A large truck is shown from a low angle, heavily loaded with massive logs. The logs are stacked high, secured with heavy chains. The truck is on a road, and the background is a bright, overcast sky. The truck's front is visible, showing the windshield and a license plate with the number '0684'.

# CROSSROADS

The Illicit Timber Trade  
Between Laos and Vietnam



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**FRONT COVER:**  
Trucks carrying Laos logs,  
Pleikan, Vietnam, 2010  
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### DOUBLE MEANING:

*dong*: Vietnam - unit of currency, money  
*dong*: Laos - forest



# INTRODUCTION

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Dusk is gathering at a remote forest inspection checkpoint in Attapeu, deepest southern Laos, in February 2011. The Vietnam border lies a few kilometres away, and the area is strangely quiet as the host of Vietnamese workers employed in dam construction, plantations, and logging have returned home for the Lunar New Year. Two motorbikes are leaning against the office wall, confiscated from people attempting to smuggle a few planks of valuable rosewood across the border. A few months earlier investigators from the Environmental Investigation Agency witnessed 34 trucks carrying logs along the same road bound for Vietnam. Despite Laos banning the export of logs, the trucks are allowed to pass unhindered.

Flagrant violation of Lao law is the norm here, due to the powerful vested interests profiting from the illicit trade in logs from Laos to Vietnam. During field investigations in 2010 and 2011, EIA met with three firms engaged in logging operations in Laos; between them they ship around 250,000 cubic metres of logs to Vietnam every year. The total volume of the log trade between the two countries is likely to be at least double this.

These logs come from some of the last intact tropical forests in the Mekong region, and are feeding Vietnam's booming wood processing industry. Meanwhile, Laos' own wood factories complain of a lack of raw material. Within Laos the only people profiting from this log trade are corrupt government officials and well-connected businessmen such as

Phonesack Vilaysack, who sells logs to Vietnamese buyers for hard cash while his own wooden flooring factory in Laos cannot supply orders due to a lack of raw material.

The main beneficiaries of this illicit trade are Vietnamese-based logging companies and furniture factories obtaining cheap supplies of logs. EIA investigations reveal that one of the biggest loggers in Laos is a company owned by the Vietnamese military; in April 2011 EIA observed a huge pile of logs in Attapeu owned by this firm, awaiting transportation to Vietnam. Through investment in logging, plantations and hydropower projects, Vietnamese firms have appropriated large swathes of forests in Laos, stretching from Xieng Khouang province in the middle of the country to Attapeu in the south.

The vast majority of logs smuggled across the border are processed into wooden products in Vietnam and exported to the main markets of the US and European Union. Both have introduced policies to exclude illegally logged timber from their markets, yet the flow of logs continues unabated.

EIA first exposed the illicit log trade between Laos and Vietnam in 2008. Recent investigations reveal that nothing has changed. It is now time for the governments of the two countries to work together to stem the flow of logs and curb the over-exploitation of Laos' precious forests.

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**ABOVE:**  
Lao logs cut by a Vietnamese military company, Vinh, Vietnam, 2011.



# THE THREATENED FORESTS OF LAOS

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**ABOVE:**  
Log storage area, Attapeu,  
Laos, 2011.

The land-locked country of Laos (officially the Lao People's Democratic Republic) lies at the heart of the Mekong region and has some of the largest tracts of primary rainforest left in mainland Southeast Asia. Home to large mammals such as the tiger and Asian elephant, and many ancient, endemic and endangered species, these forests retain a treasure trove of biodiversity.

Laos' forests also support the livelihoods of millions of rural and indigenous people. In 2008, 70 per cent of the country's population was rural, equivalent to 4.2 million people.<sup>1</sup> These communities rely on forests for a host of services and livelihoods, such as food, fuel, building materials and medicine.

Yet Laos' forests are seriously threatened by over-exploitation causing serious deforestation. One of the main threats is logging to feed the timber processing industries of neighbouring countries Vietnam, China and Thailand. As these countries have implemented strict controls of logging inside their own borders, exploitation of Laos' forests has increased.

Laos' forest landscape is also increasingly denuded by infrastructure development, hydropower projects, mines and plantations, leading to further unsustainable and illegal logging.

While forest cover statistics vary in accuracy, what is certain is that the rate

of deforestation in Laos today is alarmingly high. Forest cover has fallen from an estimated 70 per cent in the 1940s to just 41 per cent by 2002. The annual rate of forest loss in the past two decades is more than 90,000 hectares.<sup>2</sup> Much of the remainder is composed of seriously degraded forest with little biodiversity value.<sup>3</sup>

The implications of forest loss for Laos' wealth of biodiversity are severe. Large mammal species are under pressure from the wildlife trade and now face a fragmentation and loss of habitat. Already, conservationists expect that Laos' biodiversity might not be as abundant as commonly stated.<sup>4</sup>

The communities which rely on Laos' forests are being increasingly marginalised by development policies which pay scant regard to their traditional livelihoods. According to the United Nations Development Programme, non-timber forest products provide 90 per cent of the income for the poorest families in Laos.<sup>5</sup>

Forests also play a vital role in supplying clean water supplies and in water resource management generally. Water, in turn, is particularly important for both hydropower, a key element of the Lao Government's development strategy, and in irrigation systems, a key Government objective to guarantee food security for rural households.

As logging and infrastructure projects increasingly deprive these communities of their livelihoods, laws enacted to ensure they are compensated for forest exploitation are routinely ignored. Far from improving the plight of its rural people, Government policies on management of natural resources are making survival harder.

## WEAK REGULATION

On paper, Laos has a raft of laws controlling logging and timber trade, but on the ground the situation is chaotic and prone to corruption. Under the country's Forest Law, logging is only allowed inside demarcated Production Forest Areas (PFAs) in line with approved sustainable management plans. The only exception is in special cases, where the land is to be cleared for infrastructure projects. In reality, however, this is rarely observed.

Logging in protection and conservation areas, as well as PFAs without management plans, is rife and has been identified as the most important driver of forest degradation by the Lao Government, along with shifting agriculture. Border areas and National Conservation Forests, which hold the largest remaining stocks of commercially valuable timber, are a particular focus of illegal logging.<sup>6</sup>

The ongoing deforestation in Laos is a direct consequence of weak governance. Over the past two decades laws, Government decrees and policy announcements have created an extensive regulatory framework governing everything from land tenure to timber exports, but in reality these regulations are widely subverted or simply ignored. Meaningful enforcement is virtually absent as powerful interest groups including the military, businessmen and corrupt officials plunder the country's natural resources with impunity. As one forest inspector told a journalist: "We catch many people. We ask them who they are working for and they give us the names of some very important people. We then phone to ask them about the activities and they deny it. What can we do? They are big-bellied people."<sup>7</sup>

Under such an ineffective system, the Lao Government's stated aim of returning forest cover to 70 per cent of the country's territory by 2020 appears an impossible ambition. To achieve its goal the Government intends to naturally regenerate up to six million hectares of forest and to plant a 500,000 hectares of trees. Yet with an annual deforestation rate of 0.6 per cent a year, it is more likely that forest cover will decline further to just 30 per cent by 2020.<sup>8</sup>

### BELOW:

Rural communities in Laos rely on forests for their livelihoods.



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Ironically, one of the principal reasons advanced by the Lao Government to increase its forest coverage is to protect the country's water resources, essential for the growth of hydroelectric power which has become a major source of export earnings.<sup>9</sup> Yet it is rapid expansion of hydropower schemes across Laos which is fuelling severe deforestation.

**BELOW:**  
Forest landscape, Attapeu, Laos.

**BOTTOM:**  
Forest area cleared for  
plantation, Attapeu, Laos.



Corruption is widespread in Laos' forestry sector, explaining why national laws are widely flouted. In 2010, a Government prosecutor admitted that the number of forestry officials charged with taking bribes was increasing, with payments being made to inspectors to allow cutting in excess of quotas.<sup>10</sup> In 2010, Laos was ranked the 154th most corrupt country out of 178 assessed by anti-corruption watchdog Transparency International.<sup>11</sup> It has been estimated that 20 per cent of logging companies' total overheads in Laos comprise bribes to senior officials to secure quotas. A further 15-20 per cent goes to lower level officials.<sup>12</sup>

In 2008, a Prime Ministerial decree imposed a significant reorganisation of the management of the forestry sector, diluting the concentration of authority within the Department of Forestry. The same year a new Department of Forestry Inspection (DOFI) was created to independently inspect the sector. Although DOFI has a strong mandate, to date it has been undermined by a lack of trained staff and budget restrictions. It has also been reluctant to take on wealthy vested interests

In principle, trade in Lao timber is also regulated. Since 1999, the Government has introduced a series of measures to prevent the export of unprocessed timber in an attempt to curb the rate of logging and promote a domestic processing sector. An order by the Prime Minister in 2007 explicitly stated that raw logs are banned from export and that only finished



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timber products can be exported.<sup>13</sup> Yet once again such laws issued by central Government are largely ignored, with logs and sawn timber flowing out of Laos; for example, an order by the Prime Minister in 2002 explicitly stated that raw logs are banned from export and that only processed timber products can be exported.

Much of this trade is driven by demand for raw materials from neighbouring countries, especially Vietnam. The abject failure of the log export ban to be enforced is illustrated by the lack of timber available to the Lao wood processing industry. In February 2011, a spokesman for the Lao Wooden Furniture Association complained that a lack of raw materials was affecting the profits of furniture factories and causing export orders to be cancelled. He called on the Government to stop exports of unprocessed timber.<sup>14</sup>

The main reason the domestic wood industry in Laos cannot get sufficient raw material supplies is the huge trade in logs to neighbouring Vietnam, in breach of the log export ban in Laos. In the first 10 months of 2008, Vietnamese Customs recorded 220,000 cubic metres of round logs entering from Laos at a single border crossing, Bo Y in Gia Lai Province.<sup>15</sup>

The failure of the Lao authorities to enforce the log export ban was highlighted in a 2004 article. A timber industry representative discovered more than 1,000 cubic metres of Lao logs in an unnamed neighbouring country. The buyers told him they had bought the logs for Government officials in Laos. When he told the buyers that logs cannot leave Laos “they laughed at me and asked who was it who stop the export of logs?”. In the same year, the Lao Government issued a quota of 270,000 cubic metres for domestic use, but only 20,000 cubic metres reached the factories.<sup>16</sup>

There are indications that the Lao Government is belatedly recognising the need to enforce its forest laws. In June 2011, the Prime Minister ordered forest inspectors and police to inspect trucks suspected of smuggling timber to Vietnam and China.<sup>17</sup>

Yet such actions serve as a minor deterrent given the forces at work grasping for the natural resources of Laos. As a largely rural-dwelling country with a low population density, coupled with weak governance and high levels of corruption, Laos is preyed upon by its more economically advanced neighbours. This does not just apply to logging for timber, but also to agricultural commodities such as rubber and hydropower schemes.

## IMPACT OF PLANTATIONS AND HYDROPOWER

The development of plantations and large hydropower projects are cornerstones of Laos' long-term development strategy and have been heavily promoted by both the Government and Asian Development Bank, among others.

Hydroelectric power potential constitutes 16 per cent of Laos' total wealth.<sup>18</sup> Ten dams are already operating and at least 27 are in the pipeline.<sup>19</sup> Such expansion is driven by demand for power from neighbouring Thailand and Vietnam. Plantations form part of a long-term strategy to bring forests under what the Government considers more economically productive forms of use. In particular, rubber plantations financed by Chinese and Vietnamese companies are rapidly growing in number.

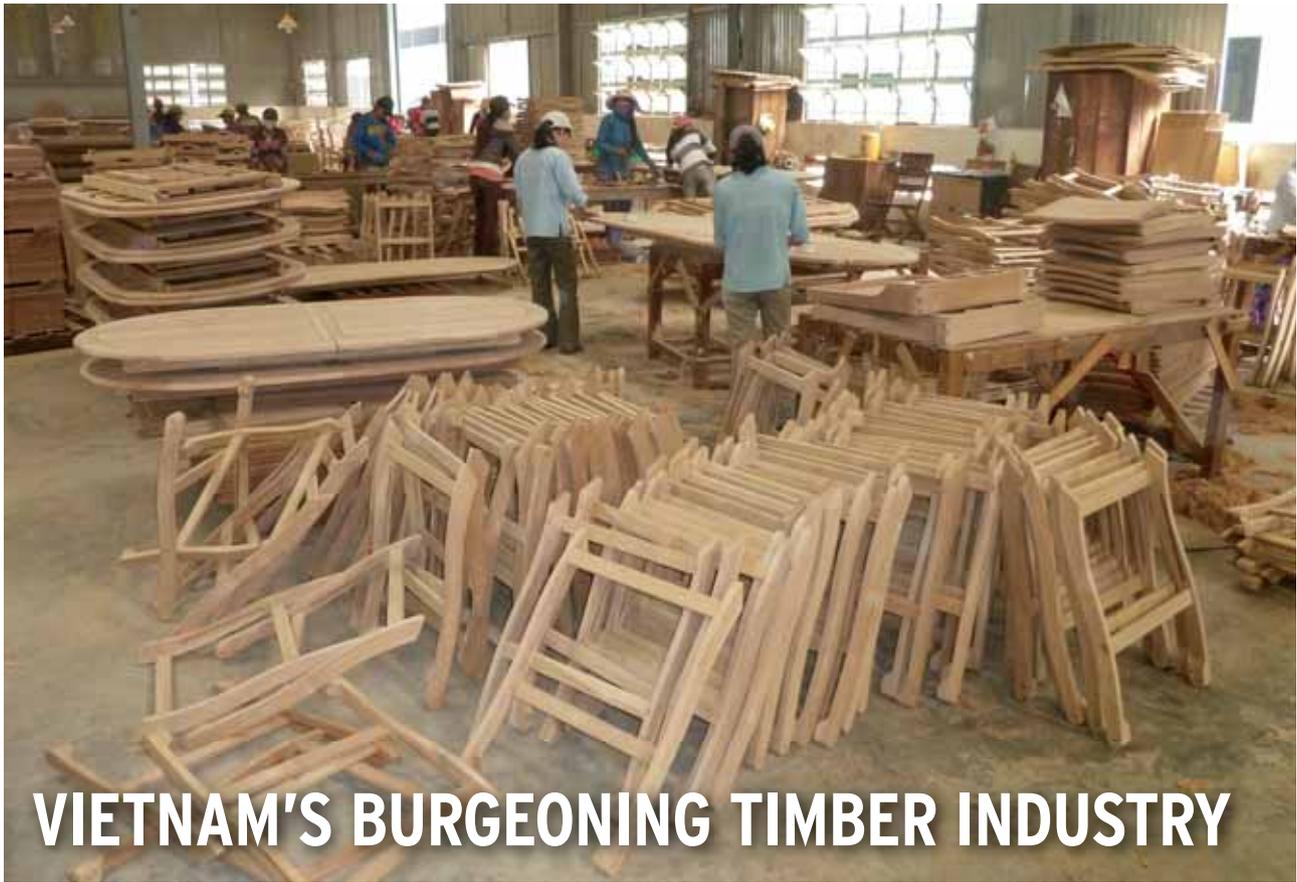
These developments are leading to large flows of foreign investment into both sectors and the inundation and conversion of substantial areas of forest, causing damaging social and environmental consequences.<sup>20</sup>

Both infrastructure and plantations enable access to valuable timber stocks outside Production Forest Areas, as companies are allocated quotas to clear the land. The volumes available are substantial – it has been reported that in the Nakai Plateau alone, more than one million cubic metres were logged to prepare for the Nam Theun 2 dam.<sup>21</sup>

In 2008, an estimated 60 per cent of the timber harvested in Laos was approved under special quotas for hydroelectric and other infrastructure projects.<sup>22</sup> Within Laos, the military is involved in the exploitation of resources resulting from hydropower schemes. For example, the Ministry of National Defence was in charge of logging and the sale of timber in the Nam Ngum 3 dam, awarding contracts for logging 70,000 cubic metres of timber to two companies.<sup>23</sup>

According to the Forestry Law, plantations must be located on degraded land but the definition of ‘degraded’ is unclear. In reality, new plantations are often illegally developed on forestland and are a key driver of deforestation. As with logging operations in Laos, the development of plantations is opaque. Increasingly, companies see obtaining permission to develop a plantation as a means to obtain timber, and in some cases once the logging has occurred the land is abandoned.<sup>24</sup>





# VIETNAM'S BURGEONING TIMBER INDUSTRY

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**TOP:**  
Outdoor furniture factory,  
Qui Nhon, Vietnam.

**ABOVE:**  
Yellow balau planks being dried,  
Qui Nhon, Vietnam.

Vietnam's timber industry has experienced a multi-billion dollar surge over the past decade, largely driven by the country's lucrative wood furniture manufacturing sector, which is now the sixth largest worldwide. In 2010, Vietnam earned \$3.4 billion from exporting wood products, with the amount expected to rise to \$4 billion for 2011.<sup>25</sup>

Export markets are the key driver of growth in Vietnam's timber industry, which now comprises 2,500 wood processing enterprises nationwide.<sup>26</sup> In 2007, furniture exports of \$2.4 billion made up 20 per cent of Vietnam's overall export earnings.<sup>27</sup> The Government plans to almost double the value of wood product exports to \$7.8 billion by 2020.<sup>28</sup>

In 2010, Vietnam exported wood products to 26 countries, the main markets being the European Union, United States and Japan. In 2008, the US provided the largest market for Vietnam's furniture products, at a value of almost \$1 billion, with EU imports worth \$600 million. The importance to Vietnam's economy of furniture exports is highlighted by the fact that in the first half of 2010, one-third of all shipments from Vietnam to the US were of furniture.<sup>29</sup>

While EU and US demand slumped in 2009 and has not yet recovered to pre-financial crisis levels, countries such as China and the Middle East are

increasingly becoming significant sources of demand for Vietnamese furniture, particularly for products made with rarer and more expensive tropical hardwood species.<sup>30</sup>

Since Vietnam 'closed' its forests in 1997, logging in the country has been strictly controlled. As its export market for wood products has boomed, Vietnam has become increasingly reliant on imports of timber to feed its timber processing industry. Currently, imports account for about 80 per cent of timber supplies.<sup>31</sup>

In 2000, Vietnam imported \$123 million worth of logs and sawn timber.<sup>32</sup> By 2008, this had risen rapidly to \$1.1 billion worth of timber.<sup>33</sup> By 2011, it was estimated that Vietnam was importing three million cubic metres of timber a year.<sup>34</sup> In 2010, the Vietnam Timber & Forest Product Association (VIFORES) claimed the country's factories required 6.4 million cubic metres of timber to meet planned production, with only 1.6 million cubic metres available from domestic forests, mostly plantations.<sup>35</sup>

Vietnam's timber-sourcing policies often reflect the changing demands of consumers. It imports ever-larger amounts of plantation hardwoods such as eucalyptus, acacia and teak, mostly for the increasingly environmentally sensitive outdoor furniture markets in the EU and US. Yet the wood industry

still relies on large volumes of tropical timber from natural forests, including yellow balau, keruing and natural teak.

Of Vietnam's major tropical timber suppliers, Asian countries with the last remaining tracts of natural forest in the region feature highly, including Burma, Malaysia and Laos. As a direct neighbour, and due in part to the special political and commercial relationship with the country, Laos now provides much of the natural tropical timber feeding Vietnam's furniture sector.

In 2008, Vietnam imported \$130 million of logs and sawn timber from Laos, a steep rise from the \$36 million of imports in 2000. Of these imports, \$55 million worth was logs, which are prohibited from export in Laos, but made up 16 per cent of Vietnam's total log imports.<sup>36</sup> In 2008, EIA estimated that Vietnam was importing 500,000 cubic metres of logs a year from Laos.<sup>37</sup>

## SECURING SUPPLIES

Vietnam has instituted forestry and timber trade policies designed to respond to the threat posed by raw material supply uncertainties to furniture sector expansion plans, while maintaining and strengthening domestic logging controls and investing significantly in reforestation and plantations.

Vietnam's Forestry Development Strategy for 2006-20 seeks to develop 16 million hectares of sustainably managed and protected forests, with 8.4 million hectares of production forest, thereby increasing forest cover to 47 per cent by 2020. Expected to cost investors, the Government and donors over \$6.5 billion, the project aims to generate six million cubic metres of sawn timber per year by 2020.<sup>38</sup>

Despite this plan, the country's wood sector remains heavily reliant on imported timber, with the Government aiding imports through a zero per cent tariff on logs and sawn timber, compared with tariffs as high as 28 per cent for finished wood products.

While on paper Vietnam's timber trade regulations require that only timber from a legal origin is imported, in practice this is ignored. In 2003, EIA alerted the Vietnamese authorities to a shipment of round logs arriving at the port of Haiphong. The consignment had been smuggled out of Indonesia in contravention of its log export ban, yet after being temporarily detained the shipment was released to the importer.

This is also reflected in Vietnam's submission for World Bank funding

under the policy initiative termed Reducing Emissions from Deforestation and Forest Degradation (REDD). This states: "Proof of legal provenance is not required for imports of species other than those listed under CITES. This leads to a situation where wood imports are deemed legal even though they may have been illegally exported from elsewhere, in particular from Laos and Cambodia from areas where there are log and sawn wood export bans."<sup>39</sup>

### BELOW:

Sign for Vietnamese-owned rubber plantation in southern Laos.



## NEIGHBOURLY TIES

Economic and political ties dating back to the mid-1970s bind Laos and Vietnam, with a raft of special agreements and memoranda. This relationship leaves Vietnam well-placed to exploit its neighbour's natural resources. By 2010, Vietnam had jumped ahead of China and Thailand to become the largest foreign investor in Laos, with 252 projects worth \$2.7 billion.<sup>40</sup>

Vietnam and Laos intend to increase their bilateral trade from \$1 billion in 2010 to \$5 billion in 2020, with a significant part of the growth expected to come from exports of minerals, timber and power from Laos.<sup>41</sup>

Vietnam plans to invest in 31 hydropower projects in Laos by 2020 and is already engaged in construction at several sites, such as the Xe Kaman 1 dam in southern Laos.<sup>42</sup> This increasing investment by Vietnam in hydropower schemes in Laos is ironic, given that it has recently announced measures to clamp down on logging associated with dam construction in its own territory, with Vietnam's Natural Resources and Environment Ministry blaming flooding on logging in upstream forests by hydropower plant developers.<sup>43</sup>

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## INSIDE THE ILLICIT CROSS-BORDER LOG TRADE

**ABOVE:**  
Truck carrying Lao logs, Pleikan, Vietnam, 2010. The logo signifies Xe Kaman 1 dam area as the source of the timber.

In 2008, EIA published a report exposing the widespread use of logs from Laos by Vietnamese outdoor furniture manufacturers, especially the wood species yellow balau and keruing. In response to EIA's findings, wood industry associations in Vietnam claimed that the sector did not use logs smuggled from Laos, explaining photographic evidence of trucks carrying logs across the border by saying that the timber was either bound for export or had come from plantations in Laos. Neither of these statements was true, as EIA had observed Lao logs actually being processed at scores of furniture factories in Vietnam. None of the reported comments by industry challenged the existence of a log export ban in Laos. In meetings with the Government, after EIA's findings were released, timber industry representatives defended the use of timber exported illegally from Laos by saying that if Vietnamese factories did not buy the wood, others in Chinese would.

In 2010, EIA investigators returned to Vietnam and Laos to document changes to the dynamics of the timber trade between the two countries. Between October 2010 and May 2011, EIA undertook three field trips; the main focus in Laos was the southern province of Attapeu, as well as the provinces of

Sekong and Khammoune; in Vietnam, EIA travelled to Ho Chi Minh City, Qui Nhon, Pleiku, Pleikan, Danang, Vinh, Hanoi and Haiphong.

These latest investigations reveal on-going large-scale trade in logs from Laos to Vietnam in contravention of the log export ban in Laos. On a single October day, EIA witnessed 34 trucks loaded with logs travelling in Attapeu en route to the border crossing at Bo Y.

Whereas EIA had previously focused on the use of illicit Lao timber by Vietnamese factories, the target of this investigation was the actual logging operations inside Laos' territory. EIA met with three companies which claimed to be exporting a total of 250,000 cubic metres of round logs from Laos to Vietnam a year. The biggest of these logging operations is run by a Vietnamese military-owned company.

EIA also discovered that the southern province of Attapeu is bearing the brunt of the current logging activities in Laos. The majority of the logging is linked to hydropower plant construction and the spread of plantations. Within Attapeu, massive forest clearance is taking place in the forests around the Xe Kaman 1 dam site, owned by Vietnamese firms, and thousands of hectares of land are



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being cleared to make way for a vast rubber plantation owned by a Vietnamese firm.

Through field observations and undercover meetings with the key players, EIA has built up a picture of widespread forest devastation in southern Laos, with virtually no official control on the ground, the routine flouting of Laos' log export ban and the central involvement of the military, corrupt officials and well-connected businesses in this lucrative illicit trade.

## LOGGING OPERATIONS INSIDE LAOS

### COECCO: Military Connections

EIA first came across the Vietnamese Company of Economic Cooperation (COECCO) in October 2010 during a visit to Qui Nhon port. The town of Qui Nhon, in Binh Dinh province, is a major hub for wood processing and timber trade in Vietnam. After gaining access to the port, EIA investigators documented huge piles of logs with green paint marks and tagged with yellow labels printed with the Vietnamese name "CTY HOP TAC KINH TE.BQP, which translates into Company of Economic Cooperation - Ministry of Defence (or COECCO).

A worker in the port said that 95 per cent of the logs had come from Laos, adding that most were owned by the Vietnamese military; specifically Military Zone 4.

To understand where these logs had come from in Laos and to probe deeper into the involvement of the Vietnamese military, EIA followed the trail westward towards the Lao border and documented logs with identical markings loaded on trucks in the Vietnamese border towns of Pleiku and Pleikan.

EIA then crossed into the Lao province of Attapeu via the Bo Y border crossing. In an area between the two formal border checkpoints, a huge storage area full of logs was observed. The trail then led to the village of Phao Samphane, adjoining the main highway running through Attapeu to the Bo Y border crossing. Just behind the village was a large cleared area for storing logs. Although only a few logs were visible, villagers said many logs had been there the previous month but had now been transported to Vietnam via Bo Y. The log pond was empty as the logging season, which runs during the dry period from October to May, had been delayed due to late rains.

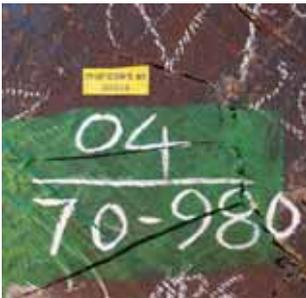
After travelling around the area, EIA was able to confirm that most of the

### ABOVE:

Lao logs owned by Vietnamese military company, Qui Nhon port, Vietnam, 2010.



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**TOP:**  
COECCO's log storage area,  
Attapeu, Laos, 2011.

**ABOVE:**  
Yellow tag and green paint log  
marks signifying COECCO.

logs passing through the log storage yard at Phao Samphane had come from logging operations linked to the construction of the nearby Xe Kaman 1 hydropower dam. This tallied with a logo EIA observed on trucks as far away as Qui Nhon which read "Board for the Management of Logging and Clearance of the Reservoir Area of Xekaman", confirming the dam location as the source of the logs. Also, in November 2010, EIA found an advertisement by COECCO publicising an auction which was held on June 2010 to sell logs obtained from the Xe Kaman 1. Other adverts by the company claimed an annual availability of 200,000 cubic metres of logs from Laos.

In February 2011, EIA returned to the Xe Kaman 1 area to ascertain whether COECCO's logging operations had recommenced. The dam construction area itself was eerily quiet as the Vietnamese workers had returned home for the lunar New Year celebrations. Yet at the Phao Samphane log storage area, EIA documented several hundred fresh cut logs bearing the green paint mark and yellow tag denoting COECCO.

The military involvement in the logging operations around Xe Kaman 1 was confirmed when EIA investigators attempted to follow a log-loader vehicle to a possible cutting site. After following the vehicle along a dirt road a checkpoint was encountered, manned by out-of-uniform Lao military personnel, and EIA staff were not allowed to proceed. The logging area appeared to

be inside the Dong Amphan protected area, which abuts the planned Xe Kaman 1 dam reservoir.

In April 2011, EIA visited the Xe Kaman 1 area for a third time. On this occasion the log storage area was choked with logs, totalling about 60,000 cubic metres of timber. Many of the logs had the green paint marks and yellow tags denoting COECCO's ownership.

In order to find out more details of the company's operations and end markets, EIA undercover investigators posing as timber buyers travelled to COECCO's headquarters in Vinh city, Nghe An province, Vietnam, in May 2011 to meet with representatives from the wood trading division.

EIA met with Mr Thuy, Director of COECCO's wood trading division, and Nguyen Trang, the export division manager. According to Thuy, COECCO has been in the timber trade and logging business in Laos for over 20 years, making it one of the oldest and biggest logging operators in the country. Thuy confirmed that it sources all its logs from Laos. Thuy acknowledged that all its logs are from dam clearance sites and that it is one of a handful of companies permitted to carry out logging in these areas.

Thuy explained that in order to undertake logging operations in Lao, it first has to apply for a quota from the Government. He said this is usually done once a year, or sometimes once

every six months, but never longer as the Government is reluctant to grant longer logging concessions.

According to Thuy, COECCO was granted logging rights for 100,000 cubic metres in 2010 and the same for 2011, both from the Xe Kaman 1 dam site and other unspecified sources. Thuy added that these quotas were issued directly by the central Government in Vientiane and not by provincial forestry bureau.

The meeting revealed that COECCO organises every aspect of its timber operation in Laos itself, using its own workers. The firm's staff survey the forests to identify desirable tree species. Once its log list has been signed by a Lao official, it then brings in its own logging teams, trucks and drivers to take the timber to Vietnam.

Most of the logs are transported directly to Qui Nhon port and Tien Sa port in Danang; Qui Nhon port because of its massive furniture processing industry, which makes up the bulk of its end markets, and Tien Sa port mainly because of its logistical convenience and shipping routes.

Trang said the company had sold all of its logs in 2010 to Vietnamese wood processors but was hoping to attract foreign buyers for at least half of the available 100,000 cubic metres in 2011. She offered EIA investigators 15,000 cubic metres of keruing logs, which she said would be transported from Laos to either Danang or Qui Nhon in the next few months.

Trang also revealed that COECCO has a timber processing facility in Baan Laongam in Laos, but this only handles simple processing of logs into flitches (square logs) and is not designed to process timber into semi-finished or finished products. The end destination for these flitches is also to markets in Vietnam. In April 2011, EIA/Telapak visited COECCO's factory in Baan Laongam and observed four trucks carrying freshly cut trees with roots and bark intact, parked near the entrance to the facility, although the factory appeared old and dilapidated.

COECCO serves as the business arm of Vietnam's Military Zone 4 command, with the headquarters of both located in Vinh City. Both also profit from close connections with the Lao military. In 2010, the Lao Defence Ministry awarded the Labour Order, first class, to the

**BELOW:**

Fresh cut logs arriving at COECCO's log storage area, Attapeu, Laos, 2011.

**BOTTOM:**

Sign outside COECCO's factory, Vinh, Vietnam. "QK4" denotes Military Zone 4.



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Military Zone 4 High Command and COECCO “for their contributions to developing the friendship, solidarity and comprehensive cooperation between the two Parties, States, armies and peoples of Vietnam and Laos”.<sup>44</sup> Such collusion helps explain COECCO’s emergence as the biggest logging operation in Laos and its ability to disregard the country’s log export ban.

**Phonesack: Cash for Logs**

In February 2011, EIA investigators travelled to the province of Sekong, situated to the north of Attapeu, to document logging linked to the construction of the Xe Kong 4 hydropower dam. The area around the dam site contains the Houay Asam Protected Forest, as well as former logging concessions. Evidence of intensive logging was discovered; large cleared areas for storing logs, logging roads criss-crossing the area, and denuded forest landscapes.

In a village on the edge of the Xe Kong 4 dam area, EIA witnessed piles of fresh cut logs. Lao workers, dressed in jackets emblazoned with “Xe Kong 4” were measuring the logs, which had been marked with blue paint. The workers said that all the logs were bound for Vietnam and were owned by a company called Phonesack.

A subsidiary of Phonesack Group, Phonesack Wood (also known as Nancy) is the namesake company of one of the wealthiest men in Laos, Phonesack Vilaysack. EIA first came across the company in 2007 when following a Thai company called LVT International which sourced its timber from Phonesack. The owner of LVT, Prakit Sribussaracum, claimed to have paid large amounts in bribes to Lao officials to secure quotas from the clearance of Nam Theun 2 hydropower site.<sup>45</sup>

The claim that Phonesack was engaged in smuggling logs to Vietnam appeared to be at odds with statements of the company’s website which stressed its adherence to Lao laws. Phonesack Wood’s website states how it operates: “In compliance with government regulations to export timber by turning log (raw material) into near finished product in order to increase profitability, restrict the export for the purpose of preserving forest area. It also increases the number of employment to the community.”

To verify the involvement of Phonesack in illicit log trade to Vietnam, EIA investigators posing as timber buyers travelled to the town of Thakhek, Khammoune Province, in Laos, in April 2011 to meet with company representatives at its flooring factory.

EIA initially met with Phonesack Wood’s Chief Administrative Officer Sam Lengsavath at the factory on the outskirts of Thakhek. Lengsavath spoke about how the company was shifting all its production to a new integrated flooring factory at nearby Gnommalat. He stressed how the company complies with relevant laws in Laos, obtains logs from hydropower, mining and road projects, and was familiar with requirements for proof of legality for timber products shipped to the US.

The EIA investigators were then escorted to visit the new factory by Butch Lugay, the export manager. During discussions with Lugay, an entirely different story emerged. Lugay stated that the company could not guarantee delivery on orders for flooring as it was struggling to obtain raw material. He admitted that the wood processing factory was essentially a front to show Lao Government officials its investment in and development of a domestic processing facility. In reality, the factory is used to secure large logging quotas from the Government. Lugay said: “You have a big factory, the Government will visit... oh, you have a lot... they will give you a lot of quota. The small small company, they don’t get, only me”. Phonesack reportedly secures quotas for over 120,000 cubic metres of timber each year.

According to Lugay: “... a lot (of timber) coming from the Government, the quota we have, sawn timber and logs, go to Vietnam”. Lugay estimated that 90 per cent of its timber, or about 108,000 cubic metres, is exported to Vietnam as logs via the Naphao-Chalo checkpoint and other crossing points, with fleets of log trucks leaving the factory at night bound for the border.

Lugay explained that Phonesack’s log export business to Vietnam takes

**BELOW:**

Logo on log truck denoting Xe Kong 4 dam area.

**BOTTOM:**

Phonesack-owned logs bound for Vietnam, Xe Kong 4 dam area.



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precedence over its wood processing business because of the quick cash-transaction profits to be made by Vilaysack, the owner. He revealed that Vilaysack makes far more money from his log exports to Vietnam compared with profits made by the flooring factory.

In order to carry out his wood business, Vilaysack aligns himself closely to politically powerful and influential individuals within the Lao Government. Vilaysack is said to be very close to the President of Lao PDR and has allegedly given relatives of the President positions at Phonesack Group. Even Sam Lengsavath, who is related to the current Lao PDR Deputy Prime Minister Somsavad Lengsavath, is hired for his political connections. It is a particularly convenient connection, given that quotas are approved by the Prime Minister's office.

As well as logging operations, the Phonesack Group is heavily involved in mining and construction projects in Laos. In 2010, the company was accused of carrying out gold mining under a contract with the Lao military inside the Nakai Nam Theun National Protected Area.<sup>46</sup>

**Nicewood: Nothing is Difficult with Money**

Research carried out by EIA indicated that the Vietnamese company Nicewood was also engaged in logging operations in Laos, specifically in the northern province of Xieng Khouang. In April 2011, EIA investigators posing as wooden flooring buyers travelled to the company's head office on the outskirts of Hanoi to discover more details of Nicewood's activities in Laos.

During a one-hour meeting with Tony Xuan, Nicewood's Import-Export Manager, it emerged that although the

company has wood processing factories inside Laos, the bulk of the timber it cuts in Laos is transported to Vietnam unprocessed.

Xuan told EIA the company had previously exported decking and flooring products from its Lao factories to a range of countries, including the UK, the Netherlands and Korea. Yet he went on to explain that the company was not currently producing finished products and did not appear keen to promote this side of Nicewood's business.

Xuan revealed that the bulk of its business is not in finished products but in raw materials – mainly round logs and square logs or flitches. Once again, it appears that the company's processing facilities in Laos exist mainly as a front to secure logging quotas from the Lao Government, with the bulk of the raw timber being sent to Vietnam.

According to Xuan, Nicewood is allocated about 30,000 cubic metres of timber annually, with the logging taking place inside forest concessions rather than hydropower sites. He added that in order for Nicewood to secure quotas, it "must have relationship with the Government". He went on to elaborate that it has "to pay money for the Government to have quota... and give them money to transport wood here... for example, customs officer and forest manager... we have to give them money".

Probed further, Xuan acknowledged that "Laos forbids the export of round logs and square logs, but some company like us can import". He then added: "Nothing is difficult, if you have the money".

At Nicewood's warehouse, the entire storage area was full of flitches, mostly from Laos. There were also three trucks



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**TOP:** Phonesack Timber's factory in Khammoune, Laos. The company cannot guarantee orders of finished products due to shortage of raw material.

**ABOVE:** Square logs from Laos, Nicewood factory, Hanoi, Vietnam, 2011.

being unloaded that had arrived from Laos full of yellow balau fitches. Trucks transporting timber from its factory in Laos to Vietnam travel via Nong Het - Nam Can checkpoint.

Xuan also said that Nicewood exports Lao logs to overseas buyers. In January 2011, Nicewood exported 1,200 cubic metres of rosewood logs to Yantai City in China. Previously, it had exported 3,000 cubic metres of yellow balau logs to Kandla port in India.

## VIETNAMESE COMPANIES USING LAO LOGS

Between October 2010 and May 2011, EIA investigators met with a series of Vietnamese wood processing companies to gauge the degree to which logs from Laos are used by the industry. EIA discovered that factories in the commercial centre of Ho Chi Minh City tend to avoid Laos logs due to transportation costs and source raw materials from further afield, such as Africa and South America. Yet wood processing factories visited by EIA in Qui Nhon, Pleiku in the centre of Vietnam, and Hanoi in the north were found to be using logs imported from Laos. EIA investigators also documented substantial piles of Lao logs in the Vietnamese ports of Haiphong, Danang and Qui Nhon, awaiting sale or onward transportation.

One manufacturer EIA met in Ho City Minh City summed up the situation: "Laos, the way to do business is like

Vietnam, you know a lot of under-the-table money. Very difficult to take the log out. It is illegal. In Qui Nhon, there are many ways to have the log, but I don't know how. Because we are a big company, we don't know how to do that, we don't dare to do that".

### Duc Long Gia Lai

EIA met with Pleiku-based Duc Long Gia Lai Furniture, a company owned by Duc Long Group. The company is known to have close links to the Vietnamese Government and military.

According to the Director of Duc Long Gia Lai, Do Thanh, the company imports most of its logs from Laos through a regular supplier there. The logs are transported to Pleiku via the Bo Y checkpoint, where they are processed at its factory into flooring and furniture. At the company's factory, EIA observed large piles of Lao logs, including yellow balau, keruing and pyinkado.

Thanh also said Duc Long provides timber to the Vietnamese military. During the meeting, EIA saw a whiteboard which listed the names of Duc Long's clients in Vietnam, including the Intelligence Unit of Vietnam's Military Zone 5, and Army Corps No. 320 - Division No. 3, both of which it supplies with timber for projects. This illustrates Duc Long's close ties to the Vietnamese Government.

In addition, Duc Long also does considerable business overseas, exporting regularly to clients in Germany, the Netherlands, Greece, Japan, Israel and various other countries.

### BELOW:

Log loading, Sekong, Laos, 2010.



### Thanh Thuy Furniture

EIA visited a medium-size outdoor furniture company in Qui Nhon called Thanh Thuy which was offering various types of outdoor furniture made from yellow balau and keruing.

According to Vice-Director Nguyen Thi Hong Thuy, the company ships 300 containers of furniture a year, with 70 per cent of its products made from yellow balau and the remaining comprising keruing and other woods. Both balau and keruing are sourced from Laos and Vietnam. Most of the materials are brought into Qui Nhon as logs, but some are brought in as sawn timber. Nguyen revealed that it does not import the logs from Laos itself but instead sources them from local agents. Most of Thanh Thuy's production is geared towards export to Europe and the USA.

### Khang Thinh

In Qui Nhon, EIA also visited a factory owned by the Khang Thinh Company. This company was found to rely heavily on Laos logs to produce outdoor furniture for export.

Director Tang Thi Tuyet Nga revealed that balau and keruing make up about 70 per cent of Khang Thinh's raw material, with about 3,000 cubic metres of logs being sourced from Laos every year via a Qui Nhon-based agent called Duy Tuan Pte Ltd. Khang Thinh exports most of its products to Europe.

### Vinafor Danang

EIA met with the Danang subsidiary of Vinafor, a state-owned company engaged in nearly all aspects of the wood trade in Vietnam, from timber plantations to material trading and wood processing. During a tour of its factory, it appeared that the firm's processing capacity was relatively small but it also emerged that Vinafor Danang's main business is timber trading. EIA subsequently telephoned Johnny Cuong, who oversees much of the company's trade in raw materials. Cuong revealed he was able to supply large quantities of Lao logs and currently had up to 6,000 cubic metres of yellow balau logs in Laos awaiting transport to Vietnam.

### Hoang Phat Furniture

In 2007, EIA met with Hoang Phat Furniture in Qui Nhon and discovered the company was importing yellow balau logs from Laos which were processed into furniture for subsequent export to Europe. In April 2011, EIA observed trucks belonging to Hoang Phat being loaded at COECCO's log storage area in Attapeu. Follow-up correspondence with Hoang Phat revealed the company could offer large amounts of keruing sourced from "local forests".



## CROSSING POINTS

Based on EIA's investigations since 2007, the vast majority of timber exported from Laos to Vietnam as either logs or sawn timber contravenes Lao law. The main border crossings used for smuggling Lao logs into Vietnam are:

**Phoukeau - Bo Y checkpoint:** Convoys of log trucks, mainly from Attapeu and possibly Sekong, were seen travelling to Vietnam via this checkpoint. Logs taken across this checkpoint are generally destined for the cities of Qui Nhon, Vinh and Danang.

**Route 15 in Saravan:** Log truck drivers in Sekong revealed that most logs from Sekong 4 hydropower site travel to Vietnam via this crossing. Most logs are believed to end up in Danang.

**Dak Cheung crossing in Sekong:** Logs from Xekaman 3 hydropower site are believed to be taken to Vietnam through this crossing.

**Nong Het - Nam Can checkpoint:** A trader in Vietnam revealed to EIA that the Nonghet-Nam Can checkpoint is regularly used to transport log and flitches. Timber moving through this checkpoint is known to end up in Vinh, Haiphong or Hanoi.

**Naphao - Chalo checkpoint:** In 2007, EIA filmed a convoy of log trucks crossing into Vietnam via this checkpoint. In April 2011, a trader from Phonesack confirmed the crossing remained active and that logs continue to be taken through it to Vietnam.

**Khe Sanh - Lao Bao & Nam Phao - Cau Treo checkpoints:** High-valued and often illegal 'precious woods' are also reportedly smuggled to Vietnam via both of these checkpoints.



## ONWARD DESTINATIONS



**TOP:**  
Tien Sa Port, Danang, Vietnam .

**ABOVE:**  
Outdoor furniture made in Vietnam bound for Europe.

Of the hundreds of thousands of cubic metres of logs flowing out of Laos into Vietnam every year, the bulk enters the international market; mainly as finished products wood products made in Vietnam but also as raw timber for processing in countries such as China and India. As control over forest resources in other Asian countries such as Indonesia improves Laos, with its bountiful forests and shambolic management, is an attractive proposition for the timber processing industry in the region and beyond.

### FINISHED WOOD PRODUCTS

Vietnam's wood processing industry specialises in indoor and outdoor furniture, although production of wooden flooring and other finished products is growing. Given the export-oriented nature of Vietnam's wood sector, it is to be expected that logs from Laos turned into finished products end up in a range of end markets, principally the EU and the USA.

Within the EU, different member states have different requirements in terms of timber species used in outdoor furniture imported from Vietnam, mainly due to style preferences and awareness of the environmental impacts of illegal logging.

For instance, northern EU markets such as Germany favour plantation species such as eucalyptus and acacia, and often

demand certified timber. Yet other markets such as Italy still trade in outdoor furniture from Vietnam made from high risk species such as yellow balau and keruing, which EIA investigations have revealed are widely sourced as logs from Laos.

In one outdoor furniture factory in Qui Nhon visited by EIA, the company was processing certified eucalyptus as well as yellow balau and keruing logs from Laos at the same time. This example shows market demand is a key driver of the illicit trade in Lao logs.

During its investigations in 2010 and 2011, EIA documented the use of yellow balau and keruing logs by furniture factories in Vietnam supplying EU markets. One factory in Qui Nhon claimed to be shipping yellow balau outdoor furniture to two Italian distributors called Sea Ingross SRL and Di.Mo Commerciale SRL, which in turn sell it on to local retail shops. One of the brand names seen by EIA at the factory, Cosma, is available for purchase on an Italian website. Another factory in Qui Nhon claimed to ship yellow balau outdoor furniture derived from Lao logs to the French-owned retailer Leroy Merlin's stores in Poland. The two factories also ship keruing furniture to customers in Greece and Finland.

Yellow balau products derived from Lao logs also enter the US market. Trade data analysis carried out by EIA reveals

that a Qui Nhon-based manufacturer using Lao logs has made a series of exports of yellow balau outdoor furniture to US customers. One of the buyers is Kentucky-based Oxford Garden, whose website states that it specialises in “shorea” (balau) furniture, adding: “We only use premium wood and we are not stingy with it”. The Vietnamese manufacturer has also shipped yellow balau products to Fort Worth-based International Caravan Inc.

## RAW TIMBER

Vietnamese companies trading Lao logs also supply international buyers as well as domestic processors. For example, the Hanoi-based company Nicewood has shipped Lao logs to India and China. Internet searches reveal an active international trade in Lao logs; for instance the Vietnamese company Viet Anh Wood Co Ltd offered both yellow balau and keruing logs from Laos for export in 2010, with a monthly availability of 20,000 cubic metres. Traders from other Asian countries are also cashing in on Laos’ forests; Singaporean, Indian and Chinese firms are also involved in trading Lao logs.



Lao logs, Qui Nhon port, Vietnam, 2010.

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## THE ROSEWOOD BUSINESS

In addition to trade in high-volume mid-price timber species such as keruing and yellow balau from Laos, a black market exists in expensive ‘precious woods’.

The species comprising this category include Siam rosewood, also commonly known by its Chinese name huanghuali, and Khamphi rosewood. In Laos, the logging and trade of these species are prohibited. Increasingly, precious wood traders are also targeting ‘non-traditional’ rosewood species such as narra padauk and makha. Here the term ‘rosewood’ refers to a combination of the above species.

In April 2011, EIA had a chance meeting with Xie Rongjian, of Guangzhou-based De Sheng Hang Company in Laos. Claiming to be one of the biggest rosewood traders in Laos, Xie has a team of Chinese employees scouring the country for rosewood supplies. The two main species he trades are Siam rosewood and narra padauk – all of which are sourced from Laos and Cambodia.

In nearly a decade in business in Laos, Xie has seen stark declines in rosewood supplies. He attributed this to the exorbitant prices consumers are paying for raw materials and finished products in China. He admitted: “the species is finished... there are only about five years left in the trade (in Laos)”. So scarce are supplies that Xie offers to travel anywhere in the country if a supplier can offer just a few cubic metres of logs. Xie does not have any logging operations and just buys logs from local sawmills and traders, who in turn collect from villagers.



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Xie revealed that rosewoods are commonly taken across to Vietnam via Nam Phao - Cau Treo and Khe Sanh - Lao Bao checkpoints. Once in Vietnam, logs are transported to Haiphong and Danang ports, where they are containerised and shipped to China.

The end market for rosewood logs is entirely for the production of traditional furniture in China. Referring to the more precious rosewoods, Xie said he sources logs in Laos for “only a few hundred US dollars” but can sell the materials in China for about \$50,000 per cubic metre. He added that the price of raw materials in China has risen as much as 30 times in value in the past 10 years.

# INTERNATIONAL FOREST GOVERNANCE POLICIES



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**ABOVE:**  
Log truck heading towards the Vietnamese border, Attapeu, Laos, 2010

Over the past decade, illegal logging and the associated timber trade has been recognised globally as a major driver of deforestation. Strong evidence that demand for cheap timber products in major consuming markets such as the EU and US is a major driver of illegal logging has led to the emergence of new policies specifically designed to exclude illicit timber, such as logs from Laos smuggled to Vietnam, from these markets.

## EU FLEGT

In recognition of the serious impact of illegal logging and the role played by its market, the EU produced a Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan in 2003. This seeks to tackle illegal logging from both the production and consumption ends of the timber trade. The two main pillars of the plan are the Timber Regulation and the Voluntary Partnership Agreement (VPA).

Finally agreed in July 2010, the Timber Regulation prohibits the first placement of illegally logged timber on the EU market. This means the initial importer of illicit timber into the EU can be prosecuted. The regulation also compels companies to perform credible due diligence to avoid trading in illegal timber.

Once the regulation comes into force in March 2013, buyers of timber and

wooden products in the EU will have to obtain evidence from suppliers that the timber has been legally harvested and traded. Under such a system Vietnamese exporters using raw timber from Laos will be deemed high risk.

FLEGT VPAs are designed to help producer countries verify the legality of their timber products and to ensure that only demonstrably legal wood products are exported to the EU. VPAs are a bilateral agreement between the EU and individual timber-producing countries.

Under a VPA, licences are awarded for proven compliance with a Timber Legality Assurance System (TLAS) or a 'legality standard' – a set of laws governing timber trade which are agreed during the country's VPA negotiations with the EU. Such legality standards need to cover all timber, whether domestically produced or imported by the partner country. In Vietnam's case, a company seeking a VPA licence for furniture made with Lao timber would need to be able to demonstrate legal compliance with the laws of both Vietnam and Laos. Both of these countries have expressed interest in negotiating a VPA with the EU.

A vital component of VPA negotiations is the involvement of a range of stakeholders, from local communities and civil society groups to timber industry representatives and relevant government agencies. In Vietnam, a

FLEGT Taskforce was created in October 2010 to work on a TLAS and formal negotiations with the EU commenced the following month. Laos is also setting up mechanisms to commence preparatory VPA work. Forestry officials from the two countries working on VPA issues met in March 2011 in Hanoi and discussed the need to improve timber legality tracking systems.<sup>47</sup> Obviously, any VPA with either Vietnam or Laos will have to resolve the on-going illegal trade in logs between the two countries.

## THE US LACEY ACT

In 2008, the US Congress amended the Lacey Act to include plants and plant products, effectively extending its scope to timber and wood products imported into and traded within the US market. The amended Lacey Act makes it an offence to import or trade in illegal timber. Penalties for contravening the Act range from confiscation of the timber shipment to prison sentences. It also includes a declaration requirement, under which importers must list all wood species included in the products and state the country where the timber was harvested. US firms importing Vietnamese-manufactured products derived from logs brought across the border from Laos could potentially contravene the Lacey Act.

## REDD+

Deforestation is thought to generate up to 20 per cent of global carbon emissions and an emerging scheme to reduce emissions from deforestation and

degradation (REDD+) is being negotiated in United Nations climate change talks and piloted in numerous counties.

Both Laos and Vietnam are involved in developing REDD+ policies and pilot projects. While REDD+ may represent an opportunity to place forests on a more sustainable footing in the two countries, and provide financial rewards for doing so, it is clear that both illegal logging and the illegal timber trade between the two countries is in danger of undermining REDD+ in this part of the Mekong region.

Indeed, this warning was expressed in a 2009 study into the displacement of Vietnamese deforestation to neighbouring countries such as Laos through illegal timber imports. The study found that the combination of Vietnam's domestic logging controls and its expanding furniture sector had resulted in between 1.7 and 3.5 million cubic metres of timber harvesting being displaced abroad each year for 20 years. It also estimated that nearly 50 per cent of Vietnam's timber imports come from illegal sources.<sup>48</sup>

Patrick Meyfroidt, lead author of the study, said: "Efforts to control deforestation and illegal logging and timber trade need to be coordinated at the international level... between source countries like Laos, Cambodia and Myanmar and processing hubs like Vietnam". In a rare but informed vision of global trade realities, he added that responsibility for Vietnam's displaced deforestation and leaked emissions "is shared between the country consuming Vietnamese products, Vietnam that imports illegal timber, and the source countries where illegal harvesters often collude with officials".<sup>49</sup>

### BELOW:

The US and EU are the largest markets for Vietnamese wooden furniture.



# RECOMMENDATIONS

The scale and persistence of the illicit log trade between Laos and Vietnam is a glaring example of weak forest governance. The Lao Government's policy of banning the export of raw timber is routinely flouted, with hundreds of thousands of cubic metres of logs flowing across the border every year. Meaningful inspection and regulation of logging operations on the ground in Laos are virtually absent.

As a result, corruption in the forest sector flourishes. Logging quotas are awarded in a secretive process to well connected individuals and companies, including the Vietnamese military. Bribery of officials is a routine business expense.

The bulk of the cross-border log trade supplies Vietnam's ever-expanding timber processing industry. Revenue generated by the sector is expected reach \$4 billion in 2011, and the Government plans to almost double this by 2020. Meanwhile, the much smaller wood industry in Laos cannot secure sufficient raw material supplies.

The impact of uncontrolled over-exploitation of forests in Laos is clear to see in affected regions like Attapeu in the south of the country. In 2008 over 200,000 cubic metres of logs passed into through the border post connecting Attapeu to Vietnam. Between 2002 and 2010 southern Laos lost nine per cent of its forest cover, impacting local livelihoods and biodiversity.

The governments of Laos and Vietnam need to urgently address this issue and shut the border to illicit trade in timber. As Vietnam has effectively exported deforestation from within its borders to neighbouring Laos, REDD+ negotiations with Vietnam must include a robust assessment of regional leakage. The fact that both countries have expressed interest in negotiating a VPA with the EU provides a basis for resolving these issues. Until the required action is taken, consumers should shun Vietnamese-produced wood products made from illicit logs from Laos.

## THE GOVERNMENT OF LAOS SHOULD:

- Enforce its log export ban
- Publish details of all logging quotas and the selection process
- Clarify rules for converting forest land for plantations

## THE GOVERNMENT OF VIETNAM SHOULD:

- Respect the policies of the Lao Government by blocking log imports from the country
- Hold bilateral talks with the Government of Laos over illicit wood trade between the two countries
- Work with Vietnamese wood industry associations to exclude Lao logs from its supply chain
- Exclude military businesses from carrying out logging operations in Laos

## THE EUROPEAN UNION SHOULD:

- Ensure that any VPA discussions with Vietnam and Laos address the issue to log trade between the two countries
- Ensure that VPA talks include the full range of stakeholders
- Promote forest governance lessons from FLEGT into the development of REDD+, specifically in terms of displaced deforestation

## COMPANIES AND CONSUMERS SHOULD:

- Obtain proof that wood products sourced from Vietnam are not derived from logs imported from Laos



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