



REPEAT OFFENDER

Vietnam's persistent trade
in illegal timber



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COVER:

Logs illegally cut in O'Tabok Community Protected Area, within Virachey National Park in Cambodia's Ratanakiri province, await transportation to Vietnam, February 2017.

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INTRODUCTION

This month, Vietnam and the European Union (EU) will initial an agreement to ensure only legally harvested and traded timber flows through Vietnam to the EU and beyond.

But as both parties meet to secure commitments, Government officials and security force personnel in Vietnam will continue to pocket millions of dollars in illicit cash payments from major timber smugglers in return for allowing hundreds of thousands of cubic metres of logs stolen in Cambodia's national parks to be laundered into Vietnam's timber economy.

Between November 2016 and March 2017, EIA investigations uncovered illegal logging on unprecedented scales in Community Protected Areas (CPAs) in Virachey and Ou Ya Dev national parks and in Lumphat Wildlife Sanctuary, in Cambodia's Ratanakiri province.

All of the wood is being smuggled with impunity to Vietnam as logs - in violation of both Cambodia's log export ban and a total closure of the border with Vietnam to timber, instituted in early 2016 by a Coalition Committee for Forest Crime Prevention. Much of the smuggled wood was logged illegally in protected areas funded by the EU.

The devastation of Ratanakiri's protected areas is not permitted by the Government of Cambodia - or, in many cases, by local indigenous people - but is enabled by

corrupt Cambodian officials and security force personnel in the pay of Vietnamese timber traders.

Rather than rejecting this illegal wood, Vietnamese state and security officials have issued and administered formal quotas to give it lawful status in Vietnam's economy. These quotas have incentivised and facilitated massive illegal logging in neighbouring Cambodia, precisely at a time when that country is publicly seeking to stop all timber trade with Vietnam.

During undercover meetings in Vietnam in February 2017 with companies benefiting from those quotas, EIA investigators learned how Vietnamese traders pay millions of dollars in bribes to Cambodian officials to open up logging areas and smuggling routes in Cambodia.

Traders also disclosed the need to pay bribes of as much as \$45 per cubic metre to Vietnamese officials, including the Chairman of Gia Lai Provincial People's Committee, customs and border army personnel, in return for the provision and administration of quotas allowing them to import into Vietnam.

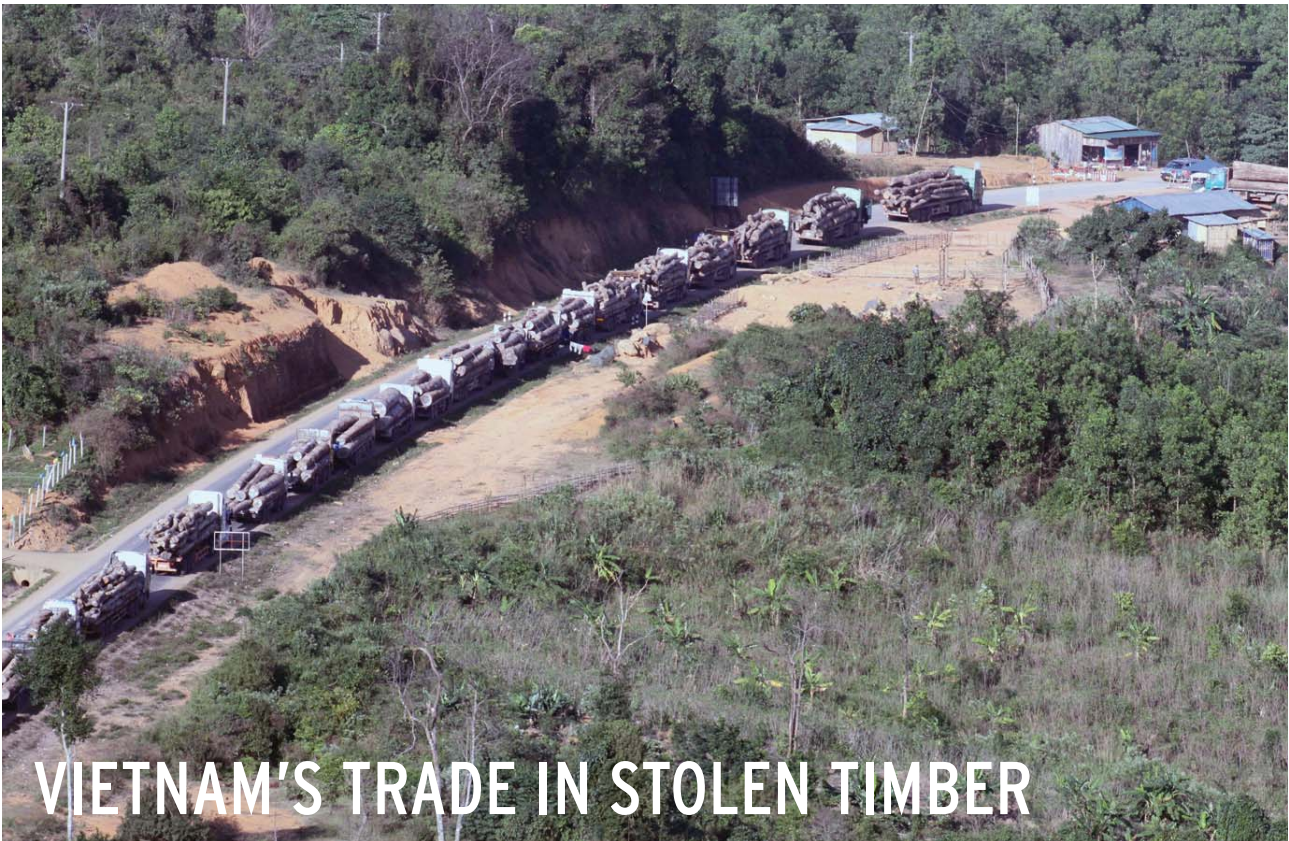
With about 300,000m³ of logs having been smuggled out of Cambodia and legitimised in Vietnam under these quotas, such kickbacks are likely to have amounted to more than \$13 million since the beginning of November 2016. Not only are Vietnamese officials corruptly profiting, but so too is the Vietnamese state, formally taxing the illegal traffic of logs and so effectively taking a cut of the illegal businesses it has sanctioned.

The looting of Cambodia's forests is merely the latest phase in Vietnam's long and continuing history of wilful timber theft. Until 2015, Laos was Vietnam's biggest timber supplier and hundreds of thousands of cubic metres of logs flowed into Vietnam each year in violation of Laos' log export ban. That traffic only stopped in 2016 because Laos' new Prime Minister banned all raw timber exports, not due to any respect in Vietnam for Laos' laws or sovereignty.

State involvement in multi-million dollar transnational organised timber crime cannot be accepted by the international community and must not be ignored by the EU.



Cambodian logs at the yard of Son Dong Company Ltd, Chuprong District, Gia Lai Province, Vietnam, 1 March 2017.



VIETNAM'S TRADE IN STOLEN TIMBER

ABOVE:

A convoy of over 60 log trucks line up at Lao's border with Vietnam at La Ley, Saravan Province, Laos, February 2015.

Despite growing global attention to the problem of illegal logging over the past 15 years, Vietnam continues to rely on imports of illicit timber to supply its burgeoning wood processing sector, especially from the neighbouring countries of Laos and Cambodia. Since 2007, EIA has repeatedly documented flows of illegal logs across the land border between Laos and Vietnam, and more recently from Cambodia.¹

Vietnam has made strenuous efforts to increase its own forest cover, including strict controls on the logging of natural forests. In 2016, a total ban on logging natural forests was announced.² By 2015, the country's forest cover had increased to 14.7 million hectares (44.6 per cent of total land area), compared with nine million hectares in 1990.³

At the same time, the Vietnamese Government has promoted the rapid expansion of an export-oriented wood processing sector, which has become the sixth largest in the world. In 2017, the country's exports of wood products are predicted to be worth \$8 billion, compared with \$7.3 billion in 2016.⁴

Vietnam's wood processing industry is heavily reliant on imports for the supply of raw materials, principally round logs and sawn timber. Imports have been growing at about 10 per cent a year, reaching 4.79 million m³ in 2015.

While timber imports come from over 100 countries, the biggest source region is Asia, especially Laos and Cambodia.⁵ Overall, Vietnam relies on imports for at least 80 per cent of the raw materials consumed by its factories. Analysis of Vietnam's imports by source country indicates that in 2013, 18 per cent were judged to have a high risk of illegality.⁶

It is neighbouring countries which have borne the brunt of this illicit trade. Until 2015, Laos – which has a log export ban – was the largest single supplier of timber to Vietnam by value. Due to stronger political will in the country to curb illegal logging, it has now been supplanted by Cambodia, another neighbouring country which bans the export of raw timber. In 2015, Vietnam imported timber worth \$386 million from Cambodia, a 52 per cent increase on the previous year, and \$360 million from Laos.⁷ Combined, the two countries provided Vietnam with illicit timber worth almost three quarters of a billion dollars in a single year.

This shift in sourcing has been driven solely by supply-side measures. Rather than improve its regulatory controls over imports of illicit timber, Vietnam has actually introduced measures to ease the flow of timber from Cambodia, once again showing flagrant disregard for the forest laws of its neighbouring countries.

“Vietnam continues to rely on imports of illicit timber to supply its burgeoning wood processing sector”

LAOS LEAKS

Despite Laos imposing a log export ban as long ago as 1999 and a spate of regulations in 2002, 2004, 2008 and 2015 – all restricting log exports except in “special” or “specific cases” – over the past decade, round logs have been the main wood product imported into Vietnam from Laos.

By 2012, these supposedly “special cases” of log exports had become the norm and Laos’ wood products industry was starved of raw materials. Nearly all timber harvested in Laos was exported as raw logs to neighbouring Vietnam and, increasingly, to China.

The devastating scale of illegality in Laos’ forest sector was revealed in an unpublished report which was leaked in 2015.⁸ The report was the result of a cross-border project focusing on carbon sinks and biodiversity in southern Laos and central Vietnam, and involved the Lao Ministry of Agriculture and Forestry.

It found that Laos exported 1.4 million m³ of timber to Vietnam and China in 2013, more than 10 times the country’s official harvest. As much as 98 per cent of Laos’ total 2014 exports comprised logs and sawn timber – products nominally prohibited from export. In some areas, the illegal logging rate had reached an astounding 100 per cent.

Illegal timber exports from Laos to Vietnam peaked in 2015 when Vietnam imported a staggering 320,000m³ of logs and just under 400,000m³ of sawn timber from its neighbour.⁹

In February 2015, EIA investigators documented a litany of forestry illegalities during a field trip to southern Laos. In one instance, a convoy of more than 60 trucks overloaded with logs was observed lining up to enter Vietnam at the La Ley border crossing, in Saravan province, Laos. Further log trucks were observed at the Bo Y border post in Attapeu Province, crossing into Vietnam. In just three days, EIA observed at least 3,200m³ of illegal logs being transported across the border. EIA also documented an illegal mining operation controlled by the military inside Dong Amphan National Protected Area.

Research revealed that the bulk of the logs seen at the La Ley crossing came from mining and road building projects being carried by the Lao company Phonesack Group, one of the biggest

companies in the country. For years, it has used privileged connections to the ruling elite of Laos to secure lucrative construction projects and logging quotas. The company was even reported to have built a luxury residence for then-President Choummaly Sayasone.¹⁰

In 2011, Phonesack Group staff admitted to EIA investigators that a big furniture and flooring factory the company had constructed in central Laos was merely a front to secure valuable logging quotas, with most of the timber smuggled across the border to Vietnam for cash payments, leaving even its own mill short of raw materials.

Vietnamese companies have also directly participated in illegal logging inside Laos, including the military-owned enterprise Company of Economic

TOP:

Logs cut by Vietnamese military company COECCO in connection with the Xekaman I hydropower project in Laos, stored at Quy Nhon port, Vietnam, 2012.

BOTTOM:

Log trucks snake round mountainous roads leading to the La Ley border crossing to Vietnam, Saravan Province, Laos, February 2015.



TOP:

Logs at Phonesack Group's furniture factory in Laos, February 2012.

BOTTOM:

Laos Indigenous people are merely spectators as their country's resources are illegally exported wholesale to Vietnam, at La Ley, Saravan Province Laos, February 2015.

Cooperation (COECCO). In May 2011, EIA investigators met with COECCO staff at the company's headquarters in Vinh City, Vietnam. It claimed to be the largest logging operation in Laos, with an annual quota of 100,000m³ of wood logged in the planned inundation zone around the Xe Kaman 1 hydropower dam in Attapeu. EIA subsequently tracked logs cut by COECCO to the Vietnamese ports of Quy Nhon and Danang.

The full extent of COECCO's criminality in Laos was revealed in 2015 when satellite image analysis showed that 71 per cent of logging carried out by COECCO in connection with the dam

between 2007-14 had actually occurred in protected areas beyond the planned inundation zone.¹¹

In 2015, EIA investigators linked logs from COECCO's illegal Xe Kaman 1 operations to wood products imported into Europe by two Italian companies; Andrea Bizzotto and Magazzini Cosma di Cosma Oliviero had bought outdoor furniture made of balau wood from Vietnamese manufacturer Thanh Thuy Co Ltd, with the logs originating from COECCO's logging operation in the Xe Kaman 1 area.

Facing depleted forests and public concern over the corruption underpinning illegal logging and timber smuggling, in May 2016 Laos' new Prime Minister, Thongloun Sisoulith, issued Order No 15 on Enhancing Strictness on the Management and Inspection of Timber Exploitation, Timber Movement and Timber Business. The order placed a complete halt on all exports of unprocessed wood, among other reforms, and the Prime Minister followed it up with official visits to the main wood producing provinces.

Unlike similar declarations in the past, the strict measures instituted by the current Prime Minister have had a strong impact. Customs data shows that in 2016, just 36,000m³ of logs entered Vietnam from Laos – most before the



May order – compared to 321,718m³ in 2015. Trade in sawn timber also dropped, from 383,149m³ in 2015 to just 95,572m³ in 2016.¹²

In March 2017, EIA field monitoring in southern Laos and Vietnam confirmed the dramatic decline in cross-border trade. No log trucks were observed at previously busy border crossings, stockpiles contained no new-cut logs and several Vietnamese timber traders complained of having pre-purchased logs stranded in Laos.

COUNTING ON CRIME IN CAMBODIA

As Laos has tightened controls over illicit timber flows, Vietnamese traders, abetted by Government policies and support, have increasingly switched their attention to Cambodia as a source of cheap illegal raw materials.

The recent surge in trade represents a resumption of wood smuggling between the two countries dating back to the 1990s. Reports at that time found Cambodia's log export ban being routinely violated, with consignments moving across the border from the country's eastern Ratanakiri Province into neighbouring Vietnam, with military involvement on both sides of the border. The illegal timber was tracked entering the supply chain of garden furniture manufacturers in Pleiku and Quy Nhon.¹⁶

The trade subsided in the following decade, due to improved enforcement and regulatory reforms, including a pre-notification requirement in Vietnam for timber imported from Cambodia and a restricted number of border posts through which the wood could be transported.

Yet in January 2014, Vietnam's Ministry of Trade deregulated trade in timber from Cambodia, removing import document requirements and allowing trade to take place through any border gate. Subsequently, imports boomed and in 2015 Cambodia became Vietnam's biggest timber supplier by value.¹⁷

In 2015, Vietnam imported 590,000m³ (roundwood equivalent) of logs and sawn wood from Cambodia, a massive 800 per cent increase on 2013 imports. Log imports alone increased from just 383m³ in 2014 to 57,700m³ in 2015, despite Cambodia banning the export of raw logs.



Workers unload rosewood stolen from Laos at a market in Dong Ky, Northern Vietnam, 2014.

ROSEWOOD ROBBERY

Vietnam also plays a central role in the smuggling of precious woods from the Mekong region to China. Commonly known as rosewoods, trade in these precious timbers has boomed over the past decade to supply the Chinese market for traditional Hongmu furniture.

One of the most valuable of these woods, known as Siamese rosewood (*Dalbergia cochinchinensis*), was listed on Appendix II of the Convention on International Trade in Endangered Species (CITES) in 2013, with Vietnam a co-proponent alongside Thailand. Investigations by EIA in 2014 revealed that Vietnam was playing a central role in rosewood smuggling, acting as a transit hub for timber illegally logged in Thailand, Laos and Cambodia en route to China.¹³ On a single day, EIA observed more than 400 tonnes of Siamese rosewood stored at warehouses in the town of Dong Ha, near the border with Laos. In northern Vietnam, EIA investigators visited the village of Dong Ky, a wood processing centre near Hanoi, and were offered 1,000 tonnes a month of Siamese rosewood from Laos.

In 2016, EIA uncovered evidence of counterfeit CITES permits being used for the transport of Siamese rosewood from Cambodia to Vietnam. Trade data revealed that Cambodia had issued CITES permits for the export of 12,000m³ of Siamese rosewood between June 2013 and December 2014, despite publicly stating that logging and trade of the species in the country was banned.¹⁴ All of the rosewood was exported to Vietnam, where the permits were accepted, prior to onward shipment to China. Subsequently, the Cambodian authorities vehemently denied issuing any of the permits and claimed to have communicated this to their Vietnamese counterparts.¹⁵ Based on a conservative market price of \$50,000 per cubic metre for Siamese rosewood in China, the fake permit scam could have generated potential income of up to \$600 million for the criminals involved.



ABOVE:

Logs being smuggled to Vietnam from O'Tabok, in Cambodia's Virachey National Park, February 2017 .

FOREST CRIMES IN CAMBODIA

In early 2016, the Government of Cambodia launched another periodic clamp down on illegal logging and timber smuggling at the behest of Prime Minister Hun Sen. Measures included a freeze on all timber exports to Vietnam and the establishment of a Coalition Committee for Forest Crime Prevention, overseen by National Military Police Commander Sao Sokha. The Prime Minister also took the extreme step of ordering Sao Sokha to fire rockets from helicopters at loggers.¹⁸

Almost immediately, the Government claimed it had eradicated all major illegal logging in the country. General Sao Sokha announced in mid- January 2016 *“there is no transportation of wood from Cambodia to Vietnam and inside the country.”*¹⁹

Yet while trade data indicates a 50 per cent drop in timber trade from Cambodia to Vietnam in 2016 compared with the previous year, field investigations conducted by EIA in eastern Cambodia and Vietnam between November 2016 and March 2017 have uncovered a well-orchestrated illegal logging operation in Ratanakiri Province, with huge amounts of illicit logs transported across the border into Vietnam's Gia Lai Province. Remarkably, this major forest crime is being perpetrated with the direct support of the Gia Lai provincial government.

EIA INVESTIGATIONS IN CAMBODIA AND VIETNAM

Between December 2016 and February 2017, investigators surveyed illegal logging operations in large swathes of forests in Virachey National Park, the newly created Ou Ya Dev National Park and Lumphat Wildlife Sanctuary, all in Ratanakiri province on Cambodia's north-eastern border with Vietnam.

Set within these protected areas are a range of Community Protected Areas (CPAs) established in recent years to engender, recognise and empower the enforcement of tenure and usage rights of local indigenous communities. Investigators visited two sites where rampant illegal logging commenced in late 2016; O'Tabok CPA in Virachey National Park and the region surrounding the O'Tang river where it forms the boundary between Lumphat Wildlife Sanctuary and the Ou Ya Dev National Park.

O'Tabok CPA is one of five CPAs established as part of a \$1 million grant from the European Union, signed by the Cambodian Ministry of Environment.²⁰ During talks with the community leader, it emerged that approaches had been made by representatives of a Vietnamese timber trader known only as “Yang” in November 2016, accompanied by a Cambodian military police officer who also described himself as a timber dealer.

“this major forest crime is being perpetrated with the direct support of the Gia Lai provincial government”

The traders wanted to secure the community's support to log inside the O'Tabok CPA, claiming that as both the national and provincial authorities had already agreed the logging, they should accept a payment of \$3,000 or get nothing. The offer was declined. Soon after, about 100 Cambodian loggers arrived in the area, accompanied by "timber managers" with military personnel on hand to ensure logging could take place unhindered. Checkpoints were quickly established on roads into the area to prevent outsiders gaining access and the logging began, inside a protected area and without the consent of the local community. The loggers targeted commercially valuable tree species, notably pyinkado, balau, keruing and padauk.

In December 2016, investigators observed dozens of logging camps in the area and heard the constant buzz of chainsaws. Dozens of log storage areas lay along trails cut into the forests, each controlled by a different logging gang. Vietnamese managers were seen ordering local Cambodian military personnel to block access roads into the area with felled trees and checkpoints.

Logs from the area were ferried to the Vietnamese border at night using rudimentary vehicles known as "arevs", each capable of carrying up to 20m³ of timber. In December, investigators saw dozens of arevs transporting logs unhindered, with one convoy escorted by a car bearing a Royal Cambodian Armed Forces registration plate. Passengers inside the car paid security personnel at each checkpoint encountered. It is estimated that at the height of the logging operation, between early December and January 2017, about 100 log carriers were crossing into Vietnam every day, amounting to approximately 110,000m³ of illegal logs being exported in just 55 days.

All of the vehicles observed crossed the border near the village of O'Jornng at an unofficial crossing with no checkpoint or inspection facilities on either the Cambodian or Vietnamese side. After crossing the border, the vehicles headed for a wood storage depot a few kilometres inside Vietnam to unload, where the truck crews were paid the equivalent of \$2,000 for each trip.

From there, Vietnamese drivers transported the logs a short distance to another huge log depot at Ia H'Drai district, in Kontum Province. Military



checkpoints prevented investigators accessing the site. From here, most of the logs were then transported on flat-bed trucks to various log yards in and around Le Thanh, Vietnam's official crossing with Cambodia in Gia Lai province, and further to the yards of owners in Gia Lai province.

Field investigators uncovered another major illegal logging hotspot inside the forests surrounding the O'Tang river, located south of the O'Tabok CPA operation. Covering an area of about 50,000 hectares, logging was documented around a series of villages inside the Lumphat Wildlife Sanctuary and also observed in the newly formed neighbouring Ou Ya Dav National Park, as well as Srepok Wildlife Sanctuary.

TOP:

A pyinkado tree illegally felled in O'Tabok, December 2016.

BOTTOM:

Keruing logs awaiting collection in O'Tang, December 2016.



ABOVE:
Lagerstroemia and keruing logs
being hauled onto a Vietnamese
transporter in O'Tang,
February 2017.

Local villagers told investigators that in November 2016, a group of Vietnamese timber businessmen arrived in the area and claimed that the forests of O'Tang belonged to a Vietnamese tycoon, after local community representatives were paid \$30,000 for logging rights. The money was to be used for upgrading roads and building a village office, with the remainder to be distributed as payments of \$73 each to families. Reportedly, 234 families accepted the compensation, believing the logging would occur whether they accepted it or not.

In early December, the Governor of Ratanakiri Province, Thong Savourn, organised a celebration involving beer and buffalo meat for the local community to mark the logging deal. Local residents were offered \$5 per cubic metre to carry out the logging, with chainsaws, fuel and food provided by Vietnamese managers and protection guaranteed from any enforcement actions. Soon afterwards, hundreds of Cambodian and Vietnamese loggers started felling in the area.

The highly organised operation included makeshift signs indicating the rough tracks drivers should use to carry logs to a series of depots on the border, established under the authority of the Vietnamese Border Army. Most of the timber logged in O'Tang was delivered to two of three main depots, namely O'Leav (near Vietnamese Border Defence Post 731) and Khla Thom (near Border Post 729). While in the area, investigators witnessed up to 200 arev vehicles

transporting logs from O'Tang to Vietnam each day.

Between early December and late January, it is estimated that about 200,000m³ of logs were illegally exported from Cambodia to Vietnam from the O'Tang area over a 55-day period. Protection from any enforcement actions was ensured by the involvement of local police and military officials. For example, one of the main people involved in the logging operation is a Cambodian woman married to a local border police station chief and related to a high-ranking national Border Police officer.

During discussions with loggers and timber managers, investigators discovered how the illegal O'Tang timber operation and the deal with the community had been struck confidentially, with no company name mentioned or official authorisation for the logging provided. Instead, the arrangement was a pretext for Vietnamese timber traders to funnel money to Cambodian officials and bosses in return for the supply of round logs. The money was also used as bribes to buy silence from any outsiders, such as journalists, who could expose the illegal operation.

Two timber managers offered EIA's field investigators payments not to reveal the logging activity, confirming that they routinely paid off officials. They were especially concerned that news of their activities should not reach officials at the national level.

VERIFIED LEGAL IN VIETNAM

Rather than respect its neighbours' logging and log export bans by barring the import of raw timber from Ratanakiri Province, the Vietnamese Government has actually legitimised the trade through official decisions.

Field investigators observed logs from protected areas being delivered to storage sites just over the border in Vietnam. Seven major depots were identified in the area adjoining the official Le Thanh border crossing. Analysis of satellite imagery indicates that the depots appeared in late 2016, with a network of small roads radiating outwards to the logging sites. At the depots, the logs are loaded onto larger 16-wheeled Vietnamese trucks after being measured, registered, stamped and taxed, before being cleared for onward transport by Vietnamese customs. From there, the logs are delivered to factories in Gia Lai, Ho Chi Minh City and to buyers in Quy Nhon, a port and major wood processing centre.

In February and March 2017, EIA investigators posing as timber traders travelled to Vietnam to follow the trail of stolen timber from Cambodia, ascertain the identity of the main culprits and discover how stolen timber could be traded so openly in Vietnam.

The findings reveal how Vietnamese state and security officials have issued and administered formal quotas facilitating the legalisation of illegal timber. These quotas have incentivised and facilitated illegal logging on a massive scale in neighbouring Cambodia, precisely at a time when that country is publicly seeking to stop all timber trade with Vietnam.



At the centre of the conspiracy is a set of regulations issued by the Gia Lai Province Peoples' Committee in autumn 2016. The first, dated September 30, permits the importation of 300,000m³ of logs from Cambodia into Gia Lai via five designated border crossings located in Duc Co and Chu Prong districts in Gia Lai. It outlines how the total amount of logs will be divided into quotas of up to 60,000m³ divided between 16 companies in the province. It further establishes inter-agency inspection teams, including the Forest Protection Department, customs and border security, to monitor the imported logs to ensure no logs from Vietnam enter the trade. It stipulates that import of the 300,000m³ of logs must occur before May 30, 2017.²¹

A further document lists the quotas actually awarded to each of the 16 companies and details the border crossings to be used to bring the logs into Vietnam as Border Defence Posts 721, 723, 727, 729 and 731.²² On October 10, the Gia Lai and Kon Tum Province General Department of Customs issued instructions to Le Thanh border customs officials to monitor timber collected at log yards designated by Gia Lai People's Committee along the border.²³

Through these decisions – all mandated under regulations issued in late 2015 and mid-2016 by the Ministry of Industry and Trade (MoIT) in the central Government in Hanoi – the Gia Lai government effectively legitimised trade in logs exported from Cambodia in blatant contravention of Cambodian law.

A series of conversations between EIA investigators and timber traders in Vietnam reveals how the laundering of illegal wood works in practice.

BELOW LEFT:

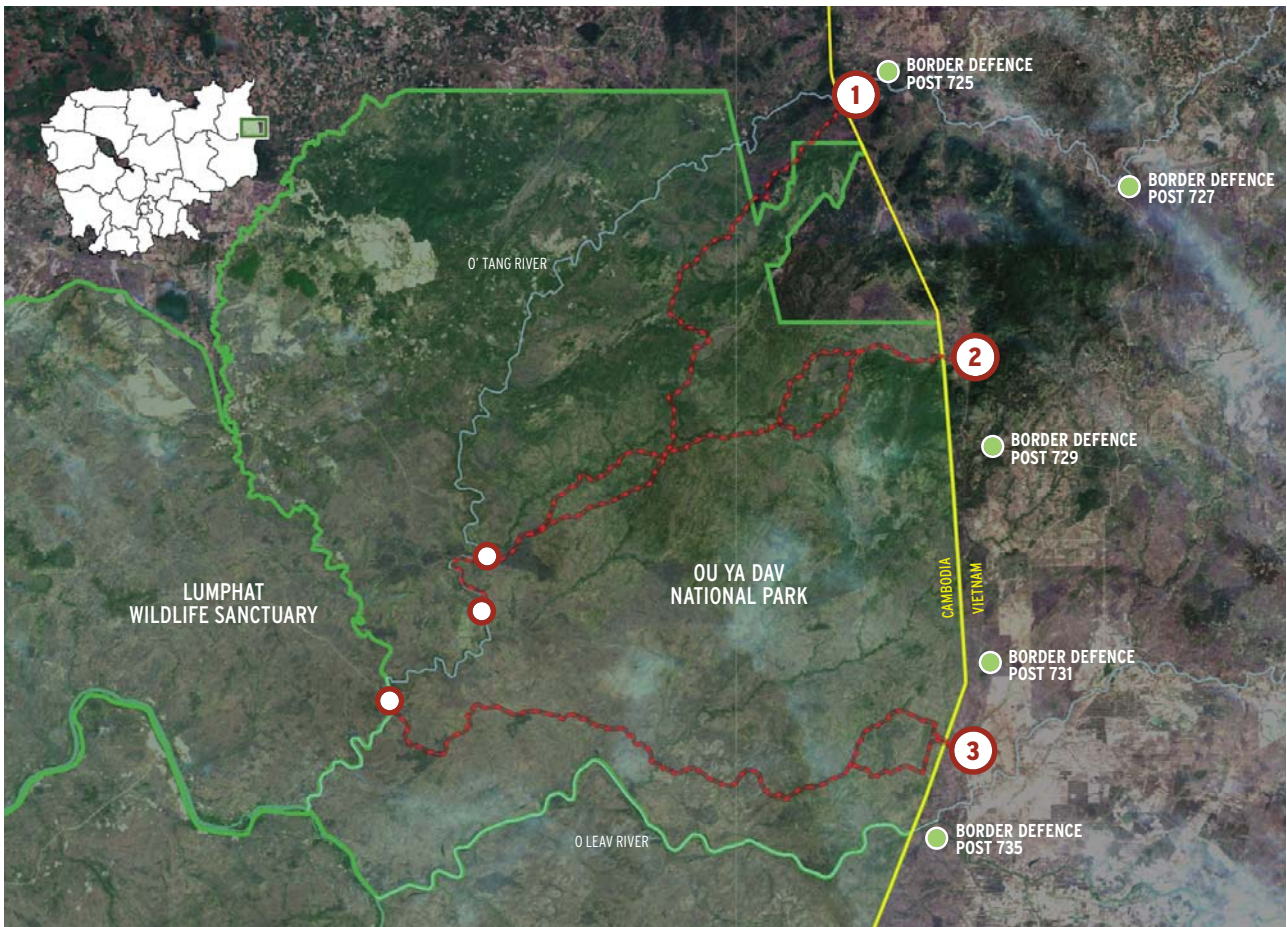
Logs being smuggled to Vietnam.

BELOW RIGHT:

Makeshift jungle road signs direct timber smugglers to Vietnamese Border Defence Post log depots 727, and 729.



Smuggling Routes to Key Vietnamese Border Defence Force Log Depots



0 Large log depots ● Vietnam border defence posts Protected areas
○ Collection areas - - - Log transport route



January 7, 2017 © Digiglobe/TerraServer



February 6, 2017 © Airbus Defense & Space

“Vietnamese traders revealed how widespread corruption enables logging and transport of logs from Cambodia and the process of legalising the wood once in Vietnam”

In Pleiku, the main wood processing hub in Gia Lai, EIA met with Phan Yen Vui, a trader of pyinkado, keruing and balau logs sourced from Cambodia. She explained how her brother, Phan Vang, organises illegal logging in Cambodia for the family business as a side operation, while performing the same function for a much larger company called Nguyen Trung Company Ltd. Documents show the company was awarded a quota of 20,000m³ of logs by the Gia Lai government. Vui explained how her brother was using the quota to facilitate the import of his own timber into Vietnam. She also stated her supplies enter via unofficial crossings: *“We exploit in Cambodia but go through the Station 739 and 731. For these routes, we don't need to go through the border gate.”* Vui's reference to Station 739 was likely a mistaken reference to Vietnamese Border Defence post 729 rather than 739.

Vui arranged for EIA investigators to view logs stored at Son Dong Company Ltd, in Duc Co district, a company run by the owner of Nguyen Trung. During the visit, company accountant Le Quoc Trung claimed that Nguyen Trung Company had purchased a quota from the Gia Lai government to import 35,000m³ of logs from Cambodia. Official documents show that Son Dong received a quota for 15,000m³ which, coupled with Nguyen Trung's own quota of 20,000m³ gives a total of 35,000m³.

He said: *“Regardless of the agreement of timber export ban between Vietnam and Cambodia, Vietnam still stealthily import. The MOIT [Ministry of Industry and Trade] still allows some provinces to import timber from Cambodia.”*

Trung also explained that Nguyen Trung and Son Dong companies allowed independent illegal logging gangs controlled by other Vietnamese timber

companies to use their quotas to import illegal wood into Vietnam.

One such operator using these quotas was Ha Phuong Sole Member Company Ltd. EIA investigators met Nguyen Hai of Ha Phuong at the log yard of Son Dong and were invited to inspect 800m³ of keruing logs from Cambodia Mr Hai had stored at a depot at the Border Defence Post 729 just inside Vietnam. On the way to the remote border depot, Hai collected paperwork from Son Dong which he said could be used to sell his logs. Hai clarified how the quotas are used, stating: *“It's a normal thing here. Let me explain. For example, Nguyen Trung Company or Son Dong Company got a quota of 30,000m³ from the province government. The quota was issued by the MOIT. I know the owner of Son Dong Company, he gave me 10,000m³ quota so I can come here to do. If you work here without a quota, they will seize.”*

He also explained how Vietnamese Forest Protection Department officials marked each log imported from Cambodia in line with Vietnamese regulations, despite all the wood being illegally logged and exported. He predicted that at the current rate, the forests being logged in Ratanakiri would be stripped of commercial timber within two years.

During a series of undercover meetings with EIA investigators, Vietnamese traders revealed how widespread corruption enables logging and transport of logs from Cambodia and the process of legalising the wood once in Vietnam. Copies of documents were also obtained, including log lists and records for the import of thousands of cubic metres into Vietnam, broken down by timber species (see table on page 15).

Trader Phan Yen Vui told investigators that timber supplies from Cambodia were unrestricted because of corruption, explaining how every year key people in her timber network would “lobby” a senior official in the local border station in Ratanakiri with cash payments to be allowed to cut a certain amount of timber. The official would also inform her whenever higher-level inspections were due so that logging could be temporarily halted.

In the port city of Quy Nhon, a logistics agent involved in shipping logs from Laos and Cambodia, Mr Phong, of Hung Anh Company Ltd, suggested that millions of dollars in bribes were paid to Cambodian officials to secure logging



ABOVE:
Mr Le Quoc Trung of Son Dong Company Ltd, 1 March 2017.

BELOW:
Cambodian logs and fitches in the yard of Son Dong Company Ltd, 28 February 2017.





ABOVE:
Cambodian logs on trucks in Le Thanh, Gia Lai Province, prior to shipment to customers across Vietnam, December 2016.

rights despite the ban. He said:
“The under the table money to the Cambodian side to get the permit to exploit in a forest area is a big amount. They still need to give money in order to be allowed to exploit in an area with big trees, high value timbers. For example, they will have to give 1-2 million USD.”

EIA also encountered Mr Bao, of Son Dung Company of Quang Tri province. He explained the costs involved for getting timber into Vietnam, including official import taxes of up to \$40 per cubic metre for valuable species such as pyinkado.

He also detailed additional costs for quota holders which constitute systematic informal payments to those Vietnamese state and security force officials involved in issuing and administering the quotas to import illegal wood. He said: *“But they also have responsibility charge; border army: 300,000 VND (\$14) per cubic metre; customs, provincial chairman, they all have a share so they signed the quota for us.”*

Bao added: *“Tax money goes to the Government. But extra money is about one million VND (\$45) per cubic metre... that one million they share with each other.”*

This implies that Vietnamese officials, including the Chairman of the Provincial People’s Committee, customs and border army (military) personnel are receiving \$45 per cubic metre imported – higher than even official Vietnamese Government tax revenues from the illegal trade. If the full 300,000m³ quotas are exploited, informal payments to Vietnamese state officials will amount to \$13.5 million.

Further evidence of such corrupt payments was inadvertently provided to investigators by Le Quoc Trung, Son Dong’s accountant, who gave EIA log lists. Printed on the back of one list was a record of Son Dong’s “Liabilities payable” from January to December 2016 for account number “721”, also referred

to as “Hieu Hoa”. Five entries detail combined costs of US\$450,000 for “paying law” (or “chi luật” in Vietnamese), which is common Vietnamese slang for “bribery”. At least two of these entries relate to “721”, believed to refer to Border Defense post 721. It appears Son Dong are bribing the Border Defense force, in line with Mr Boa’s testimony.

Even the official taxes raked in by Vietnamese Customs cannot be considered legitimate since the goods being taxed are the proceeds of crime in Cambodia. Vietnam’s taxation of this trade is little different to the state taking a cut of the illegal businesses it allows to occur.

Yet with profits still high for traders, access to quotas was restricted to those with connections in high places. Mr Phong, of Hung Anh Company said: *“It’s not easy to buy the quota. The quota is only issued to companies with relationship to high-ranking officials.”*

The blatant illegal logging witnessed by EIA in Cambodia’s Ratanakiri province represents a criminal conspiracy between elements of the Vietnamese Government, well-connected timber companies and corrupt Cambodian officials. Even as Cambodia’s Government was lauding the success of its anti-illegal logging campaign, huge amounts of logs from protected areas have been flowing into Vietnam.

The only enforcement against this organised crime appears to be paltry fines levied against truck drivers for overloading their vehicles on the Vietnam side of the border. In April 2017, nine drivers carrying timber were fined \$28 by Gia Lai authorities for exceeding the weight limit.²⁴ Clearly, the Vietnamese authorities care more about the condition of their roads than the ongoing destruction of their neighbour’s shrinking forests.

PAPER TRAIL

While in Pleiku, investigators were provided with copies of customs and commercial trade documents detailing various transports of logs into Vietnam, including those by beneficiaries of quotas issued by the Vietnamese state. Several of the documents also detail the suppliers of logs in Cambodia. The documents evidence that a large range of species are being targeted, including CITES Appendix II listed *Dalbergias*:

Beneficiaries of Gia Lai province's People's Committee Correspondence no. 4363/UBND-KT, and suppliers in Cambodia named in trade or customs documents acquired by EIA

| Correspondence No. 4363/UBND-KT | | | Information in documents acquired by EIA | |
|---------------------------------|--|-------------------------|---|--|
| | Quota Beneficiary | Quota in m ³ | Cambodian Supplier | Volume & document type |
| 1 | Dai Thang Sole Member Company Ltd | 20,000 | | |
| 2 | Trang Duc Sole Member Company Ltd | 20,000 | | |
| 3 | Nguyen Hieu Gia Lai Sole Member Company Ltd | 20,000 | | |
| 4 | Gia Lai Mountainous Area Development and Trade Company Jsc | 20,000 | Pich Rithsey Company Ltd (Invoice signed by ThyRithsey) | 4,778m ³ of logs worth \$1.1 million. (May 2016 Packing List & May 11 Customs documents) |
| 5 | Cong Thang Gia Lai Sole Member Company Ltd | 20,000 | | |
| 6 | Nguyen Trung Company Ltd | 20,000 | Phat Sok Chea Trading Development Co., Ltd. | 2,506m ³ of logs (Customs Documents from Border Posts 727 [December 2, 2016] & 721 [January 5, 2016]) |
| 7 | Bao Hoang Sole Member Company Ltd | 20,000 | | 2,264m ³ of logs worth \$782,541 sold to a Vietnamese timber company (May 20, 2016 sales contract) |
| 8 | Tay Gia Lai Gia Lai Commercial Company Jsc | 10,000 | | |
| 9 | Phat Loi Private Company - Gia Lai branch | 10,000 | | |
| 10 | Son Dong Company Ltd | 15,000 | | |
| 11 | Phuoc Thang Gia Lai Company Ltd | 5,000 | | |
| 12 | Gia Lai Agriculture, Forestry and Construction Company Jsc | 6,000 | | |
| 13 | Nam Thanh Gia Lai Sole Member Company Ltd | 20,000 | Wood Innovation & Import Export Co Ltd | 1,303m ³ of logs (January 2017 commercial invoice, signed by Yin Yeth) |
| 14 | Hieu Phat Private Company | 5,000 | | |
| 15 | Asia - Pacific Construction and Traffic Company Jsc | 5,000 | | |
| 16 | 30-4 Company Ltd | 20,000 | | |
| | | 236,000 | | |





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REGULATING FOREST CRIME

CRIME AND COMPLICITY

EIA's recent investigations illustrate how officials and security personnel from Vietnam and Cambodia are colluding with timber traders from both countries in a stark example of organised cross-border forest crime.

In Cambodia, the officials involved work in violation of the country's laws and in a climate of secrecy, corruption and intimidation. Evidence from the ground in Ratanakiri reveals the Cambodian Government's claims that illegal logging is under control to be an illusion. Officials in Vietnam are protected by an artificial veneer of legality through Government decisions designed to legitimise and tax natural resources banned from exploitation in the country of origin.

The serious nature of timber crime in Vietnam is borne out in analysis conducted by the United Nations Office on Drugs and Crime (UNODC), which states: *"Illegal timber trade displays all the characteristics of organised crime,*

including illegal cross-border movements, the use of violence and widespread corruption to protect and facilitate activities, and a hierarchical and networked organisation."

It concluded: *"The criminal justice system is not being used optimally to counter the illicit timber trade."*²⁵

Both Vietnam and Cambodia are signatories to UN conventions to tackle crime and corruption, including the UN Convention on Transnational Organised Crime and the UN Convention Against Corruption, yet the provisions in these agreements to promote cross-border cooperation in the fight against crime and corruption are clearly not being used against forest crime by the two countries.

In the absence of a formal regulation in Vietnam prohibiting imports of illegally logged or traded timber, the CITES mechanism can be used to seize imports of stolen timber but only from endangered tree species listed on the Convention. As the fake permits issued for trade in listed Siamese rosewood between Cambodia and Vietnam show, even this system is being undermined.

ABOVE:

EU Environment Commissioner Kermenu Vella and Vietnamese Minister of Agriculture and Rural Development (MARD) Nguyen Xuan Cuong announce the "agreement in principle" of the Vietnam-EU FLEGT VPA, 18 November 2016, Hanoi.

VOLUNTARY PARTNERSHIP AGREEMENT POTENTIAL

One process that must address Vietnam's illegal timber trade is the Voluntary Partnership Agreement (VPA) between the European Union and Vietnam, one of two flagship policies in the EU Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan.

On November 18, 2016, Vietnam and the European Commission announced that the two parties had *"agreed in principle to work together towards reducing illegal logging and promoting trade in legally produced timber."*²⁶

The announcement came as part of ongoing negotiations between the EU and Vietnam that began in 2010. For the first five years, the negotiations progressed slowly due to Vietnam's unwillingness to discuss how the agreement would treat timber imported into Vietnam – the source of up to 80 per cent of the materials in Vietnam's domestic market.

During this period, Vietnam sought to exclude from the Timber Legality Assurance System (TLAS) – a core function of a VPA – either reference or deference to the relevant scope of laws of the countries from which Vietnam imported its timber.

Without recognising the laws of the producer countries from which Vietnam sources its wood, the VPA could not progress. A core benefit of a VPA for Vietnam is that it will exempt all Vietnamese exports from the EU Timber Regulation (EUTR), the other core plank of the FLEGT Action Plan. In March 2016, EIA submitted complaints under the EUTR against two Italian importers of wood products made in Vietnam. In late 2015, a political deadline to conclude the VPA negotiations was announced during an update on progress in the wide-ranging EU-Vietnam Free Trade Agreement, following meetings between the Presidents of the European Commission and European Council, and the Prime Minister of Vietnam.²⁷

The political deadline has led to more intense VPA negotiations between the two sides, with Vietnamese negotiators finally willing discuss the issue of imported timber. The draft TLAS in the VPA now explicitly recognises the harvesting laws of producer countries supplying wood to Vietnam, and Vietnam

has pledged in the VPA to institute new legislation placing obligations on importers to respect these laws when importing timber into Vietnam.

However, EIA is concerned that the text of the VPA and the TLAS linked to it, as well as the Legality Definition underpinning them, may fail to explicitly and sufficiently define the scope of "applicable legislation" in the timber-producing countries from which Vietnam imports. As such, it may not guarantee that Vietnam will ever legally reciprocate the timber trade and export laws of countries supplying wood to Vietnam, while providing for potentially weak or ineffective measures on even harvesting laws.

Vietnam has not pledged to actually prohibit the act of importing illegal timber, relying entirely on a proposed "due diligence" regime in a model likely to lead to an ineffective box-ticking culture of compliance and enforcement. EIA considers it likely that Vietnam could pass legislation which complies with the explicit requirements of the VPA as currently drafted, yet still allows illegal trade to persist, such as that from Cambodia outlined in this report.

Without more pressure from EU negotiators, the VPA outcome is likely to be that a weak and vague VNTLAS is used to legitimise and legalise timber that would be considered "illegally harvested" under the EUTR.

"Vietnam has not pledged to actually prohibit the act of importing illegal timber, relying entirely on a proposed due diligence regime"

BELOW:

Vietnamese outdoor furniture made with balau logs stolen from Laos on sale in Italy.



CONCLUSIONS AND RECOMMENDATIONS

Vietnam's timber industry and Government policies are a threat to the forests and rule of law of timber suppliers, particularly of neighbouring countries.

EIA investigations reveal a massive illegal timber grab by Vietnamese companies is ongoing in two national parks and a wildlife sanctuary in Cambodia's Ratanakiri Province. The logging and timber smuggling is being protected by corrupt Cambodian state and security force officials, while wood is laundered on import by the Vietnamese state through dedicated legal provisions instituting a formal quota system specifically for the illegal flow.

All commercial species are being targeted and logs are being smuggled out of Cambodia in blatant violation of a long-standing log export ban, and despite the proclamations of the country's so-called Committee for Forest Crime Prevention on its successful closure of the border with Vietnam to timber during 2016.

From December 2016 until February 2017, around 300,000m³ of timber has been stolen and smuggled – nearly all as logs – out of Cambodia into Vietnam under this model, and processed by Vietnamese Customs, in a trade worth at least \$75 million.²⁸

While this has been going on, Vietnam has been in the final stages of negotiating a timber trade agreement with the EU. In a fundamental failing, the proposed VPA does not oblige Vietnam to issue legislation explicitly prohibiting the import and trade of timber illegally harvested, traded, transported or exported from the country of harvest or intermediary countries.

As this report shows, Vietnam has a history of taking stolen timber from the neighbouring countries of Laos and Cambodia. It is vital that the opportunity afforded by the VPA to fundamentally reform Vietnam's wood import procedures to exclude illegal timber is not squandered and that the VPA does not legitimise the criminal activities of powerful elements of the Vietnamese state and timber trade.

RECOMMENDATIONS

The Government of Cambodia should:

- Investigate the illegal timber exports by Cambodian companies named in this report;
- Seek information from Vietnamese Customs on the volume of timber exported and the names of Cambodian companies involved during 2016 and 2017, particularly into Gia Lai province and registered by Le Thanh Customs.

The Government of Vietnam should:

- Immediately revoke all and any quotas to import "scattered timbers" along the Cambodian Vietnam border, in all provinces, and particularly in Gia Lai;
- Declare the timber imports to Cambodia, along with information on the exporters of the wood, and offer to repatriate the illegal wood;
- Investigate the reports of significant bribes to Gia Lai provincial government officials and security force personnel described in this report;
- Not seek to implement FLEGT licensing until the following reforms have taken place:
 1. Prohibit the act of importing illegal timber into Vietnam, and trade in timber illegally logged or traded abroad;
 2. Require evidence of legal export from the country of harvest for all timber shipments to Vietnam, whether for temporary import or not;
 3. Explicitly require timber importers to conduct due diligence on compliance, not merely with harvesting laws but also with legislation applicable to trade, transport, tax and royalties, exports and customs procedures of the countries of harvest and any intermediary trade countries.

The European Union should:

- Compel Italy to transparently investigate the two EUTR cases submitted by EIA regarding Italian imports of wood products from Vietnam and make public its subsequent actions;
- Ensure the VNTLAS to be used within the EU-Vietnam VPA is strengthened in line with the recommendations to Vietnam made above (and those EIA sent to the European Commission in March 2017) before the VPA is concluded or FLEGT Licensing can begin;
- Work with Cambodia to investigate illegal logging and timber smuggling in Community Protected Areas (CPAs) established under EU grants to the Cambodian Government.

The United Nations should:

- Work with Vietnam and Cambodia to ensure both effectively implement relevant provisions within the UN Convention on Transnational Organised Crime and the UN Convention Against Corruption;

The CITES Secretariat should:

- Seek clarification from Vietnam on the import from Cambodia of Appendix II listed Dalbergia species and its clearance by Le Thanh Customs without CITES permits;
- Seek information from Cambodia on its procedures to ensure Dalbergia species are exported in compliance with the CITES Convention where no customs procedures are being implemented.

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