MEASURES TO PROMOTE EXPORT OF WOODEN PRODUCTS TO THE US MARKET

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Vietnam has witnessed a substantial ascent in the export of wooden products to the U.S. market during the past few years. The products are considered as of high quality and have good designs, but they fail to meet the U.S. demands for imports. Particularly, in the coming time, Vietnamese enterprises will encounter many difficulties relating to rules of origin and compliance requirements for wood export because the Lacey Act had come into effect. This is a technical barrier to companies that want to export wood to the U.S. market. Therefore, to make successful wood export to this market, Vietnam needs to analyze influential factors to wood export and effective measures should be taken by both the government and enterprises. This also aims to reduce the country's trade deficit.

Keywords: Vietnam's wood export turnover, supply of wood, the Lacey Act, Vietnamese wood and wooden products

1. Problem

In late 2001, the Vietnam – U.S. Bilateral Trade Agreement became effective, opening the door to the U.S. market for Vietnamese enterprises. This made Vietnam one of the 15 largest exporting countries to the U.S. market in 2003, mostly due to its export of wooden product. According to the USITC, Vietnamese wooden products rank 12th in US annual imports with a share of 0.7%. Specifically, the U.S imported US$744 million worth of Vietnamese wooden products in 2006. This figure rose to US$1 billion in 2010 and US$1.39 billion in 2010, making it Vietnam's largest export market of wooden products.

However, Vietnam still sees a low export turnover of these items from this market. It will face obstacles related to rules about origins and complicated compliance regulations. The amended Lacey Act – a section of the Farm Bill – was enacted in 2008 and applicable to imports from Vietnam in June 2010. This is a technical barrier to Vietnamese enterprises in exporting wooden products to the U.S.

Despite the recent financial crisis in the U.S., the export of Vietnamese wooden products to this market is very strong. Francis Donovan, director of USAID Vietnam, believes that Vietnam will become a big exporter of wooden products and therefore will play a major part in the flow of forest products worldwide. Contributions to the combat against illegal wood exploitation will give the country easy market access by increasing its supplies of legal forest products. The U.S. pledged itself to cooperate with Vietnamese enterprises in supplying sustainable and legal wood that meets international standards.

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2. Export of Vietnamese wooden products to U.S.

a. Facts:

The wood export industry has recovered and grown after the global financial crisis. In fact, the year 2010 marked the success of the industry despite potential risks in the global economy. The world's interior furniture production only grew by 5%, but Vietnamese wood exports sustained a high growth rate with a turnover of US$3.5 billion, up 35% compared to the same period of 2009. Specifically, the turnover from exports of wooden products to the U.S. experienced a continual rise from US$16 million in 2001 to US$744 million in 2006 and US$1,100 million in 2009. This figure stood at US$1,390 million in 2010, indicating a growth of 131.53%.

Table 1: Export turnover of Vietnamese wooden products to the US market (US$ million)

Year	2005	2006	2007	2008	2009	2010
Export turnover (US$ million)	681	744	944	1,048	1,100	1,392
Rate (%)	-	109.25	126.88	111.02	104.96	131.53

Source: Ministry of Industry and Trade

Statistics from the General Department of Customs show that in the first five months of 2011, Vietnam exported over US$505 million worth of wooden items, up 1.96% annually. The export turnover of May 2011 alone made up US$117 million, up 10.23% annually. According to Vietnamese enterprises of wooden products (VEWP), the recovery of the realty market and the growth of the construction industry in the U.S. have promoted Vietnamese wood exports lately. An encouraging fact is that Vietnam saw no batch of exports rejected from the US market after the Lacey Act, a law specifying the origin of exploited wood, came into effect.

b. Achievements:

Thanks to the Vietnam – U.S. BTA, which took effect in the late 2001, Vietnam was able to enter the US market with a tax decrease from 50-60% to 0-3%. In 2003, it ranked among the 15 biggest exporting countries to the U.S. Despite the US financial crisis, the export turnover of Vietnamese wood to the country has been growing in recent years.

Vietnam has about 3,000 enterprises operating in wood processing with an annual processing capacity of 2.2 to 2.5 m^2 of round timber. Of them, 450 enterprises specialize in wooden product for export (including 120 in making exterior items and 330 in making interior items). With more than 170,000 skilled workers, they have made striking impressions on foreign importers. Vietnam's efficiency in wood processing has greatly improved not only in the number of factories and production scale but also in the modern equipments for product quality enhancement, managing abilities and workers' skills.

As regards production levels of VEWP, their products can now meet high requirements about designs and origins that are unharmful to the U.S. environment. In HCMC and its neighboring provinces where 50% of enterprises are operating and 70% of nationwide wood exports are produced, most enterprises are equipped with modern paint sprayers from Germany and Italy and met American or EU standards. Vietnamese wooden products are valued as having good quality, creative designs, and competitive prices, and therefore become highly prestigious to customers. VEWP also specialize in producing sophisticated products with high added value such as interior items with diversified designs and models. It is common now for VEWP to employ foreign experts in designing and marketing products. Several VEWPs even open representative offices and commercial companies in big wood markets like the U.S. and EU to take charge of product distribution and marketing. In addition, to proactively prepare for long-term material sources, some VEWP do not just import materials but also participate in afforestation and invest in the construction of production bases to make wood materials such as plywood and MDF timber.

Last, the promotion of Vietnamese wooden products has proved effective in the US market through the participation in US fairs for interior furniture. This thereby makes Vietnamese products increasingly known to American importers.

c. Limitations:

Vietnam has to import 80% of wood materials, a rise of 30-40%, accounting for 37% of the production cost. Meanwhile, world selling prices increase only 5-7%, diminishing competitiveness of Vietnamese enterprises. Even worse, they have to compete for wood materials because wood supplies from Laos, Cambodia, China, and Thailand, etc. have recently decreased, the prices of Malaysian wood materials increased greatly and Russia raised export duties on wood. Simultaneously, at Móng Cái Port, wood materials such as cajuput and acacia mangium timber are bought in large quantities (300 m^3 of round timber and 200 m^3 of cleft timber a week) by Chinese importers, making wood materials sources increasingly scarce. It is a paradox found only in Vietnam that output prices remain almost unchanged or even decrease while input costs are rising. Besides, average profit per exported product maximizes only 10% whereas input costs, a determinant of the production cost, experience an average rise of 18-20%. This is causing burdens for Vietnamese enterprises.

Regarding domestic wood sources, their planning and development are neglected. The construction of a nation wood processing network is not consistent and does not help take advantage of limited wood material sources.

Additionally, VEWPs are operating on medium and small scales with poor managing abilities, lack of skilled technical workers, low labor productivity, lack of creativity and weak competitiveness. A Vietnamese worker produces a value of US$10,000 a year compared with US$16,000 in China and US$17,500 in Malaysia. In production, the common mode is a combination between manual labor and machinery. Investment in modern equipments from developed countries has not been planned properly, resulting in low quality in designs.

Enterprises of manufacturing wood have replaced their machines and technologies, but most enterprises producing wooden art works still employ outdated equipment and production lines from Taiwan and China. The latter therefore cannot take large orders or meet high standards of some demanding markets. Wood processing enterprises only engaged in processing materials and producing goods based on designs supplied by foreign buyers. This turns them into employees and badly affects the brand of Vietnamese wood in the international market.

In addition, small wood enterprises are creating imbalance in export prices when they compete by selling low-quality products at low prices. VEWPs lack mutual connection to compete with foreign rivals, and operate separately and inconsistently. Accessories provided along with main items (accounting for 5-10% of product price) are usually of poor quality and high prices. Support industries such as the chemical production and processing industries are underdeveloped and therefore cannot aid the wood industry. Moreover, due to weak financial resources, the industry does not afford to conduct market researches or promote their brand names in foreign markets. Consequently, VEWPs' vision of foreign markets' demands and tastes is limited. Policies and measures to protect Vietnamese brand names and designs in the global market lack transparency and specification.

Rising gasoline prices result in very high shipment costs of wood materials. For example, the shipment cost will make up 27% of total expense on raw materials if the wood is imported from South Africa, 37% if from South America and 45% if from the South Pacific. Furthermore, lending interest rates remain a challenge to producers and exporters of wooden products. Besides, trade promotion and market research are not effective enough.

The US protectionist policies and regulations acting as technical barriers to imports from Vietnam because they have to meet stricter requirements and compete against other rivals in this market such as China, Canada and Mexico. For example, to export wooden products to the U.S., Vietnamese enterprises face such obstacles as the Farm Bill 2008 and the Lacey Act. Additionally, wood exports must comply with other regulations such as the Consumer Product Safety Improvement Act. As for interior items that include textile materials, they must be labeled as specified in the Textile Fiber Products Identification Act supervised by the Federal Trade Commission. The currently biggest challenge to VEWPs is to passively observe most of the new rules introduced by American importers.

3. Influential factors to the export of Vietnamese wooden products to U.S.

a. Favorable factors:

Concerning sources of materials, Vietnamese producers of wooden products have relied on natural forests at first and now on imported wood and planted forests. According to statistics from the Ministry of Agriculture and Rural Development, Vietnam has a total forest area of over 10.9 million ha, of which natural forests occupy 9.44 million ha with a wood reserve of 720.9 million m^3 and 1.5 million ha of newly planted forest. For environmental protection and sustainable development of natural forests, quota for wood exploitation from natural forests is limited to about 300,000 m^3 per year, mainly serving demands in construction and making wooden products for domestic use (250,000 m^3) as well as making handicrafts for export (50,000 m^3). Moreover, the ministry has carried out a plan to afforest five million ha area and since 2010, the plan has completed two million ha of protective and special-purpose forests and three million ha of forest for exploitation.

Furthermore, the government encourages organizations, households and individuals to sign contract to grow forests on bare areas and hills. Priority is placed on the planting of forests to be used as raw materials. The renting and bidding of land for afforestation is also made more accessible. As for forest planters, they could benefit from tax reduction or exemption, and obtain loans at preferential interest rates according to kinds of forests and local ecological features.

To proactively ensure supplies of wood, aside from afforestation, artificial board factories are also developed to support the wood processing industry such as Gia Lai MDF Factory with a capacity of 54,000 m^3 of wooden products per year, Sơn La MDF Factory at 15,000 m^3, Bình Thuận MDF Factory at 10,000 m^3, Thái Nguyên Particle Board Factory at 16,500 m^3, Thái Hòa Factory (Nghệ An Province) at 15,000 m^3 and Hoành Bồ Factory (Quảng Ninh Province) at 3.000 m^3 per year.

The world's demand for wooden products is experiencing an enormous rise of at least 8% per year, especially in the U.S., which sees the highest demand for wood imports. In this situation, Vietnam's wood processing industry has grown substantially in terms of quantity and quality, ranking among one of the seven goods yielding the biggest export turnover of processed wood in Southeast Asia.

Finally, the fact that China, a rival of Vietnam in the wood industry, was imposed with anti-dumping taxes by the U.S., facilitates the replacement of Chinese products with Vietnamese ones on U.S. market. In addition, Vietnam Trade Promotion Agency (VIETRADE) was provided with tens of billions of VND by the government to support trade promotion (such as organizing expos, promoting products, and establishing websites on Vietnamese wood industry, etc.)

b. Unfavorable factors:

- Sources of materials:

Vietnam imports 80% of wood materials each year which accounts for up to 37% of production costs. The imported wood is mainly round and sawn timber, MDF plank, HDF varieties, etc. and comes from Malaysia, China, the U.S., Laos, and Cambodia, etc. Additionally, VEWPs also import processed wood such as sawn and cleft wood to re-carve it for export.

In 2009, Vietnam exploited 3.88 million m^3 of wood including 3.7 million m^3 from planted forests. It imported up to 4 million m^3 of wood for the wood processing industry. In 2010, with favorable geographical location for transport, China became Vietnam's main wood supplier, followed by the U.S. and Malaysia. In 2011, China, the U.S., Malaysia, and Thailand remain principal wood suppliers. The first five months of this year saw a total wood import value of US$484.8 million, up 22.25% year on year. China had the highest wood turnover of US$57.1 million with a share of 11.7%, down 5.45% compared to the first five months of 2010. It is followed by the U.S. and Malaysia.

Table 2: Import of wood and wooden products in May and the first five months of 2011 (US$)

Market	Import value in May 2011	Import value in first five months of 2011	Import value in May 2010	Import value in first five months of 2010	Change compared to May 2010 (%)	Year-on-year change (%)
Total value	118,116,579	484,822,033	249,316,732	396,576,828	-52.62	22.25
China	15,033,517	57,109,688	16,610,515	60,399,002	-9.49	-5.45
U.S.	14,186,590	54,480,390	10,012,551	54,984,120	41.69	-0.92
Malaysia	8,745,332	36,487,767	9,395,248	48,719,516	-6.92	-25.11
Thailand	7,922,731	26,303,296	9,403,638	34,988,492	-15.75	-24.82

Source: General Department of Customs

- Prices of imported wood:

Since 2008, the prices of many wood varieties have increased by 5%-7%, especially hardwood up by 30%-40%. As a result, Vietnamese enterprises have suffered low or no profits although they have orders. The prices fell in early 2009 but resumed their upward trend in mid-2009 and into 2010. The year 2011 still shows signs of rising prices.

The high prices cause troubles for many VEWPs, especially small and medium ones, who make exports from imported wood. Moreover, they are facing difficulties, as several African countries and Malaysia have shut down the export of round and sawn timber, and Laos and Cambodia are running out of natural wood. The situation has brought several small enterprises to the brink of bankruptcy.

- Enterprise size:

In general, most VEWPs are of medium and small scales. Over a half of 3,000 operating factories have small sizes, outdated equipments and technology, and low workers' technical levels. Their products are of low quality and competitiveness. Some of them were supplemented with new equipments but the process was inconsistent.

Most VEWPs are located in southern provinces such as HCMC, Bình Dương and Đồng Nai, Central Vietnam and the Western Highlands such as Bình Định, Gia Lai, and Đắk Lắk. Several companies producing and exporting handicrafts are found in northern provinces and the Hồng Delta such as Hà Nội, Bắc Ninh, Hà Tây and Vĩnh Phúc. There are only 12 wood processing factories with a high capacity of 5,000 m^3 per year. Other 204 factories operate at an annual capacity of 1,000m^3 to below 5,000 m^3, 152 factories at below 1,000 m^3 and the remaining 456 at under 500 m^3.

The majority of Vietnamese wood processing enterprises work as subcontractors for foreign partners. They do not have their own markets and depend greatly on foreign customers. Many foreign enterprises, especially those from China and Hong Kong, invest heavily in Vietnam's wood industry and create a keen competition for foreign orders. This can easily lead to anti-dumping taxes imposed by US authorities on wooden exports from Vietnam.

- Human resources:

Wood export has enjoyed the highest growth nationwide for a long time. However, the wood processing industry is facing difficulties and challenges, namely low labor productivity and lack of skilled technical workers.

Vietnam has only five vocational schools where courses in wood industry are given. However, four of them specialize in afforestation and wood exploitation. Only one school located in the northern province of Hà Nam deals with wood processing, but the training aims to serve the purposes of making handicrafts and wooden art works and is limited to conventional tradition. The quantity and quality of wood processing workers are insufficient. Thus, the wood industry lacks workers with good expertise. Most workers are trained at the very factory where they work and lack technical knowledge, failing to satisfy strict requirements from such demanding markets as the U.S., and EU, etc.

- Policies:

There is no appropriate policy on development of wood processing. Changeable policies are also causing troubles. The wood processing industry has witnessed a severe shortage of materials. Natural forests are almost closed. Most materials come from planted forest now. Suitable technical solutions and production models are still lacking while technology needs improving. Importing wood materials is now harder because enterprises have to seek legal wood sources. This therefore leads to higher production costs and takes more time. However, the quality of legal wood does not match market demands. As a result, many factories are on the verge of shutdown or have to cut their output due to lack of materials.

The implementation of the Lacey Act on Vietnamese wooden exports means that their imported and exported wood must come from legal origins. As a result, they have to acquire certificates of FSC and CoC. Some 200 Vietnamese enterprises are holding both certificates. Acquiring such certificates requires abundant source of finance. Additionally, the identification of wood origins will be difficult if the wood is imported. There is no professional importer of wood who can buy and distribute legal wood in Vietnam; individual enterprises have to seek wood sources and act as wood dealers as well.

Finally, VEWPs are having trouble with lending interest rates at Vietnamese banks. Additionally, they find it hard to access formal supply of loans for production and export, or banks that back up their L/C. The documental cost for import-export L/C is very high and uncontrollable. For example, an L/C originally costs between US$30 and US$45 but is now charged US$90-137 by commercial banks. Such soaring interest rates and costs have caused wood enterprises great difficulties in their business.

4. Solutions for VEWPs

a. Aspects taken into consideration:

- The rise in quantity and quality of wood enterprises is an obvious trend for development of the market economy and global economic integration.

- Analyzing influential factors to VEWPs helps restrain adverse impacts on export promotion that aims to curb the country's trade deficit:

- The US market as the principal one for Vietnamese wood exports.

- Adaptation of VEWPs to the Lacey Act.

- Vietnamese policies for wood industry development from afforestation to production of wooden items.

b. Solutions:

To maintain a growth rate of over 20% for the wood export and to limit unfavorable effects on VEWPs, relevant ministries and associations should offer support to the exporters in boosting their exports to the US market. Here are some measures to achieve this goal:

- Solutions for exporters:

+ Source of materials:

To obtain sustainable export of wooden products, forestry authorities need to identify flora species suitable for export, and zone areas for afforestation based on local natural conditions in order to develop sources of materials needed for various wooden products, such as artificial board, or wooden products used for construction, etc. Furthermore, it is necessary to build strategies for sustainable development of forests. Concerning wood production and processing industry, it is essential to make full use of local materials, promote artificial board production, and limit export of unprocessed items in order to keep tight control of forest exploitation and reduce deforestation.

It is imperative that the wood industry ensure supplies of materials through long-term afforestation. This can help exporters proactively handle their materials to overcome any adverse change in foreign supplies of wood materials. Thus, the government should develop a policy for long-term credit supply suitable to the planting cycle for materials. In addition, it is urgent to re-zone afforested land to develop economic forests. Last, exporters should build their long-term afforestation projects to ensure materials for wood processing and diminish dependency on imported ones.

+ Wood production and processing:

It is recommended that VEWPs increase investment, enhance capacity for wood production and processing, and attract more FDI. They should also modernize large processing factories as well as small ones in rural areas and traditional craft villages, increase production of artificial board and reduce output of wood chip for export.

VEWPs need to raise productivity by making close connections to establish a chain of wood production and processing in which each enterprise specializes in one phase in making products to insure the consistent quality of the final product. About product strategies, VEWPs should pay attention to making indoor wooden products, especially high-quality ones that can bring in high profit. At the same time, they should also promote handicrafts export to make the best use of high skills of Vietnamese artisans and competitive prices.

Preferences for wooden products in foreign markets change very quickly. Moreover, the U.S – a multiracial country – has diverse market demands. Hence, aside from product quality enhancement, VEWPs should carry out surveys and develop designs that can suit every single segment of the market. It is also worth considering selecting materials appropriate for the climate of the export market. Furthermore, it is crucial to improve their processing technologies to enhance their public images and to restructure their business for more dynamic operation. The application of technology is just as important to save up to 15% worth of annual materials' waste.

VEWPs ought to seek financial aid from the government, in terms of low-interest and long-term loans for example, to increase investments in modern machines and technology. Besides, proper care should be given to the recruitment of technically skilled workers to guarantee proper and safe machinery operation and enhance productivity.

The U.S. is the largest export market of Vietnam. The door to the US market will be wide open to Vietnamese wooden products if it can overcome technical barriers, guarantee product safety, offer more competitive prices, fulfill SA 800 standards and grasp new laws of the US government and Customs, etc. To achieve these goals, VEWPs have to improve their foreign market research, make contact with import partners and retailers to obtain insights on the US import control mechanism. Furthermore, they should consult legal advisory agencies to better understand American rules and laws imposed on wood imports. In brief, VEWPs have to combine well the three stages of production, information seeking, and trade promotion.

- Solutions for governmental agencies:

+ Human resources:

For strong development of the wood industry, VEWPs should link up with vocational training schools to have their workers well trained. It is also necessary to create a comfortable and dynamic working environment so that employees can perform their best. Additionally, the government should finance on-the-job training for workers, reduce complicated procedures, and promote the training of wood-processing techniques in provinces where many VEWPs are operating. Regarding enterprises, they ought to send good technicians abroad for training, especially in model design. They also have to cooperate with each other in human resource training in order to reduce labor mobility within the industry.

+ Role of Vietnam Timber and Forest Product Association (VIFORES):

The Association should enhance its role and performance to connect local VEWPs, increase their productivity, protect interests of its members and create chains in production values and processing to improve local enterprises' competiveness. Furthermore, it needs to provide support and create favorable conditions for VEWPs so that they can stimulate exports in the context of global economic integration.

VIFORES should also help its members gain a good knowledge of laws and regulations and make contact with lawyers or advisory agencies specializing in wood export. With the aid of HCMC's Handicraft and Wood Industry Association (HAWA), the AmCham Furniture Committee should organize workshops on new US laws as well as trade barriers to keep Vietnamese enterprises from violations.

+ Trade promotion:

Ministry of Industry and Trade and relevant ministries should unify the operations of VIETRADE and provincial centers for trade promotion to join hands with VIFORES in promoting trade and exports across the country. In addition, the wood industry needs to proactively exploit the market through trade fairs and the media, and seek customers and material suppliers to enhance the possibility of importing goods and competitiveness.

+ State control over wood export:

Many VEWPs think that procedures for obtaining export licenses are complicated and intricate, and that other support industries have not offered sufficient help in the production and export of wooden products to the US market. Hence, the government ought to simplify and quicken the procedures, popularize electronic customs and offer incentives for export of these items. At the same time, it needs to develop new policies to stimulate the development of support industries. The government and its agencies together with VEWPs should collaborate in building and protecting the brand names and designs of Vietnamese products in international markets.

With respect to lending interest rates at Vietnamese banks, HAWA suggests that the government adopt policies on supply of low-interest and long-term loans to producers of exports in general and wooden ones in particular.

5. Conclusion

The wood industry has made considerable contributions to Vietnam's economic development and international integration. Apart from its striking accomplishments, it is now facing trade barriers that are more and more strict on such aspects as the origins, quality, designs, etc. of exported products. Thus, there should be policies to maintain the industry's market and raise the export earnings from wooden products in the future. Although there have been positive progresses in making Vietnamese wooden products more accessible to the US market without facing legal lawsuits and trade barriers, the products are evaluated as vulnerable to external impacts. They fail to satisfy the US requirements in quality and delivery time. Therefore, both the government and VEWPs should invent effective measures to promote export and restrain adverse impacts on wooden product exports so that the brand names of Vietnamese wood will strengthen and satisfy not only requirements about product designs and quality but also strict regulations in the US market. More importantly, the country must strive to be part of the Generalized System of Preferences, which requires flexible changes from the government and VEWPs■

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