

Identifying illicit timber trade between Vietnam and China

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Abstract

Identifying illegal trade in timber between Vietnam and China is challenging for the governments and law enforcement agencies of these countries due to geography; laws and regulations that govern forests; complex supply networks; corruption; and a competitive wood products market. Seizures and arrests are evidence of the illegal activities, but do not explain the motivation behind such activities, or how they are being performed. This paper seeks to provide such an explanation through an analysis of ‘mirror statistics’ in the cross-border timber trade. Our findings show large discrepancies in the official timber trade statistics of Vietnam and China, which reflect illegal activities including smuggling, illicit trafficking and export tax evasion.

1. Introduction

Illegal trade in timber between Vietnam and its neighbouring countries, such as China, Laos and Cambodia, is increasing due to the high demand for raw materials for the burgeoning wood-processing industry, and because the export of natural timber from these countries is banned. Vietnam and China share an extensive border, with a variety of border gates, and both illegal and legal timber trade between the two countries has increased. Rather than focusing on the seizures and arrests associated with smuggling, this study analyses the ‘mirror statistics’ and discrepancies in timber trade data compiled by Vietnam and China Customs, and investigates the motivations and contributing factors of this illicit trade. The results highlight technical issues associated with cross-border trade management at the national and international levels of Vietnam and China.

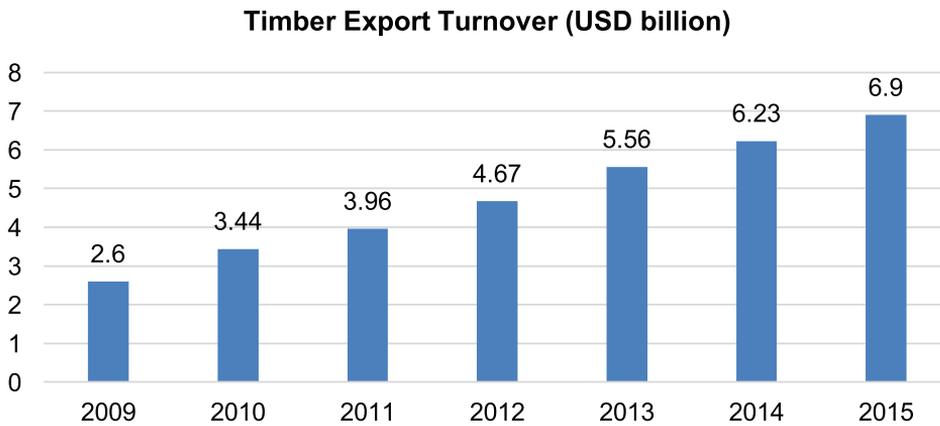
This study is based on desk research and data from reports on timber trade between Vietnam and China. It is supported by input from natural environment experts and governmental agencies on issues of illicit trafficking in timber and on tax evasion, through interviews undertaken in Vietnam in February 2016.

After providing an overview of the timber trade between Vietnam and China, this paper will analyse mirror statistics and discrepancies in timber trade data from Vietnam and China from 2012 to 2014, before discussing the illegality of timber exports from Vietnam to China and then providing a summary and recommendations for Vietnam.

2. Overview of timber trade between Vietnam and China 2012–2014

Vietnam has become one of the largest exporters of timber and wood-based products in the world, while China is the largest in Asia. In 2015, Vietnam exported USD6.9 billion in wood products, which represents an increase of 10.7 per cent over 2014 figures, and 23.03 per cent over 2013 figures (Figure 1) (General Department of Vietnam Customs, 2015).

Figure 1: Timber and wood-based products export turnover of Vietnam in 2009–2015



Source: The General Department of Vietnam Customs, 2015.

China is one of Vietnam’s largest export markets for timber and wooden products. This creates a significant trade surplus that is rarely displayed in the bilateral trade of Vietnam and China. Although there are differences in the Customs-compiled data of Vietnam and China, timber trade between the two countries is known to increase annually. The focus of this study is on Vietnam’s main timber export commodities, which are in the form of raw materials or unprocessed or very low value-added products, such as wood chips, sawn wood, round wood and veneer (Table 1).

Table 1: Main timber commodities of Vietnam exported to China in 2012–2014

Commodity	Year	HS code	Exp. Tariff in VN	Turnover (million US dollars)			Quantity (million m ³)	
				Vietnam ¹	China ²	Imp./Exp. ³	Vietnam	China
Total	2012			710.5	835.30	1.18	7.08	7.19
	2013			960.4	1,144.50	1.19	8.57	10.15
	2014			845.1	1,439.10	1.70	8.40	10.09
Woodchips	2012	4401	5%	495.16	584.27	1.18	6.38	6.28
	2013		5%	600.54	757.04	1.26	7.60	8.34
	2014		5%	510.84	634.25	1.24	6.63	7.08
Sawn wood	2012	4407	10% or 20%	108.62	27.05	0.25	0.15	0.07
	2013		10% or 20%	168.33	70.75	0.42	0.29	0.21
	2014		10% or 20%	146.38	96.77	0.66	0.32	0.28

Commodity	Year	HS code	Exp. Tariff in VN	Turnover (million US dollars)			Quantity (million m ³)	
Round wood	2012	4403	5%	39.3	136.31	3.47	0.02	0.09
	2013		5%	63.83	123.47	1.93	0.03	0.05
	2014		5%	12.53	241.55	19.28	0.01	0.14
Veneer	2012	4408	10%	3.64	16.41	4.51	0.31	0.58
	2013		10%	5.96	36.54	6.13	0.22	1.25
	2014		10%	17.06	67.62	3.96	0.83	2.20

Notes:
1 Data of timber exports to China recorded by the General Department of Vietnam Customs
2 Data of timber imports from Vietnam recorded by the General Administration of Customs, People's Republic of China
3 Ratio of the imported value of China/the exported value of Vietnam

Source: The General Department of Vietnam Customs, 2015.

Data on Vietnamese timber exports, recorded by Vietnam and China Customs, reveals the following three points:

- The reported value of goods imported into China is generally higher than the value of the goods exported from Vietnam, except in the case of sawn wood. This can be explained by differing methods of recording trade statistics, whereby imports are recorded in cost, insurance and freight (CIF) prices, and exports are recorded in free on board (FOB) prices, or priced without carriage expenditure from the country of departure to the destination (UN, 1988).
- The ratio of the value of goods imported into China and the value of the goods exported by Vietnam are likely to indicate trade costs of transboundary movements, with the costs of exporting timber from Vietnam to China higher than the rate of 1:1 in terms of international trade. This was the case for round wood (3:47, 1:93 and 19:28 in 2012, 2013 and 2014 respectively) and veneer exports (4:51, 6:13 and 3:59 in 2012, 2013 and 2014 respectively). In contrast, it was extremely low for sawn wood exports, calculated at 0:25, 0:42 and 0:66 in 2012, 2013 and 2014.
- There are discrepancies between reports relating to quantity of timber exported from Vietnam to China, and the quantity that China imports from Vietnam. This applies to total exports as well as to all the main categories of exported timber. In particular, the quantities of timber imports recorded by China are often higher than the reported quantities Vietnam exports, except for sawn wood.

3. Mirror statistics and discrepancies in timber trade data between Vietnam and China

In general, as noted by Yeats (1995), Makhoul and Otterstrom (1998), Ferrantino and Wang (2008) and Eurostat (2009), discrepancies in mirror statistics of trade in physical goods can be attributed to CIF/FOB differences; misclassifications associated with commodities and the direction of trade made by customs offices (of either the exporting or importing country); time of data compilation; and exchange rates.

In particular, according to the International Tropical Timber Organization (ITTO), tropical timber trade data often shows discrepancies between what is reported as exported by a supply country and that reported as imported by the receiving country. This is caused by factors such as: the incorrect compilation of trade statistics; inadequate trade data collection systems; classification practices; product measures and conversion; illegal activity; and trans-shipments and triangular trade (Goetzl, 2005).

However, there are also factors that present difficulties when seeking to explain the discrepancies in mirror statistics.

First, time, distances and exchange rates in the compilation of trade statistics would not create large discrepancies in trade value and quantity. Most sales contracts of timber between Vietnamese and Chinese traders are calculated and paid in strong currencies, such as USD or Euros. Further, due to China and Vietnam's proximity, and the automated customs clearance procedures and technology used to gather statistics, the time that elapses between goods being cleared by Customs in Vietnam and then cleared when imported into China is not great.

Second, timber trade data is recorded at the Harmonised System (HS) 4-digit level by both Vietnam and China Customs, and the main export commodities are logs or simply processed timber so there should be no differences in commodity classifications. Most timber exported from Vietnam to China is natural timber or raw materials which are directly imported from countries in the region, such as Laos, Cambodia, Malaysia or Myanmar (Xuan Phuc, Ton Quyen, Van Hanh, Le Huy & Thi Cam, 2015). Further, this is governed by a ban on natural timber exports and a high demand for raw materials for the domestic wood-based industry. Consequently, changes in commodity classification and origin rarely occur when re-exporting natural timber, like sawn and round wood, to China. In the aspect of commodity origin, the origin of timber imported for re-exportation to China is shown as the source country in the case of sawn, round and veneer, while wood chips wholly obtained in Vietnam are reported legally and transparently as the produce of Vietnam.

Third, as China and Vietnam share a long border that stretches across seven Vietnamese provinces, timber is exported to China by both sea and road. There are seven international border gates and 29 bilateral border gates on the Vietnamese side, including official checkpoints and non-official points that control transactions transported through forests and fields, over rivers and lakes, through valleys and over mountains. However, the majority of timber exports into China occur at road border crossings. For instance, 185,054 m³ of sawn and round wood was recorded as being transported by road in 2014, while around 71,878 m³ was transported by sea. In other words, most timber exports from Vietnam to China are conducted without trans-shipments or being imported into a third country then re-exported to China, so misdeclarations in trade direction are unlikely.

Fourth, trade costs, or the CIF/FOB ratio of the imported value/exported value. Exports are mostly reported on an FOB–Incoterms basis, while imports are reported on a CIF–Incoterms basis. The International Monetary Fund (IMF) estimates that this ratio is normally around 1:1 or the CIF importing price is higher than the FOB exporting price by 10 per cent, including items such as the price of logistics services, freight and insurance. However, the CIF–FOB ratio becomes larger as the distance between trade partners increases and the weight of the traded goods becomes heavier (Pomfret & Sourdin, 2009). Similarly, research into CIF/FOB ratios of CEPII¹ covering more than 200 countries and 5,000 products between 1994 and 2007 reveals that there is a stable gap with the COMTRADE exports and imports database of 10 per cent in terms of value of trade for exports, and of 5 per cent for imports. This means that the CIF/FOB ratios range from 1:05 to 1:1 (Gaulier & Zignago, 2010).

Sea transport

Sea freight transporting timber in bulk from Haiphong port, Vietnam, to Huangpu port, China, was about USD15² per one MT of round wood values at USD474³ FOB at Haiphong port in 2014, with the CIF/FOB difference being approximately 1:03—far from the usual rate of 10 per cent. In addition, low oil prices and a highly competitive global transport market are decreasing sea freight and trade costs in international trade transactions, thereby reducing the difference between CIF and FOB values.

Road transport

The majority of exported timber was transported by road, crossing the respective border and inland checkpoints, so distances would be unlikely to make the imported value/exported value much higher than 1:1 for most exports of timber from Vietnam to China. In fact, road transportation of timber exports with delivery places at the border gates between Vietnam and China are usually made in DAF (ICC, Incoterms 2000) and DAP/DAT (ICC, Incoterms 2010). This makes the ratio of the imported value of China/exported value of Vietnam approximately equal to 1:1.

In conclusion, trade costs or the ratio of the imported value and the exported value in terms of trade do not explain the unusual ratios displayed in timber exports from Vietnam to China. It was further below the ratio of 1:1 in the case of sawn exports from Vietnam to China as well as the total timber imports of Vietnam from China, that stood at 0:8; 0:95 and 0:82 in 2012, 2013 and 2014 respectively (Xuan Phuc, Lu Huy & Thi Cam, 2015).

Next, the paper discusses the illegality in timber exports from Vietnam to China which has caused differences between the timber trade data of the two countries.

4. Illegal trafficking in timber from Vietnam to China

Smuggling creates considerable discrepancies in the data on timber trade between Vietnam and China because there are quantities of timber that are not recorded in the customs statistics. For instance, smuggling and the concealment of timber consignments occurred in Vietnam which were not compiled in the customs statistics systems but officially recorded as imported value and volume from Vietnam by Chinese Customs. This leads to gaps in mirror statistics of the export value and volume of wood chips, round wood and veneer from Vietnam to China. In contrast, sawn wood exports, compiled as export statistics by Vietnamese Customs, did not appear in the China import statistics, resulting in unusual differences in mirror statistics in which the recorded imported value and volume were much lower than those exported.

Here, illegal trafficking includes smuggling and concealment in timber exports from Vietnam to China. In Vietnam, illegal trafficking in timber is mainly conducted by transnational networks from the source country to the destination of Vietnam and vice versa, namely smuggling and other illegalities in transport inbound and outbound to/from Vietnam. According to Vietnamese Customs, many shipments of timber arriving in Vietnam were inspected and found to be smuggled out of natural forests, from countries that have timber export bans. Local villagers, middlemen, timber traders, and transporters often work in complex networks to facilitate the illegal transport of timber across land or sea borders, often assisted by local authorities.

Illegal trafficking in timber crossing land borders is the most common method due to the high demand for the burgeoning processing manufacturing from Vietnam's neighbouring countries, such as Laos, Cambodia and Myanmar (EIA, 2011). Further, Vietnam is a main provider of raw material and logs to other wood-based producing hubs via common border gates and clandestine land routes. This demonstrates that illegal trafficking is a major causal factor in the differences in timber trade data between Vietnam and China, especially data on wood chips, round wood and veneer.

Fraudulent documentation and misdeclaration of smuggled and illegally harvested timber also lead to discrepancies in data on timber exports from Vietnam to China. Vietnam is not a producer of raw material and the government banned the exportation of natural tropical timber in the 1990s, so most timber exports were imported previously from the tropical forests in the regions, such as from Laos, Cambodia, Malaysia or Myanmar. In the timber sector, Lao PDR also continues to be the source of a large proportion of products at high risk of being illegally traded (predominantly sawn wood and logs) (Saunders, 2014).

According to studies of Forest Trend into the international trade in timber of Vietnam, most of the imported logs and sawn wood imported from Laos and Cambodia were well-documented before being re-exported in the form of raw material or minimally processed wood to countries like China and India (an estimated 5 per cent of the total import amount). Vietnam has become a laundering hub for illegally harvested logs and smuggled timber from Laos, which has been Vietnam's biggest provider of sawn wood (EIA, 2011). This possibly explains the situation of sawn exports from Vietnam to China, with timber being illegally certified as of Vietnamese origin before being exported to China, with approved customs clearance on the Vietnam Customs system, but rejected in the customs clearance for imports in China. Also in the case of sawn wood exports, the illegal declarants made customs declarations for timber exports to China with fraudulent dossiers and information but there was no shipment of the declared timber, which was probably replaced by other goods. The illegal exporters are taking advantage of the Vietnamese legislation on timber re-exports, especially for some high-value timber imported from Laos and Cambodia. As a result, Vietnam's timber export statistics are inherently higher than the import data of China in both value and volume, with timber declared for exports to China being traded and consumed domestically.

Illegal trade in timber between Vietnam and China has been supported by a wide range of socio-economic factors, such as booming mutual trade flows in various goods, their proximity, political conflicts, and corruption. Further, Vietnam and China have not engaged in any bilateral agreements on border control cooperation, which are aimed at preventing and combating illegal trade in timber. Vietnam is negotiating a forest law enforcement, governance and trade (FLEGT) voluntary partnership agreement (VPA)⁴ with the European Union (EU), but China has not started this process and so the capacity of forestry law enforcement in these countries is insufficient to combat illegal trade in timber.

Timber export tax frauds

In 2012–2014, the main categories of timber exported to China incurred export duty, ranging from 2 per cent for wood chips to 20 per cent for sawn wood. The majority of the exported timber—round, sawn and veneer wood—incurred a tariff rate of 10 per cent. In all main export commodities, the higher the export tariff rate, the greater the discrepancy in timber trade data, and the greater the CIF/FOB ratios.

Timber in the form of raw materials, especially unprocessed or simply processed wood, are subject to considerably high export tariffs, while import rates of zero per cent are designed to protect and develop supply for the export-driven wood-processing industry of Vietnam. Vietnam's tax policy on timber exports has motivated illegal traders to evade tax by reducing customs values and exports tax obligations. Consequently, the exported value and volume compiled by Vietnamese Customs are lower than the imported data recorded by China, especially for some precious and high-priced timber exported to China, such as rosewood and 'trac' (Xuan Phuc, Le Huy & Thi Cam, 2015). Such discrepancies in mirror statistics of timber trade between Vietnam and China occur when the under-invoiced commodities are successfully declared as exports in Vietnam, but value-adjusted when being cleared for import into China.

In order to conduct these sales transactions, the Vietnamese timber exporter operates two accounting systems, with one used to obtain the exact amount paid by the Chinese buyer and the other opened for official accounting activities, customs declarations and tax obligations in Vietnam.

Misdeclarations in customs valuation and fraudulent documentation are common practices of Vietnamese timber exporters. In addition, Vietnam's export promotion strategy, the increasing trade facilitation and automated customs clearance procedures are creating loopholes and opportunities for tax evasion in timber exports from Vietnam to China. If the declarant receives a request from the customs administration to produce documentary evidence and/or undergo a physical inspection of the goods, they will cancel the declarations. They continue to make other declarations with information changes until the online customs clearance is obtained without documentary or physical inspections. This commonly occurs for categories of timber that are prohibited or have restricted quotas under the Forest Protection, Development Law of Vietnam 2005 and the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

5. Summary and recommendations

Illegal trade is a major cause of the discrepancies in data for timber exports from Vietnam to China. While it is impossible to quantify illegal trade in timber by transacted value and volume, applying a mirror statistics methodology and analysing the discrepancies in timber trade data between Vietnam and China can provide insights into such illicit trade. It is considered that, first, Vietnam is a transit hub of illegally harvested timber in the transnational smuggling network from source countries (like Laos, Cambodia and Myanmar) to China. This contravenes national bans on natural timber exports of Vietnam and other countries in the region. Second, high export tariffs are facilitating tax evasion by Vietnamese exporters. Misdeclaration in customs valuations, commodity descriptions and invoicing are often used to circumvent tax revenue. Third, transport and trade facilitation incentives and trade liberalisation further contribute to the increase in illegal trade in timber between Vietnam and China and other ASEAN countries.

Illegality in timber exports from Vietnam to China also creates a wide range of negative socio-economic impacts such as:

- increased risks and damage to the environment, ecosystem and biodiversity
- increased landslides, soil erosion, deforestation
- threats to animals and plants, especially endangered species
- damage to the livelihoods and living quality of the population who depend on the forest resources
- losses to the national wood industry, especially legitimate wood processing entrepreneurs
- encouragement to transnational organised crime to corrupt governmental authorities along the supply chain.

Discrepancies in timber trade data between Vietnam and China affect bilateral trade in general and trade in timber and wooden-based products in particular. This leads to incorrect data in the trade database and market information used for making socio-economic development policies.

Vietnam is in need of more strategic schemes and action plans to prevent and detect illicit trade in timber with China and other neighbouring countries. From the perspective of cross-border trade and customs management, Vietnam Customs must enhance its enforcement capacity, focusing on misdeclaration of origin, valuation, tariff classification and the like. Future studies could extend this research to Vietnam's other timber trade partners, such as Laos and Cambodia, and include different modes of international trade, such as imports and triangular trade.

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Notes

- 1 CEPII: Center d'Etudes Prospectives et d'Informations Internationales.
- 2 Average sea freight of some carriers transporting timber from Vietnam to China and Hong Kong.
- 3 Exported price of round wood from Vietnam to China in 2014.
- 4 A Voluntary Partnership Agreement (VPA) is a binding agreement between the EU and a Partner Country by which the EU and the Partner Country undertake to work together to support the aims of the FLEGT (Forest Law Enforcement, Governance and Trade) Action Plan and to implement a timber licensing scheme.

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