

# CHECKPOINTS

How Powerful Interest Groups  
Continue to Undermine Forest  
Governance in Laos



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### FRONT COVER:

Thousands of cubic metres of Laos logs in Qui Nhon Port, Vietnam, July 2012. © EIA

### BACK COVER:

Phonesack Group's Gnommalath sawmill, Laos, July 2012. © EIA

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## INTRODUCTION

In July 2011 the Environmental Investigation Agency (EIA) released a report entitled *Crossroads*, revealing how well-connected companies in Vietnam and the Lao PDR (Laos) were profiting from illicit timber trade between the two countries.

The report found significant trade in raw logs from Laos to Vietnam, in contravention of the former country's stated policy of banning the export of unprocessed timber.

In March 2012 the Government of Laos (GoL) stated that it would take "serious action" to reduce the export of unprocessed natural resources, including timber, in order to support domestic industries.<sup>1</sup> Yet on the mountainous border with Vietnam, policy continues to diverge with reality.

Further recent investigations by EIA show that it is business as usual and that the plunder of Laos' forests continues unchecked. A handful of powerful firms are still moving logs across the border, aided by murky exemptions from timber export controls apparently granted by the upper echelons of the GoL.

In 2012, once again, unprocessed Laos logs flooded into coastal cities in Vietnam to feed its voracious furniture industry.<sup>2</sup> By July the ports of Qui Nhon,

Danang, and Vinh were stacked with Lao logs to supply local factories or to be sold to international traders, while wood factories in Lao struggled to obtain raw materials.<sup>3</sup>

**This briefing details the main findings of research and fieldwork conducted by EIA in 2012, including:**

- The continuing role of the Vietnamese Military in the cross-border log trade;
- The inequitable access to timber and land offered by large-scale agricultural concessions and infrastructure projects;
- The methods used by a Vietnamese company to overexploit and under-declare log quotas;
- The role of Vietnam in the regional, illicit trade in precious rosewood species.



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## CASH FOR FORESTS

Laos is resource rich and cash poor. Forests play an important role in the GoL's development strategy, yet the deforestation rate in the country is alarmingly high, driven by ever-expanding infrastructure projects such as hydropower dams and plantations, especially rubber.

A sustainable production forestry model promoted as the source of timber for a modern domestic wood processing industry is a key long-term development strategy of the GoL, supported by international donors. However, management and monitoring of logging quotas issued in Production Forest Areas (PFAs) is weak, resulting in such quotas being suspended for a year due to credible concerns over justifications for quota allocation at the local level.<sup>4</sup>

Meanwhile, timber extraction linked to infrastructure projects and plantations is booming, with logs transported across the border to feed Vietnam's wood industry or for onward export to other markets such as China. Such trade contravenes Laos' log export ban, but is facilitated by special permits granted by the GoL, making a mockery of the country's forest governance policies.

Added to the non-functioning monitoring regime in the domestic timber trade in Laos, and clear evidence of bribery, such non-transparent trade raises serious and legitimate concerns that Vietnam will continue to act as a laundering hub for Laos logs into the future.

These factors make it impossible for buyers of wood products made with logs traded in this manner to conduct credible due diligence in ensuring the legality of wood used.

## ENFORCEMENT, GOVERNANCE, TRADE

Both Laos and Vietnam are engaged in discussions under the European Union's Forest Law Enforcement, Governance and Trade (FLEGT) initiative. A core element of FLEGT is the signing of bilateral Voluntary Partnership Agreements (VPA) that seek to guarantee legal timber supplies from producer countries into the EU.

Vietnam's draft Timber Legality Assurance System (TLAS) recognises the need to ensure that timber imports are legally sourced.<sup>7</sup> Indeed, Vietnamese products face exclusion from European

### ABOVE:

Low grade logs at a sawmill in Laos, July 2012. Most high grade logs are exported to Vietnam.

**“Log exports from Laos make a mockery of the country's forest governance policies.”**



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markets if their provenance cannot be proven when the EU Timber Regulation (EUTR) comes into force in March 2013.<sup>8</sup>

For Laos, FLEGT offers a significant opportunity to support and reform its forestry sector to help it meet its objectives of both better forest governance and a domestic processing industry.

Recent agreements between Vietnam and Laos suggest some intent to tighten enforcement of the cross-border timber trade.

In October 2011 Laos' Ministry of Agriculture and Forests (MAF) and Vietnam's Ministry of Agriculture and Rural Development (MARD) signed a formal cooperation agreement aimed at improving enforcement within the timber trade and to clarify information on the legal provisions relating to timber exports.<sup>9</sup>

This led to the renewal of a 2009 Memorandum of Understanding (MoU), signed in July 2012 and to run until July 2017, on cooperation in forest protection and law enforcement.<sup>10</sup> In August 2011 trade officials signed an additional MoU on cooperation to prevent illegal cross-border trade.<sup>11</sup>

However, these policy developments and both states' engagement with FLEGT are fundamentally undermined by failure to enforce Laos log export ban. Further, the opaque nature of this trade renders due diligence on Vietnamese exports of Laos timber, required under the EUTR, impossible.

**TOP:**  
Fleets of trucks deliver Laos logs to Qui Nhon Port, Vietnam, July 2012.

**ABOVE:**  
A sawmill in Laos slices one of the few logs not exported to Vietnam.

## LAOS' LOG LAWS

Laos' log export ban was instituted through a range of laws issued around the turn of the century<sup>5</sup> to ensure a supply of raw materials for the country's fledgling timber processing industry while conserving forests and reducing timber smuggling. It is being systematically undermined.

Since 2008, provision for opaque and ad-hoc exemptions to the ban have been written into a range of laws, decrees and orders.<sup>6</sup> The current Forest Law, for example, explicitly defines species of trees prohibited from harvest, and then announces the Government's right to export "prohibited species" at will.

Such exemptions are issued by a small group of senior officials in the central government, and can permit "special" quotas of logs to be exported, usually in return for investment in and ownership of infrastructure and plantation projects across the country. The beneficiaries are a coterie of influential firms, able to secure logs at low prices and often for cash payments; the losers are the rural population of Laos who receive little if any benefit and the country's own wood industry, which cannot secure adequate supplies.



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# THE PRIVILEGED FEW

Recent investigations by EIA demonstrate that the companies named in *Crossroads* as the main culprits taking logs from Laos across the border into Vietnam continue to prosper, while also identifying the mechanics of the burgeoning trade in rosewood between the two countries.

## PHONESACK GROUP

In 2011 EIA uncovered how the influential Lao company Phonesack Group was exporting logs to Vietnam for cash payments, using its flooring factory in central Laos as a front to secure access to large supplies of logs.

Subsequent investigations reveal the favoured position the company enjoys in obtaining contracts for hydropower, mining, road construction, logging and wood-processing activities.

The consistent thread between its involvement in infrastructure development, hydroelectric dams and mining is the access it gives the group to vast areas of forest to feed its growing timber business.

In March 2012 Phonesack Vilaysack, chairman and owner of Phonesack Group, signed an MoU with the GoL entitling it to undertake an 18-month feasibility study of a large hydroelectric dam project, Nam Theun 1 (NT1).<sup>12</sup> The proposed dam had already been a source of significant controversy, as it will involve the deforestation and inundation of thousands of hectares of the Nam Kading National Protected Area (NPA), a globally significant biodiversity hotspot.

NT1 had previously been left out of Laos' power development strategy because it was not considered to be economically viable. Despite this, logging of the area began before necessary permits had been obtained by Thai and Malaysian firms engaged by the original project developers.<sup>13</sup>

In July 2012 an NPA ranger at the proposed dam site inside Nam Kading NPA told EIA researchers that Phonesack would be setting up a base to begin logging the park within the month.<sup>14</sup> Phonesack seems likely to use the project and the surrounding national park as a source of logs for export for years to come.

The granting of the MoU is further testimony to Phonesack's close links with senior figures in the GoL, especially given the controversial nature of the company's involvement in logging and mining associated with a previous hydropower project – the Nam Theun 2 (NT2) dam. External monitors of NT2 found that Phonesack was involved in systematic and repeated illegal exploitation of the Nakai Nam Theun National Protected Area (NPA).<sup>15</sup>

Such findings confirmed what EIA had learned in 2007, when the owner of a Thai company – LVT International – told undercover investigators that he had partially financed Phonesack's logging operations in concessions linked to NT2. The Thai company admitted that Phonesack's logging was taking place illegally outside the dam reservoir, and bragged that it had paid large bribes to senior GoL officers to obtain such timber quotas and corresponding rights to export logs to Thailand.<sup>16</sup>



© Lao News Agency

### TOP:

Virgin forest valleys in Nam Kading NPA could add to Phonesack's profitable log export business through the group's involvement in the revived Nam Theun 1 dam project.

### ABOVE:

Phonesack Vilaysack (left) signs an MoU for a Nam Theun 1 dam feasibility study, March 2012.

**“Phonesack was involved in systematic and repeated illegal exploitation of the Nakai Nam Theun National Protected Area.”**

**BELOW:**

Concession map showing military mining concession outside the NPA in 2009.

**BOTTOM:**

Phonesack Group's Khamkeut Saen-Oudom Ltd gold mine had military security during EIA's July 2012 visit.



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By 2010 Phonesack had expanded its operations within the NPA to illegal mining, carving roads through the forest and digging up the valley floor in search of gold ore. Although this operation has now been shut down, in 2010 NT2 monitors learnt that the military was assisting Phonesack in obtaining another mining concession that would cover up to half of the NPA.<sup>17</sup>

A concession map issued by the Lao Ministry of Energy and Mines in December 2009 indicates that the military then held a mining concession north of the NPA (*left*).<sup>18</sup> That concession has since become a Phonesack mine, under the subsidiary Khamkeut Saen Oudom Ltd (KSO). The links with the military persist overtly, however, as the site was guarded by military personnel when EIA visited in August 2012.

Though the concession mapped in 2009 fell outside the NPA, it was also a fraction of the reputed size of Phonesack's new concession. Indeed, Phonesack claims on its website that its KSO concession is more than 180,000ha,<sup>19</sup> and at that size it would likely overlap substantially with the NPA.

Beyond the gold reserves, the attraction of such concessions to logging firms such as Phonesack is clear. Special log quotas issued in connection with forest clearance land for mining activities can be issued according to area, rather than volume. This is likely to be the case with a major Phonesack coal mine falling between Salavan and Xekong provinces.

In February 2011 EIA investigators posing as timber buyers met representatives of Phonesack Wood in Thakek, Khammoune Province. The company's export manager told EIA that a flooring factory Phonesack was building in Gnommalath – to which investigators were also taken – was really a front to obtain logging quotas from the Government. 90 per cent of the logs received through such quotas – said to be over 120,000m<sup>3</sup> a year – were in fact trucked to Vietnam unprocessed, leaving the new factory unable to obtain the raw materials needed to guarantee orders. EIA was informed that Phonesack Vilaysack made far more money through such log exports than through the processing business.<sup>20</sup>

When revisiting in July 2012, Phonesack's vast new sawmill in



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**TOP:**  
Phonesack logs from the Xekong 4 dam, Sekong Province, Laos, February 2011.

**ABOVE:**  
Laos Deputy Prime Minister, Somsavad Lengsavath at the ground breaking ceremony at Phonesack's Vietnam mill.

**LEFT:**  
Thousands of cubic metres of unmarked logs stored at Phonesack's Gnommalath sawmill. Most will be sent to Vietnam.

Gnommalath was stacked full with tens of thousands of cubic metres of unprocessed logs, most of them unmarked. However, Phonesack's policy of exporting logs to Vietnam shows no signs of abating. The company is in the process of building another vast US\$50m wood flooring mill on the Vietnamese coast that will process 180,000m<sup>3</sup> of timber per year and is expected to create jobs for more than 1,500 Vietnamese workers by adding value to logs from Laos and elsewhere.<sup>21</sup>

The mill is being constructed in the Vung Ang Economic Zone, where a new deep-water port is also being developed to serve a broader east-west economic corridor running through Laos into Vietnam. Such is the influence enjoyed by Phonesack Group's owner, Vilaysack, that despite the clear benefits to Vietnam's economy from the circumvention of Laos' log export ban and value-adding policies, the groundbreaking ceremony was attended by the Deputy Prime

Minister of Laos, Somsavad Lengsavath, who has a close personal relationship with Vilaysack.

Indeed, the Deputy Prime Minister is reputed to be key to Phonesack's ability to receive both special logging quotas and "rights" to circumvent Laos' log export ban – both of which are issued by the Prime Minister's Office. A relative of the Deputy Prime minister, Sam Lengsavath, serves as Phonesack Wood's Chief Administrative Officer – reportedly for the political access this offers Vilaysack.

On top of such lucrative business interests, Phonesack has also been awarded a contract to construct a new road that will link the Vung Ang Economic Corridor to Khammouane province, further north.<sup>22</sup> It will also connect Phonesack's NT1 site and the KSO gold mine to its Gnommalath mill, potentially expediting the export of Laos' logs to Vietnam at the expense of the people of Laos.



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**TOP:**  
3,000m<sup>3</sup> of Laos yellow balau logs in Cua Lo port, Vinh, Vietnam, offered for sale by Nicewood.

**ABOVE:**  
Nicewood's Tony Xuan.

*“ We cut a little more than quota allowed.”*

**Tony Xuan, Nicewood's Import-Export Manager, June 2012.**

## NICEWOOD

In April 2011, EIA travelled to Hanoi to meet with Nicewood, a Vietnamese company that has secured significant logging quotas in Laos' Xieng Khouang province through the associated Laos company Dong Tam Wood Import Export Joint Stock Company. Nicewood's Import-Export Manager, Tony Xuan, told EIA that Nicewood secures annual logging quotas of 30,000m<sup>3</sup> from the GoL and the bulk of the raw timber is exported to Vietnam as both round and square logs.

Xuan said that even though Laos prohibits the export of logs, some companies such as Nicewood are still able to take logs out to Vietnam, and admitted to bribing customs and forestry officials.<sup>23</sup>

In June 2012, posing as log buyers, EIA corresponded with Xuan again concerning the purchase of 3,000m<sup>3</sup> of yellow balau logs stored at Cua Lo port in Vinh City, Vietnam. Soon after initial contact, Xuan confirmed that the logs were imported from Laos and promptly emailed EIA a copy of the log list – a document used by Nicewood for customs declaration when it imported the logs into Vietnam.

Xuan, however, noted that the logs had been falsely scaled and that the total volume on the log list had been under-declared. He revealed that the diameter of each log had been downscaled by about 20% and that *“the real log list will be 20% more in volume”*.

The reason for this, he explained, is to account for excess volumes that Nicewood had cut beyond the quota it was allocated by the GoL. *“We cut a little more than quota allowed, then we make log list to make custom declaration a bit less to suit quota volume”*, Xuan wrote. Based on Nicewood's 30,000m<sup>3</sup> annual quota, the excess 20% means that the company logs 6,000m<sup>3</sup> a year beyond what it is permitted.

Xuan went on to explain that separate contracts would be drawn up to conceal payment for the excess volume. One contract will contain figures from the log list and payments to be made out to Nicewood; the other contract will be for the *“surpass volume (that) will be paid to our boss account”*.

Xuan also provided details on the types of supporting documents required to export Lao timber from Vietnam. When asked for the Lao Certificate of Origin (CO), Xuan was only able to provide a CO issued by Vietnam. He explained that





Nicewood does not have Lao CO as the “Vietnamese custom official does not require CO” when it imports from Laos. Xuan clarified that applying for Laos CO documents also requires additional payments to officials in Vientiane, which, not being a requirement of Vietnamese authorities on import, was deemed an unnecessary expense.

To convince EIA that Vietnamese Cos suffice, Xuan pointed to Section 10 of the certificate (‘Declaration by the Exporter’) where it specified “*all the goods were imported from Laos*”. From his experience, this declaration is adequate to authenticate timber origin as Nicewood have previously exported logs to China, Japan and Taiwan using similar documents.

Xuan also explained the procedures of applying for a Vietnamese CO. According

to Xuan, after timber is imported into Vietnam, the authorities require all documents to be reissued by the Vietnamese authorities, including the phytosanitary certificate from Laos. This reissuance of the phytosanitary certificate, together with import declaration document and a commercial invoice, appear to form the basis on which the Vietnamese CO is then issued. In effect, the phytosanitary certificate is the only official document from Laos that is directly used to apply for a Vietnamese CO. Xuan indicated buyers “*should not consider these are from Laos anymore*”.

In the correspondence, Xuan also revealed that Nicewood is able to supply Lao rosewood, a controlled species in Laos. Online research showed piles of rosewood logs and fitches in storage at Nicewood’s facility, believed to be in Laos.

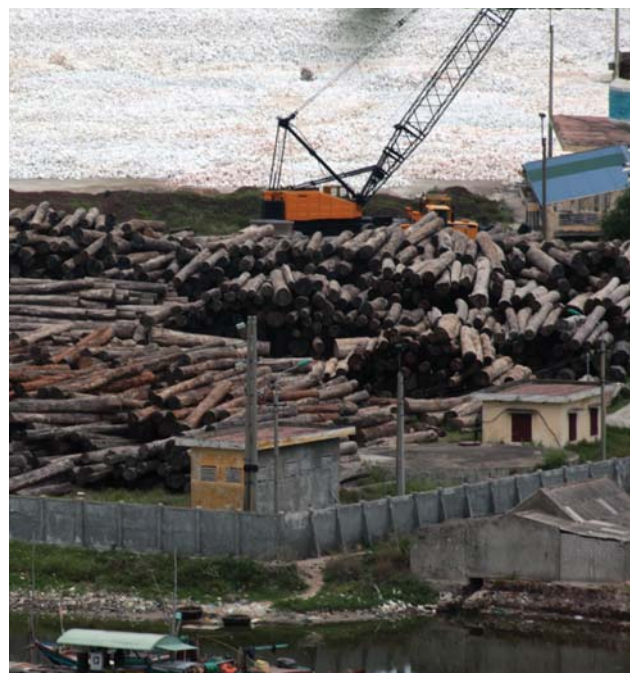
**ABOVE:**  
Vietnamese customs official do not require Certificates of Origin for Lao logs, but issue their own.

**BELOW LEFT:**  
Illegal Lao rosewood offered by Nicewood.

**BELOW RIGHT:**  
3,000m<sup>3</sup> of Nicewood's Lao yellow balau logs in Cua Lo port, Vinh, Vietnam, July 2012.



Nicewood Facebook Page



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*“ I think natural resources are limited, and I need to take them before they’re gone.”*

**Doan Nguyen Duc,  
Founder of HAGL,  
Forbes Asia, 2009**

## HAGL

During field investigations in Attapeu Province, southern Laos, in late 2010 and early 2011, EIA witnessed trucks carrying logs from an extensive rubber plantation operated by the Vietnamese firm Hoang Anh Gia Lai (HAGL) towards the border crossing with Vietnam.

HAGL, founded by Doan Nguyen Duc in 1990 as a furniture producer, has since diversified and is now invested in property development, rubber, mineral extraction and hydropower across the Mekong. Though property accounts for the majority of its revenue, timber and granite production remain its “core businesses”.<sup>24</sup> The burgeoning business empire has made Doan a wealthy man – he is reputed to be the richest man in Vietnam, and the first Vietnamese tycoon to buy a private jet and helicopter.<sup>25</sup>

The rubber concession in southern Laos was granted in exchange for HAGL building the athletes’ village for the 25th South East Asia Games, which took place in Laos in 2009.<sup>26</sup> HAGL’s financial support for the project was split between a US\$4m “gift” and a US\$15m interest-free loan.

According to HAGL, the loan was to be repaid by the GoL through the logging rights to the Attapeu concession, which had to be cleared prior to planting rubber.<sup>27</sup> Other sources suggest that the quid pro quo was more extensive, also including the exploration rights for minerals in two provinces and real

estate deals in Vientiane, the capital of Laos.<sup>28</sup>

Either way, the returns available to HAGL through the deal are vastly disproportionate. In its 2010 annual report HAGL claimed that the concession would provide it with 300,000m<sup>3</sup> of timber.<sup>29</sup> At market rates for timber exported as roundwood to Vietnam, this could attract upwards of US\$60m<sup>30</sup> – four times the value of the loan extended to the GoL.

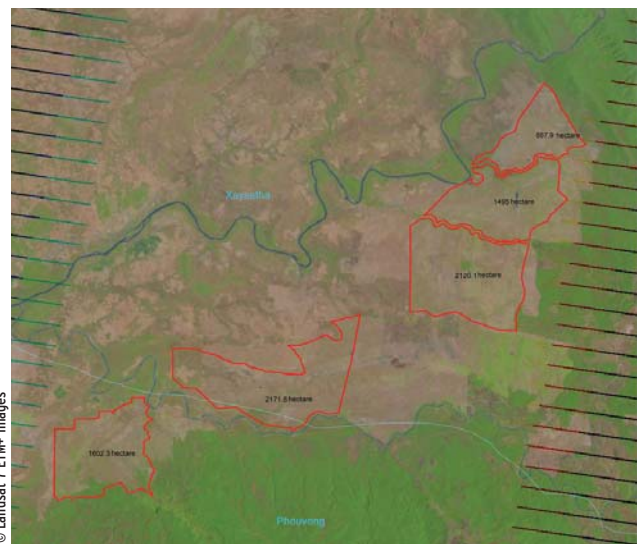
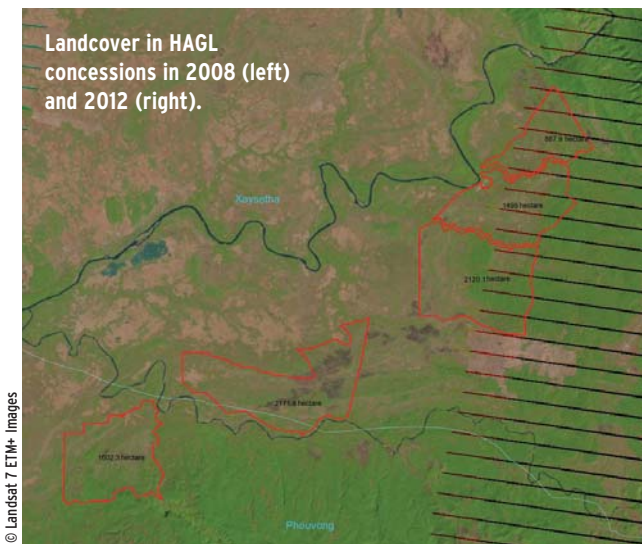
The timber from the concession is exported as raw logs and used to feed HAGL’s own extensive furniture factories in Vietnam, adding further value outside Laos’ borders and depriving the domestic industry of enough material to supply it for a year.<sup>31</sup>

Additionally, based on HAGL’s prediction of earnings from latex production, the Attapeu concession will generate US\$128m per year in profits when it reaches maturity. Unsurprisingly, given the returns on its US\$15m loan, HAGL lists “ownership of land at low cost” among its competitive advantages.<sup>32</sup>

It is this form of inequitable land deal that prompted Prime Minister Bouasone Bouphavanh to impose a moratorium on large land concessions in 2007.<sup>33</sup> HAGL’s concession was just one of a number that contravened the moratorium, with land allocation remaining open to “discretionary, case-by-case decision-making”<sup>34</sup> in a manner reflective of the GoL’s approach to its log export ban.

Satellite imagery obtained by EIA reveals that substantial deforestation has occurred both inside and around HAGL’s concession in Attapeu between 2008, when it acquired the land, and 2012 (*below*).

HAGL in numbers	
<b>\$15m:</b>	Loan to GoL used to secure 10,000ha concession
<b>\$60m:</b>	Value of timber from 10,000ha concession
<b>\$128m:</b>	Annual profits from latex produced in concession



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# COECCO

The Company of Economic Cooperation (COECCO) is the commercial arm of Vietnam's Military Zone 4 Command, a division of the Vietnam People's Army headquartered in Vinh, the coastal capital of Nghe An province.

EIA initially identified large volumes of Laos logs belonging to COECCO in Qui Nhon port in Vietnam in October 2010. In February and April 2011 EIA further documented COECCO's major logging activities in the reservoir area of the Xekaman 1 hydroelectric dam, in Attapeu, much of which occurs inside Dong Amphan NPA. While Lao military personnel were guarding the logging, roughly 6,000m<sup>3</sup> of COECCO's logs were stacked in the company's nearby Phao Samphane log pond ready for transport to Vietnam.

In a May 2011 meeting subsequently arranged by EIA investigators posing as traders, COECCO representatives admitted the company had been one of the biggest logging operators in Laos for over 20 years. COECCO claimed to obtain logging quotas, usually from dam clearance sites, annually from the central government in Laos. COECCO trucks its logs into Vietnam and sells them to Vietnamese furniture factories. 100,000m<sup>3</sup> of logs were traded in this way in 2010 and in 2011. COECCO offered EIA investigators 15,000m<sup>3</sup> of Lao keruing logs for export from Vietnam.

In July 2012 EIA returned to Vietnam, and documented thousands of cubic meters of new logs bearing the distinctive yellow COECCO tags in each of Vietnam's three key timber ports of Danang, Qui Nhon, and Vinh. Logos seen on trucks bringing logs into Qui Nhon port revealed that COECCO has been issued a further quota from the Xekaman 1 dam site for the 2011-12 logging season, and was continuing to bring unprocessed logs into Vietnam.

COECCO's activities conflict with reforms in Vietnam aimed at reducing the commercial interests of state-owned enterprises. The 2005 Enterprise Law banned the military from establishing, managing or investing in companies<sup>35</sup> and a Government resolution in 2007 instructed it to divest from all businesses by 2012.<sup>36</sup>

In 2008 a Prime Ministerial decision specifically ordered the Ministry of Defence to divest of COECCO by 2010.<sup>37</sup> However, COECCO remains under the control of Military Zone 4 and both entities benefit from a close relationship with the Laos People's Army.<sup>38</sup>



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**ABOVE:** COECCO's Laos logs in the Vietnamese ports of Qui Nhon (top), Danang (middle) and Vinh (bottom).

**LEFT:** Sticker denoting COECCO's ongoing involvement in clearance of the Xekaman 1 dam site reservoir in Attapeu, Laos.



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## ROSEWOOD ROBBERS

### ABOVE:

Locals transporting fresh-cut precious woods to buyers, Khammouan, Laos, July 2012. The real profits are accrued by international traders.

“In Laos, Vietnamese and Chinese middlemen travel the country to consolidate rosewood produced by local villagers, and rosewood smuggled from Thailand and Cambodia.”

Over the past decade Vietnam has become the principal exporter of threatened and protected rosewood timbers to China, where demand for luxury “*Hongmu*” furniture has driven a major spike in illegal logging worldwide, and particularly in the Mekong region.

By 2011 approximately half of the 500,000m<sup>3</sup> (US\$600 million) of rosewood imported into China came from Mekong countries, including Laos and Burma, although principally Vietnam.<sup>39</sup>

In 2007 Vietnam exported 85,768m<sup>3</sup> of rosewood to China, 75,733m<sup>3</sup> of which was unprocessed logs (HS Code 44039930). Much of this rosewood is channeled across Vietnam’s land borders, particularly through the porous checkpoint at Mong Cai which is regarded as a major wildlife, drugs, and hazardous waste smuggling gateway to China.<sup>40</sup> Over 61,000m<sup>3</sup> of the 75,733m<sup>3</sup> Vietnam exported to China in 2007 went to companies based in Guangxi province – China’s major redwood furniture manufacturing hub, which borders Mong Cai.<sup>41</sup>

Nearly all, if not all, of these rosewood exports are illegal or involve illegality at some stage in the chain.

As no legal domestic rosewood sources exist in Vietnam, which had prohibited commercial and private rosewood harvesting by 2007, nearly all rosewood exports from Vietnam originate from Laos or Thailand. That Thailand and

Laos have also banned both rosewood harvesting and log exports has resulted in Vietnam effectively becoming a laundering hub for rosewood logs stolen and smuggled from the forests of these countries.

In Laos, Vietnamese and Chinese middlemen travel the country to consolidate rosewood produced by local villagers and rosewood smuggled from Thailand and Cambodia. The wood is then transported to Vietnam, where it is mostly exported to China. Internet trade boards are littered with adverts for Laos-origin rosewood logs offered by Vietnamese companies.

Vietnam’s role in illegal rosewood trade is not just affecting forests in neighbouring countries. Loggers are increasingly opting to illegally log rosewood in Vietnam itself – often with the collusion of officials.

In April 2011, 35 locals were convicted of rosewood logging in the Ha Noi area.<sup>42</sup> In May 2012, six former forest rangers and one timber trader were arrested for rosewood logging in Huong Son District, Ha Tinh Province, near the border with Laos.<sup>43</sup>

Loggers have also targeted Phong Nha-Ke Bang National Park in Quang Binh Province – a UNESCO World Heritage site – prompting authorities to deploy 130 military, police and park officials in a crack down.<sup>44</sup> Despite their presence, loggers reportedly managed to

smuggle US\$1.82 million-worth of rosewood out of the park.<sup>45</sup> In an ironic twist, the loggers were then in turn robbed by a mob of local villagers – itself led by a corrupt local police officer.<sup>46</sup>

So keen are traders to access rosewood that individual trees are being brazenly logged in urban streets in Vietnamese towns, including in Buon Ma Thuot, Dak Lak Province, and Thua Thien in Hue Province.<sup>47</sup>

Although such cases do prompt enforcement, Vietnamese forests supply only a tiny proportion of the rosewood exported from the country – the vast majority stems from illegal logging in Laos and Thailand. While Vietnam is keen to protect its own threatened rosewood trees, it appears to tolerate the smuggling of rosewood from neighbouring countries.

## VINACA MAIPHUONG

To facilitate timely law enforcement against ongoing illegal rosewood trade between Laos and Vietnam, in May 2012 EIA sent a confidential intelligence dossier to relevant officials in the two countries.<sup>48</sup>

The dossier centered on the Vietnamese company Vinaca Maiphuong, based in Haiphong, which came to EIA's

attention after offering up to 50,000m<sup>3</sup> of rosewood (including *Dalbergia Cochinchinensis* and *Dalbergia Oliveri*) for export.<sup>49</sup>

Aware of Vietnam's rosewood harvesting ban, EIA contacted Vinaca Maiphuong through a front company to express interest in the timber. Investigators were informed by email that two lots of 500m<sup>3</sup> of *Dalbergia Oliveri* (Burmese or Laos rosewood) were available at between US\$5,200 and US\$6,000 per cubic meter. Vinaca also provided pictures of the timber and sample contracts, which confirmed the rosewood was in square log form and of Lao origin. The logs would be delivered from the seller's Laos warehouse to either the Lao Bao border gate in Vietnam or the Vietnamese port of Danang, accompanied by a range of documents, including Certificate of Origin and customs forms at the Laos-Vietnam border. The price quoted for the 1,000m<sup>3</sup> was US\$38.5 million.

In reporting the company to the Lao and Vietnamese governments, EIA explained that such a sale would contravene both Laos' log export ban, and Laos Prime Ministerial Orders 17 of 2008 and 10 of 2011 prohibiting rosewood harvesting. EIA urged the two governments to investigate the company and the wider smuggling of rosewood through the Lao Bao border gate.



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### ABOVE:

Illegal rosewood and other precious woods seized at a checkpoint near the Lao Bao Border (top), and safely through to Vietnam (bottom)

### BELOW:

Part of the 1,000m<sup>3</sup> of rosewood logs from Laos offered by Vinaca Maiphuong for US\$38.5 million.



© Vinaca Maiphuong



## RECOMMENDATIONS

The ransacking of Laos' forests continues unabated, despite a raft of policies designed to increase its forest cover and develop a well-managed domestic wood processing industry.

EIA's recent investigations clearly show the reason for this: the preferential treatment enjoyed by a handful of well-connected companies able to disregard the rules at the stroke of a pen by unaccountable senior officials in the GoL. Many of these actors are major players in the log trade to Vietnam or the furniture industry in Vietnam.

Virtually all logging now being carried out in Laos is linked to a host of infrastructure and plantation projects. Control of the timber from these operations is virtually non-existent. The award of logging quotas associated with these projects is secretive and non-transparent.

Urgent action is needed by the governments of both Laos and Vietnam to stem the flow of logs from some of the most important remaining forests in the Mekong region.

### The Government of Laos should:

- Enforce its log export ban
- Publish the details of all logging quotas associated with infrastructure and plantation projects
- Improve administration and monitoring of log flows from all sources, including special and normal quotas, plantations and PFAs, ensuring flows through both primary and secondary log ponds accurately tally with material used in mills in Laos
- Seek development assistance available through the EU FLEGT initiative, and any VPA agreement, to build capacity in forest and timber sector monitoring and enforcement

### The Government of Vietnam should:

- Work with the EU and GoL to ensure complete transparency and traceability in the log and timber trade with Laos and in links to export oriented wood products manufacturers supplying global markets
- Investigate the multi-million dollar rosewood log trade in Vietnam, ensuring it reciprocates neighboring countries' policies

- Investigate the activities of Vietnamese companies named in this and previous EIA publications

### The European Union should:

- Continue working with both Laos and Vietnam towards FLEGT VPAs that bring full transparency and traceability to bear in the log and wood products trade in the two countries
- Ensure adequate funds are made available through the VPA process to assist Laos, and Vietnam, to build the legal, monitoring and enforcement capacity required for Laos timber to comply with the EU Timber Regulation

### All three Parties (Laos, Vietnam and the EU) should:

- Ensure formal roles for civil society are built into any complaints mechanism under a VPA
- Support any proposal for the listing of rosewood species on CITES Appendices by range states including Thailand, Cambodia, and Vietnam

### EU Members States should:

- Actively probe EU companies buying wood products using Lao timber for compliance with the EU Timber Regulation, beginning in March 2013
- Ensure due diligence systems used by operators under the EU Timber Regulation can reliably provide information on the concession of harvest in Laos, when placing products made with Lao wood on the EU market

### Companies placing timber on the European market should:

- Exercise detailed due diligence when buying Lao timber, whether in Laos or in Vietnam. The EU Timber Regulation requires operators to ascertain the legal concession of harvest as a minimum level of risk assessment

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Land burning near HAGL's rubber plantation, Attapeu, Laos, February 2011.

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