

WORLD RAINFOREST MOVEMENT

The Pulp Invasion: The international pulp and paper industry in the Mekong Region

VIETNAM

Deforestation, reforestation and industrial plantations

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This report starts with an overview of the current situation in Vietnam and an analysis of some of the problems presented by the rapid expansion of fast-growing tree plantations in the country.

In the last decade, the Vietnamese government has had two major programmes aimed at promoting "reforestation": Programme 327 from 1992 to 1998 and the Five Million Hectare Reforestation Programme, which started in 1998. The second section looks at these two programmes, together with the effect of recent amendments to the Land Law and other laws on plantation development.

In recent years, international support to the forestry sector in Vietnam has grown. The third section looks at some of the main actors and their projects in supporting the development of fast-growing tree plantations.

Section four profiles the pulp and paper industry in Vietnam and the final section looks at some of the consultancies and research organisations involved in the forestry sector in Vietnam.

1. INTRODUCTION

Vietnam's first paper machine started operations in 1912, with a capacity of 2,500 tons a year (Le Chi Ai 1995: 57). In the 1970s before the Bai Bang pulp and paper mill was started, the three largest paper factories in North Vietnam were:

- Viet Tri, 10,000 tons a year capacity, built with Chinese assistance;
- a 5,000 tons a year capacity mill north of Hanoi and
- a mill south of Hanoi producing wrapping paper (Jerve et al 1999: 48).

In addition, there were more than twenty smaller mills producing a total of 12,000 tons a year (Jerve et al 1999: 48).

Today, Vietnam has 94 paper and board mills and 27 pulp mills, producing a total of about 360,000 tons of paper and board a year (PPI 1999).

The three largest pulp and paper mills in Vietnam today are:

- Bai Bang (55,000 tons a year) in the northern province of Phu Tho;
- Tai Mai (48,000 tons a year) in Dong Nai province in the south of the country; and
- Dong Nai (14,000 tons a year) also in Dong Nai province.

The largest single producer of paper products is the state-owned Vietnam Paper Corporation, Vinapimex. Vinapimex has 20 subsidiaries and 11 factories producing a total of about 170,000 tons a year (Export America November 2001: 5). In 1999, Vinapimex was the biggest loss maker in the country with nine of its member companies reporting a loss for the year (VDC online 2 February 2000).

In addition to paper mills, a series of mills around the coastal city of Danang, produce wood chips mainly for export to Taiwan and Japan.

These pulp, paper and wood chip mills compete for raw materials. In the north of the country, wood is transported from as far as 300 kilometres to the Bai Bang mill. The mill still suffers a shortage of raw material, which became worse in the late 1990s when a Taiwanese company built a wood chip mill at Hai Phong and offered to pay more than Bai Bang. Farmers harvested their plantations and sold the wood to the new mill. After 18 months the wood chip mill closed because of lack of raw materials (Fortech 1998: 17).

Plantation programmes in Vietnam started in 1956 (Fortech 1998: 3). By 1975, 219,290 hectares had been established, according to Nguyen Ngoc Lung of the Department for Forestry Development (Fortech 1998: 3). In the next ten years, official figures claim that 563,120 hectares were established, but Lung points out that survival and growth rates were poor (Fortech 1998: 3). Between 1986 and 1992, there was an increased focus on plantations, often with funding from international aid agencies. In 1992, the government developed Programme 327. (See section on Programme 327, below.)

The Vietnamese government is currently carrying out a large scale "reforestation" programme and produces frequent reports claiming that ever increasing areas of the country are covered in "forests". Although there is a tradition of tree planting in "homegardens" in which farmers plant a wide range of tree species (Le Trong Cuc 1992: 27) much of the planting taking place today in Vietnam is of fast-growing trees aimed at producing raw material for the pulp and paper industry or woodchips for export, or simply inflating the area of "forests" to deflect attention from the actual rate of deforestation in the country.

Estimates of tree planting rates in Vietnam are inconsistent and rarely differentiate between industrial fast-growing tree plantations and natural regeneration.

For example:

- In its December 1997 report to the Consultative Group of aid agencies, the Vietnamese government stated that forest cover was 30 per cent, up from 25 per cent in 1995 (Nguyen Le Thuy no date).
- In December 2000, the Vietnam News Agency reported that the Minister for Agriculture and

Rural Development, Le Huy Ngo, told the National Assembly that "Vietnam's -forest area had expanded by over 300,000 ha each year as a result of relentless efforts for forest protection and afforestation by local residents and administrations since 1995" (VNA 2000b).

- In January 2001, Associated Press reported Le Sau, director of the National Institute of Forest Survey and Planning, as saying that: "Forests now cover 33.2% of Vietnam's land area, up from 28% five years ago, because of the fast recuperation of natural forests and government efforts to plant new trees" (AP 2001).

The Ministry of Agriculture and Rural Development (MARD) estimated in 2001 that there was an area of 500,000 hectares of concentrated plantations in Vietnam. However, the picture is not so optimistic as these statements appear. According to MARD, plantation managers face problems because of the limited market and low prices for their products (mostly eucalyptus, acacia and pine). Growth rates are low and harvesting is inefficient. Distances between logging and processing sites are often long and transportation costs account for the largest proportion of timber prices.

At the same time, MARD complains, there is excess cheap timber on the market which discourages farmers from investing time and money in growing trees (MARD 2001a). In its Forestry Sector Review, carried out in 2000, the Asian Development Bank (ADB) reports that "Very few of the plantations are economically viable" (MARD 2001a).

In spite of the area of plantations established in Vietnam, the country relies on imports of pulp and paper. North Vietnam started paper imports in 1960 when it imported 16,000 tons. By 1971, imports accounted for 27,500 tons, or about 75 per cent of consumption. Most imports came from the Soviet Union (Jerve et al 1999: 48). Pulp and Paper International reports that in 2000, Vietnam's paper producers met demand for newsprint, writing and printing paper and some low quality grade, but the country imported "large quantities" of kraftliner, coated products and cement bag paper (Tran Doan An 2001). In 2001, Vietnam imported around 225,000 tons of paper a year and Vinapimex imports about 75,000 tons of pulp a year (Export America November 2001: 5).

The Saigon Times reported in August 2001, that each year the industry is short of 189,000 tons of pulp and recycled paper each year, and relies on imports to fill the gap. Domestic pulp and recycled paper prices are about three times world prices, a fact that the Saigon Times blames on Vietnam's small production capacity and "non-automated mills with the obsolete and decaying machinery" (Saigon Times 29 August 2001).

Meanwhile, according to industry forecasts, demand for paper in Vietnam is set to increase by more than 10 per cent each year. By 2010, demand is estimated at 1.25 million tons. Vinapimex estimates that US\$3 billion needs to be invested in machinery and plantations over the next 10 years, "to bring the industry up to scratch" (Saigon Times 30 July 2001).

In September 2001, Vinapimex announced an ambitious plan to expand the pulp and paper industry in Vietnam. With a total cost of US\$1.9 billion, the plan involves 16 new pulp and paper production projects and 693,000 hectares of plantations. If they were all built, the mills would increase Vinapimex's annual paper production capacity from the current 171,000 tons to 419,000 tons (VNA 2001c).

The proposed expanded pulp and paper sector is to produce 40 per cent printing and writing paper, 40 per cent industrial packaging, 10 per cent newsprint and the remainder "niche products" (VNA 2001c).

However, there are several important problems facing the plantation industry in Vietnam. Unless these problems are addressed, the proposed expansion of the pulp and paper industry will make little sense. The problems are likely to be passed on to farmers who lose their land to tree plantations. Some of the problems include:

- Only low quality soils are available for plantations as better soils are used either for higher value crops or for growing food;
- Growth rates achieved in plantations in Vietnam are much lower than those for Indonesia or Malaysia;
- Population density is high, leaving little available land for plantations;
- Available land is scattered, increasing the costs of harvesting and transport;
- The climate in the north of Vietnam is not as good for fast-growing trees as in the south. In the south, however, most land suitable for plantation development is already in use;
- Timber loss to animal damage, fire and "theft" is common;
- Even areas that appear not to be in use are often either fallows or are used for grazing;
- Labour costs are low, but productivity is also low and the costs of establishing and maintaining plantations are as expensive as elsewhere in the region;
- Road infrastructure is poor; and
- Port capacities limit the size of chip carriers that can be used.

In September 1998, Vietnam had more wood than the country's pulp processors could handle, according to an article in the Vietnam Economic Times. The article argues that the rate of planting trees is not being matched by an increase in pulp processing capacity. Suppliers are stockpiling their timber while they wait for the pulp producers to take their wood. Meanwhile, the industry is having to import pulp to keep the paper machines running, because the pulp sector is not producing enough. The article argues that MARD has boosted tree planting and wood production as well as increasing the capacities of paper producers, without increasing pulp production. The article concludes, "The biggest losers, as usual, are the farmers, who are either stockpiling or selling their wood at rock-bottom prices" (VET 1998).

In December 1999, the Hanoi-based newspaper Nhan Dan reported that farmers were selling their products as firewood in local markets rather than to the pulp and paper industry because of the lack of transportation and the "low economic value of these long-lasting trees" (Nhan Dan 1 December 1999).

The risks of tree growing are often passed on to farmers: "Plantation development, even if successful, can provide some income but cannot match agricultural land uses in immediate returns. In fact in some regions, an over-supply of plantation timber, for example, eucalyptus poles is causing a reduction in market prices to the point where farmers risk making a loss, rather than the profit anticipated and calculated into the cost/benefit analyses of many projects" (Carew-Reid et al 1999: 82).

Ngo Thi Minh Hang of the National University for Economics carried out a cost-benefit analysis of tree planting by smallholders. He concluded that smallholders "generally have difficulty borrowing money to set up their tree growing enterprise except at high interest rates from private lenders. They face difficulties in growing and selling trees, as they have little information on marketing or log prices. . . . Their bargaining power is very weak in choosing between a number of traders and they do not know if the benefits from the sales are equitably shared. . . . law enforcement is not very good and many logs are stolen. . . . In addition to these considerations, smallholders have to bear the risks of fires, theft, diseases, insects and strong winds" (Ngo Thi Minh Hang 1996: 53).

A 1996 report by the UNDP points out that "Farmers in general see tree growing as worthwhile but more risky than producing short-term crops" (UNDP and FAO 1996: 17) The report continues, "However, farmers can also incur real losses or opportunity costs with the conversion of barren lands to trees. This cost is more serious than it appears on the surface since the people who have been using these areas are generally the poorest. Including an opportunity cost for products foregone renders many of the planting activities economically unsound. This indicates that protection and natural regeneration should seriously be considered as an alternative forest management option for many of the barren land areas" (UNDP and FAO 1996: 17).

Diseases which attack fast-growing tree plantations present yet another problem for the industry, and for farmers planting trees. Serious fungal attacks have spread from southern Vietnam to central Vietnam in a range of eucalyptus species. Other diseases, including cankers, threaten plantations in Vietnam (UNDP and FAO 1996: 22). In 1996, the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and the Australian Centre for International Agricultural Research (ACIAR) started a project aimed at reducing the impacts of disease on eucalyptus (Midgeley et al 1996: 6).

Given the problems that plantations and the pulp and paper industry face in Vietnam, it is sometimes difficult to understand why it attracts so much attention from international aid agencies and international companies. Occasionally, however, governments are open about their motivations. In 1991, Stothert Enterprises, a Canadian company, won a US\$4.2 million three-year SIDA-funded contract to provide technical assistance to the Bai Bang mill. The Canadian government viewed this as a "foot in the door" of the lucrative world of development aid in Vietnam: "The Stothert case demonstrates how a company can establish a foothold in Vietnam through a multilateral-funded [sic] project, where payment to the firm is secure, thereby reducing the risk involved. As a result, this contract will allow Stothert to learn the 'rules of the game' in Vietnam and to pursue other opportunities in the country" (Canadian government no date).

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