlet boup'*<sup>11</sup>), exporting companies receive permission to export the wood from the provincial Commerce Division and Forestry Sections, as well as the provincial governor. The Forestry Section confirms that the export quota is in line with what had been allowed by the central government logging quota, in relation to quantities of wood and species approved. The provincial governor gives the final approval for export. The provincial Commerce Division collects the 30% export tax, which is sent to the Ministry of Finance.

Approved export wood products can then be transported by truck to the border, where it is inspected at posts along the way. These posts are staffed by FID officials and tax officials, police, and Commerce Division Offices at the provincial level, each with their own responsibilities and authorities. In Champasak Province, there are five inspection posts, with different ones located along major routes.<sup>12</sup> Officials based at the posts do not receive any government per diems, unlike officials based at international borders. They do, however, receive some administrative fees from signing different documents.

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<sup>10</sup> Some have speculated that some power has been taken away from the MAF and given to the MoC due to the recent weakness of the MAF at this time.

<sup>11</sup> In Laos, processed wood is categorized as follows: *'mai thone'* (full unprocessed raw logs), *'mai pe boup'* (altered wood, including boards, planks, and house posts), and *'kbeung samlet boup'* (semi-finished) or *'mai samlet boup'* (plywood, furniture, pieces of wood that are connected in some way, etc.). In 2008, it was still legal to export some *'mai pe boup'*, based on special approval from the central GoL following governor requests for exemptions, but that is apparently no longer the case.

<sup>12</sup> (1) Km 24, north of Pakse along Route #13, (2) Km 24 Village, south of Pakse along Route #24, (3) Nong Khing Kham Village, at the intersection to Paksong, (4) Mak Ngeo Village in Bachieng District, and (5) Km 30 Village in Phonthong District, near the Vang Tao border with Thailand.

At the border,<sup>13</sup> the Commerce Division's export permit and the company Forestry provincial export permit are cross-checked by officials, along with the quantity and species of the actual wood to be exported. Once checked, vehicles laden with wood are marked and license plate numbers recorded, preventing other trucks from being added to the convoy. Each truck's permits are also inspected.

Some small official fees (*'kha thamniam'*) also need to be paid at the border, but if everything is in order and all applicable export taxes have been paid, border officials approve the transport of wood across the border. The wood then becomes the regulatory responsibility of the importing country.

However, the exporting company still has an interest in the wood even after it has left Laos. For example, in Thailand, exported wood is generally sent to Thai factories where it is inspected by two people, one representing the Thai importing company and the other representing the Lao exporting company. Each represents the interests of their own companies. This ensures that the importing factory staff do not excessively downgrade the wood, or record an excessive amount of rotten or otherwise unusable wood. The Thai company pays the Lao inspectors a per diem (approximately 100-500 Thai baht or US\$2.50-12.50) for food and provides housing during their visit (usually the length of the typical three-day border pass (*'bat phan den'* in Lao). Once the Lao exporting company representative returns to Laos, and the invoice for timber delivered is paid, the export process is complete.

There have, indeed, been some important changes in how logging is done in Laos. The next section examines the various types of logging quotas in Laos, as quotas are crucial to the logging sector in Laos.

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<sup>13</sup> The only official border crossing between Champasak Province and Thailand is at Vang Tao, Phonthong District, Champasak Province. The Thai side is called Chong Mek, Ubon Ratchathani Province.

## **TYPES OF LOGGING QUOTAS AND OPPORTUNITIES FOR PERSONAL BENEFIT OR PATRONAGE**

In Laos, there are many different kinds of logging quotas, regulating all types of logging. Quotas range from those associated with subsistence level housing construction, to quotas associated with national logging plans. There are also specific quotas related to government infrastructure development and fundraising, national government debt repayment, military support, the harvesting of deadwood, and plantation development. There are also other ‘special quotas’.

### **NATIONAL LOGGING QUOTAS**

The most important logging quota in Laos is the national GoL logging quota (*‘quota lataban’*) which is divided up between the provinces near the end of the calendar year. National logging quotas are generally supposed to occur only in the 106 production forests that exist throughout Laos. Quota allocations vary each year based on factors such as national economic conditions, the power of provincial lobbies, personal influences and relations, wood processing capacity in each province, the amount of mature production forest, and so on. Some provinces may not get any quota at all in a given year.

These national logging quotas are then divided between districts, although again not all districts receive a portion of the quota each year. The central GoL apparently does not specify whether the district or province should be responsible for signing logging agreements with companies once quotas for provinces have been allocated. In Champasak, the provincial government signs contracts with companies for logging, while in Attapeu the provincial government allows the district governments to make their own agreements with logging companies. Whether at the provincial or district level, the forestry officials responsible for dividing up quotas for logging companies have the potential to make a considerable amount of money, as companies are generally willing to pay substantial amounts of money to gain logging quotas.

In the recent past, GoL officials, especially those in southern Laos, were mainly concerned that the logging companies would not cut enough wood to meet their quotas. In fact, until 2006 logging companies were even praised for cutting more wood than allocated in their quotas!<sup>14</sup> In the 1990s it was common for logging companies operating in remote parts of the country, such as in Xekong and Attapeu Provinces, to fail to cut the full amount of timber allocated in quotas. This was due to various reasons, including those related to logistic constraints (poor roads), poor overall management of logging operations, bureaucratic obstacles, insufficient capital and equipment, and so forth.<sup>15</sup> However, companies are no longer praised for over-harvesting.

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<sup>14</sup> *Pers. comm.*, provincial forestry official, Champasak Province, December 2008.

<sup>15</sup> See Baird & Shoemaker 2008.

## VILLAGER CONSTRUCTION LOGGING QUOTAS

According to the Lao Forestry law, villagers are entitled to cut five m<sup>3</sup> of roundwood (logs) per family per year for building their own house.<sup>16</sup> This quota is called '*quota paxaxon*' (people's quota) or '*quota mai pouk sang khope kbona*' (family wood for construction quota). DAFO approves these individual villager or family quotas. To obtain permission, a proposal for cutting wood must first be prepared. The headman of the village where the applying person comes from must confirm that the applicant really does not have a house, or has an unfinished house. The chief of the sub-district signs off on the request, as does the district's Forestry Unit. Then the chief of DAFO must sign the proposal. Finally, the district chief approves the quota.

Once all clearances have been given, the district Forestry Unit issues a document giving permission to cut wood ('*bai anounyat tat*'). The Forestry Unit of the district, DAFO, and the district chief must all sign this document as well.

The District Forestry Unit specifies the logging site either in the '*pa som sai*' (village use forest) of one's own village, or in the forest of another village (if there is not enough wood in one's own village forest). The quota holder must then obtain permission from the village headman. If the headman agrees to allow the wood to be cut in his or her village territory, the individual can begin logging. If no permission is given, the quota holder must return to the district Forestry Unit to request another logging site in another village. DAFO must sign off on changes of logging location.

Once cut, the wood is moved to a designated log storage site (second landing). A district forestry official measures and inventories the wood. The villager must either cut the wood by hand or borrow chainsaws from district Forestry Units, as it is illegal for private individuals to own chainsaws.<sup>17</sup> Wood cut under the village construction logging quota cannot be sent to factories for milling or other processing, and cannot be exported.

Previously, villagers did not need to request permission to cut trees for making their own houses, and while many do not follow this process, especially when they harvest wood from their own village's forests, if someone wants to log in the territory of another village, especially one relatively far away, having official permission is important.

Apparently in the future villagers may be allowed to cut wood using an axe and a hand saw without the district chief providing approval. This may already be the case in some districts, but as of early 2009 it was still common for the district chief to approve these individual family quotas.

*Potential for use of public office for private gain:* Occasionally, villagers are caught cutting small amounts of wood for local housing or sale. These individuals, however, are rarely directly associated with any particular company and they are usually not punished severely. Sometimes the wood is simply confiscated, and most of those who are apprehended are soon released. Some are even allowed to return home with the illegal wood and a simple warning. These villagers are generally relatively poor, and officials know that they are unable to pay bribes, except for occasional "lunch money" bribes. The result depends a lot on the circumstances and the

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<sup>16</sup> It should be noted that five m<sup>3</sup> of roundwood ('*mai kom*') is less wood than five m<sup>3</sup> of sawn wood ('*mai leuay*').

<sup>17</sup> In fact, most district Forestry Units' chainsaws for loan are those that had been previously confiscated.

apprehending officer's interest in extracting personal benefits. Their assessment of the loggers and how much they can afford to pay is often crucial. If they are deemed 'rich', they will be expected to pay more to be let off. In any case, when poor people are involved it is generally not deemed to be very profitable, and is frequently considered more of a nuisance than anything else.

A FID official from Champasak Province claimed that the biggest source of income for officials in his Agency was from inspecting wood being transported from the forest to villages to make houses. Even when wood is transported with all the appropriate documentation, it is not unusual for officials to ask for 100-200,000 kip (US\$11.76-23.52) from the private individuals, especially wealthier semi-urban or urban dwellers, depending on the amount of the wood and various other factors. This is done following a patronage-style arrangement. This also apparently happens with companies, but companies tend to give less money than private individuals.

## **DISTRICT CONSTRUCTION LOGGING QUOTAS**

District construction logging quotas (*'quota pouk sang muang'*), controls logging of wood to be sold locally, or to raise money for certain infrastructure projects including the construction of government buildings.

Sometimes these quotas do not involve the sale of wood at all, but are used to obtain wood for communal construction such as village schools, health centers, bridges, roads, etc. These quotas, as with the villager construction logging quotas, are not officially part of national logging quotas and the export of the wood harvested under these quotas is not allowed.

District construction logging quotas can be requested by village administrations or government organizations and must be approved by provincial governments. They are generally arranged following the same process as explained above for villager construction logging quotas. There are, however, a few differences:

- The quota is not limited to five m<sup>3</sup>.<sup>18</sup>
- The wood can be sent for milling.
- It is possible to sell the wood to raise funds.
- Companies involved in the harvesting operations are also allowed to use any form of modern logging techniques.

*Potential for use of public office for private gain:* District construction logging quotas are a large source of additional unreported income for government officials in Laos. District construction logging quotas are apparently difficult to control and in general, it appears that there are more opportunities for overcutting under the district logging quota system than with other types of quotas, as there are fewer points of official oversight, and they rely on the approval of a district chief – senior local officials whom even the FID often dare not directly oppose. Rather than handling problems with district logging quotas themselves, the FID will often

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<sup>18</sup> If quotas are above five m<sup>3</sup>, in theory approval is needed from the provincial governor. However, in reality the province is often not asked to approve district construction logging quotas larger than 20 m<sup>3</sup>. At least this is the case for one district in Champasak Province. For amounts less than that the district usually approves themselves.

simply inform PAFO. Government officials interviewed acknowledged that passing the problem on to PAFO is only sometimes successful in halting logging operations. Increasingly, in Champasak Province at least, many district government officials are becoming wary about allegations of involvement in illegal logging, as in recent years, many district and deputy district chiefs have lost their positions due to their involvement in problematic logging. There have also been more recent reports of illegal logging unassociated with legal logging concessions in Laos<sup>19</sup>, a topic that is beyond the scope of this report.

Overall there has been a reduction in the number of district logging quotas issued in Laos, due to efforts by the central government to more closely control logging in the country. The GoL is also trying to add value to Lao wood by demanding that only highly processed wood be exported. This has resulted in a reduction of the use of local sawmills to process wood, as small sawmills are often only capable of low-level wood processing (*mai pe houp*), and wood processed at this level can no longer be exported from Laos<sup>20</sup>. Moreover, there are only limited opportunities for selling this wood in Laos due to a relative lack of demand. Some roughly processed wood is still produced for the local market, but not enough to sustain nearly as many small sawmills as was possible when roughly processed wood could be exported legally. As a result, many sawmills in southern Laos have shut down over the last few years. This is not necessarily a bad thing, as in the past the Lao wood processing sector in central and southern Laos has been characterized by over-production capacity.<sup>21</sup>

There are now fewer opportunities for district logging quotas. For example, Samakhixay District in Attapeu Province did not have any logging quota in 2008, either via the national logging quota or as district quotas. The district has two sawmills located at Km 3 and Km 9 that produce wood products for local consumption. There are no production forests in the district, so wood from other districts is used to supply the factories in Samakhixay.<sup>22</sup> There are also seven shops in the district that make furniture for export to Vietnam. They are all located in the same area, along the road to the provincial capital at Km 9-10. In 2008 the sawmills and furniture shops in the district were mainly supplied using wood from Phou Vong District. The wood cut was brought to a second landing in Phou Vong, where it was inventoried before being transferred to Samakhixay. Many other sawmills, especially those without the capacity to process wood to the required level for export, have shut down because they can no longer export roughly sawn wood from Laos.

## **SPECIAL LOGGING QUOTAS**

There are various kinds of special logging quotas, or '*quota phiset*', including for deadwood, debt repayment, development, military and plantation preparation logging quotas.

### ***Deadwood Logging Quotas***

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<sup>19</sup> Voice of America 2009.

<sup>20</sup> FAO 2008.

<sup>21</sup> World Bank et al. 2001; Jonsson 2006; Baird & Shoemaker 2008.

<sup>22</sup> Similarly, in Khong District, Champasak Province, there are two sawmills at Phiangdy and Tha Pho Neua Villages. Most of the wood used in these factories comes from Mounlapoumok District.

The most common special logging quotas are known as ‘deadwood logging quotas’ (*‘quota mai kep lem’*)<sup>23</sup> which allows companies to collect ‘deadwood’ (trees which are dead, including standing dead trees) from wherever they can be found in the forest. Between 2005 and 2008, loopholes in the deadwood logging quota system began to be closed. In 2005, Deputy Prime Minister Thongloun Sisoulath acknowledged that there were serious problems with deadwood logging quotas and announced that the GoL would close a loophole that allowed deadwood to be harvested from national protected areas (NPAs) – since apparently deadwood quotas were being used to illegally cut living trees in these areas.<sup>24</sup> Problems with loggers abusing deadwood logging quotas to cut healthy trees may explain why the GoL is becoming increasingly hesitant about issuing deadwood logging quotas, and this may be why many jurisdictions in southern Laos were not given deadwood logging quotas in 2008.

Another serious problem with deadwood logging quotas was that until recently, deadwood quotas did not specify locations for cutting, and no tracking systems existed to identify origin of deadwood. In 2008, the GoL began to specify deadwood logging sites, although verification remains a problem since forestry officials still do not monitor deadwood quotas as much as national logging quotas.

For deadwood quotas, forestry officials rarely visit the deadwood harvesting site; the wood is just inspected once it has been deposited at the second landing for that concession. Until recently, inspectors only checked the quantity of wood and whether the trees had really been dead for a significant amount of time. Today, under rules and regulations passed recently, species information is also recorded, and the origins of deadwood are specified.

Opportunities for personal gain exist when forestry officials allow newly cut trees to be mixed with deadwood and they record ‘green’ timber as deadwood.

**Box 1 – Example of Misuse of Deadwood Logging Quota: Champasak Province**

<sup>23</sup> Sometimes referred to as ‘branch’ or ‘fallen wood’ quotas.

<sup>24</sup> Phouthonesy 2005.



In 2007 a ‘deadwood’ logging quota was issued by Champasak Province for rosewood (*Dalbergia cochinchinensis*), a protected species which can sell for thousands of dollars per cubic meter, and cannot be logged under normal circumstances.<sup>25</sup> The quota did not specify the logging site, or the quantity to be cut. It simply stated that the wood should be ‘consolidated into one place’ (*thone hom*).

The quota did not specify that the wood should come from the Xe Pian NPA, but the provincial government wanted to harvest this wood, apparently before others illegally poached it. The government owned all the timber, and another company was hired to cut or otherwise acquire the wood. These loggers were paid for their work by the provincial government. Villagers used tractors to haul the wood out in pieces via forest paths, such as the ones near Chan Village in Khong District. Once the villagers had moved the wood out of the forest, the company transported it to the second landing specified in the quota. Forestry officials inventoried the wood and sent it to a sawmill owned by military-controlled Development of Agriculture and Forestry Industries Company (DAFI) at Km 10 (south) in Pakse District.<sup>26</sup> Once the wood was processed into semi-finished wood (*mai kbeung samlet boup*) at the DAFI sawmill (one of the largest in southern Laos), the MoC was called in to set up a bidding process for selling it. The wood was sold to a buyer from China.

### **Debt-Repayment Logging Quota**

Debt-repayment logging quotas are designed to facilitate debt repayment to foreign countries, especially former or present-day socialist allies – a literal “nature for debt” swap. For example, Pasakone Company, based in Pakse and owned by a Pakse-based Lao businessman, is a large logging and wood processing company with a special logging quota designed to raise money to repay Russian debt.

In 2008 Pasakone Company’s logging quota was issued by the GoL. It was for 38,000 m<sup>3</sup> of wood to be logged in Mounlapoumok District, Champasak Province, and Sanamxay District, Attapeu Province where Pasakone Company has sawmills. Some wood also came from Phou Vong District, Attapeu. However, in 2008 only 16,000 m<sup>3</sup> of the wood was officially logged so the remaining 22,000 m<sup>3</sup> was allocated for 2009 (unlike regular quotas which cannot be extended from year to year).<sup>27</sup> After harvesting and processing as partially and fully finished wood, the wood was sold to Thailand and Vietnam. The profit from the operation, after Pasakone took its cut, is then paid directly to the Russian government as a contribution to debt repayment.

The Vietnam government is another creditor of Laos, but not only in terms of direct monetary debts. The Vietnamese also consider that Laos is indebted to them for the loss of life and material during past wars. Due to this, Lao officials sometimes feel pressured to arrange deals in appreciation for the support provided. They often feel they do not have much room to negotiate when it comes to these agreements with the Vietnamese,<sup>28</sup> as they do not want to be seen as being unappreciative of the Vietnamese contribution to the

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<sup>25</sup> FAO 2008.

<sup>26</sup> DAFI remains an important player in forestry in Laos, but it appears that its influence has declined in recent years. This study did not focus on the role of DAFI and the Lao military in logging.

<sup>27</sup> If the forest is not all removed by May 31 each year, the remaining wood cannot be removed, and the remaining unused part of the quota cannot be rolled over to the next year. It is simply lost (Decree PM/17 2008).

<sup>28</sup> Pers. comm., Khamla Phanvilay, 11 May 2009.

revolution. For many of these logging quotas, the specific terms vary and the arrangements are often unclear, or at least not transparent to a large number of officials, let alone the general public.

### ***Development Logging Quotas***

Development logging quotas, also known as '*quota phatthana*', are sometimes called 'assistance logging quotas' or '*quota sonay leua*'. These quotas involve logs being traded for development support, such as the building of infrastructure, especially buildings and roads, and most often reflect an agreement between a provincial government and Vietnamese companies (often facilitated by the Vietnamese government). At present all development logging quotas are supposed to be approved by the central government, even if they are frequently negotiated by districts and provinces and then sent to the central government with official endorsements for final approval. Up to just a few years ago district and provincial governments frequently negotiated these sorts of logging agreements, primarily with Vietnamese companies, on their own. The Vietnamese companies are sometimes private, but they are frequently jointly controlled by the Vietnamese state.

To obtain a development logging quota, as with other special logging quotas, companies are supposed to bid on them, with the highest bidder gaining the contracts. The reality, however, is that making appropriate payments to officials, as well as personal or familial relationships, are crucial to the success of obtaining a special logging quotas. This is where the line dividing corruption from patron-client relations is not always clear, at least for the Lao. In many ways, these arrangements are based on patronage relations.

*Examples of Development Logging Quotas:* While there are numerous cases development logging quotas, these types of concessions are relatively difficult to systematically track. One 2008 example involved the Vietnamese company Hoang Anh Gia Lai Corporation, which received an economic land concession for the long-term cultivation of rubber as well as a three-year special logging quota for harvesting 300,000 m<sup>3</sup> of wood, valued at US\$15 million. This quota was allocated by the central GoL in exchange for a loan from Hoang Anh Gia Lai to finance the construction of the Southeast Asian Games athletes' village in Vientiane.<sup>29</sup>

Also in 2008, the Champasak provincial government proposed to give Vietnamese developers a 10,000 m<sup>3</sup> logging concession in Mounlapoumok District in exchange for Vietnamese support for the construction of the 'Thong Kalong Development Area' in Paksong District, near the Mak Chanh Stream. The central government approved this proposal. In this case, since Vietnamese logging companies are not legally allowed to have logging concessions in Laos (although Vietnamese workers can work for Laos companies), a Lao company was given the quota to log and then sell the 10,000 m<sup>3</sup> of wood with the proceeds to be given to the Vietnamese company in payment for developing the industrial area.

A third example can be found in Attapeu, where the road between the Phou Vong District center and the Nam Kong River was built as part of a development logging concession. However, because the deal was put together a number of years ago, it only had to be approved at the provincial level, not at the central level, as is presently required.

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<sup>29</sup> VietNamNet Bridge 2009.

### **Military Logging Quotas**

Military construction quotas (*'quota pouk sang thaban'*) can be considered a type of special logging quota, since these types of quotas are not allocated on an annual basis. These quotas can be granted to obtain wood for construction projects, or for fundraising for various activities related to military infrastructure development. While they must pass through the same general concession approval process as other logging quotas, and be approved by the central government, the military certainly has considerable influence during the approval process. Often there are elements of patron-client relations at play here, as the military is a very influential force in Laos, although their influence in the logging industry has apparently declined in recent years.<sup>30</sup>

### **Plantation Preparation Logging Quotas**

Plantation preparation logging quotas (*'quota tat mai you samphan thi din'*) have emerged in recent years during the preparation of large-scale commercial plantations, such as for rubber and other tree crops. They were almost unheard of a decade ago. When the GoL allocates economic land concessions for industrial crops, they only give companies permission to cultivate the land; logging concessions for any forested land is usually not part of these concession deals. Instead, the district governments generally control the actual logging operations associated with concession lands, which are allocated to other companies that become responsible for removing the marketable trees from the 'degraded forest land'<sup>31</sup> before an investor clears the remaining vegetation and begins planting the area. Through this institutional arrangement, districts actually gain additional logging quotas when rubber plantations and other industrial crops are cultivated – becoming an additional incentive for district governments to facilitate the development of large land concessions in forested areas. However, it should be noted that neither provincial nor district governments have the authority to actually approve logging in land concession areas, as was the case a few years ago. They are only mandated to manage it once the central government has provided approval. Again, only the central government can approve those concessions.<sup>32</sup>

In recent years, more foreign investors have arrived in Laos looking for economic land concessions related to agribusiness. Rubber concession development, in particular, has boomed, resulting in various environmental, socio-cultural and economic problems in southern Laos.<sup>33</sup>

While rubber plantations have now been established in every province in Laos, in southern Laos they have particularly developed in Bachiengchaleunsouk District, Champasak Province, east of Pakse, where the soil and altitude are very amenable to rubber cultivation. There, three large Vietnamese rubber companies have established tens of thousands of hectares of rubber plantations. This rapid rubber expansion has resulted in a large number of independent small farmers being converted into landless laborers in rubber plantations

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<sup>30</sup> Keuleers 2002.

<sup>31</sup> In reality, these areas are not always as degraded as the official classification would indicate.

<sup>32</sup> Baird 2010; *Vientiane Times* 2007.

<sup>33</sup> Baird 2010.

without any food or job security. Furthermore, the plantations frequently only employ those between 18-35 years old, leaving older people with few livelihood options.<sup>34</sup>

These plantations have led to the conversion of large quantities of natural forests important for local non-timber forest product (NTFP) collection by local people into monoculture plantations without much practical use for local people. Moreover, local people have been prohibited from releasing their cows and water buffaloes into plantation areas for fear that they might damage young trees. In many cases villagers have found it difficult to find replacement grazing areas for their livestock, and plantations owners have sometimes tried to fine the owners of cattle that have managed to make their way into their plantations and damaged their rubber trees. Thus, many farmers have sold off their animals, finding it to be too much of a burden to raise livestock.<sup>35</sup>

Streams and associated aquatic life have also been heavily impacted by erosion and the use of herbicides to control weeds. Laborers required to apply herbicides have also experienced negative changes in health due to chemical use, and some livestock are believed to have died due to livestock consuming grasses treated with agricultural chemicals. Overall, both the environment and the livelihoods of local people have been transformed due to the conversion of forests into industrial-scale plantations. Many farmers are extremely unhappy with the development of large economic land concessions.<sup>36</sup>

One good example of the link between land concessions and logging operations can be found in Samakhixay District, Attapeu Province. Although there has not been any national logging quotas allocated in the district in recent years, the district government is able to control some logging in the district, as since 2006 about 300 hectares of land in the district has been cleared to make way for a Vietnamese rubber concession. The plantation preparation logging concession is so far divided into two areas, one near Sok Village and the other near Halang and Kasom Villages. The plan is for the same company to further expand the concession to a maximum of 500 hectares in the district, including developing new areas near Xaiphosy (also called Naxaykhao Village) Village and Beng and Phoukham Villages. These areas were being surveyed early in 2009.

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<sup>34</sup> Baird 2010.

<sup>35</sup> Baird 2010.

<sup>36</sup> Obein 2007; LBA 2008; Baird 2010; NLMA *et al.* 2008.

## THE COMMODITY CHAIN AND OPPORTUNITIES FOR PERSONAL BENEFITS TO OFFICIALS

Implementation of the various logging and timber export processes is not always carried out as mandated in Decree 17/PM 2008. Along the entire commodity chain, from forest to border export, government officials have opportunities to variously derive benefit from logging and the timber trade, although undoubtedly less than they did just a few years ago.

In Laos, an extensive series of authorizations are required to obtain and implement logging quotas, offering multiple opportunities for government officials to receive bribes or other benefits from interested parties. However, not all the benefits generated for officials are always perceived as corruption<sup>37</sup> by the actors involved. Instead, these benefits are often thought of in terms of patron-client relations, which can occur both between state officials and others, and between non-state players. Regardless of the nature of how officials benefit, and how these benefits are categorized, much of this is either considered to be corruption according to most international standards, as well as those of the GoL, or is at least considered to be unethical by many. However, the situation is not always as black-and-white as one might expect.

### LOGGING QUOTA PREPARATION

While those surveyed for this report were unable to definitely indicate how much logging companies generally pay central and provincial government officials for “facilitating” or directly approving logging quotas, they believe that this is probably the largest single expense that logging companies have to make – possibly more than 20% of total expenditures. An additional 15-20% of total expenses are often made to lower and mid-level government officials at both the district and provincial levels. They suspect that payments probably have to be made to the provincial Forestry Section and PAFO, and later to the DoF as well.

Typical steps along the logging quota process appear to facilitate opportunities for benefiting personally. These include:

*Improper survey work facilitating “wood laundering”:* In order to obtain a logging quota, a company needs to show that it has access to the quantity and species of wood being requested. Completed by forestry officials, surveys of production forests therefore should be done before any quotas are granted for logging in a specific area. During the course of their survey work<sup>38</sup>, these forestry officials therefore have the opportunity to receive incentives from logging companies to claim higher quantities of particular species in a particular production forest.

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<sup>37</sup> Corruption (*‘so lat bang louang’*) is generally defined as the use of public office for private gain (Callister 1999) often divided into ‘grand’ and ‘petty’ corruption, with the former being seen as involving politicians or large amounts of money, and the latter involving either small amounts of money or junior officials (Callister 1999). Clientalism is the dyadic (two-sided) exchange relationship between unequal parties (Clapham 1982).

<sup>38</sup> In reality, according to several interviews, most surveys of the forest to determine what trees will be cut are not actually done at all, let alone according to the stated rules. Instead, officials often conduct “ghost inventories” (*‘bansi phi’* in Lao), while they sit in government offices, or at home, to prepare the inventories so that it looks like field surveys have actually been conducted.

Why, one might ask, would a company want to claim that there are more trees in a particular forest than there actually are? In reality, many (some would even say “most”) production forests in southern Laos have already been heavily and overly harvested, leaving less than enough trees to supply future quotas. Thus, companies would have difficulty obtaining permission if a site was known to be so heavily degraded as to not be able to support the proposed logging quota. Once permission and a certain quota size are given, the company will cut not only from the allowed production forest, but then acquire illegally cut trees from elsewhere to make up the rest of the quota. The illegally cut trees will then be transferred to the second landing of the legal logging operation—will then be effectively laundered as legal. The illegal timber is sometimes sourced from different village areas, protected areas, or forests in another district, which is illegal. In Champasak, much illegal wood has apparently been cut from the Dong Houa Sao National Protected Area (NPA) in recent years, while Xe Pian NPA is more remote, and is also under more scrutiny from the government, and therefore has been subject to less illegal logging.<sup>39</sup>

Some officials are braver than others when inflating statistics, resulting in personal gains varying significantly depending on the risk taken. In some cases, officials may only gain a good meal and some alcohol – generally not considered to be a form of corruption in Laos, although according to a strict definition of corruption one could certainly put such benefits into that category. However, in the Lao context these sorts of favors are considered to be more a part of patronage relations, or appropriate ways to show respect to others.

This type of ‘wood laundering’ is not as easy to conduct as a few years ago. Before 2008, only the quantity of wood was recorded at the second landing without consideration of the species involved. Now species are identified, and the quantities of each species are matched with the original survey documentation used to gain the logging quota. Therefore, laundering has become more difficult, requiring complicated matching of quantities and species.

Ultimately, however, the fact that the necessary surveys are not being conducted in Laos points to a larger problem: without a true understanding of the state and health of the forest estate, as proven by valid survey work, sustainable commercial logging in Laos cannot be guaranteed.

*Conflict of Interest in Obtaining Approvals for Companies:* Forestry officials sometimes gain financial benefits by finding additional timber for companies to complete their quota. For example, in eastern Pathoumphone District, where a number of villages are located within a production forest, loggers must negotiate with villagers to acquire logs. Companies will pay government officials who can find this timber in the first place and then obtain logging permission by the village headman. Villagers working with these officials may also receive benefits. While not considered corruption by many Lao officials, it can be considered a conflict of interest or a form of patron-client relation, in which the influence wielded by officials is traded for favors from companies.

## **LOGGING**

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<sup>39</sup> The problem of large amounts of illegal logging occurring into NPAs in Laos has been acknowledged by the GoL, and in recognition of the problem, the GoL has recently allocated more financial resources and government staff to manage these areas (Vientiane Times 2009b).

There are various ways that forestry officials can benefit from involvement in actual logging operations. Production Forestry Management Plans are apparently not followed often. As one informant put it, “*In reality, once the chain saws have entered the forest, all the trees are cut. Nobody follows the management plan. Nobody chooses trees to cut based on the official plan.*” The picture presented also coincides with the impression given by other observers who have written about the Lao forestry sector.<sup>40</sup>

*Overpayment of company-provided per diems to government officials:* Companies provide standard government-designated per diems to provincial and district government officials who work with the companies in the field (approximately 32,000 kip/day or US\$3.77)<sup>41</sup> However, depending on their ability to negotiate, officials are frequently able to extract additional remuneration from companies. Many are able to pocket the per diems since the companies frequently provide food and other services that normally should be covered by the per diem—an unofficial boost to the patron-client relationship. Others are able to extract bonuses of 5,000 kip/m<sup>3</sup> (US\$0.59) in addition to their per diems. Sometimes these payments are made for explicitly illegal favors (corruption), while at other times they are given for favors that are not really related to illegalities, but are rather linked to favors more closely associated to patronage relations and clientalism. However, it is crucial to recognize that different officials tend to gain different benefits, depending on how they choose to negotiate, their clout, and their ability at negotiating. The brazenness of different officials, as well as other personal factors, is important. Sometimes payments are made to individual officials in seemingly random ways, or are based on how many trips or how many days are spent in the field. In other cases forestry officials are all paid a particular rate.

While collecting per diems for monitoring field operations, officials frequently hesitate to travel to the forest despite the potential threat of losing their jobs if overcutting occurs. In the past, if overcutting happened under an official’s watch, it was possible for senior Agriculture and Forestry officials to *ex post* approve the overcut (and also therefore be eligible to receive payments for such permission), this is now more difficult than before, due to the increasingly strictness of regulation enforcement.

*Purposeful “laundering” of confiscated wood:* A known practice of wood traders or companies is to encourage local people to cut down wood illegally and then report the cutting to the FID, which subsequently confiscates the wood. The same trader can then legally buy the confiscated wood from the FID, effectively legalizing illegal wood. This is not officially corruption, as the officials may not know how the trader or company was involved in cutting. However, sometimes companies are given special access to buying illegal wood, which can involve corruption, or at least a form of clientalism.

In 2009, a large amount of illegally logged wood, mainly rosewood (*Dalbergia cochinchinensis*) stumps, was confiscated when it passed through Samakhixay District, and thus became the property of the Samakhixay District. The wood was put out for sale, and the companies that bid the highest were able to buy it. All the revenue went to the district government.

*Payment for authorization of logging in “unusual” sites:* Companies sometimes pay district officials who can arrange access to sites normally not accessible. For example, officials sometimes authorize more than one logging

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<sup>40</sup> See FAO (2008) and Jonsson (2006).

<sup>41</sup> The exchange rate at the time of this study was about 8,500 kip = US\$1.

company at a time to operate out of a particular village (not usual practice), or allow access to production forest areas not specified within national logging quotas. This can be considered to be a form of clientalism, in that a favor by powerful government officials is given to a logging company in exchange for benefits. It can also be considered to be corruption.

## **LOG STORAGE SITES (SECOND LANDINGS)**

Forestry officials have opportunities for gaining benefits when inventorying wood after it has been taken from the forest (first landing) and transported to the log storage site for that particular logging operation (second landing). These can take the forms of full corruption, and also as more subtle forms of clientalism. Logging companies must pay out large amounts of money (likely only second to the high cost of payments during the quota allocation process) when wood is inventoried at second landings.

Since companies are eager for forest officials to confirm the amount of wood that has been harvested matches with official quotas, numerous opportunities exist for bribes at this stage. While officials rarely threaten to not clear the inventory if payments are not made, the reality is that everyone knows that payments are necessary. The amount paid varies depending on the officials involved, personal relationships, and other circumstances. Officials try to gain as many benefits as possible for their level of power, and risk, and company representatives try to pay as little as possible for maximum benefits. It is almost an art for company representatives to determine who they need to pay for what, and to avoid paying when such payments are not necessary or may even cause problems in the future. This involves subtle knowledge or reading of the personalities of different officials, positioning and negotiating skill.

*Laundering of district quota wood:* Because of the lower level of oversight in the district logging quota process, a 100 m<sup>3</sup> quota could easily result in twice that amount of wood being harvested. A common case involves (for example), the authorized 100 m<sup>3</sup> being sent to the factory for processing, while another 100 m<sup>3</sup> is sold to another logging company with a quota from a production forest which did not have enough wood in the forest to meet their quota. This additional 100 m<sup>3</sup> is sent to the second landing of the national logging concession, where it is laundered and recorded as production forest wood. Less commonly, the extra wood is simply sent to sawmills. Another possibility involves a request for more quota than needed for the district project (e.g., a school), enabling the unused wood to be transferred to production forest second landing or a sawmill (and therefore laundered in this way). Mounlapoumok and Paksong Districts appear to have reputations in Champasak Province for selling district construction logging quotas to other companies for other purposes (personal observations and interviews). This again shows why there have been efforts by the central GoL to reduce the number of district logging quotas. Rightly or wrongly, officials believe that there has tended to be more corruption associated with these quotas than with national logging quotas.

Virtually all those interviewed confirmed that amounts paid to different officials are never the same. Individuals get paid different amounts, even when they have the same positions and roles as other officials. Some officials are afraid of being brazen about asking for benefits. Others are much braver. Some are willing to threaten companies to extract benefits, or at least ask company representatives for payments or other benefits. The ways that people benefit are also open to negotiations, and an official's ability and



entrepreneurial spirit (in development terms, his or her 'social capital') to navigate the terrain is crucial. Some officials are paid on a per-trip basis. Other officials assigned to work with companies negotiate for an unofficial monthly salary of the equivalent of US\$100 or US\$200 a month. In other cases, officials are paid at key times, such as prior to a big celebration, or 'boun'. An employee of a logging company based in Pakse explained that his company only paid forestry officials who ran paperwork for them or worked in the field for their benefit. They believed that in some cases those lower level officials have to pay part of their benefits to more senior officials, but those sorts of details are not the concern of the company. Sometimes money is given with the direct understanding that the official will do something in favor of the company. However, at times money is paid to officials simply to keep them happy and to ensure that they do their work. In these cases there are no expectations that officials will do anything specifically in the favor of companies, although it must be hoped that the money paid to officials will help ensure that they are inclined to help the company rather than make life difficult. The types of irregularities can include:

*Misrepresentation of "usable" wood:* Forestry officials can declare higher than necessary portions of trees are rotten or otherwise unusable, and therefore less volume is included in the logging quota. Since the line between "usable" and "unusable" is often debatable, substantial benefits can be gained in this way without the official having to do something blatantly illegal.

*Misrepresentation of species:* Another more risky act is for an official to falsely declare species. Prohibited species like 'mai dou' (*Pterocarpus macrocarpus*) are falsely marked as species specified in the quota (such as 'mai nyang' (*Dipterocarpus alatus* or spp.) and 'mai bak' (*Madiuca fordiana* or *Anisoptera cochinchinensis*)). This is more blatantly corruption, even by Lao standards. Companies begin to learn which officials engage in this more blatant illegal action, may simply speak out before the wood is even checked, offering money up front and saving time. As one informant said, "Those officials who inspect in detail have more opportunities to make money."

*Under-reporting wood quantities:* Sometimes officials under measure the amount of wood at log storage areas. Ultimately, due to these irregularities at the inventory stage at the storage sites, more trees are harvested than approved by the central government. For example, if 30% of tree is found to be unusable due to insect damage, an official might record the amount as 50%. Or, if 300 m<sup>3</sup> were logged, it might be normal to expect that 270 m<sup>3</sup> would be left after removing unusable wood (10% loss). However, if an official grades wood in favor of a company, there might only end up being 200 m<sup>3</sup> left. Clearly, there are substantial benefits to be gained by companies.

*Collusion with export authorities:* Officials involved in the falsification of documents, such as volume or species reports, are often able to coordinate with officials at the border to avoid exposure. Sometimes companies pay officials at the second landing, who in turn pay their partners at the border. This qualifies as a form of organized corruption, but it is neither clearly grand nor petty corruption. The level of organization suggests something more than simply petty corruption, but lower level officials are typically involved and the financial transaction is not large. In any case, the details of how this works vary depending on the circumstances, personal networks, and patronage relations. Even when corruption is involved, patronage relations can also have an impact. Both can come into play simultaneously. However, it is now apparently more difficult to grossly under-measure wood, as there are many places where wood is checked and measured along the commodity chain.

If a logging company brings too much timber to the second landing, more than the amount specified in the quota, but of the correct species, forestry officials will either allow the company to process that extra wood, preparing paperwork that will result in that company's next logging quota being reduced by the amount that overharvesting occurred in the past, or they will approve the extra cutting and collect additional tax on the extra wood cut. Officials tend to prepare the paperwork to allow this to happen as a group. The company then pays the group's representative for the service. The money is divided up amongst the officials by themselves. This is not considered to be illegal by forestry officials, but it is certainly linked to patronage relations.

While I had previously heard that senior officials or politicians sometimes pressure lower level officials to take risks that result in benefits for both of them (without the senior person exposing himself much), the forestry officials I spoke with for this study claimed that they had never heard of this sort of thing happening. It probably does occur, but may be less common than previously believed, at least in the Lao context.

## **WOOD-PROCESSING**

Fewer opportunities exist for government officials to personally benefit once the logs leave the second landing and are transported to the third landing (sawmills, or other processing factories). By this time, any illegally harvested wood has already been laundered and inventoried so as to become officially 'legally harvested wood'. Therefore, there is no longer the need to pay for special favors. As one sawmill employee put it, "We don't pay out much money once wood reaches our factory. Everything is already done by then. We have already paid in the forest and at the second landing."

Most sawmill owners would hesitate to smuggle illegal wood that had not been laundered directly into their sawmills, although it occasionally occurs, due to the high risk of transporting illegal wood without documentation. Sawmill owners could claim that some newly acquired wood is actually from a previous shipment, which would be difficult for officials to disprove. Officials mainly rely on inspecting documentation at sawmills.

If forestry officials discover illegal wood at sawmills, sizable benefits can potentially be gained. However, officials are generally expected to fine the factory, and there are few instances of bribes making such fines "go away." However, the situation likely varies from place to place, and official to official.

Sometimes forestry officials use their power to simply ask companies to give them wood. For example, one FID official admitted he was partially building his house using 10 or 20 planks of wood given to him by a sawmill for free. He did not threaten them or promise them any favors. When asked why they gave him wood for nothing, he said, "They are afraid of me."<sup>42</sup> This can be considered to be a form of clientalism. Corruption and patron-client relations are always affecting the outcomes of interactions, albeit frequently in nuanced ways.

*Payment for fraudulent inspection:* While smuggling wood into sawmills in urban areas is not easy, in the past it was apparently common for district officials to extract payment when allowing more wood to enter sawmills than was specified in district logging quota documents, and later when the wood was transferred from sawmills to markets. This sort of behavior is generally considered to be corruption, even by Lao officials. This is one of the reasons that the GoL has been reducing the number of district logging quotas.

It is presently common for companies to separate responsibilities between wood providers and wood processors. Now it is common for wood processing of various kinds to be contracted out to others, even if both entities are owned by the same mother company. This has been found to be more efficient than other methods of processing, and so almost all companies operate this way at present. Usually there is a contract signed that stipulates that 75% of the volume of wood provided should be available in sawn wood once processing has been completed. If the processing group can only produce 70%, due to large amounts of unusable wood, the agreement may be renegotiated, with the logging company typically allowing the sawing company another 2-3% to work with.

## **MARKETING, TRANSPORTING AND EXPORTING**

Processed wood from Champasak or Attapeu is either sold in the Lao market or is sent to Vietnam or Thailand. The Commerce Division and PAFO, as well as the provincial governor, must sign off on exports. Since most trucks are overloaded<sup>43</sup>, it is generally necessary to pay money to one of the truck scales<sup>44</sup>, under the authority of the Ministry of Communications, Transportation and Post, between the factory and the border. The price to be paid varies depending on individual negotiations between company representatives and government officials. A convoy of 4-5 vehicles full of wood may need to pay 50,000 kip (US\$5.88) for each vehicle overweight, or more if loads are significantly overweight. If two scales are passed, bribes usually only need to be paid at the first location, with subsequent scale operators being informed so they do not end up double-charging. Officials rotate between stations to ensure equal distribution from the overweight “fees”. Vehicles are apparently very rarely if ever detained according to the letter of the law.

Border officials, both forestry and tax, were often paid a ‘per diem’ for checking the wood that companies were exporting – perhaps 100,000 kip (US\$11.76) for each official for checking a convoy of approximately 50 trucks. These ‘per diems’ are variable, but payments of up to 500 Thai baht (US\$12.50) have been reported. Some report that levels of per diems have declined since, in the past, there were more companies exporting wood, and officials competed with each other for the attention of officials. The 500 Thai baht payments were designed to ensure that officials did their jobs quickly and well, so that there would not be any delays in exporting the wood. Today, officials often only check one load of wood a week, and Ea Saming and DAFI, the two prominent state-owned logging enterprises with limited quotas, are rarely in a rush to export their

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<sup>43</sup> In order to reduce damage to roads from heavy trucks, an 18 wheel truck must not carry more than 18 tons, and a 21 wheel truck not more than 24 tons in weight. However, in most cases, 18 wheel vehicles are loaded with up to 20-21 tons of wood, while a 21 wheel vehicle might be loaded with 25 tons of wood or more.

<sup>44</sup> There are presently scales at three locations in Champasak Province. One is at Km 22 on Route 13, another one at Tha Pho Village, on the way to the ferry to Mounlapoumok District. A third is located near the Vang Tao/Chong Mek border post with Thailand.

wood, and therefore have no reason to pay extra money at the border for fast service or other extraordinary treatment.

Some officials, however, report that larger companies are sometimes willing to pay more money, and speculate that there might be opportunities for getting extra payments by falsifying inspection documents related to the species of wood being exported. For example, the approved exports of '*mai nyang*' (*Dipterocarpus alatus*) could include a mixture of '*mai nyang*' and protected species of wood such as '*mai dou*' (*Pterocarpus macrocarpus*) and '*mai kha-nyoung*' (*Dalbergia cochinchinensis*). Today, however, an x-ray machine for wood inspections has been installed at the Vang Tao/Chong Mek border with Thailand, which is able to identify illegal wood concealed within truckloads of legal wood, as well as the number of shorter and longer pieces of wood which are priced differently (longer wood being generally heavier and more expensive). The x-ray machine is reducing opportunities for smuggling, or perhaps it is increasing opportunities for officials to benefit, since only the officials who use the machine have access to their findings.

In 2009, the inspection committee at the border was made up of two Forestry officials, two Commerce Division officials, one Party and Government Inspection Agency official, and one tax revenue official, who was the one who actually dealt with ensuring that all wood taxes are correctly paid. The FID officials operate separately. Some units rotate between the five posts (three people per post) in Champasak Province every three months, while there are two other 'roaming' units, called '*sai kouat khang nai*' (internal inspection groups) that travel to different locations.

### **Box 2 – Wood Resin Trees**

In Mounlapoumok District, Champasak Province, it is standard practice for logging companies to pay owners of wood resin trees (*Dipterocarpus alatus* or spp. or '*mai nyang*') for the right to cut down previously tapped resin trees with 'owners', even when those trees are located on state land. These owners are, in fact, often poor villagers who have gained tenure by investing the labor required to make wedge-shaped holes in the trunks of trees in order to facilitate resin trapping. Essentially, ownership is based on traditional tenure arrangements rather than legislated rights. However, in order to avoid opposition from villagers and sometimes government officials, it is sometimes easier for companies to recognize their tenure and pay them a small amount of compensation. However, in adjacent Khong District, Champasak Province, villagers are not compensated by logging companies when resin trees located on state land are cut down. One of the reasons that villagers from Mounlapoumok are able to negotiate for compensation is due to land mines from the 1980s especially near the Lao-Cambodia-Thailand border. Villagers guide loggers past the land mines. Soldiers also stand to benefit, as they frequently accompany loggers to remote areas. Here, a different type of patron-client relation is in place, and the power that villagers and soldiers have in relation to limiting access to particular areas allows them to bargain for a better deal.

## **LOGGING**

*“[L]ogging remains an issue of national concern [for Laos] because of its effects on the environment and on the livelihoods of the people and also because it is an area that is considered highly conducive to corrupt activities” (Keuleers 2002: 15).*

One of the images that many have when it comes to corruption and logging is of envelopes full of cash being passed under tables between company representatives and government officials. Quotes such as the one above contribute to the reputation of logging as being especially associated with corruption. However, it would be inaccurate to characterize all the benefit-sharing that occurs in relation to logging and the timber trade as being ‘corruption’. In fact, both government officials and companies are often concerned about being accused of ‘corruption’, but they also want the benefits associated with doing things in unofficial ways. Some are willing to work for extra money. Therefore, benefit-sharing is often arranged so as to reduce risk of exposure to both of the parties involved in an arrangement. For example, sometimes officials approach a company representative to request money without specifying a reason. No blatant corruption or special favors may even be discussed. Later, the company representatives observe to see if the official does anything that favors the company, either explicitly illegal or not. Then, when the official returns to the company representative to ask for more money, the representative assesses whether the official has done enough based on what has been paid to him. If he has, he will be paid well the next time. If he has not done much, he still might be paid, but probably not as much as he would like. Again, there is not a set formula for these types of arrangements. What arises resembles a patronage system rather than what is typically called corruption.

It is common for the term ‘corruption’ to be applied very broadly, especially by those in the North, who frequently have their own ways of understanding corruption, including standards which develop through entirely different histories, values and cultural sensibilities<sup>45</sup>.

There is certainly not just one kind of corruption. Some forms are frowned on by the law and society, others may be technically illegal but socially acceptable, and others have variable meanings for different people. Within the context of Lao forestry and the timber trade, it is useful to consider corruption in a more nuanced way. This does not mean that corruption should be accepted or condoned, especially in its most destructive forms. But, it is still important to consider corruption in relation to a continuum, with blatant and socially unacceptable corruption located on one end, socially accepted and technically legal forms of patronage situated at the other, and many other forms of benefit-sharing and clientalism falling somewhere in between. Thus, corruption becomes socially embedded.

The discursive aspects of how we understand what corruption is and when it is acceptable also need to be considered carefully, as these factors are frequently crucial for understanding how certain forms of corruption and benefit-sharing become normalized within particular political systems and socio-cultural contexts. For example, in Laos, government officials frequently justify certain forms of corruption and clientalism by arguing that their salaries are so low that they have no choice but to be corrupt. Corruption is presented as being a necessary evil, something that must be done for survival. One can be excused for it.

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<sup>45</sup> For example, Transparency International has tried to apply the same standard to considering levels of corruption throughout the world, even when the cultural basis for understanding what corruption is varies considerably from country to country, not to mention within different regions or occupations within particular countries. While these types of comparative exercises can be worthwhile, and even promote good behavior indirectly, their limitations should also be carefully considered, as they can sometimes mask crucial nuances.

It is indeed true that government salaries are rarely sufficient for officials to live off of, but it is also the case that many officials have enough free time from their government jobs to become involved in other types of economic activities. Many government officials, especially at the district and provincial levels, rely on farming or market trading as their main sources of livelihood. Still others rely on other family members to make ends meet. Their salaries are considered bonuses above and beyond what they need to live. The prestige associated with being a government official is the main reason why officials do not always quit their jobs and move onto more lucrative livelihoods. Money is not the only reason that people want to be government officials. But, of course, prestige can bring power and eventually material benefits. In any case, some officials are not facing economic hardships, but still, their low salaries are used to justify corruption, even to the level that is above their peers. In Northern countries, however, low salaries are rarely seen as sufficient in themselves to justify blatant corruption in many northern countries. Clearly, many factors are important to consider, and socio-cultural issues are amongst the most crucial of those.

In southern Laos officials generally “*bo khou oa ngeun*” (don’t threaten to get money) and abide by accepted ways of acting when negotiating deals. Thus, cultural knowledge (or one could consider it to be ‘social capital’) is important. The levels of money that officials can be paid varies not only according to level of risk or potential benefits to the company, but also based on how the official asks for money in the first place. Timing is important too. When companies want work done quickly, more opportunities exist. If people work hard, they may receive more benefits than they expected. Company representatives often walk around with visible wads of money, obvious for everyone to see. It is at least partially about logging company representatives affirming their power by showing that they have money and able to use it. Appearances are important. Of relevance to this discussion, Padwe (2009) considers behaviors associated with corruption in Cambodia to frequently have ritualistic characteristics: “These gift-giving displays, in which gifts passing down the social hierarchy from elites to commoners signify the beneficence—and merit, in the Buddhist sense—of the giver, form an analogue to the illicit payments that flow upward through the system from the populace to the elite.”

One forestry official deemed successful at patron-client relations by another official was described as follows: “He is good at talking to government officials. Many companies have solicited him to help translate for them when seeking government approvals. He goes with the company representatives to meet senior officials and gives them good reasons why they should agree with the company’s proposal.” While some might call the use of influence as a form of corruption, the dominant paradigm in these cases are more clearly based on patron-client relations.

For logging companies, obtaining all the appropriate government permissions for logging, transferring wood, and so forth is crucial. This requires district governor or deputy signatures as well as permission from the head of DAFO. At the earliest, the logging season begins in October after the government’s national logging quota is announced. However, in some years, like 2008/2009, the national logging quota had still not been released by December 2008. Therefore, the logging season can be just a few months long. If it is not possible to remove the required wood from the forest before the official forest closure date of May 31 (marking the beginning of the monsoon season), then the remaining portion of the wood quota is lost to the company. In the past, the quota could be rolled over to the next dry season, but this is now generally not allowed, although there are some exceptions, such as with special logging quotas (see above).

Therefore, it is crucial for logging companies to obtain permissions in a timely fashion. However, senior government officials do not always trust the logging companies, and are increasingly wary of losing important administrative positions for inappropriately approving logging operations and related activities (as has happened to some senior government officials and politicians in the past). Thus, logging companies sometimes choose to approach senior officials together with other trusted government officials, ones who can give assurances that nothing improper has occurred, thus making the senior official feel more confident that approval should be granted. Influence peddlers like this may not specifically demand particular amounts of money for the access provided, but the situation creates conditions for clientalism as companies are likely to be generous with those that can provide such services. Essentially, the official is involved in “mobilizing of acquaintance relations”<sup>46</sup> in order to gain the influence necessary to sell his services. At times company representative also tell officials how much they will be paid if they can gain certain permissions for them. Indicating the patronage nature of the relationship, one district forestry official said, “Forestry officials must help out companies,” as if it is part of their prescribed job description.

Although some officials are dismissed for corruption, many of those caught in ‘ethically precarious positions’ are temporarily transferred to work at the sub-district and village level, known as *‘long pheun than’*, or roughly ‘back to basics’ in English. As a Lao forestry official observed, “In Laos, people are often just transferred if they do things incorrectly.” Still, being transferred is often a major loss of face, which is important for Lao officials, and it can also represent a significant loss of power, prestige and income. Therefore, this threat can serve as a significant deterrent for officials who might consider doing things that are blatantly illegal.

This research has certainly pointed to a considerable amount of corruption and questionable benefit-sharing in relation to forestry in Laos, but it appears that in Laos this sort of system of paying ‘up the line’ is less prevalent than in Cambodia, where it is an important part of government corruption and related patronage systems.<sup>47</sup> While there are certainly some instances when lower level government officials are required to make payments to senior officials in Laos, in the author’s opinion, in Laos this appears to be less of the norm than in neighboring Cambodia. One has to wonder why this is the case. However, there are instances when senior Lao officials are expected to send some of their benefits to their underlings. Cultural issues are clearly important for understanding these differences, as are institutional ones.

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<sup>46</sup> Rivkin-Fish (2005: 48)

<sup>47</sup> Calavan *et al.* 2004.

## ROSEWOOD AND CHARCOAL TRADE IN SOUTHERN LAOS

### ROSEWOOD

Demand for certain kinds of high value wood, like rosewood (*Dalbergia cochinchinensis*), can greatly affect illegal logging and wood smuggling in relatively remote and off the beaten track places like the hinterlands of southern Laos. In the past it was common to hear about wood flowing from Cambodia into Laos.<sup>48</sup> However, over the last few years, much of the illegal rosewood harvested in southern Laos has been smuggled into Cambodia, thus reversing the flow of wood for the first time in at least decades. Apparently, it was deemed easier to smuggle the wood from Laos to Cambodia as the border controls between southern Laos, Thailand and Vietnam are seen as stricter. In Cambodia, the wood is apparently purchased by Vietnamese traders who transport it from Cambodia to Vietnam. From there, at least some of the wood is exported to China.

In 2007-2008, when the price of rosewood peaked, Cambodians from Stung Treng customized cheap cars to facilitate the smuggling of rosewood from Laos to Cambodia. The back seats of the cars were removed so that one or two cubic meters of wood slabs could be hidden from outside view. An estimated 400 m<sup>3</sup> of rosewood was smuggled from Laos to Cambodia in 2007-2008, apparently all taken illegally from Xe Pian NPA to Cambodia before being taken to Vietnam, Thailand, China and Japan via large ships. Officials along road and border checkpoints must have known about the smuggling across the road border, which has now apparently stopped, although maybe only temporarily until the price rises again.

In Attapeu, some of the rosewood taken from parts of the Xe Pian NPA near the Xe Pian River is believed to have been smuggled to Cambodia using the Xe Pian and then Sekong Rivers.<sup>49</sup> It is not, however, clear if government officials are paid off there or not.

The amount of illegal logging for rosewood decreased considerably in the second half of 2008, reportedly due to a decline in demand for rosewood in China, which coincided with both the end of the Beijing Olympic Games and a decline in the global economy. The result was a dramatic drop in rosewood prices in Laos from over US\$5,000/m<sup>3</sup> at the beginning of 2008 to US\$3,500/m<sup>3</sup> in mid-2008, and by early 2009 the price had further crashed to US\$1,500/m<sup>3</sup> and even then was not selling well.

There are also factories that make furniture out of rosewood for export to Vietnam, such as Khamhoung Company in Pakse. They are involved in using harvested rosewood tree trunks of the species for making furniture, which villagers dig out of the ground. It is legal to export this type of furniture to Vietnam, but an export tax of 30% needs to be paid. They also export fully processed '*mai samlet boup*' made from other species than rosewood that has already been finished to Thailand for making houses. The Thai market is usually for lower quality wood such as '*mai nyang*' (*Dipterocarpus* spp.) and '*mai bak*' (*Madiuca fordiana* or *Anisoptera cochinchinensis*), since those species are suitable for building houses, not for rosewood furniture, which is all sent to Vietnam.

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<sup>48</sup> Global Witness 1998; 1999; Bangkok Post 1998.

<sup>49</sup> The Xe Pian River flows into the Sekong River just upriver from the Attapeu border with Siam Pang in Stung Treng Province, Cambodia.



Not all companies have been able to make high quality furniture demanded by Vietnamese traders. Some companies in Laos have therefore gone out of business after they failed to produce products of high enough quality to export to Vietnam.

## **CHARCOAL PRODUCTION**

The exporting of high quality charcoal from Attapeu to China apparently began in 2008, with just one company doing this business. In Saphao Village, Samakhixay District, Attapeu Province a Lao-Chinese company produces the charcoal, which is transported by passenger bus in lots of cardboard boxes labeled 'sawdust charcoal' in English. One bus can carry about 300 boxes per trip. The charcoal is sold in Attapeu for 25,000 kip (US\$2.94) per box. Once in Vientiane, it is taken by another company and transported overland from Vientiane to China. The company has been rumored to have a small profit margin, instead relying on selling a large quantity of charcoal. However, it is unclear how much charcoal the company will be able to sell, or how this charcoal production for export, something new for Attapeu, is affecting forest resources in the province.

To export charcoal from Attapeu, the 'sawdust charcoal' company must prepare two sets of documents, one from PAFO and the other from the Commerce Division of the province.

For charcoal being transported past in-country inspection posts, FID officials reportedly receive a small amount of money. This is apparently because charcoal trading is not very profitable. Sometimes officials get 20,000 kip (US\$2.35) per shipment that they inspect.

## **IMPLICATIONS FOR THE LACEY ACT AND EU FLEGT LEGISLATION RELATED TO THE INTERNATIONAL TRADE IN FOREST PRODUCTS**

Emerging market trends and new legislative requirements requiring third party verification of legally sourced wood products, or some form of “due diligence” in the sourcing of wood products, has caused a number of difficulties for Vietnamese furniture exporters. Retailers in Europe and North America are increasingly demanding certified wood products, and European public procurement policies are further increasing demand. In 2008, the US government amended the US Lacey Act making it an offence to trade in illegally harvested timber products and requiring declaration of species and country of harvest for imported timber product. Emerging EU FLEGT due diligence regulations will require all operators who place timber products on the European market for the first time to implement a due diligence system to minimize the risk that the timber was illegally harvested. While these legislative requirements are somewhat distinct, they have common elements such as proof of “due care” and documentation of product origin, volume and species.

If one is to look at specifically the US Lacey Act, the definition of “underlying” violations becomes crucial for Laos. It would include obvious violations, such as sourcing timber illegally from inside a National Park, but it can also include “the failure to pay appropriate royalties, taxes, or stumpage fees and violations of laws governing the export or trans-shipment of plants.”<sup>50</sup>

It is generally difficult to say with any certainty whether some or any of the timber that is exported from Laos has been harvested, transported and sold without any illegalities having taken place. There are so many places along the timber commodity chain where it is possible for officials to gain ‘illegal’ benefits that it seems unlikely that any timber is exported from Laos without at least some technical level of illegality being involved. Certainly this could have important implications for the furniture industry in Vietnam, which exports US\$1.2 billion worth of wooden furniture per year to its largest customer, the USA<sup>51</sup> most of which is made of wood sourced from other countries, including Laos.<sup>52</sup>

In addition, it could be easily argued that even for non-protected species of wood being exported from Laos to Vietnam, much of this wood that makes its way from Laos to Vietnam has been subject to at least some illegal practices along the commodity chain. This, however, also depends on what one wishes to define as corruption. There is certainly a fine line between some types of corruption and patron-client relations; there is also more blatant forms of corruption. Yet sometimes it is hard to distinguish between abuse of official power (corruption) and other types of relations between officials and others.

According to Forest Trends (2009), some Vietnamese government organizations and wood companies acknowledge that wood of Lao origin is perceived to be illegal. Thus, some well known large companies such as Truong Thanh Furniture Corporation and Tran Duc Group that export furniture to the US or European markets from Vietnam no longer purchase wood from Laos due to the risk to their reputation. It would appear that Laos could benefit by improving its governance system and thus reputation.

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<sup>50</sup> Gregg & Porges 2008: 5.

<sup>51</sup> Gregg & Porges 2008.

<sup>52</sup> EIA/Telepak 2008; Gregg & Porges 2008.

## CONCLUSIONS

This report has demonstrated that there are indeed many opportunities for forestry officials and other employees of the state to gain benefits from logging and the timber trade in southern Laos, either through direct and blatant corruption or through more nuanced forms of patronage and clientalism.

By anyone's standards, various forms of corruption are certainly occurring within the forestry sector in southern Laos. However, apart from blatant corruption, the benefits of logging and the timber trade are also being distributed to government officials in ways that are not seen by all Lao people as being necessarily corrupt, or at least worthy of disdain. Benefit-sharing is often based on patron-client relations of various types, some of which are more socially acceptable than others. Moreover, sometimes corruption and clientalism are intertwined in unusual ways, making boundaries blurrier in the process. Some of what would appear to be accepted as corruption according to international standards appears to occupy different locations in the Lao socio-cultural and political context. Sometimes it is simply considered to be rational payments for services.

Still, a forestry official commented, during one of the interviews done for this study, that there are now fewer possibilities for forestry officials to gain benefits, because logging quotas are generally smaller than they were a few years ago, and rules are stricter. Some forestry officials also complain that their profession has been excessively targeted for crackdowns compared to officials in other state sectors. One forestry official stated, "When a forestry official builds a new house he is immediately suspect, but tax officials and the police appear to have no problems doing the same thing without being scrutinized."

In addition, there are fewer opportunities to export wood now that only fully processed wood is officially supposed to be exported, although *Forest Trends* (2009) indicates that a considerable amount of roundwood is still being illegally exported from Laos to Vietnam.

There are also fewer sawmills operating than a few years ago. Thus, there are fewer companies remaining to compete for the attention of government officials, and fewer chances for gaining benefits based on clientalism. As the official put it, "The more companies there are, the more money officials receive!"

The problem with corruption in the logging sector has been acknowledged by many, including the GoL,<sup>53</sup> which in recent years has tried to close at least some of the loopholes that have contributed to poor governance within the logging sector in the country. Some of these reforms have been relatively successful, and have had a significant impact on reducing instances of corruption. The rules for logging and timber trading in Laos have changed, and the results have so far been generally positive. Rules are being enforced more strictly than just a few years ago. Many loopholes have been closed, and companies are having to be more careful to avoid getting into trouble. The establishment of the FID has especially been important for adding more checks and balances to the system, as has the issuing of Decree 17/PM 2008.

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<sup>53</sup> See Phouthonesy 2005.

Still, it is important to understand the underlying political circumstances in Laos, and to recognize that the above-mentioned reforms are unlikely to be sufficient to stop all forms corruption within the Lao logging sector, and are even less likely to put an end to the many borderline varieties of benefit-sharing that are related to complex patron-client relations. Administrative reforms cannot end the culture of accepting corruption and benefit-sharing based on patron-client relations as being 'normal'. Where there is power there are frequently opportunities for corruption, and the political system and government culture in Laos is not transparent enough to limit officials from gaining considerable power, or from making use of that power to gain opportunities to benefit from either promoting illegal activities or from simply using patron-client relations to gain benefits.

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## **ANNEX 1: THE INVOLVEMENT OF VIETNAMESE COMPANIES IN LAOS**

It is not uncommon to see Vietnamese logging trucks plying the roads of southern Laos. Vietnamese trucks are frequently manned by Vietnamese men. Vietnamese loggers also commonly cut down the trees. Therefore, it would not be unreasonable to think that Vietnamese companies are heavily involved in logging in Laos. In fact, they are, but not officially. It has long been the law in Laos for only Lao companies to be allowed to have logging quotas. More recently, however, it was decided that only Lao logging trucks could transport logs and lumber in the country. When the new rules came into affect a few years ago, companies had to act quickly. Many Vietnamese trucks were quickly re-registered as Lao trucks. It is not illegal for Vietnamese nationals to drive ‘Lao trucks’, so once all the formerly Vietnamese trucks officially became ‘Lao trucks’, everything was considered legal. The reality is that there have been few changes.

In fact, Vietnamese companies often control logging quotas and timber transport, even to the extent that they sometimes fail to mention the Lao ‘shell companies’ that they are working through.<sup>54</sup> In these cases, Lao people just represent the Vietnamese with Lao government officials, as these Lao have the skills required to deal with officials. They just show their faces when required. For example, there was a furniture factory in Khong District that is officially owned by a Lao but in reality it was only Lao in name. A Vietnamese man really controlled the whole operation. There are many similar examples involving logging companies, both small and large. There are also cases when there are joint venture companies that have both Lao and Vietnamese interests. These arrangements are legal.

Lao companies also sometimes hire Vietnamese laborers. This is done for a few reasons. First, the Vietnamese are generally much more efficient at logging than the Lao. One Lao forestry official went as far as to claim that they are twice as fast, at least that is the perception of many. The Vietnamese are believed to be much faster at making roads in the forest to reach trees, and they are also thought to be better at maintaining, fixing and operating logging trucks. Therefore, Lao companies frequently sub-contract Vietnamese loggers to cut trees, and Vietnamese trucks to work to haul logs. When Vietnamese loggers go to log, they usually have local villager representatives working with them in the villages.

Vietnamese loggers hired to work for Lao companies often hire other groups of Vietnamese to work with them as temporary workers. However, it is common for the company to provide all the equipment needed to do the job. Log hauling companies are also specifically hired to transport the timber. Some of the Vietnamese hired to do logging come directly from Vietnam. Others are based in Pakse. Some spend the dry season in Laos, and return to Vietnam during the rainy season. For those coming directly from Vietnam, it is common for a ‘*bat phan den*’ (in Lao) border pass to be made for a worker. Then, once the worker arrives, he can work for the company illegally. However, large companies are generally less interested in hiring illegal workers, as they do not want to risk problems with the GoL. Large companies frequently require that workers from Vietnam have border passes and work permits. Companies may assist employees by extending their visas, or if workers are fined by the GoL for working illegally, the company may agree to pay these fines. However, if any serious problems arise, the company will claim to not be responsible. The temporary basis of these contracts can help companies avoid taking responsibility for problems that arise.

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<sup>54</sup> See, for example, Forest Trends 2009.



There are many possible arrangements. Sometimes legitimate Lao companies hire Vietnamese to log and transport logs. In other cases Vietnamese companies actually control concessions but operate under a Lao 'shell company' that is essentially responsible for working as the interface between the Vietnamese company and the government. Forest Trends (2009), for example, gives the impression that Vietnamese companies are in full control of many logging and wood processing operations in southern Laos. This is interesting, and may well reflect the reality as far as the Vietnamese company managers he spoke with. However, the view of government officials in Laos is different, as they claim that Lao companies have all the quotas, not Vietnamese companies, even though everyone realizes that Vietnamese people are doing most of the work. In these cases Vietnamese companies may pay Lao companies for their quotas, and actually work in the name of the Lao company. However, the Vietnamese company is responsible when problems occur, although it would usually hire a Lao person to arrange the paperwork with the GoL. This sort of system is also common when it comes to coffee trading in southern Laos.

## **ANNEX 2: PLANTATIONS AND FORESTS IN SOUTHERN LAOS**

Economic land concessions and large commercial plantation development have become controversial topics in recent years. In May 2007 the Prime Minister of Laos issued a decree which put a moratorium on new economic land concessions. The decree did not allow anyone but the central government to approve land concessions larger than 100 hectares. However, in early 2009 the moratorium was lifted although a weaker version was brought back in less than two months later.<sup>55</sup> Much has already been written about environmental and socio-economic problems related to rubber plantation development in Champasak, Xekong and Salavan Provinces in southern Laos.<sup>56</sup>

During this study it was found that in Samakhixay District, Attapeu Province, villagers have complained about the loss of land to a rubber plantation company. The rubber company claimed that the problem was solved after it gave some rice to the district government, which in turn gave it to the villagers. One has to wonder if the provision of some rice really is enough to compensate for the people's loss of land.

In 2008, the Hoang Anh Gia Lai Company signed a 30,000 ha land concession for rubber. While the Vientiane Times newspaper claimed that the whole concession was for Somboun Sub-district, Phou Vong District<sup>57</sup> a senior Agriculture Extension official in Attapeu Province reported, in January 2009, that the 30,000 ha was for all of Laos, and that there has never been a plan for the company to plant more than 10,000 ha in Attapeu Province. He expected that in reality the company would only receive permission to plant about 4,000 ha in Somboun Sub-district. He stated that if village heads did not sign-off to the concessions, they would not be allowed to be developed in those villages. He also claimed that just because a concession for rubber has been signed by the central government, it does not mean that the provincial and district government are required to provide the desired amount of land to the company with the concession. Apparently if there is not enough land, the company is out of luck.

It appears that the situation is much like the senior Agriculture official reported above, as in April 2009 the Vientiane Times<sup>58</sup> reported that Hoang Anh Attapeu Company, a subsidiary of Hoang Anh Gia Lai Company, was developing 10,000 ha of rubber plantations in Attapeu, in the districts of Phou Vong, Sanxay and Saysettha. It also plans, over the next three years, to develop a new community for people working on the plantations, at the cost of US\$6 million. It is not entirely clear how this rubber development project is linked to the same company's sawmill in Saysettha District, but the areas being converted to rubber are forested areas, and the company's sawmill operations in Attapeu may at least be partially relying on wood from areas being cleared to make way for rubber.

There are apparently other rubber companies planning to plan rubber in Phou Vong District. For example, 2,000 ha of land is expected to be planted near Na Seuak Village, and there is another rubber company, the Ho Chi Minh Company, which is planning to plant 3,000 ha of rubber in Somboun Sub-district. According to a provincial official, there are about ten rubber companies trying to develop plantations in Attapeu at present.

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<sup>55</sup> Baird 2010.

<sup>56</sup> Baird 2010; NMLA et al. 2008; LBA 2008; Obein 2007.

<sup>57</sup> Vientiane Times 2008.

<sup>58</sup> Vientiane Times 2009a.

All are apparently Vietnamese owned. While many rubber concessions under 100 ha have been approved in Champasak Province since May 2007, when the land moratorium made it theoretically impossible for provinces and districts to approve land concessions over 100 ha, surprisingly no small concessions have apparently been approved in Attapeu.

A senior Agriculture Extension official in Attapeu Province claimed that there were no problems with the companies developing rubber in the province, as they were all utilizing ‘empty land’ (*‘din pao vang’* in Lao), which he claimed was ‘State land’, not ‘Villager land’, even if it is not a recognized category of land or forest under the Lao Forestry or Land Laws.<sup>59</sup> He recognized that villagers are losing land that they previously collected non-timber forest products (NTFPs) from, but he thought that this was acceptable, since it was State land that was being used. He also claimed that companies and villagers are being allowed to come to their own agreements regarding company compensation for villagers negatively impacted by rubber development. He also claimed that there is still plenty of land available in Attapeu, and that three hectares for each Lao family is more than enough. However, he said that rubber plantations could only be developed in dry dipterocarp forests (*pa kbok*), even though those are the forests where important NTFPs, especially various kinds of edible mushrooms, are most common.<sup>60</sup> He also said that only degraded (*pa sout som*) and fallow land (*pa lao*) could be converted into plantations, whereas protection forests (*pa pongkanh*), production forests (*pa phalit*) and conservation forests (*pa sa-ngouan*) could not be converted into rubber plantations. He said that neither the provincial government nor the district governments in Attapeu were approving rubber concessions. He claimed that all concessions were being given the go ahead by the central government. The official also stated that the rent for the rubber plantation land was expected to be increased substantially soon to US\$80/hectare/year. While he acknowledged that a decree announcing this change had not yet been issued by the government, he claimed to have been involved in meetings with the central government in which that amount was agreed upon.

A district forestry official from Khong District explained that at present the provincial government of Champasak has changed some of its policies in relation to rubber concessions. A 3,000 ha rubber concession has been approved near Set Nam Ome Village in Khong. However, according to relatively recently applied provincial rules, the company is not supposed to plant more than 100 ha of rubber a year, a measure that is not apparently related to the May 2007 or the more recent land moratoriums, but is rather more related to concerns that companies will clear large pieces of land and then leave the land idle without planting it in a timely fashion. They want to avoid situations where companies clear large areas of land and then plant rubber in only small areas. They want to see land developed as it is cleared. That is why they are only allowing 100 ha of land to be cleared and planted each year for each concession.

These rubber plantations are also supposed to be located at least 100 m from any lowland rice paddy and 100 m from streams (sometimes 200 m is actually allocated), which would be in significant contrast to what

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<sup>59</sup> There are presently five types of forest types officially recognized in Laos: 1) Conservation Forest (*pa sa-ngouan*) 2) Protection Forest (*pa pongkanh*), 3) Production Forest (*pa phalit*), 4) Degraded Forest (*pa seuam som*), and 5) Reforestation or Restoration Forest (*pa feun fon*).

<sup>60</sup> Shoemaker *et al.* 2001.

happened a few years ago in Bachieng District, Champasak Province, where concessions have frequently extended to the edge of streams.<sup>61</sup>

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<sup>61</sup> Baird 2010; NLMA *et al.* 2008; Obein 2007.

## **ANNEX 3: ROSEWOOD LOGGING IN XE PIAN NATIONAL PROTECTED AREA**

Rosewood (*Dalbergia cochinchinensis*) or ‘*mai kha-nyoung*’ is one of the rarest and most valuable varieties of timber in Laos. Lao law specifies that this species is not to be logged or exported except under extraordinary circumstances. This tree species reaches about 7-8 meters in height when mature, and trees are less than 50 cm in diameter, growing in rocky areas with poor quality soil. Ethnic Han Chinese believe this wood brings ‘good luck’ (‘*sirimoukhou*’ in Lao) to those who own it. In 2007-2008, the price of this wood species increased to thousands of dollars per cubic meter, by far the highest prices ever seen, thus encouraging increased logging of the species.

This kind of rosewood is only found in a few areas in Laos, including parts of Attapeu Province east of Xekong River, Xe Pian NPA in Champasak and Attapeu Provinces, and the Nakai Plateau in central Laos. Small quantities also grow in Phou Vong District in Attapeu, and along the edge of the Boloven Plateau in Samakhixay District, in the forests of Phoukham and Beng Villages.

Between November 2006 and May 2007, and estimated 700 m<sup>3</sup> of wood, mainly rosewood, was officially removed from the Xe Pian NPA. Various government officials claim that a few years before it had been discovered that Cambodian loggers had penetrated the Lao border and cut down the trees inside Laos, including the Xe Pian NPA. Logs that had been abandoned when the logging operations were discovered by the Lao government and the loggers were forced to leave the area quickly lay along the border, instigating a large debate about how this wood, already harvested, should be used. Further complicating the debate, a new road access would have been needed to access the abandoned logs. After much debate on its location<sup>62</sup>, the road was built and the wood was ultimately removed.

It is not known how much timber was actually removed during the operation, but certainly more than the 700 m<sup>3</sup> originally cut by the Cambodian loggers. Additional trees were fallen to make room for the access road to the log area, and other trees were also opportunistically fallen along the route. One observer estimated that the actual amount of wood harvested from the area was likely to be more than double the original cut, possibly 1,500 m<sup>3</sup>. The company responsible for the road building and the cutting of the trees was *Chaleun Kam Kha* (a company with a Vietnamese owner and close connections to the Lao People’s Army).

While this logging has now stopped, it had a significant impact on communities surrounding Xe Pian NPA, as it encouraged other local small-scale loggers to illegally enter Xe Pian NPA to cut rosewood trees, as they increasingly realize that the GoL does not have sufficient resources to enforce the NPA rules or otherwise

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<sup>62</sup> Initially, it was proposed that the timber could be accessed by a new road that would run through the middle of Xe Pian NPA from Taong Village to the Laos-Cambodia border. However, Global Witness sent a letter to the Lao government in 2005 asking the Lao government not to build a road through Xe Pian NPA to access the timber. In the end, apparently due to the tourism in the Taong area, which could have suffered as a result the new road construction and increased logging truck traffic, it was decided to change the location of the new road so that it would go from Nong Khe Village in Sanamxay District, Attapeu Province southwest to the logging concession area along the border. The second landing for the concession was located at Nong Khe Village. The Provincial governor of Champasak Province asked for permission to remove the wood via Xe Pian NPA from the central government, which approved the request.

protect such a large NPA. For example, in late 2008, 127 stacks of illegally sourced wooden planks were discovered inside the NPA. There was also reportedly some logging of wood resin trees inside the NPA near Chan Village, Khong District in 2008. The district had apparently approved the cutting outside of the NPA, but villagers were actually cutting inside the NPA. The villagers, when caught by NPA staff, claimed that they were not aware that they were logging inside the NPA, as the border has not been precisely marked in the area.

There have also been reports that villagers from Khong District and the Cambodian villages in Siem Pang District, Stung Treng Province called Khamphok and Khampha have been logging for rosewood in Xe Pian NPA along the border. These people are not organized as a company, but operate in groups of about 100 people, working in smaller numbers cutting their own wood, but staying together in a camp located deep in the forest along the Laos-Cambodia border. They apparently only harvest rosewood. Once wood has been cut into slabs in the forest, it is loaded onto tractor wagons and taken down the Cheung Hiang River from Laos to Cambodia. Some of the wood is also transported by tractor wagon into Laos, via Phon Sa-at Village in Khong District, Champasak Province, using the old French road to Siam Pang District in Cambodia. In some cases Lao soldiers are supporting the log cutters along the border, as are Lao border police. They are supporting loggings from both sides of the border. Apparently the cutters take 70% of the profit and the soldiers receive 30% for providing 'protection'. The loggers get more because they are at a higher risk, since they use their own equipment – which would be lost if they were caught – and labor. It is unclear how the Lao and Cambodian soldiers divide up the stakes. It is likely to depend on what side of the border the wood is taken from. It is not believed that there is any agreement between the two sides. Rather, the Lao soldiers benefit from wood taken on the Lao side, while Cambodian soldiers benefit from wood logged on the Cambodia side.

## **ANNEX 4: ILLEGAL TRANSPORT OF LOGS FROM CAMBODIA TO SOUTHERN LAOS**

In the 1990s large quantities of raw logs were exported from Cambodia to Laos, before being transported to Thailand.<sup>63</sup> However, in recent years large quantities of timber have stopping flowing from Cambodia to Laos due to Cambodia's ban on raw log exports.

However, there are still some smaller scale timber traders selling wood, mainly roughly cut wood (*'mai pe boup'*) from Kampong Sralau (Tha Peuay in Lao), Choam Khsant District, Preah Vihear Province and Khong District, Champasak Province, via places like Muang Sen on the west side of Khong Island, and Hatsaikhoun Village on the 'mainland' adjacent to the Mekong River and east of Don Khong. It is unclear how many people sell timber from Cambodia to Laos in the Kampong Sralau (Tha Peuay) area, but there are at least a number of operators. Some traders based at Muang Sen have warehouses near the river for storing small amounts of wood brought over from Cambodia. In Khong District, there are four furniture shops that are supposed to source their wood from left-overs from the district's two sawmills. However, in reality they mainly buy their wood from villagers and from Cambodian traders. It is unclear how much wood is imported from Cambodia to Khong District for local use each year, but it is likely to be in the hundreds of cubic meters per year.

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<sup>63</sup> Global Witness 1998; 1999; Bangkok Post 1998.