

Vietnam's Small-Scale Sawmills in the Context of the FLEGT-VPA

This Information Brief summarizes case studies on small-scale sawmill operations in Vietnam and discusses whether sawmills are prepared to meet new timber legality requirements of the FLEGT-VPA. The brief is a summary of a full report available in Vietnamese which was written by Quang Dang Viet, Nhung Quach, Hong, Thieng Pham Duc, Tung Nguyen Thanh, and Cam Cao Thi.

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Introduction

Since 2001, Vietnam's wood processing sector has experienced considerable growth, making Vietnam the largest furniture exporter in Southeast Asia. Sawn wood represents an important product group within the industry, because it serves as an intermediary material which allows unprocessed timber to be used in finished products. Vietnamese sawmills therefore play the important role of converting logs into materials which can supply domestic wood manufacturers. Sawmills have recently sprung up in many parts of the country, such as Yen Bai and Phu Tho, where most timber comes from acacia plantations, and in provinces in the Central North (Quang Binh) and Highlands (Dak Lak and Kon Tum), where most timber is harvested from domestic natural forests or imported from Laos.

Vietnam is currently negotiating a Voluntary Partnership Agreement (VPA) with the European Union (EU) under the Forest Law Enforcement, Governance, and Trade (FLEGT) Action Plan. Two important components of the VPA are the development of a national timber legality definition (TLD) and Timber Legality Assurance System (TLAS). The TLD and TLAS will be based on existing Vietnamese laws and on consultations with relevant stakeholders.

Once the VPA is signed and ratified, the requirements will apply to all enterprises across timber supply chains, including actors engaged in timber planting, harvesting, importing, transporting, processing, trading, and exporting. Although small-scale sawmills do not export directly to Europe, they will still need to be in compliance with the TLD and TLAS. In order to understand how the VPA will impact sawmills and assess their readiness to meet these new legality requirements, Forest Trends, GIZ Forestry Programs, and VIFORES conducted a study which explores the following questions:

- How are Vietnamese sawmills managed and operated?
- What are the economic, social, and environmental impacts of Vietnamese sawmills?
- In what ways will Vietnam's VPA affect small-scale sawmills? How will sawmills meet new legality verification requirements imposed by the VPA?

Field research was conducted in Yen Bai, Phu Tho, Quang Binh, Kon Tum, and Hanoi in late 2012 and early 2013. The study focused on small-scale sawmills sourcing timber from plantations, domestic natural forests, and other countries. This Information Brief summarizes the key findings of the full report which is available in Vietnamese¹ and concludes with recommendations to help prepare sawmills to meet new legality requirements and ensure that the VPA does not lead to their exclusion from the supply chain.

Key Findings

- **Most small-scale sawmills are in violation of labor laws.** At the household level, sawmill owners are generally responsible for overseeing all sawmill activities. Machinery is usually inexpensive and either man-made or domestically manufactured. These machines are often unsafe for those who operate them, and workers are rarely trained in safety measures or fire protection. Furthermore, employees rarely sign formal labor contracts with sawmill owners or receive health or social insurance. For these reasons, most small-scale sawmills are not in compliance with the government's occupational health, safety, and labor regulations and will have difficulties meeting strict timber legality standards.
- **Most sawmills do not have Chain of Custody (CoC) systems in place and therefore cannot trace wood back to its origin.** The raw materials supplying sawmills come from three categories: small-scale plantations, state forestry enterprises, and timber import companies. When sawmills are located close to a supply source, they may purchase the materials directly from the supplier, but in most other cases they purchase raw timber from intermediary enterprises. Sawmills generally do not have systems in place to trace timber back to its origin or provide certification documents to actors further down the supply chain.
- **Small-scale sawmills are not properly registered or prepared to meet the documentation requirements of the TLAS.** According to Vietnam's TLAS requirements, sawmills should issue Value Added Tax (VAT) receipts to buyers and should have a document certified by the Commune People's Committee which confirms a commitment to environmental protection. However, most small-scale sawmills are not in compliance with these requirements.
- **Small-scale sawmills have positive impacts on local livelihoods and plantation forests.** The growth of the small-scale sawmill industry has led to increased tax revenue for local governments and has increased the incomes of local households. Research conducted in Tay Coc commune, Doan Hung district, and Phu Tho province revealed that from 2000-2012, sawmills increased local government budgets by ten percent and provided jobs for approximately ten percent of households. The sawmills have also increased demand for plantation timber which has led to afforestation through the development of timber plantations in Midland and Northern mountainous areas.

Conclusion and Recommendations

Small-scale sawmills are contributing positively to the livelihoods of smallholders and Vietnam's afforestation efforts. However, this study found that most sawmills are not yet prepared to meet the legality requirements of the TLAS and are therefore at risk of being excluded from supply chains. The authors make the following recommendations to ensure that small-scale sawmills are better prepared to meet new timber legality requirements:

- Small-scale sawmills should be registered so they can issue Value Added Tax (VAT) invoices. Household sawmills can register as a group in order to reduce the administrative burden.

¹ An unedited translation of the full report is available in English upon request. Please contact Dang Viet Quang at dquang@forest-trends.org.

This Information Brief and its underlying research were financed by the UK's Department for International Development (DFID) and the Norwegian Agency for Development Cooperation (NORAD) and the German Federal Enterprise for International Cooperation (GIZ).

It was written by Quang Viet Dang and edited by Eve Richer.

- Government authorities and other organizations should develop an easy to understand guide to the TLAS so that sawmill owners and workers are aware of timber legality requirements.
- Sawmill owners and workers should receive training on machinery safety, fire protection, and the process of formalizing labor contracts.
- Sawmills should receive training on how to develop a timber traceability system. Materials should be certified before entering sawmills and after leaving them so that other processors can trace the origin.
- Vietnamese timber associations should link small-scale sawmill owners with plantation growers and larger processors in order to develop a Chain of Custody (CoC) system which meets certification standards. This will help everyone along the supply chain to conduct credible due diligence. Through this cooperative arrangement, larger enterprises can provide financial and technical support to smaller enterprises.



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