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# A Survey of Lao Timber Operator

Current Situation and Policy Implications

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# Survey of Lao timber operator: Current situation and policy implications

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## Summary

This report was part of the effort made by the EU and the Government of Laos in examining existing institutional and business environments influencing wood processing industry in Laos. Specifically, the research explored challenges faced by operators engaging in timber product export. The research examined the practices undertaken by operators prior to, during, and after they exported their products. It also explored the practices by government agencies monitoring operator's activities. Data from the report was collected from a survey with 40 operators engaged in export from six provinces. The survey was conducted in the context of Prime Minister Order 15 (PMO 15) in 2016 on *Strengthening Strictness of Timber Harvest, Management and Inspection, Transport and Business*. It was intended to provide insights into the FLEGT VPA negotiation process and to inform policy change in Laos to facilitate operator's legality compliance and cross-border timber trade. In general, three constraints associated with export activities faced by the operator stood out, hampering operator's export: Restrictive regulations on export, Cumbersome export procedure and legality requirement, and additional payment related to export activities. To address these constraints, the report suggested various recommendations. These include Simplification of export procedure and process, Removal of all forms of additional payments made to government officials overseeing export activity, Simplification of legality requirements for plantation timber, Broadening export market information, and Capacity building for timber associations and operators.

# 1. Introduction

Lao People Democratic Republic (Lao PDR) is a country with 13.7 million hectares (ha) of forests. This area is divided into production (2.2 million ha), protection (4.8 million ha) and conservation forest (3.5 million ha), and forests outside these three categories (3.2 million ha) (Open Mekong Development, 2018). The government plans to improve the forestry sector by revising major regulations on forest and land use, reducing export of logs and unprocessed products from natural forests, and encourage plantation (EU FLEGT Facility, no date). The Prime Minister's Order 15 (PMO 15) dated 13 May 2016 made a breakthrough in forest use and forest management in the country. PMO 15 aims to step up government's control over all activities concerning timber harvest, management, inspection, transport and business. The implementation of the PMO 15 resulted in closure of a number of operators who failed to meet the government standards set out in the PMO 15 and in subsequent policies. Data from the Ministry of Industry and Commerce (MOIC) shows that as of June 2020 there were 1,030 active operators, a sharp decrease from 2,102 operators before the implementation of PMO 15 (MOIC, 2020).

The government of Lao is committed to sustainable forest management and combating illegal activities in the forest. Under the EU Forest Law Enforcement, Governance and Trade Initiative, In February 2012 the government entered into negotiations with the EU on a Voluntary Partnership Agreement (VPA), to ensure the legality of timber products in supply chains. The Lao government has been establishing a national Timber Legality Assurance System (TLAS) to materialize the legality commitment. Under the negotiation, the Lao government and EU agreed to assess existing institutional and business environments influencing the wood processing industry. Part of this assessment was to conduct a survey to assess operator's challenges in complying to the government's legality requirements. The survey heavily focused on the operators involved in timber product export particularly to Vietnam. The survey conducted in 2020 was commissioned by the Lao government and EU, and strongly supported by GIZ project "Protection and Sustainable Use of Forest Ecosystems and Biodiversity" (ProFEB) and MOIC's Department of Import and Export (DIMEX). Results from the survey were expected to serve as inputs for the Lao government to improve policy and practices to ease business activities and to ease operator's compliance to government's legality requirements in wood product export. The survey focused on the operator's activities occurred prior, during, and post export, revealing operator's current situation including their challenges in meeting the government legality requirements.

This report presents the key results from the survey. It has seven sections. Section 2 describes the methods used in the survey. Section 3 briefly illustrates some characteristics of the operators under the survey. Section 4 focuses on the operator's activities undertaken prior, during and post-export, with a particular focus on constraints faced by the operators. Section 5 explores the operator's future plan concerning their business area, market, and product types. Diving into more detail, section 6 explores operator's challenges in export and in meeting legality requirements, and the operator's recommendations for addressing those challenges. Section 7 summarizes the report and discusses some major policy implications for improvement of government's policies and practices in timber export area with aim to facilitate the trade and to encourage legality compliance.

## 2. Methods

Data presented in this report was obtained from an operator survey conducted in 2020. A designed questionnaire focusing on the areas of inquiry was used for the survey. Before conducting the survey, the researchers had discussed the questionnaire with colleagues from ProFEB project, and with representatives from DIMEX, National Wood Processing Industry Association (NWPIA) and Lao Furniture Association (LFA), and FLEGT Standing Office (FSO). The questionnaire had been revised after that and tested with a wood processing company in Vientiane Capital before the final version was used. Final version of the questionnaire is presented in Annex 1. The survey was carried out by a research team consisting the consultants and colleagues from ProFEB, and under close supervision and guidance from DIMEX and Provincial Office of Industry and Commerce (POIC). The operators selected for the survey were chosen by DIMEX and POIC and were located in six provinces (Table 1). In total, 40 operators participated in the survey.

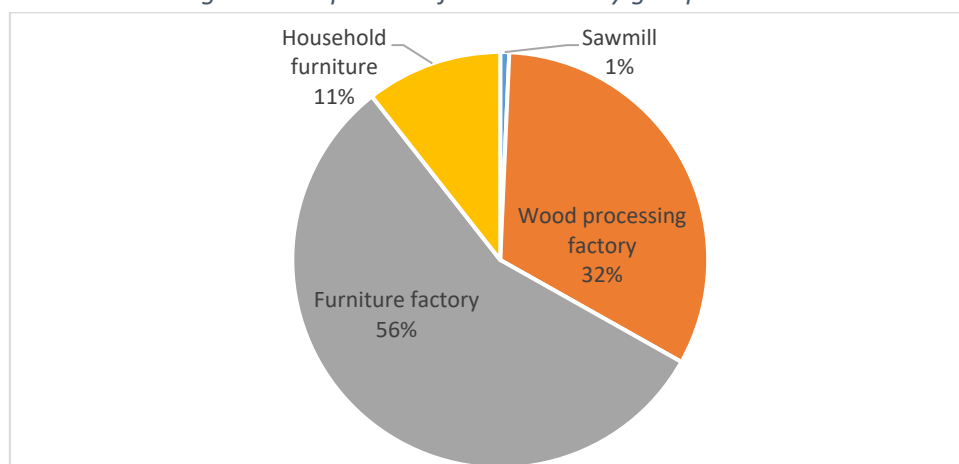
*Table 1. Location and number of operators under the survey*

<i>Province</i>	<i>Number of operator</i>	<i>Percent</i>
Vientiane Capital	4	10.0
Attapue	11	27.5
Khammouane	14	35.0
Champasack	3	7.5
Saravan	6	15.0
Sekong	2	5.0
<b>Total</b>	<b>40</b>	<b>100.0</b>

Semi-structure interview was adopted in the survey. Those answered the questionnaire were company's directors, vice directors, and/or managers. Some operators answered all questions in the questionnaire. Many did not. Majority (60 percent) of the operators participated in the survey established their business in 2000- 2015 period. About 25 percent of the operators did not provide the information of the business establishment. The oldest company established in 1982 and the newest one in 2020.

The PMO 15 in 2016 aims to strengthen the government's control over timber production and trade including export. Following the PMO 15, MOIC issued several decisions including the latest one (decision 0939) dated 1 August 2019 prescribing the sizes of the timber products allowed to export. The government also ordered closure of the factories those could not meet government standards. Data from PMO 15 assessment report shows that as of December 2020 there were only 1,152 factories were in operation, a sharp decrease from 2,788 factories active before the PMO 15. Those were in operation by December 2020 include eight sawmills, 374 wood processing factories, 648 furniture factories, and 122 furniture households. Figure 1 presents the proportion of each group.

Figure 1. Proportion of wood industry groups in Laos



Source: MOIC, 2020.

The Decision No. 0777/MOIC.DIH on Management and Monitoring of Timber Input and Output in 2020 defines timber traders, timber processing factories and operators (cited from Smith 2021:37).

The decree defines three major operator groups, including:

- Timber processing factory: Refers to primary and secondary timber processing factories, and small household factories.
- Timber trader: Includes the operator that buys and sells logs, semi-finished and finished timber products. They include retail store and timber import and export companies. They don't engage in processing.
- Operator: Refers to timber processing factory and timber trader that has a business license.

Our survey followed these government categories. We purposely selected the operators involved in export. In total, we surveyed 35 processing factories and 5 traders (Table 2). In this report, operator means processing factory and trader.

Table 2. Operator under the survey

<i>Operator category</i>	<i>Number of operator</i>	<i>Percent</i>
Processing factory	35	87.5
Trader	5	12.5
<b>Total</b>	<b>40</b>	<b>100.0</b>

Decision No.0264.MOIC.DIH in 2019 classifies three different groups (small, medium and large) of commodity production enterprise based on enterprise's power, labor and investment. Table 3 provides details of these groups.

Table 3. production enterprise categorization by group

<i>Group</i>	<i>Power (house power)</i>	<i>Labor (persons)</i>	<i>Investment (Kip)</i>
Small	10-50	10-50	100 M -1 B
Medium	51-200	51-200	1-4 B
Large	> 201	> 201	> 4 B

Source: Decision No.0264.MOIC.DIH, cited from Smith 2021.

The Forest Sector Indicator Survey in 2018 reported 1,325 wood processing industry enterprises in Laos, of which 605 were small, 391 medium and 329 large. Table 4 presents those numbers by size and product outcomes.

Table 4. Wood processing industry in 2018 by size and product

Type	Small	Medium	Large	Total
Sawmill	0	11	28	39
Wood processing factory	114	201	264	579
Veneer plant	1	9	19	29
Furniture manufacture	490	170	18	687
Total	605	391	329	1325

Source: FSIS 2018, cited from Smith 2021.

We followed the government categories in selecting operators for the survey. With supports from DIMEX and POIC, three groups of operators were selected based on labor – small, medium, and large. In addition to using labor indicators, we also looked at the operator’s turnover (Kip /USD), and ownership (privately-owned, state (Laos)-owned; 100% Lao national, joint-venture, and 100% foreign-owned). In addition, we examined timber input and sources of the operators (plantation timber, natural timber). In total, 40 operators participated in our survey.

Our survey had several limitations. First, the number of operators participated in the survey was small so findings could not represent all the operators in the country. Second, not all operators participated in the survey answered all the questions (26 questions in total) in the questionnaire. Third, our survey was conducted at the COVID time. The study by International Trade Center (ITC) and MOIC in 2020 revealed that almost all Lao wood operators were affected by temporary shutdown (see Smith 2021). Information shared by the operator regarding their future plan may be shaped by COVID-19. Nonetheless, insights from the survey were important for the government agencies to understand pros and cons of the operators and their recommendations for addressing constraints in their activities particularly those related to export processes. These insights could serve as a basis for the government’s consideration for changes in policy and practice to ease the business environment and to facilitate operator’s export activities in particularly. Section 3 presents the current situation of the operators under the survey.

### 3. Operator's characteristics

#### 3.1. Operators general characteristics

##### Operator by size:

Table 5 presents the operators by size. In general, almost two thirds of the operators under the survey were medium size.

*Table 5. The size of operator under the survey*

<i>Type</i>	<i>No of operator</i>	<i>Percent</i>
Large scale	10	25.0
Medium scale	27	67.5
Small scale	3	7.5
<b>Total</b>	<b>40</b>	<b>100.0</b>

##### Operator by nationality:

All operators participated in the survey were private companies. Two thirds of them were Lao nationals, the remaining were joint ventures and foreign-owned (Table 6).

*Table 6. Operator by nationality*

<i>Nationality</i>	<i>Number of operator</i>	<i>Percent</i>
Laos	29	72.5
Joint venture (Lao – Vietnamese, Lao-Chinese, Lao – Swedish)	3	7.5
Foreign-owned (Japanese, Chinese, Indian, Vietnamese)	8	20.0
<b>Total</b>	<b>40</b>	<b>100.0</b>

##### Operator by labor:

The operators had different labor arrangements. These include long-term contracts, short-term contracts, and casual labor. Table 7 shows the number of laborers by type in the operators under the survey.

*Table 7. Labor type and number of laborers working in company*

<i>Type of labor</i>	<i>Average laborer per operator</i>
Laborer (40 operators) <sup>1</sup>	30.90

<sup>1</sup> Number in the bracket are the number of operators responded to the question.

<i>Type of labor</i>	<i>Average laborer per operator</i>
Female laborer (38)	8.18
Long-term laborer (39)	11.26
Long-term female laborer (16)	5.38
Short-term laborer (5)	7.00
Short term female laborer (5)	2.80
Casual laborer (22)	43.94
Casual female laborer (28)	15.07

On average, each operator had 31 laborers. According to the government Decision No.0264.MOIC.DIH in 2019 the operators were small in size. The company with the largest number of labor had 160 laborers. Most of the operators had female laborers. However, the number of female worker was small (eight female workers/company). Male laborers were dominant in these companies. Almost all operators had long-term contract laborers, however, each had 11 laborers of this kind. Five operators hired short term laborers, each with seven laborers on average. Casual and daily laborers were common among the operators. This may reflect the seasonal aspect and/or uncertainty in the operator's activities.

Among the operators under the survey, 10 said they were large companies. Each had 34-35 laborers on average, of which female laborers accounted for 25%. About 27 operators saw themselves medium in size, each with 32 laborers, with 27% were female. Only three operators considered themselves small, each with five laborers (Table 8).

*Table 8. Average number of laborer by operator size*

<i>Operator in size</i>	<i>Average laborer/operator</i>	<i>Average female laborer</i>
Large (10 operators)	34.5	8.7
Medium (27)	32.41	8.62
Small (3)	5.33	Not available

Joint venture operators had the largest number of laborers. On average, each employed 81 laborers, 2.9 times and 3.7 times larger than that of the Lao and foreign-owned company respectively. There was one joint venture with 160 laborers -- the largest number of laborers among the operators under the survey. Table 9 presents the average number of laborer in each operator group.

*Table 9. The number of laborer in the operators by nationality*

<i>Operator's nationality</i>	<i>Average laborers /operator</i>
Lao nationality (29 operators)	28.2
Joint venture (3)	81
Foreign-owned (8)	21.8

## 3.2. Operator's turnover

### 3.2.1 Operator's turnover

Most of the operators focused primarily on timber products. Only few of them had business outside timber area (e.g. construction). In 2019, each large scale operator had an average turnover of \$197,000 US, about 6.2 times higher than the average turnover of a small operator, but equaling 80% of the average turnover of a medium operator. Perhaps the turnover of the medium operator was larger than that of the large one because the former one performed better than the latter. Table 10 presents the difference in 2019's turnover among the three groups.

*Table 10. Average turnover of the operator among three groups in 2019 by size*

<i>Operator size</i>	<i>Average turnover (USD)</i>
Large scale (8 operators)	197,039
Medium scale (27)	247,749
Small scale (3)	31,851

There is a large variation in the turnover among the operator in each group. For example, in the large scale group (eight operators), the one with the highest turnover obtained \$444,440 US for 2019, 23.4 times higher than the one with the lowest turnover. In the medium operator group (27 operators) the difference between the highest and lowest turnover levels is about 337 times. Within the small size group the difference is 3.7 times.

Operator's turnover was also highly differentiated by nationality. In 2019, each operator in Lao national group had an average turnover of \$193,279 US, equalling 86% of average turnover of an operator in foreign-owned group. Average turnover of the operator in joint venture group stood out, each had \$457,519 US, 2.3 times and 2 times higher that of the operator in Lao national and foreign group respectively. Table 11 shows the difference of 2019's turnover among the three groups.

*Table 11. Average turnover of the operator among three group in 2019 by nationality*

<i>Operator size</i>	<i>Average turnover (USD)</i>
Lao national (28 operators)	193,278
Joint venture (3)	457,519
Foreign owned (7)	225,249

The operators engaging in processing and export had much higher turnover compared to those engaged in trading primarily. Specifically, in 2019 each operator in the former group had \$246,642 US as average turnover. This is 5.6 times higher than that of each operator in the latter group (Table 12).

*Table 12: Operator turnover in 2019 by business area*

<i>Business area</i>	<i>Average turnover/operator (USD)</i>
Processing and export (33 operators)	246,642
Trading for export (5)	44,380

There is a striking difference in 2019's turnover of the operator in the processing for export group. The difference between the highest and lowest level of turnover among the operators in this group is 377 times.

### 3.2.2 Changes in the operator's turnover

The survey examined changes in operator's turnover in 2018-2019 period and the factors triggering the change. Table 13 presents the result. In general, more than 70% of the operators indicated the change, with 55% of them said their turnover in 2019 reduced. Only 17.5% reported an increase whereas 27.5% reported unchanged.

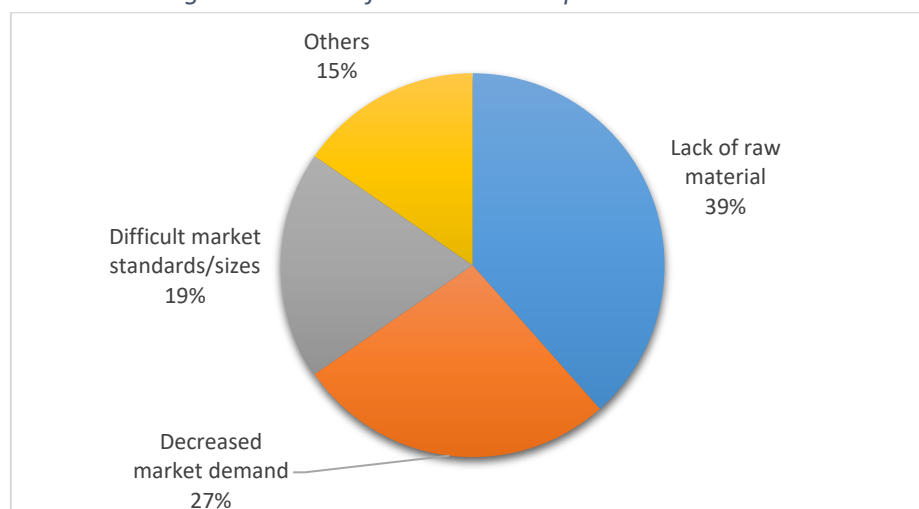
*Table 3. Change in operator's turnover in 2018-2019*

<i>2018-2019 turnover compared</i>	<i>Number of operator</i>	<i>Percent</i>
The same	11	27.5
Increased	7	17.5
Decreased	22	55.0
<b>Total</b>	<b>40</b>	<b>100.0</b>

Six (out of seven) operators who reported an increase in 2019's turnover shared reasons triggering the increase. These include (i) improvement of their facilities (three operators including one had just started exporting in 2019, one was just in full operation, and one improved the factory), (ii) expansion of export markets (two operators), and (iii) their shift from natural timber into plantation for which they did not face constraint in export restriction produced by PMO 15 (one operator).

There are 22 operators reported a decrease in their turnover. They listed 26 reasons for decrease. Figure 3 shows the proportion of these reasons.

Figure 2. Reason for decrease in operator's turnover

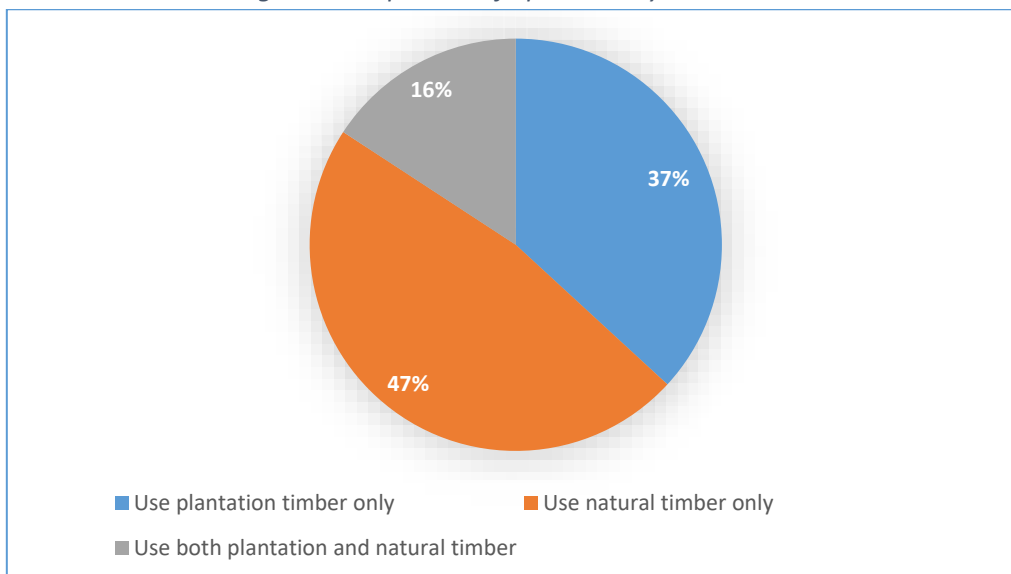


Lack of raw material is the most common reason cited by the operators for the decrease in their turnover. An operator remarked *“Raw material is not enough and it is high price”*. Another added: *“due to PMO 15.”* Seen from this lens, the PMO 15 tightening control over natural timber harvest and the operation of sawmills resulted in a shortage of raw material on the market. Decrease in market demand was the second most commonly cited reason. An operator stated: *“Chinese market demand is decreased and... products... remain in the warehouse.”* Demand from Vietnam reduced too, as another operator shared: *“Market demand... decreased especially Vietnam market.”* Many operators shared that the size of the products allowed for export as stipulated in PMO 15 was not of export market’s interest, and this led to the low performance of the operator’s business in 2019. One operator emphasized: *“product does not meet the standard; the standard published by MOIC does not meet the market demand.”* Several operators cited other reasons, such as *“lack of skill labor”*, or *“due to COVID-19 and import tax of finished product [in importing countries] is high.”* In general, the operators cited many reasons leading to the decrease in their turnover, most of which related to the restriction in timber harvest and in the operation of sawmills as well as in export. Operators cited the PMO 15 as the direct reason.

### 3.3. The use of raw materials by the operator

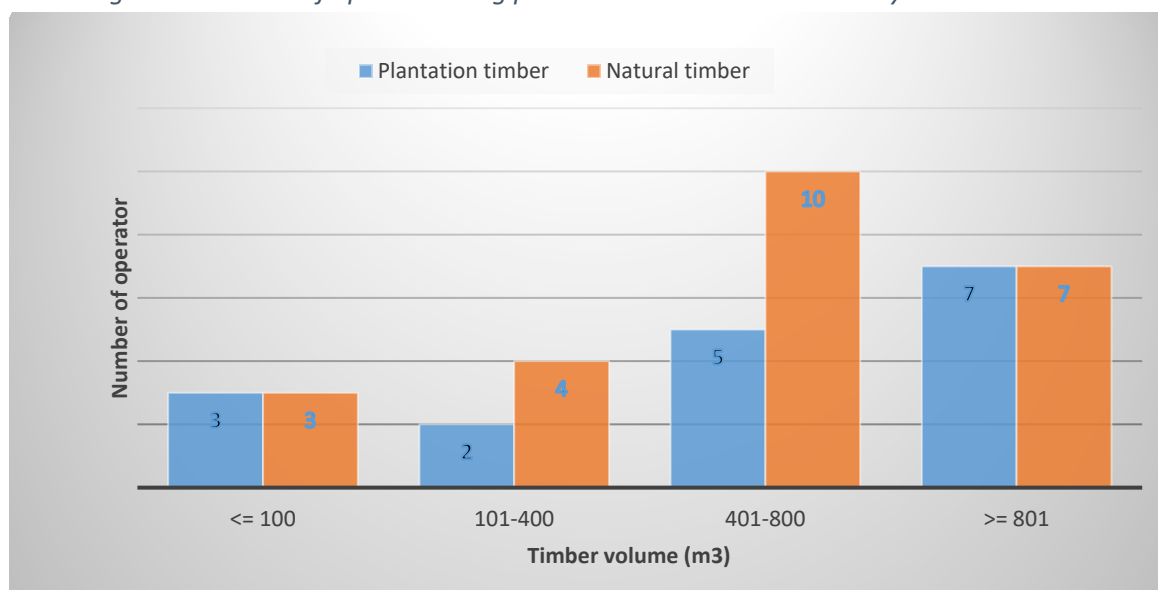
Concerning the raw material use, the survey revealed that of 38 operators answered the question on material use, 14 (37%) only used plantation timber, 18 (47%) used natural timber only, and six (16%) used both plantation and natural timber (Figure 4).

Figure 3. Proportion of operators by timber use



Operators differed in their use of timber (plantation, natural timber) and volume of timber they used. Figures 5 show the number of the operators using plantation and natural timber by volume in 2019 respectively.

Figure 4. Number of operator using plantation and natural timber by volume in 2019

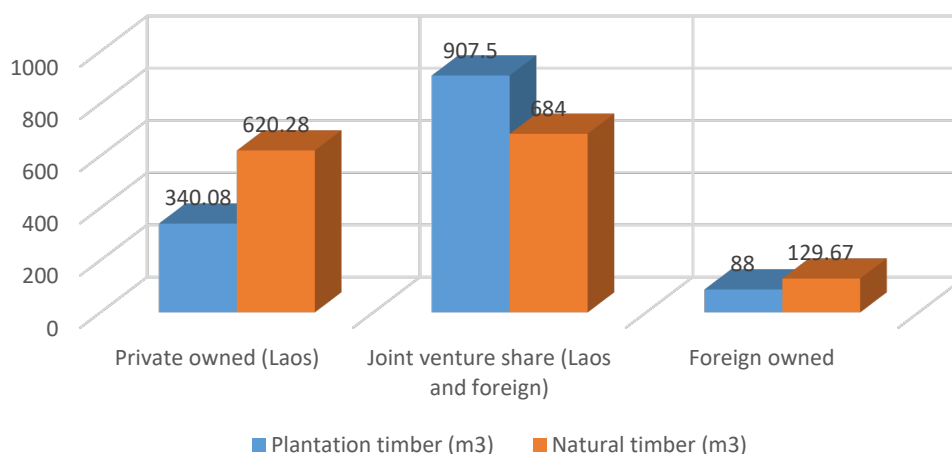


12 operators out of 17 (70.6%) used plantation timber, each of which used more than 400 m<sup>3</sup> of timber in 2019. There were seven operators each used more than 800 m<sup>3</sup> per year.

17 operators out of 24 (70.8%) of the operators used natural timber, each used over 400 m<sup>3</sup> of timber in 2019. Of these 17, seven operators (41.2%) each used over 800 m<sup>3</sup> of natural timber in the year.

By nationality, operators also differ in their use of timber. Of 12 Lao national operators who answered the question on the volume of timber use, each used about 340 m<sup>3</sup> and 504 m<sup>3</sup> of plantation and natural timber in 2019 respectively. Of two joint ventures answered the question, each used 907.3 m<sup>3</sup> of plantation timber and 684 m<sup>3</sup> of natural timber respectively. The foreign companies (three companies answered the question) used much less timber compared to the operators in the other two groups (Figure 6).

Figure 5. Timber volume used by different groups of operator



By business area, operators differ in their use of timber as well. Table 14 shows the average volume of timber used by the operators in these two groups.

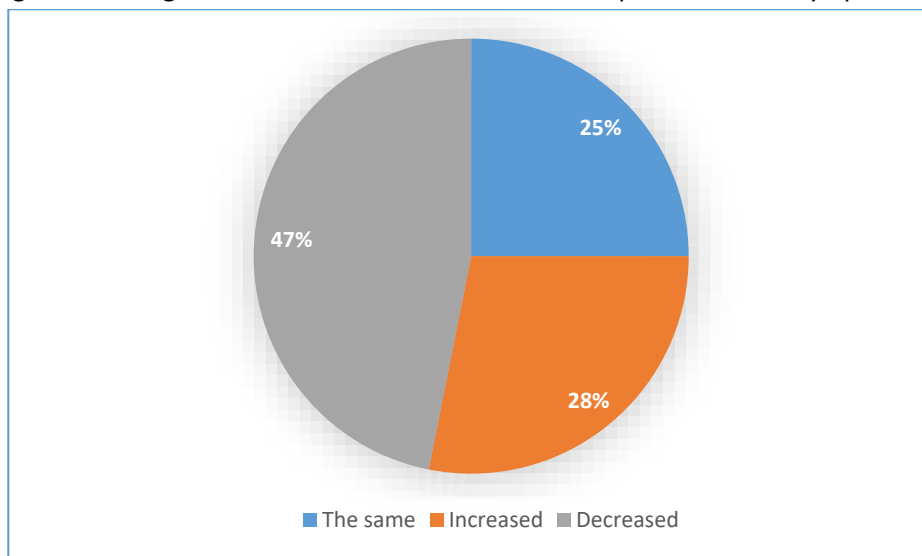
Table 4. Average volume of timber used by the operators

Group	Plantation (m <sup>3</sup> )	Natural timber (m <sup>3</sup> )
Processing & export (13 operators)	419	500.3
Trading for export (4)	178	0

All operators involved in trading for export who responded to the question reported they only used plantation timber.

Concerning the amount of timber used, 15 operators out of 32 reported a decrease in 2019 compared to 2018; nine reported an increase and eight indicated they used the same amount. Figure 7 shows the proportion of change in volume of timber used by the operators in 2019 compared to 2018.

Figure 6. Change in volume timber used in 2019 compared to 2018 by operator



### 3.4. Export market for operator’s timber product

Operators’ export products varied. These include sofa, table, chair, bed, wardrobe, parquet, flooring, doors, veneer, woodchips, and logs. Operators exported these products to Vietnam, Thailand, China and other countries (e.g. India and Korea). There were 12 operators reported that in 2019 they exported their products to Vietnam, another 12 exported to Vietnam as well as to other markets. There were 16 operators in the survey did not export to Vietnam. Table 15 shows the final market destinations for operator’s products in 2019.

Table 15. Market destination for operator’s timber products in 2019

Market destination	Number of operator	Percent
Vietnam	12	30
Vietnam and other markets (China, India, Korea)	12	30
Markets other than Vietnam	16	40
<b>Total</b>	<b>40</b>	<b>100</b>

Some operators in the survey shared that they used Vietnam and Thailand as transit markets for their products. Vietnam was a major transit market, with 23 operators out of 40 exporting their products via Vietnam. Thailand was an important transit market for the operators too (Table 16).

Table 5. Transit market for operator' products

<i>Transit market</i>	<i>Number of operator</i>	<i>Percent</i>
Vietnam	23	57.5
Thailand	12	30.0
Vietnam and Thailand	2	5.0
Other markets	3	7.5
<b>Total</b>	<b>40</b>	<b>100.0</b>

### 3.5. Major changes in products and market of the operator

There were 16 operators out of 36 (44.4%) shared that they experienced major changes in their product and/or export markets and/or in other aspects in 2019 (Table 17).

Table 6. Operator's major changes in 2019 compared to 2018

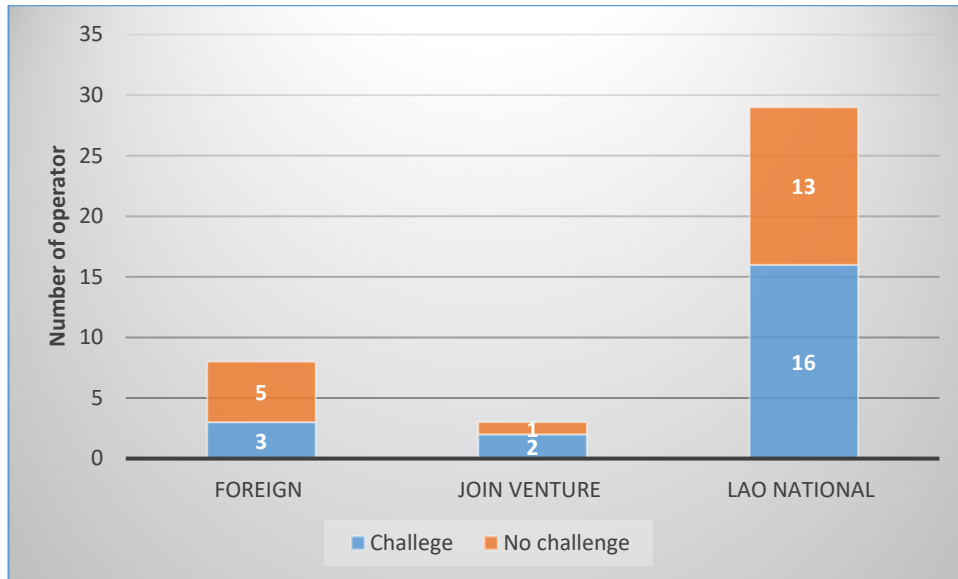
<i>Major change in 2019</i>	<i>Number of operator</i>	<i>Percent</i>
No	20	55.6
Yes	16	44.4
<b>Total</b>	<b>36</b>	<b>100</b>

There were seven operators who reported major changes in their products, five of which cited the restriction in product standards and size prescribed by the PMO 15 and subsequent policies was the reason of change. One of the five reported that: "Products defined by MOIC do not meet the market demand." Six operators reported changes in major export markets, with three of them saw a decrease in export market demand. A company of this group shared: "Wood market in China and Thailand squeezed", referring to the decrease in demand from these markets. Another company believed that import tax in importing countries increased, and the company had to change export market consequently. In general, for the operators, changes associated with product and/or export markets were the result of the Lao government restriction in the standards and sizes of the products allowed to export.

### 3.6. Operator's challenges in export

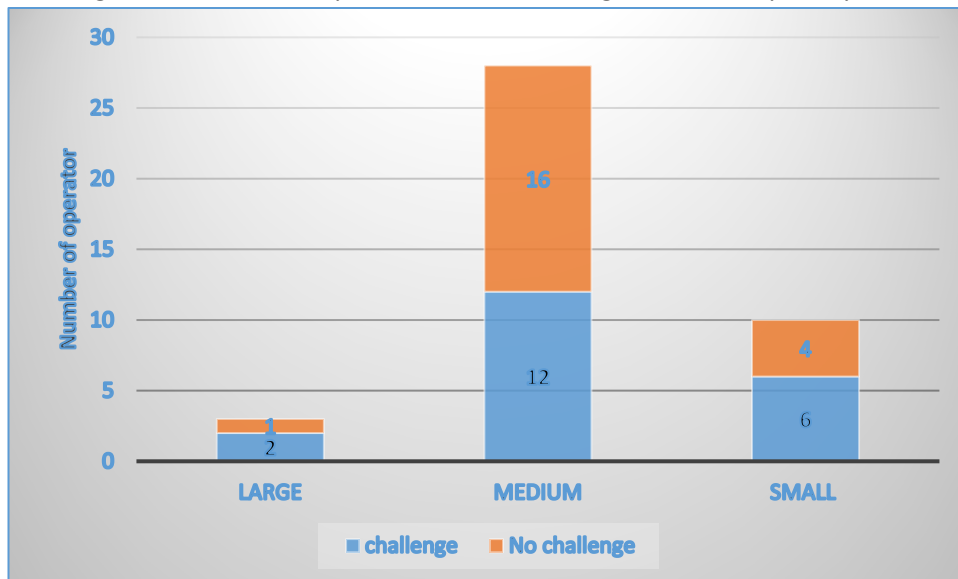
In 2019 more than half of the operators (21 out of 40) under the survey faced major challenges in export process; the remaining operators (19) did not experience any challenge. However, by ownership and scale, operators differ from each other in their challenges (Figures 8 and 9 respectively).

Figure 8. Number of operator experienced challenges in export in 2019 by nationality



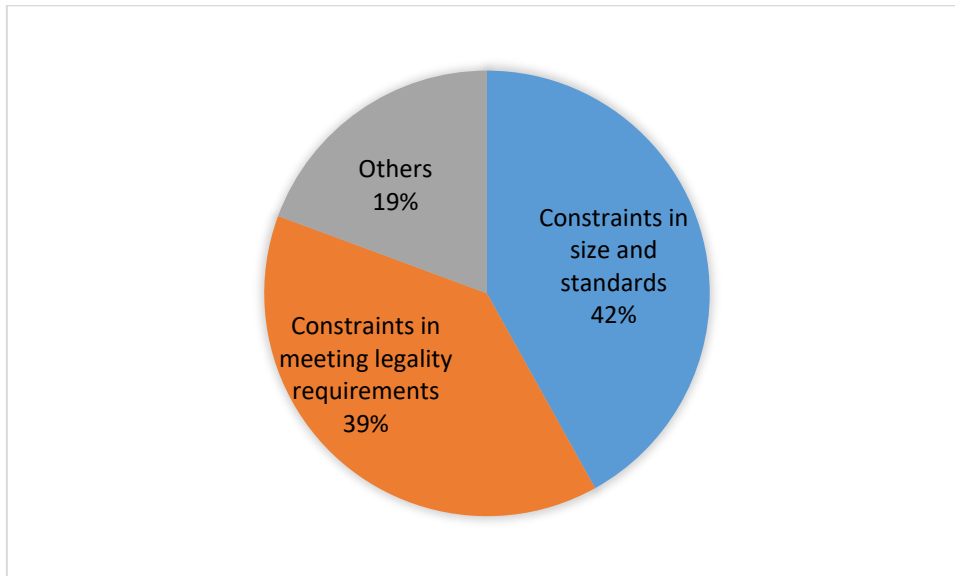
As shown in Figure 8, Joint venture and Lao national operators seem to face more challenges compared to foreign-owned.

Figure 9. Number of operators faced challenges in 2019 export by size



As shown in Figure 9, small scale operators seem to face more challenges than the medium one.

Figure 10. Reasons triggering operator's challenge in export in 2019



Operators shared three major reasons triggering challenges in their export in 2019 (Figure 10). Government's restriction on export products was the most commonly cited reason for operator's challenges. In total, 13 operators reported this reason. One of them stated: *"the product sizes [allowed by the government] were limited"*. Another one shared: *"Buyers want to buy the products with bigger sizes than those defined in the MOIC export list"*. Constraints in meeting the government's legality requirements on export came as the second mostly cited reason, with five operators mentioned this. One operator noted: *"Too many inspection, slow process especially when the government enforces PMO15"*. Another added: *"[Activities] checked by many authorities including local government offices"*. Other complained about sluggish and bureaucracy in the process: *"Long process for preparing export documents"* or *"[Authorities] request the origin of documents that are not directly linked [to export process and activities]"*. Six operators pointed out other reasons causing major challenges in their export. These include constraints in raw material availability, lack of skilled labor and limited technologies.

While the survey presumed constraints in getting access to export market information, in meeting export market demands and requirements such as style, quality, and in financial resources were the factors triggering major challenges in operator's export, none of the operators in the survey reported these reasons. In other words, for the operator the government's restriction in sizes and standards of the products allowed to export and government bureaucracy were the main reasons causing the major challenges in export.

#### 4. Export procedure and compliance to export requirements

The survey examined operator's activities undertaken prior, during and after export, the government legality requirements and practices concerning those activities. The survey also looked into operator's compliance to those requirements and operator's viewpoints toward the government's practices.

#### 4.1. Prior to export: Legality requirements and operator's compliance

Prior to export, operators undertake various activities to prepare for export. These include securing a valid sale contract, preparing a log list and bill of lading, inviting Inspection Committee for facility check, obtaining loading certificate, and filling in information in custom declaration form, among others.

During the survey, operators were asked specific questions related to these activities. They were also asked about government agencies supervised those activities, the agencies' practices. The operators were also asked if they face any challenges when undertaking those activities.

Concerning the question on the preparation of a log list and bill of lading, 22 operators (out of 40) responded to this question (18 operators did not respond). About 77.3% of those responded (17 operators) shared that both Provincial Agriculture and Forestry Office (PAFO) and Provincial Office of Industry and Commerce (POIC) in charge of the supervision process. In general, most of the operators knew the agencies in charge of the activities. Only few did not know these agencies probably because they were not directly involved in the preparation activities but hired an agent (middleman) who worked on their behalf.

Concerning operator's constraint in undertaking this activity, none of the operators responded to this question.<sup>2</sup>

Operators were asked if they knew about government agencies in charge of export tax collection, and if they faced any challenges in paying tax. 12 operators in the survey responded to the question. In general, they knew well that tax office was in charge of tax collection. Two operators reported their challenges in paying tax. One of them shared: "*[We] have to go back and forth between customs office at the province and border checkpoints*" for which they found inconvenient and hence recommended: "*[Tax payment] declaration should be done in one place*" in the future. Another operator engaging in the export of wood products made from plantation timber complained about the government's bureaucracy, saying: *Too many inspections for planted timber.*" This operator recommended the government to reduce inspections for the products made from plantation timber.

Operator's facility check by the Inspection Committee is an important activity prior to the export. The Committee members were representatives from PAFO, POIC, and Provincial Department of Finance (POF). The facility check took place at the site. If the operator complies with all requirements (e.g. concerning size of the products, species), the committee will issue a loading certificate for the operator. This certificate is required for export. In general, most of the operators (30 out of 38 who responded to this question) knew the government agencies participated in the Inspection Committee. The remaining operators (eight) did not know well and reported incomplete or wrong agencies in the Committee composition.

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<sup>2</sup> One operator complained about the government's requirement in plantation registration. This complaint is not directly related to the preparation activities.

Five operators expressed their constraints in facility check. One said: *“the process is slow”*. Another shared: *“additional payment”* By *“traditional way of payment”*, the operator referred to the payment that was not required by the government and without official receipt. Another operator reported that the inspection team consisted of many members, sometimes consisting of 7-8 members and the operator had to pay additional payment to the inspection activities. In general, these operators expressed their frustration concerning the slow process of getting representatives from government agencies in forming the Inspection Committee for facility check. Operators were also unhappy with additional payment they had to make during facilities check. To address the problem, an operator recommended reducing the number of officials in the Inspection team. Another operator suggested better coordination among the team members.

There were 14 operators who responded to the question on filling custom declaration form. Two of them mentioned challenges in conducting this activity. These challenges include mistakes when inserting information in the form, and additional payment paid for reviewed the form. An operator shared that reviewer asked for additional payment even if the information filled in the form was correct. The operator requested the government to do something about the additional payment. Another, not all operators have their own account to access into the ASYCUDA system for filling custom declaration form. They have not been registered and trained on how to use the system properly. Alternatively, many operators have hired service providers or brokers which registered the service accounts with the customs.

Some operators shared other challenges when undertaking the activities before export. These challenges include *“time consuming”*, *“[the government] signing documents takes time”* and *“[the government] check the product after the issuance of loading certificate.”* These challenges highlight some existing problems associated with the competent authorities supervising those activities.

Government officials' visit to the company was important to ensure the company's compliance to legality requirements. However, frequent and surprise visits may unease the working environment and forces the operator to make additional payments. In total, 10 operators reported the visits by some officials from POIC or/and District Office of Industry and Commerce (DOIC) to their companies. These visits were aimed to *“monitor timber input and output”* or to *“monitor timber processing and exporting”* as reported by the operators. Another five operators reported on the visit of staff from PAFO to *“check timber input”* and/or *“transportation”*. Sometimes, the visit was made by officials from the environment agency, and from labor and social welfare agency. According to some operators, the company had to make additional payments during the visit.

#### 4.2. During export: Legality requirements and operator's compliance

There were various activities undertaken by the operators at the time of export. These include submission of a hardcopy of custom declaration form and export documents to customs authority at border point; customs authorities may also run physical check of the products; custom officials may also require operator to correct the information in the custom declaration form if the form was filled incorrectly.

There were eight operators who experienced constraints in submission of the export documents to custom authority, with seven of them (87.5%) cited the slow and demanding process, additional payment to the officials in charge of receiving and reviewing the documents as major constraints. One operator shared: *"Sometimes, the officials request for additional documents and additional payment."* Another operator added: *"slow in process triggered additional payment."* Additional payment during export was common. When asked about solution for this problem, one operator suggested that any payment should be made formal and with receipt.

A total of 35 operators reported the physical checks conducted by government officials at the time of export, with 32 of them reported the check undertaken by custom officials, and the remaining three by customs alongside forestry officials. The high number of operators reported on this activity highlights the frequency of physical check by the customs officials at the time of export.

93.3% of the operators whose consignments were checked by government officials reported that less than one third of their consignments was checked. In other words, in every 10 consignments already sealed and wired by the Inspection Committee, 1-3 consignments were opened the seal, removed the wire and checked by competent authority at the time of export. This is a high rate of physical check.

There are 18 operators reported their challenges at the time of export, and all the challenges related to additional payments. This means additional payment was highly common in export process. According to an operator: *"Physical check [undertaken by the officials] is for getting payment rather than normal inspection."* Another operator shared: *"[The officials] carried out the inspection slowly triggered additional payment."* Many operators contended that though their consignments were sealed and wired by the Inspection Committee before the export, the officials at the border gates still opened the consignments for checking. One operator commented: *"Seal and wire does not make sense."*

None of the operators reported constraints in correcting and completing misinformation. This is probably because correcting the information was easy for them. However, as mistakes in customs dataset were common (Phuc To, 2019) it could likely be that custom officials did not ask the operators to correct the information in the custom declaration form in exchange for additional payments.

Two operators reported other challenges triggered by the involvement of police and special force officials in export process. However, these challenges were uncommon.

#### 4.3. Post export: Legal requirements and operator's compliance

There were several activities undertaken the operator and the government agencies after export. These include the operator's reporting to various government agencies on their exporting performance, operator's storing export documents for a certain period of time. Sometime, government officials visited the operators to check.

When asked which agencies they had to submit their report to after the export, 22 operators responded mentioning various agencies. Table 18 shows these agencies and the number of the operator who submitted their report to these agencies in 2019.

*Table 18. Government agencies receiving report from operator after export*

<i>Government agency</i>	<i>Number of operator responded</i>	<i>Percent</i>
DOIC	11	27.5
POIC, DAFO	7	17.5
POIC, PAFO, DAFO	1	2.5
POIC	2	5.0
POIC, DOIC	1	2.5

*Note: DAFO: District agriculture and forestry office*

In general, the operators reported that DOIC/POIC, and DAFO/PAFO were the agencies they had to report to. However, these operators did not share that information they had to report to these agencies, and if they faced any constraints in compiling and submitting those reports.

15 operators responded to the question on the frequency in their report submission, six of which (40%) reported they had to do annual reporting. Among those responded, two indicated that they did monthly report; one mentioned bi-annual report; some reported: “others”. Though the operators did not elaborate what “others” mean, it could be a type of report compiled to meet an ad-hoc requirement from a particular government agency. The difference in reporting submission frequency may indicate the absence in reporting standard requirement from government agencies.

Concerning the visits made by government officials to the facility after the export, nine operators responded to the question. Visits from the officials in charge of trade and forestry issues were dominant, mainly for monitoring operator’s activities. Three operators reported a quarterly visit by officials from these agencies; one reported a bi-annual visit; four reported “others”.

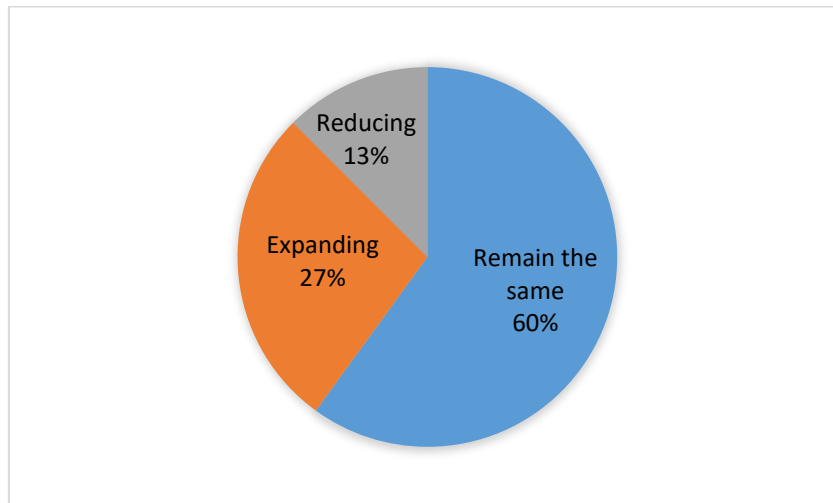
Operators understood well that they were required to keep export documents such as log list, invoice, and sale contract for a certain period of time. Some said the government required them to store these documents for 10 years; other said five years. Some did not know how long they were supposed to keep those documents.

## 5. Operator future plan

### 5.1. Level of export

When asked if they considered maintaining the same level of export, expanding it or reducing it in the future, 87.5% (35 out of 40 operators who answered the question) of the operators in the survey reported they would maintain the same level or expand it (Figure 11). Only five operators (13%) shared that they would reduce their export in the future.

Figure 11. Operator's future export plan



Among the operators reported maintaining the same export level, 15 shared their reasons for this. The common reasons they shared include: The same export market demand, Government's restriction in products allowed to export, and Limited availability of raw material.

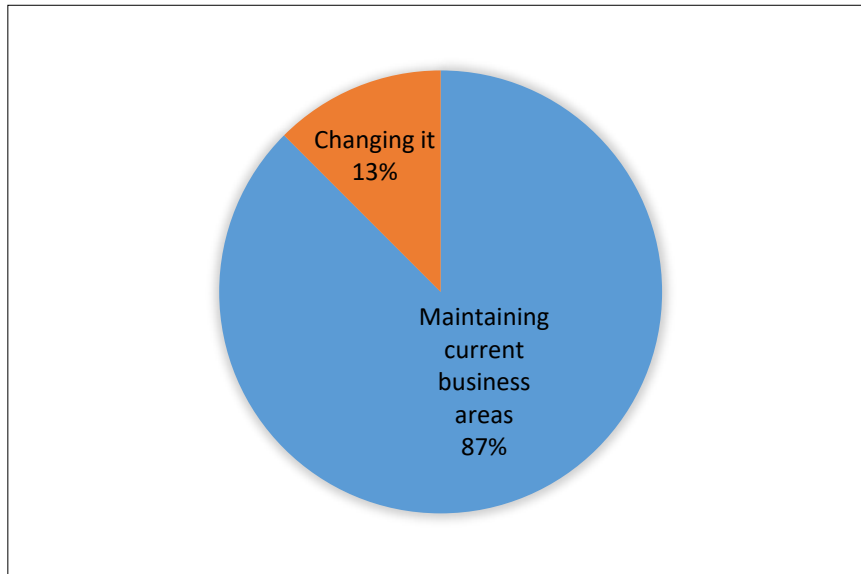
11 operators (out of 40) reported that they will expand their export activities in the future. Among them, seven shared the reasons for their future expansion plan, with two of them believed they could use less-known timber species as inputs for their products, three stated their shift to new products, one believed the export market was still potential, while the other one planned to import raw material from abroad to expand their activities.

Five operators said they would reduce their exports in the future. All of them cited the limited export market and constraints in raw material access as the main reasons for reducing their export.

## 5.2. Business area

When asked if they considered maintaining their current business area (processing and export, trading for export) or changing it in the future, 35 operators expressed they will maintain their current business area. The remaining five stated they will change it in the future (Figure 12).

Figure 12. Operator's future plan for their business area

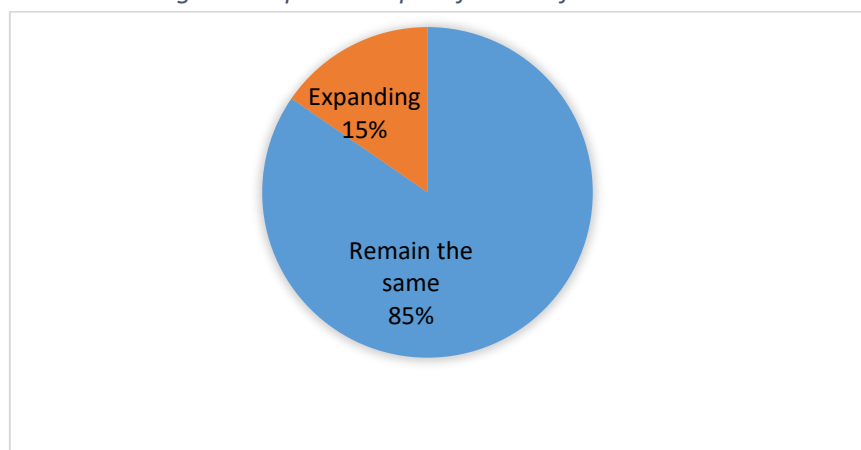


When asked why they wanted to maintain their business area in the future, 20 out of 35 operators who plan to maintain their current business area shared their reasons. Three reasons were standing out: (i) Limited skill labor, (ii) Decrease in market and raw material and (iii) it took changes required time and financial resources.

### 5.3. Export market destination

Most of the operators (33 out of 39 operators who answered the question) indicated they would maintain their current export market. Only six of them expressed their will expand it (Figure 13).

Figure 7. Operator's plan for their future market



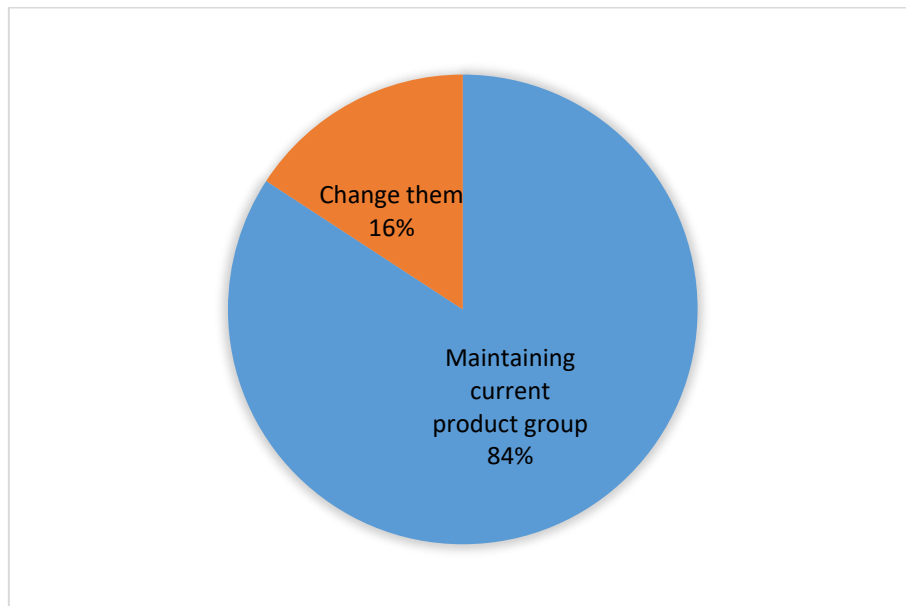
Operators shared diverse reasons for maintaining and/or expanding their markets. In general, most of the operators highlighted that Vietnam and China were their major export markets and that they were dependent on these markets entirely. A few numbers of operators expressed that they did not have power to control export market, and therefore could not decide if they can expand it. A couple of operators who collaborated with Vietnamese and Chinese owners/buyers shared that it was these

buyers who made market decision. Five operators who expressed they would expand their markets in the future did not share the reasons for their future expansion.

#### 5.4. Product line

When asked if they consider maintaining their current major export product groups (e.g. chair, table, flooring) or changing them in the future, most of the operators (36 out of 38 who responded to the question) expressed they would maintain them (Figure 14).

Figure 14. Operator's plan for their future product group



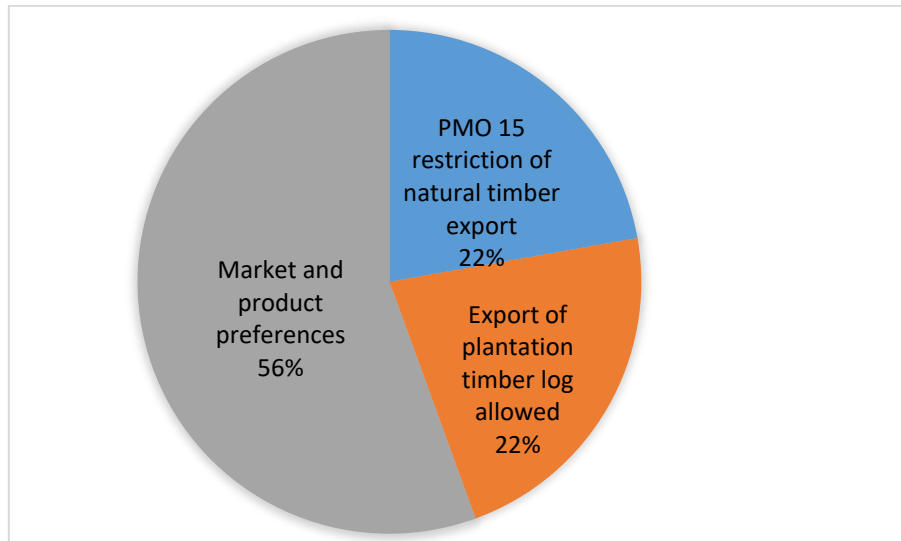
Of the operators who expressed they will maintain their current product groups in the future, 15 shared the reasons. Market dependency was the most commonly cited reason, with many operators indicated that it was the export markets or buyers from Vietnam and China who dictated the products. The operators did not have a say in this process. Among six operators with plan to change their products in the future, four shared that they had new designs and new products.

#### 5.5. Timber sources

During the survey, operators were also asked if they considered maintaining their current use of timber origin (plantation, natural timber), or changing it in the future. A total of 22 operators responded to this question, with all of them indicating that they would maintain the current use of timber. Of these 22, 12 operators gave specific reasons why they wanted to maintain their current use of timber. These 12 operators mainly engaged in plantation timber and were not strongly affected by the export restriction established by the PMO 15. One operator shared: *“Plantation timber has good market and preparation of the document [for export] is easier than that required for natural timber products.”* Another added: *“[we] still can buy planted timber from local villagers for export.”* Some operators believed that they could still use less-known species for that they would not have to change their use of timber origin in the future.

Nine operators in the survey indicated that they would increase the use of plantation timber in the future. They shared the specific reasons for their future change (Figure 15).

Figure 15. Operator's reason for increasing the use of plantation timber in the future



Three operators in the survey indicated that they will increase the use of natural timber in the future. According to them, they could sell less-known natural species those were not banned by the government. One indicated that as natural timber was limited (due to the PMO 15), the timber fetched a high price so more profit would accrue to them if they increase the use of natural timber.

## 6. Operator's major challenges in export and recommendations

### 6.1. Major challenges faced in export

Operators in the survey were asked to share their three most major challenges they faced in export process. All of the operators responded, reflecting their concerns, citing 62 reasons as the total number of challenges faced. These reasons were grouped in four major areas described below.

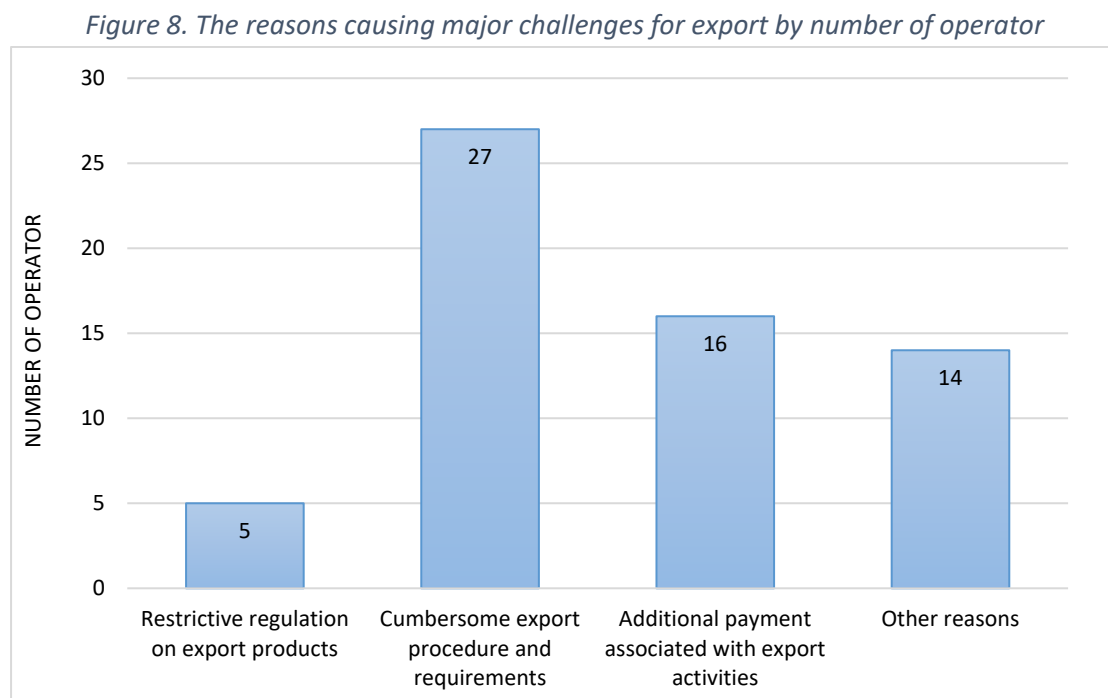
**Restrictive regulation on export products.** Five operators cited this reason as major challenges faced in export. They highlighted that the sizes of the products defined by MOIC allowed for export were not what export markets needed. Though PMO 15 did not restrict the export of finished products, the size of the products allowed for export was limited. Reflecting on this, an operator shared they cannot export many finished products such as chairs, tables, sofas as they still have problems with the size of the products.

**Cumbersome export procedure and requirements.** This reason was the most commonly cited by the operators. In total, 27 operators indicated that this reason has a major challenge for their export. This makes this reason the most outstanding reason hampering the export. One operator mentioned: *"Many inspection teams check the product. ... Inspection takes time... inspection agencies overlap... looks like they don't coordinate with each other."* Other operators complained that export procedure was too complex and had too many steps. There were many inspection points

with many staff. Some operators expressed their frustration as government officials treated plantation timber similar to natural timber in terms of legality requirements.

**Additional payment associated with export activities.** This reason is the second largest cited one. In total, 16 operators mentioned this reason. The company paid additional payment during physical checks on the products, the reviewing export documents, and the officials stationing at the roadside where the truck loaded with timber products traversed. Operators also had to make additional payments to the officials visiting their factories. One operator described: *“Many payments without the receipt... from the factory to the border, and at the border.”* Referring to the officials undertaking physical check on the product, an operator shared: *“[Officials] want money rather than checking products...”* Another added: *“Some officials at checkpoints ask for money... several payments made without receipt... Even if all documents are correct, [we] still have to pay.”*

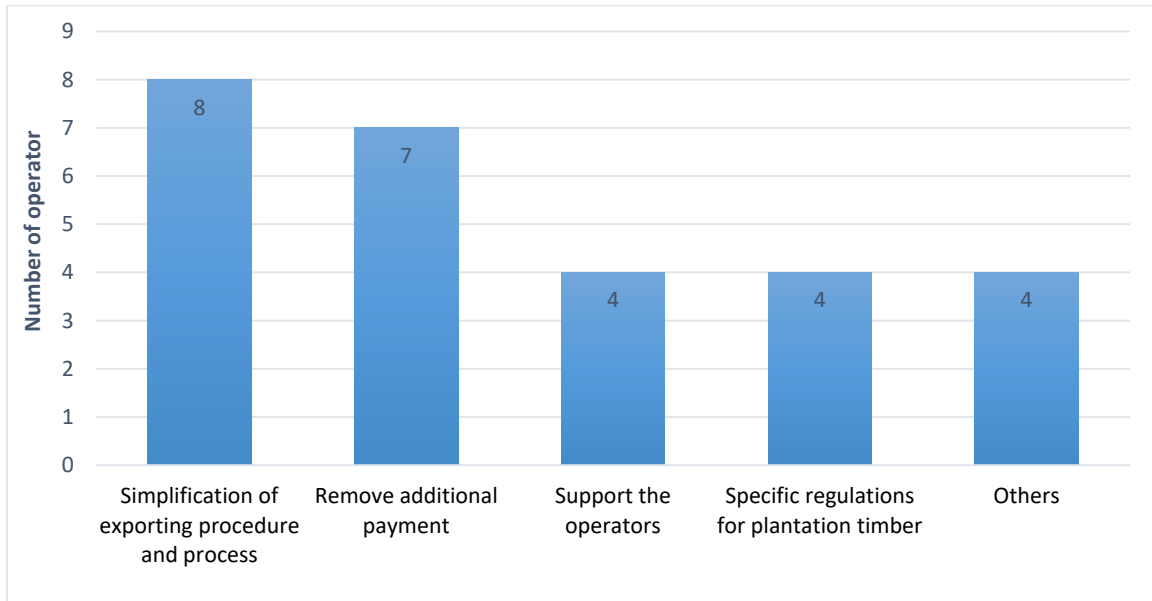
**Other reasons.** Operators cited another 14 reasons as their major challenges in their export. These include *“unstable market”*, *“skill labor is limited”*, *“raw material is limited”* or *“lacking support from Chamber of Industry and commerce”* and *“export market demand decreased because of COVID”*. Figure 16 presents the frequency of the reasons cited by the operators grouped in the four major themes.



## 6.2. Operator’s Recommendations of addressing the challenges

Operators were asked to share their recommendations for the government to address the challenges they faced in export. In total, the operators made 27 recommendations those were grouped into five themes described below (see Figure 17):

Figure 17. Operator's recommendations for improvement by number of operator



**Simplification of exporting procedure and process.** This theme received the largest number of recommendations (eight recommendations). Operators recommended the government to simplify the requirements in document preparation. They also suggested the government to strengthen coordination among government agencies and to avoid repetition in physical check undertaken by officials stationed at the checkpoints at roadside.

**Remove additional payment.** This theme received the second largest number of recommendations from the operators (seven). Operators recommended the government to provide clear and detailed information on all payments the operators were required to pay. Operators also wanted the government to reduce the number of checkpoints along the road.

**Support the operators.** Four operators requested support from the government. These supports include enabling policy environments to ease operator's export activities and helping operators prepare export documents. Operators also requested tax agencies to help them calculate the tax. They suggested an online system for them to prepare export documents and through this online platform they could contact government agencies easier if they had any queries.

**Specific regulations for plantation timber.** This theme received four recommendations. Operators requested the government to have specific regulations and tax, and fees for plantation timber. According to them, these regulations should be simplified and simpler than that adopted for natural timber. In addition, operators recommended the government to revise plantation timber export procedure, includes the reducing of physical check before and during export.

**Others.** This theme received four recommendations. Operators suggested the government to avoid overlapping taxes, to provide plantation quota to each factory, and to negotiate with Vietnamese government in reducing import tax in Vietnam so that operators can export more easily.

## 7. Discussions and policy recommendations

### 7.1. Summary

This report is part of the effort made by the EU and the Government of Laos in examining existing institutional and business environments influencing wood processing industry in Laos. Specifically, the research explored challenges faced by operators engaging in processing and export faced when exporting their wood products to Vietnam (and to other markets). The research examined the practices the operators undertook prior to, during, and after they exported their products, and the practices of the government agencies monitoring operator's activities. Data collected from 40 operators as the total number of operators participated in the survey was mainly for their activities in 2019 and before that. These operators belong to the processing and export group (nearly 90%) and the trading for export group (over 10%). Nearly 50% of the operators used natural timber; the remaining (40%) used plantation timber and both (10%). In 2019, over 50% of the operators in the survey used 400 m<sup>3</sup> of timber each to make the products. Operators were Lao national, joint ventures, and foreign-owned. The small number of operators participated in the survey means that insights from the survey may not be true for the entire wood operators in the country. Nonetheless, these insights are useful to inform the government to consider how to ease doing business, to facilitate export activities, and to promote operator's legality compliance. In general, the operators participated in the survey were small, with 30 laborers per operator on average. Joint venture had larger number of laborers and turnover compared to that owned by Lao national and foreigners. Information shared by the operators in the survey casted a dimming picture of operator's business performance in 2019 compared to 2018, with majority operators in the survey reported a decrease in their turnover. The proportion of the operators who experienced an increase in their turnover stood at 10-15%.

### 7.2. Operator's major challenges in export

Operators experienced various challenges in their activities undertaken before, during and after they exported their products. Prior to the export, three outstanding challenges were cited by the operators. These included preparation of export documents, facility check by government officials and additional payment. During the export, operators faced the challenges triggered by government officials' physical check of their products and export document review by officials. Post-export challenges included the government officials visiting their companies. These challenges were hampering factors to their export. Concerning their future plans, over 60% of the operators reported that they would maintain the same level of export while only 13% indicated their expansion plan. Concerning export market and product lines, 90% and 80% of the operators in the survey reported they will maintain the current market and product lines respectively. Signs of positive changes in the future were unclear. Challenges in the export process may directly contribute to the constitution of a grim picture of the operator's business performance and future plans. The lack of positive sign for operator's future plans could also be a product of COVID-19 pandemic persistence.

Delving deeper into operator's challenges, the survey revealed a large number of challenges faced by the operators. These challenges were grouped into four major areas. The first is **restrictive**

**regulation on export products.** The PMO 15 in May 2016 tightened timber production and export products has had direct impacts on timber sector including the operators involved in processing and export. Unprocessed timber (e.g. logs, sawnwood) preferred by Vietnamese, Chinese and Thai buyers were banned from export. Under the PMO 15, MOIC published the decision No. 0002/MOIC in January 2018 listing the products eligible for export. This list was updated in their decision No. 0939 in August 2019. In general, only finished products were allowed to export. However, the finished products with the size dictated by the government were not of buyer's interests. Buyers also did not like the product styles. Operators emphasized that there was not much export market information available to them. This resulted in a squeeze in the export. In this context, some operators were able to switch to or expand the use of plantation timber. In general, the government's requirements on plantation were less stringent compared to those for natural timber. For example, under the current promotion of commercial tree planting for export policy, logs and sawnwood of plantation timber such as teak, acacia, rubber tree and eucalyptus are allowed to export. However, many other operators were unable to do so. In addition, switching from natural timber to plantation timber would require different technologies, skills, and market outlets for new product lines. These resources are not always available for the operators. This triggered major challenges for the operators.

The second area of challenge is **cumbersome export processes and requirements**. For many operators, the export process was slow, mainly triggered by complex government procedure and requirements. Operators shared severe problems associated with the facility check by the Inspection Committee. These include the difficulty in getting representatives from different government agencies together at one time to form the committee. Adding to this was that there were several staff from each agency participated in the team. This came as a cost for the operators (see below). The operators also commented that legality risk associated with plantation timber was negligible. However, when it came to the facility check the government adopted the same level of facility check and legality requirements with adopted for natural timber products. For the operators, high level of government control over plantation timber was unnecessary and triggered additional costs for them. Understanding the burden faced by the operator exporting plantation timber products, the government is working on a new instruction for plantation timber product export, with aim to lessen the burden faced by the operators (Vangchai, 2021). At present, this new instruction has not yet in place.

**Additional payment was common in export process.** This additional payment severely hampered the export process and worsened the ease of business environments, negatively affected operator's performance. The payment paid for overseeing export activities occurred at various stages, from preparation of export documents, operator's facility check, to transportation. Additional payment was so common that without which operator could not carry out the activity. This was clearly reflected in the comment by an operator who emphasized: "*even all documents are correct we still have to pay.*" As many operators were struggling with other challenges, additional payments further exacerbated their difficulties.

Many operators felt that support given to them including that from the government to facilitate their export activities was not enough. Information on how to prepare export documentation including the filling in custom declaration form, calculating tax, accessing to market information on

demands and preferences, among others was not available for many operators. Some operators felt that they did not have enough skilled laborers to implement the work. Operators particularly the small were more disadvantaged than medium and large scale ones. There exists overarching national policies for supporting small and medium enterprises (SMEs) (for example National Socio-economic Development Plans to support SMEs, but complex and costly formalities are a prevalent issue for SMEs (Smith, 2021). In addition, when it comes to concrete supports intended to SMEs, there are very weak (ibid.).

National Wood Processing Industry Association and Lao Furniture Associations are two major associations representing operators in timber industry in the country. These associations serve as a connecting point between the government and their members. Their specific role is to communicate with the members the government policies including legality requirements to ensure the members understand those requirements for compliance. Also, the associations are to convey member's concerns to the government for policy changes. The associations have been collaborating with the government in supporting the members by ways of accessing to market information, trade promotion activities, technology development, and skill improvement.

However, the associations did not function well. There were only few activities intended for their members. The associations did not have an official website and information. Information about them including their membership was scant. The website of ASEAN Furniture Industry Council that Lao Furniture Association was a member shows that Lao Furniture Association had almost 100 members.<sup>3</sup> The website did not give any further information concerning these members. Likely, information on the member number was not up-to-date. Our survey revealed that only five operators out of 40 participated in the survey (12.5%) were members of the associations (four belonged to the National Wood Processing Industry Associations, one belonged Lao Furniture Association). 87.5% of the operators in the survey were not members of the associations may highlight that operators did not find their benefits being a member of the associations. Associations' limited membership emphasizes the continuing disconnection between wood industry operators and the government.

### 7.3. Recommendations

***Simplification of export process and requirement*** was highly recommended by many operators. The government need to establish an independent team, probably led by Lao Chamber of Industry and Commerce, to undertake a comprehensive review of entire export process to identify particular steps those could be simplified. Insights presented at Section 7.2 of this report could serve as a guide for the government to focus on priority areas. The review team should consult carefully with different the operators representing different operator groups (by size, nationality, product lines, timber sources, among others), as well as with the two above-mentioned associations and representatives from relevant government agencies such as DIMEX, DIH, POIC, Tax and Customs and PAFO. The review should pay a particular attention to the activities and procedures concerning

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<sup>3</sup> Source: <https://www.aseanfurniture.org/council/lao-furniture-association/>

export document preparation, Inspection Committee's facility check, and the committee members. It is important to identify which agencies are necessary and how many staff members from each agency should be participated in the committee and their particular roles in this process.

Coordination among government agencies in charge of timber export control should be improved greatly, particular concerning physical check of the products. When it comes to the facility check undertaken by the Inspection Committee, it should be the duty of the agencies in charge of the facility check to contact each other to form the committee rather than requesting the operators to contact every agency to form the team. The government may wish to establish an online platform through which operators with products ready for export send their request for facility check with specific timing and location. Within a certain amount of time (e.g. 12 or 48 hours after the operator has sent the request), the agencies should contact each other, establish the committee and inform the operator about their visit. It's recommended that each agency only send one member to the team. The government should have clear information to guide the relevant agencies and the operator how to do this.

The government has been trying hard to improve the current situation. Specifically, MOIC issued Decision 0777/MOIC.DIH on Management and Monitoring of Timber Input and Output in 2020. This Decision will be implemented in the future. The COC Guidelines and Inspection Guidelines are now under development and piloting (Vangchai, 2021). In addition, as mentioned earlier, a new instruction for export of plantation timber is being drafted, and a separate one for natural timber is planned. Following the government's plans these policies will be implemented in 'transition period' before the implementation of the VPA. In transition period, the government will start building Timber Legality Assurance System (TLAS) requirements into the system. When VPA is implemented and TLAS is fully functioned, loading certificate will be replaced by FLEGT license, and single TLAS will be adopted for both domestic and export markets (ibid., 2021). The simplification of export processes and requirements, then, could be considered as priority as it would help expedite the transition and ensure the smooth implementation of VPA in the future.

***Additional payment should be addressed throughout.*** To do this, the government should have clear information on export process and what the operator is supposed to do regarding activities before, during and after export. The information should be clear in terms of which agencies involved in what stages and their particular role in that stages. This information should be communicated well to all operators involved in export. Potential channels for distributing this information to the operators include government media agencies (e.g. television, newspapers) and information briefs distributed widely and directly to the operators and official social medias platforms. Information can also be shared through other venues including the two associations, and Lao Chamber of Industry and Commerce. The government may want to consider the establishment of a hotline involving inter-government agencies -- for the operators to report on illegal activities triggered additional payments, as well as strong mechanism to protect the operators reporting the payment.

Under FLEGT VPA, the Vietnamese government decided FLEGT licensing in the future will be online-based. Vietnamese exporters need to submit all required documents electronically. These documents will be reviewed by FLEGT licensing body (CITES Authority). If the documents are sufficient and reliable, the FLEGT licensing agency will issue FLEGT permit and electronically send to

the exporters. In this process, there exists no physical interaction between exporter and government authorities unless there is reason for the authorities need to check. The government of Laos may consider this approach. It may start with piloting this approach for facility check and issuance of loading certificate. Insights from this piloting would be important for future implementation of FLEGT licensing mechanism. Cross-country exchanges between Laos and Vietnam are useful for the Lao government's consideration.

Information exchange between competent authorities and operators should be strengthened. The exchange could take place quarterly or bi-annually depending on the urgency and availability of information. This bilateral interaction would allow operators to timely share their concerns in export process with the authorities and to discuss the solution for addressing those concerns. Regular exchange between the two sides is also important for competent authorities to update operators on any requirements governing export activities and processes. Different government agencies need to coordinate to each other to address operator's concerns those are cross-jurisdictional. The National Wood Processing Industry Association, Lao Furniture Association, and Lao Chamber of Industry and Commerce have an important role to play in information exchange.

In addition, reducing additional payment requires the government to reduce physical checks particularly those undertaken by custom agencies at the border and the government agencies posted on roadside. Operator's consignments sealed and wired by the Inspection Committee should not be opened to check unless there is a clear sign of operator's violation of legality requirements. Consignments sealed and wired should be considered as "safe" and allow to through "green lane" at custom checkpoints at the time of export. Custom authorities could undertake random check of the product, but the proportion of consignments checked should be less than 5% of the total number of the consignments. The government should encourage the operators to report any abuse of power by officials including request for additional payment.

***Simplification of legality requirements for products made from plantation timber.*** Currently, the level of control over the legality of the products made from plantation timber is the same with that for natural timber. As the legality risk of plantation timber is negligible, control over plantation timber products should be lessened in a way that maximally facilitates the trade of plantation timber products. Plantation timber products should be given priority and treated as "green lane" at the point of export. The government should make this message clear to competent authorities as well as the operators using plantation timber to ensure the compliance. The government is working on a new instruction for export of plantation timber products. The issuance and implementation of this instruction will help simplify procedures and legality requirements for the operators exporting plantation timber products. To facilitate the export, the process should be expedited. Lessons-learned from the implementation of this Instruction in the future should be used for the formation of an Instruction for natural timbers.

***Understanding export market.*** Understanding the dynamics of export market is key in maintain market access. Currently, information from export markets including market dynamics, preferences in product lines, styles, size and timber species, is scant for many operators. As Vietnam is a major market for timber products from Laos, efforts be made to understand Vietnam market better. This information could be obtained by way of a comprehensive market research examining market

preferences in Vietnam. Insights from this research should be communicated with Lao government agencies particularly MOIC and MAF and their subsidiaries for possible policy change (e.g. list of timber products allowed to export and/or adjustment of the products to meet the market requirements). The government of Laos should discuss with Vietnamese counterpart on policies and measures intended to facilitate the trade. More broadly, activities identified in the existing MOU between MAF's Department of Forestry and Vietnam Administration of Forestry could be reviewed and implemented in a way that creates enabling environment to facilitate legal timber trade between the two countries.<sup>4</sup> A similar mechanism should be established between timber associations in the two countries too to exchange market information, and to encourage operators in Laos and Vietnam to collaborate with each other in meeting the legality requirements and facilitate legal trade. ProFEB and FLEGT Standing Office are in a unique position to support these activities.

**Capacity building.** Building capacity to the operators is an urgent task. The operators in the survey requested capacity building in several areas such as preparation of export documents, calculation of tax, improvement of labor skills and processing technologies. MOIC particularly DIMEX and DIH should collaborate with the associations should do a training need assessment with representatives from the companies of different types (e.g. by size, labor, turnover, product lines, market, ownership). This assessment will help identify particular training needs for specific groups of the operator. Those needs should be classified into short-term, medium-term and long-term. The government should mobilize and call for supports to implement trainings to equip operators with what they have required. Training priority should be given to most urgent issues such as preparation of the export documents and tax calculation. Small and medium enterprises (SMEs) with limited resources should be prioritized in the training. In the long run, the government should consider a development strategy for timber sector. The strategy should clearly illustrate government's vision about the sector in the future. This means the identification of strength and weakness of the sector concerning timber sources, product outputs, markets, labor, technologies, among others, and based on these establishes policies, measures and required resources to ensure the activities in the strategy be implemented effectively.

Enhancing capacity for the National Wood Processing Industry Association and Lao Furniture Association is vital for operator's legality compliance and facilitating the trade. As mentioned above, the associations play an important role in connecting government authorities and the associations' members. The association's role should be strengthened with concrete activities and information useful for operators so that the latter are motivated to join the associations. A review of associations' current situations, strengths and weakness should be conducted. This review should also explore the associations' activities, memberships, their relationships with government agencies and other actor groups (e.g. donor), as well as pros and cons. Results from the reviews should be used as inputs for a capacity building program intended for the associations. The government should allocate resources to implement the program. In addition, it should call for support from donors. In Vietnam, National Timber and Forest Product Association (VIFOREST) directly involves in policymaking process (e.g. FLEGT VPA negotiation, the development of Vietnam Timber Legality Assurance System (VNTLAS), development of government policies and measures in controlling

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<sup>4</sup> The MOU between two sides is active. Under the MOU, an annual workplan detailing the activities to be jointly implemented between the two sides has been agreed upon.

timber import and transshipment). The government of Lao should consider involving the two associations in the policymaking process. Associations need to be strategic in generating benefits for their members particularly SMEs. Those benefits may include policy enabling environment, ease of doing business, and export market information. Collaboration with VIFOREST is important for trade expansion too.

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## Annexes

### Annex 1: Survey questionnaires

#### **Questionnaire survey For operator involving in wood product export**

This operator survey is part of the government effort in improving policy and practices to facilitate the operator's business activities and to ensure the compliance to government's legality requirements in wood product export. The survey focuses on operator's export-related activities undertaken before, during and after the export. In addition, the survey examines operator's challenges, if any, in undertaking those activities and in meeting the government's legality requirements. Information derived from the survey will be used to make policy recommendations for government to improve policies and practices in the area of wood product export.

This survey includes three parts. Part 1 asks for general information about the operator. Part 2 focuses on operator's activities in 2019. Focusing on operator's export-related activities, Part 3 examines in detail the activities undertaken by the operator before, during and after the export. This part also explores challenges if any operator faces in undertaking those activities and in meeting government's requirements.

Information gathered from the survey is confidential and operator's identity strictly protected and not shared with any third party.

#### **PART 1. OPERATOR'S GENERAL INFORMATION**

##### **1. Contact detail**

Name of the operator

Year of establishment

Address

Name of the person interviewed

Position

Contact number

##### **2. Scale of the operator**

Large scale

Medium scale

Small scale

##### **3. Operator's type**

Private enterprise

State enterprise

- Mixed enterprise
- Cooperative enterprise

**4. Nationality of the operator's owner**

- Joint company (state-private)
- Private owned (Laos)
  - Joint venture share (Laos and foreign)
  - Foreign owned

**5. Operator's major business areas (please tick all the boxes relevant to you)**

- Processing and export
- Trading for export (not involved in processing)
- Other (please specify)

**6. The enterprise's total labor in 2019..... (persons), of which**

- Long-term contract..... person, of which number of female ..... person
- Short term contract .....person, of which number of female..... person
- Casual contract ..... person, of which number of female.....person
- Other type (please specify) ..... ..person, of which number of female..... person

**PART 2. OPERATOR'S BUSINESS SITUATION IN 2019**

**7. Total enterprise's turnover in 2019**

in Kip..... OR in USD ....., of which

6.1. Total turnover from wood product export in 2019

in Kip..... OR in USD.....

**8. Compare to your 2018's export turnover, is your enterprise's export turnover in 2019 the same, increased or decreased? (please tick the box relevant to you)**

- The same (if you tick this box, please skip question 8 and go to question 9)
- Increased. How many percent.....(%)? **reason for the increase.....**

Decreased. How many percent .....(%) ? *reason for the decrease?*  
 .....

**9. In 2019, did your enterprise involve in processing**

Yes

No (if you stick this box, please go to Question 12)

**10. In 2019, how much wood raw material did your enterprise use for wood products for export? .....m3, of which**

Plantation timber .....m3

Natural timber used.....m3

**11. Compare to 2018, is the amount of raw material your enterprise used in 2019 the same, increased or decreased (please tick the box relevant to you)**

The same

Decreased. How many percent? .....%

Increased. How many percent? : .....%

**12. In the table below, please list down maximum 5 major wood product groups your enterprise exported in 2019**

Product description	Volume (piece or m3)	Export value (USD)	Timber origin (natural or plantation timber )	Transit market (which country)	Final market (country)

**13. Compared to 2018 were there any major changes in your enterprise's exported product groups and export markets in 2019**

- No (*Please go to Question 17*)
- Yes (*if you tick this box, please tick the below boxes those relevant to you*)

- Change in major product groups (*please explain briefly*)
- Change in major export markets (*please explain briefly*)
- Change in other aspects (*please list down and explain briefly*)

**14. In 2019 did your enterprise face any major challenges when exporting wood products?**

- No (*please go to Question 15*)
- Yes (*if you tick this box, please tick the below boxes relevant to you*)

The current government's list of export products is very restrictive (*please briefly elaborate your point*)

Constraints in meeting the government's legality requirements on export (*please briefly elaborate your point*)

Constraints in getting information on export markets (*please briefly elaborate your point*)

Constraints in meeting the export market demands and requirements (e.g. style, quality, standards) for the products (*please briefly elaborate your point*)

Constraints in financial resources (*please briefly elaborate your point*)

Constraints in Vietnam as a transit country for export products intended for other export markets (*please briefly elaborate your point*)

Others (*please list down the major challenges and and briefly explain your point*)

**15. If you your enterprise face major challenge in the export in 2019, what were particular challenges related to product types?**

Semi-finished products made from natural timber species (*please elaborate*)

Semi-finished products made from plantation timber (*please elaborate*)

Finished products made from natural timber species (*please elaborate*)

Finished products made from plantation timber (*please elaborate*)

**PART 3. THE ENTERPRISE’S EXPORT ACTIVITIES AND COMPLIANCE TO GOVERNMENT EXPORT REQUIREMENTS**

**16. Please fill the table below with information regarding your enterprise’s major activities as part of export process BEFORE you exported your products to Vietnam as final market destination in 2019, the government agency overseeing those activities, your challenges (if any) in meeting the government’s requirements and your recommendations for improvement**

<i>Activity <b>BEFORE</b> export took place</i>	<i>Government agency in charge</i>	<i>Your challenges</i>	<i>Recommendation for improvement</i>
Securing a valid sale contract			
Preparing a log list and bill of lading			
Paying export tax			
Inviting Inspection Committee for facilitate check			
Meeting requirements from the Inspection Committee to obtain a loading certificate			
Filing information in online custom declaration form			
Submitting the required documents online			
Others (please specify)			

**16.1 Receiving visit by government officials:**

Agency	Monthly	Quarterly	Bi-annually	Annually	Other (please specify)

**17. Please fill the table below with information regarding major activities your enterprise was required to do as part of export process DURING the time when you were exporting timber products to Vietnam as final market destination in 2019, the government agency overseeing those activities, your challenges (if any) in meeting those requirements, and your recommendation for improvement**

<i>Activity DURING the export</i>	<i>Government agency in charge</i>	<i>Your challenges if any</i>	<i>Recommendation for improvement</i>
Submitting the hard copy of customs declaration form and other required documents to customs authority at the border point at the time of export			
Physical check of the products by authorities at the time of export			
Correcting and/or completing mis-information declared in export documents in 2019			
Others (please specify)			

**17.1 Physical check of the products by authorities at the time of export**

<i>Agency</i>	Every consignment	Less than 1/3 total consignments for entire 2019	Less than 1/2 total consignments for entire 2019	Randomly	Others (please specify)

**17.2 Correcting and/or completing mis-information declared in export documents in 2019**

<i>Agency</i>	Every consignment	Less than 1/3 total consignments for entire 2019	Less than 1/2 total consignments for entire 2019	Randomly	Others (please specify)

**18. Please fill in table below with information on major activities that your enterprise were required to do as part of the export process AFTER your company exported wood products to Vietnam as final market destination in 2019, the government agency in charge of those activities, your company's challenges in meeting the requirements, and your recommendation for improvement**

<b>Activity AFTER the export</b>	<b>Government agency in charge</b>	<b>Challenges if any</b>	<b>Recommendation for improvement</b>
Reporting to government agencies on the company's export activities			
Receiving post-export visit by government agencies			
Export document storage			
Other (please specify)			

**18.1 Frequency of the report:**

Agency	Monthly	Quarterly	Bi-annually	Annually	Other (please specify)

**18.2 Receiving post-export visit by government agencies:**

Agency	Issues checked	Monthly	Quarterly	Bi-annually	Randomly	Other (please specify)

**18.3 Export document storage:**

Type of document stored	Hard copy	Digital	Agency in charge	Duration of retaining the document

**19. Were there any other activities as part of the export process that your enterprise were required to do?**

- No  
 Yes, please specify

**20. Would your enterprise consider maintaining the same level of export, expanding or reducing it in the future?**

Remain the same (*please explain why*)

Expanding (*please explain why*)

Reducing (*please explain why*)

**21. Would your enterprise consider maintaining current business areas (processing and export, trading for export) or changing it in the future?**

Maintaining current business areas (*please explain why*)

Changing it (*please explain change to what and why*)

**22. Would your enterprise consider maintaining the current export markets (e.g. Vietnam, China), broadening, or reducing it?**

Remain the same (*please explain why*)

Expanding (*please explain which market you want to broaden and why*)

Reducing (*please explain which market you want to drop and why*)

**23. Would your enterprise consider maintaining your current major export product groups (e.g. chair, table, flooring) or changing them in the future?**

Maintaining current product group (*please explain why*)

Changing them (*please explain change to what and why*)

**24. Would your company consider maintaining your current use of timber origin (plantation, natural timber), increasing or reducing it for your export products in the future?**

Maintaining current use of timber origin (*please explain why*)

Increasing the use of plantation timber (*please explain why*)

Reducing the use of plantation timber (*please explain why*)

Increasing the use of natural timber (*please explain why*)

Reducing the use of plantation timber (*please explain why*)

**25. Could you please tell us three most major challenges your enterprise have been facing in the area of wood product export?**

**26. Could you please tell us your three most important recommendations for the government's policies and practices in the area of wood product export you want to convey to the government?**