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## Background to the research

This country note presents Chatham House's assessment of the likelihood of illegality in the supply chains of the main wood-based products exported by the Lao People's Democratic Republic (PDR). It was prepared to inform our analysis of illegal trade at the international level which has been published as part of the report '[Establishing fair and sustainable forest economies: lessons learned from tackling illegal logging](#)'. This is the most recent in a series of reports on governance and legality in the forest sector in the forest sector, an issue that Chatham House has been monitoring since 2008.

The country note has been published as a background document to explain how the international estimates of illegal trade were made. Thus, it is not intended to provide a comprehensive review of all the available data and information on forest sector legality for Lao PDR. International and national experts in the country's forest sector provided feedback on preliminary versions of the country note.

## Overview of exports

Three countries – Thailand, Vietnam and China – account for almost all the timber that the Lao PDR exports (see Figure 1). Some of the timber imported by Vietnam is in transit to China, some of which is milled in Vietnam.<sup>1</sup> Clearance of forests for infrastructure projects and the establishment of plantations became the main source of timber for exports in the first decade of the century.<sup>2</sup> This subsequently declined, in part due to the introduction of a moratorium on plantation and mining concessions in 2012.<sup>3</sup> The 2014 peak in imports of logs and sawnwood is attributable to increased demand for rosewood.

Exports of pulp to China have been substantial since 2018 (these accounting for the sharp increase in exports of 'other wood-based products' shown in Figure 1), when a large Chinese pulp and paper mill began operating.<sup>4</sup> These exports mainly derive from pulpwood imported from Vietnam.

Lao PDR and the EU began negotiating a Voluntary Partnership Agreement in 2017, through which it has been developing a national legality verification system.<sup>5</sup>

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<sup>1</sup> Environmental Investigation Agency (2011), *Crossroads: The Illicit Timber Trade between Laos and Vietnam*, EIA, <https://eia-international.org/wp-content/uploads/EIA-Crossroads-report-FINAL-low1.pdf>

<sup>2</sup> Forest Trends (2011), *Baseline Study 2, Lao PDR: Overview of Forest Governance, Markets and Trade*, Kuala Lumpur, EFI, [https://www.forest-trends.org/wp-content/uploads/imported/baseline\\_study\\_laos\\_report\\_en.pdf](https://www.forest-trends.org/wp-content/uploads/imported/baseline_study_laos_report_en.pdf)

<sup>3</sup> Smith, H. et al. (2020), *Rubber Plantation Value Chains in Laos: Opportunities and Constraints in Policy, Legality and Wood Processing*. ACIAR project: Advancing enhanced wood manufacturing industries in Laos and Australia, <https://www.forest-trends.org/publications/rubber-plantation-value-chains-in-laos-opportunities-and-constraints-in-policy-legality-and-wood-processing/>

<sup>4</sup> The pulp mill is owned by Shandong Sun Paper Group (see, for example, [http://www.xinhuanet.com/english/2019-03/11/c\\_137884240.htm](http://www.xinhuanet.com/english/2019-03/11/c_137884240.htm)).

<sup>5</sup> <https://flegtlaos.com/>

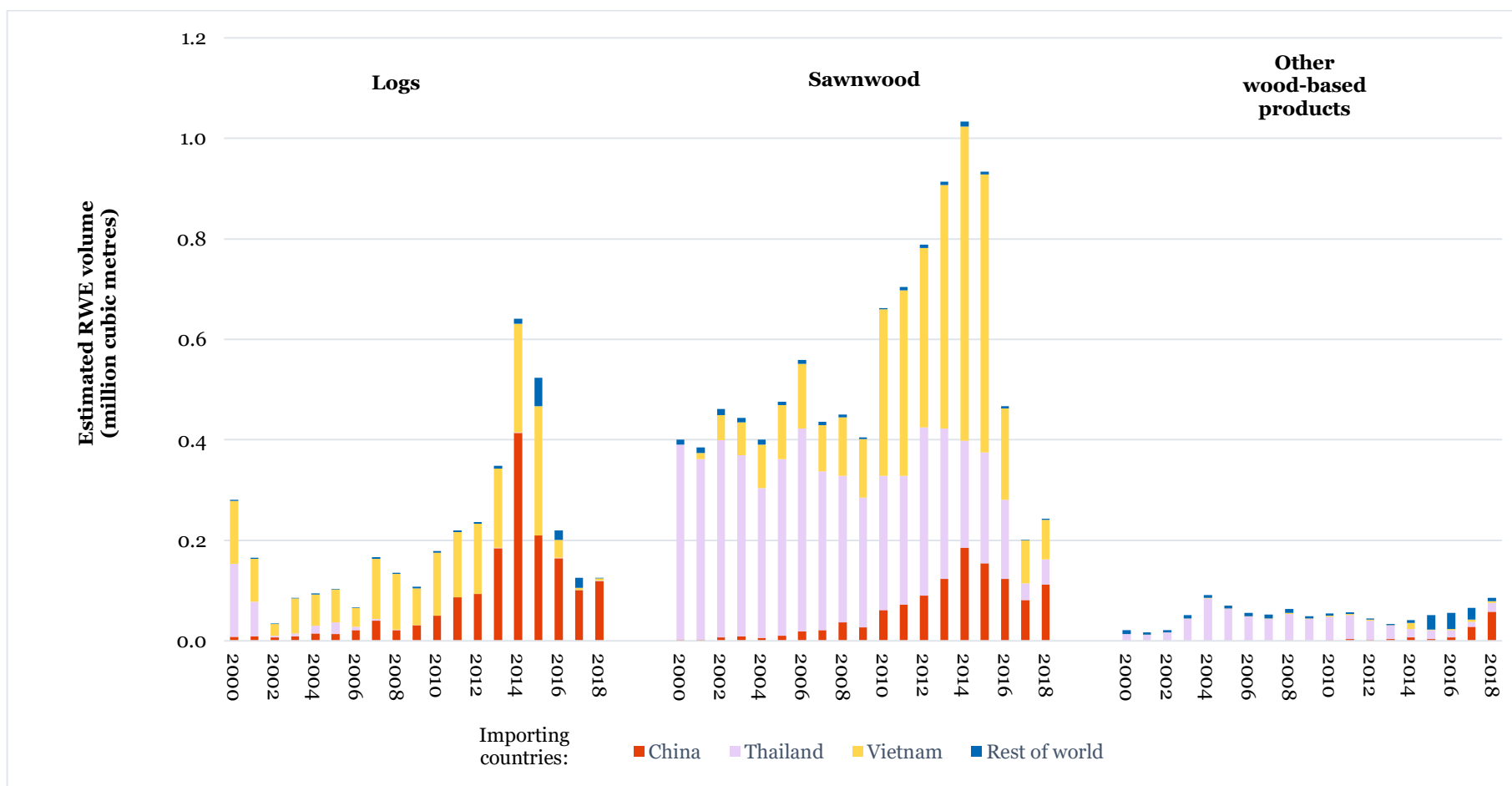


Figure 1: Exports of wood-based products from Lao PDR<sup>6</sup>

Source: Based on Eurostat, General Administration of Customs of the People's Republic of China and UN Comtrade.

<sup>6</sup> Standard conversion rates to estimate roundwood equivalent volume have been adopted for all countries, because of a lack of published data for many countries. The rates adopted are as follows, m<sup>3</sup> per m<sup>3</sup>: 1.8 sawnwood; and m<sup>3</sup> per tonne: 4.5 pulp.

## Methodology for estimating illegal logging and trade

The analysis considers five categories of illegal practices common across all countries. These categories are listed below, with examples given of the types of illegal activity that they can include in different countries and regions:

- Customary tenure & resource rights
  - FPIC not obtained from any affected people or communities
  - The rights of any affected people or communities not adequately taken into consideration and addressed in the process of allocating permits or developing management plans; and any loss of rights not adequately compensated
- Award of permits
  - EIAs not conducted in accordance with legal requirements
  - Decision-making process for the award of permits does not follow legally required process; e.g. calls for tenders not published; technical requirements for selection of bids not followed; evidence of corruption in the process
  - Use of proxies where the beneficiary would be ineligible
- Forest management & harvesting
  - Management plans not developed or implemented; e.g. plans do not meet legal requirements; logging in restricted areas; overharvesting of particular species; etc.
  - Health & safety and/or labour laws not complied with; e.g. no provision of safety equipment; employment of illegal immigrants; non-payment of salaries or of minimum legal wage
  - Environmental legislation not complied with; e.g. logging of protected areas or species; non-compliance with requirements for protection of wildlife; pollution of water courses
- Forest sector payments & financing
  - Relevant royalties, fees, taxes and fines not paid
  - Benefit-sharing agreements with local communities not complied with
  - Fraudulent financing / money laundering by concessionaires or in relation to mills
  - Transfer pricing
- Transport & trade
  - Export bans or quotas for certain species or products are breached or exceeded
  - False declarations made; e.g. misdeclarations of species, value, source
  - Non-compliance with CITES

Based on a review of the available data, the likelihood of each of the five categories of illegal practice was assessed for the main exported products.<sup>7</sup> This was classified either as low (<10 per cent), low to medium (10–30 per cent), medium to substantial (30–60 per cent) or substantial (>60 per cent).

For the earlier years (2000, 2008 and 2013), the likelihood of illegality was determined based on Chatham House analyses in 2010 and 2015<sup>8</sup>, with updates where additional data have since become available. The assessment for 2018 builds on this analysis, using available data and information to assess changes in legal compliance in the last five years of the study period. This included recent Chatham House research into governance reforms, analysis of trade data and the results of perception surveys, as well as a review of reports and data from other organizations.

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<sup>7</sup> This analysis focuses on a limited number of products, these were selected according to three criteria: the scale of trade and rate of change in this, trade flows in which high proportions of illegal timber have been documented, and examples of particular types of illegality.

<sup>8</sup> Lawson, S. (2014), Methodology for Import-source Estimates of Illegally Sourced Wood Imports: Thailand, South Korea and India, Chatham House Report, London: Royal Institute of International Affairs, <https://chathamhouse.soutron.net/Portal/Default/en-GB/RecordView/Index/187057>; Hoare, A. (2014), Methodology for Estimating Levels of Illegal Timber- and Paper-sector Imports: Estimates for China, France, Japan, the Netherlands, the UK, the US and Vietnam, Chatham House Report, London: Royal Institute of International Affairs, <https://chathamhouse.soutron.net/Portal/Default/en-GB/RecordView/Index/187059>.

## Overview of trends in illegality

There have been widespread illegal practices in Lao PDR's forest sector.<sup>9</sup> Large-scale infrastructure projects have been a major source of timber for export, typically under 'development logging quotas'. These have been linked with illegal practices, although the extent of these is unclear because of the widespread use of exemptions to the law.<sup>10</sup> Large volumes of logs have also been supplied from forest clearance for export-oriented plantations, and the allocation of these concessions has been associated with illegality.<sup>11</sup> However, since 2012 this type of forest conversion slowed, the result of new regulations suspending concessions and a slump in demand for natural rubber.<sup>12</sup>

In production forest areas, management plans must be approved prior to logging, but few have been approved and few are implemented.<sup>13</sup> Laundering of illegal timber reportedly takes place in auctions of confiscated timber and at the point of milling.<sup>14</sup> There were a large number of sawmills located near national protected areas that were likely to source logs – illegally – from those areas.<sup>15</sup> However, most of these have been closed since 2016.<sup>16</sup>

Illegal practices are also widespread in the small-scale plantation sector. This is mainly due to the complex and unclear legal framework, although this has been the focus of reform efforts.<sup>17</sup> A ban prohibiting the export of logs and sawnwood (from natural forest and for some plantation species<sup>18</sup>) has been in place since 2016, and this has resulted in a marked reduction in the export of

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<sup>9</sup> NepCon, Preferred by Nature (2017), *Timber Legality Risk Assessment, Laos*, Version 1.3, May 2017, <https://asfor.ro/wp-content/uploads/2020/01/NEPCon-TIMBER-Laos-Risk-Assessment-EN-V1.2.pdf>; Saunders, J. (2014), *Illegal Logging and Related Trade – The Response in Lao PDR*, Research Paper, London: Royal Institute of International Affairs, <https://chathamhouse.soutron.net/Portal/Default/en-GB/RecordView/Index/187046>; EIA (2016), 'Leaked Report Reveals Huge Scale of Illegal Logging in Laos', 21 June, 2016, <https://eia-international.org/news/leaked-report-reveals-huge-scale-of-illegal-logging-in-laos/>

<sup>10</sup> Smirnov, D. (2015), *Assessment of Scope of Illegal Logging in Laos and Associated Trans-Boundary Timber Trade*, WWF, <https://wildleaks.org/wp-content/uploads/2016/07/CarBi-assessment-of-scope2.pdf>; Forest Trends (2010), *Timber Markets and Trade between Laos and Vietnam: A Commodity Chain Analysis of Vietnamese Driven Timber Flows*, Forest Trends, <https://www.forest-trends.org/publications/timber-markets-and-trade-between-laos-and-vietnam/>; Baird, I. (2009), *Quotas, Powers, Patronage and Illegal Rent-Seeking: The Political Economy of Logging and the Timber Trade in Southern Laos*, Forest Trends, [https://www.forest-trends.org/wp-content/uploads/imported/Baird\\_Timber\\_Trade\\_and\\_Patronage\\_Laos\\_Final.pdf](https://www.forest-trends.org/wp-content/uploads/imported/Baird_Timber_Trade_and_Patronage_Laos_Final.pdf); Program on Forests (PROFOR) (2011), *Improving Forest Governance in the Mekong Region: Options for Regional Activities in Support of National Programs – Volume 1*, PROFOR Working Paper, [https://www.profor.info/sites/profor.info/files/WorkingPaper-Mekong-Vol1-final\\_o.pdf](https://www.profor.info/sites/profor.info/files/WorkingPaper-Mekong-Vol1-final_o.pdf)

<sup>11</sup> Global Witness (2013), *Rubber Barons: How Vietnamese Companies and International Financiers are Driving a Land Grabbing Crisis in Cambodia and Laos*, <https://www.globalwitness.org/en/campaigns/land-deals/rubberbarons/>; Thomas, I.L. (2015), *Drivers of Deforestation in the Greater Mekong Subregion Lao PDR Country Report*. USAID Lowering Emissions in Asia's Forests (USAID LEAF), September 2015, <https://www.leafasia.org/sites/default/files/resources/Lao%20PDR%20Final-Revise-Nov2015.pdf>

<sup>12</sup> Smith H., Lu J., To P.X., Mienmany, S., and Soukphaxay, K. (2020), *Rubber Plantation Value Chains in Laos: Opportunities and Constraints in Policy, Legality and Wood Processing*, Forest Trends, <https://www.forest-trends.org/publications/rubber-plantation-value-chains-in-laos-opportunities-and-constraints-in-policy-legality-and-wood-processing/>

<sup>13</sup> Schloenhardt, A. (2008), *The illegal trade in timber and timber products in the Asia-Pacific region*, Research and Public Policy Series No. 89, Government of Australia, <https://www.aic.gov.au/sites/default/files/2020-05/rpp089.pdf>; Environmental Investigation Agency (2012), *Checkpoints: How Powerful Interest Groups Continue to Undermine Forest Governance in Laos*, EIA, <https://eia-international.org/wp-content/uploads/EIA-Checkpoints-report1.pdf>

<sup>14</sup> Anon. (2019), *Lao-EU FLEGT Newsletter*, FLEGT Laos, Issue 1 / 2019, [https://fleglaos.com/wp-content/uploads/formidable/8/Lao-EU-FLEGT-Newsletter\\_Eng\\_2019\\_2.pdf](https://fleglaos.com/wp-content/uploads/formidable/8/Lao-EU-FLEGT-Newsletter_Eng_2019_2.pdf)

<sup>15</sup> Chokkalingam, U. and Phanvilay, K. (2014), *Forest governance assessment for REDD+ implementation in Lao PDR through application of the PROFOR forest governance tool*, PROFOR, <https://www.forestcarbonpartnership.org/sites/fcp/files/2015/June/Forest%20governance%20assessment%20for%20REDD%2B%20implementation%20in%20Lao%20PDR%20through%20application%20of%20the%20PROFOR%20forest%20governance%20tool.pdf>

<sup>16</sup> This took place with implementation of Prime Minister's Order (PMO) 15 on Enhancing Strictness on the Management and Inspection of Timber Exploitation, Timber Movement and Timber Business No. 15/PM, 13 May 2016.

<sup>17</sup> Smith, H. et al. (2016), *Tree Plantations in Lao PDR: Policy Framework and Review*, ACIAR and others, [https://2095514-980024089191501773.preview.editmysite.com/uploads/2/0/9/5/2095514/lao\\_plantation\\_policy\\_framework.pdf](https://2095514-980024089191501773.preview.editmysite.com/uploads/2/0/9/5/2095514/lao_plantation_policy_framework.pdf)

<sup>18</sup> For example, exports of teak square logs are prohibited.

these products.<sup>19</sup> Previous bans were not effectively implemented, due to the frequent granting of exemptions and because not all forest areas were included (for example, forests designated for infrastructure development were excluded).<sup>20</sup>

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<sup>19</sup> To, P. X., Basik Treanor, N., and Canby K. (2017), *Impacts of the Laos Log and Sawwood Export Bans: Significant Reductions in the Exports to Major Markets of Vietnam and China in 2016*, Forest Trends, <https://www.forest-trends.org/wp-content/uploads/imported/Laos%20Export%20Ban%20Final.pdf>

<sup>20</sup> Bolondi, A. (2018), *A Case Study for the Lao PDR Forest Investment Programs*, World Bank and others, [https://www.climateinvestmentfunds.org/sites/cif\\_enc/files/knowledge-documents/fip\\_lao\\_case\\_study\\_1.pdf](https://www.climateinvestmentfunds.org/sites/cif_enc/files/knowledge-documents/fip_lao_case_study_1.pdf); To, XT. and Canby, K. (2018), *Laos Log and Sawwood Export Ban: Impacts on the Vietnam–Lao Timber Trade*, Forest Trends, <https://www.forest-trends.org/wp-content/uploads/imported/Vietnam%20Laos%20Log%20and%20Sawwood%20v12%20March%201%202017.pdf>

### Summary of estimates

The following table presents an overview of the likelihood of illegal practices in the production of the country's main exported wood-based products. The 'overall likelihood' column reflects all the types of illegal practice and is thus the most pessimistic assessment of the categories for a given year.

|                             | Tenure and resource rights |      |      |      | Award of permits |      |      |      | Forest management |      |      |      | Revenue and finance |      |      |      | Transport and Trade |      |      |      | Overall likelihood of illegality |      |      |      |
|-----------------------------|----------------------------|------|------|------|------------------|------|------|------|-------------------|------|------|------|---------------------|------|------|------|---------------------|------|------|------|----------------------------------|------|------|------|
|                             | 2000                       | 2008 | 2013 | 2018 | 2000             | 2008 | 2013 | 2018 | 2000              | 2008 | 2013 | 2018 | 2000                | 2008 | 2013 | 2018 | 2000                | 2008 | 2013 | 2018 | 2000                             | 2008 | 2013 | 2018 |
| <i>from natural forest:</i> |                            |      |      |      |                  |      |      |      |                   |      |      |      |                     |      |      |      |                     |      |      |      |                                  |      |      |      |
| Logs                        | [Medium to substantial]    |      |      |      |                  |      |      |      |                   |      |      |      |                     |      |      |      |                     |      |      |      | [Substantial]                    |      |      |      |
| Sawnwood                    | [Medium to substantial]    |      |      |      |                  |      |      |      |                   |      |      |      |                     |      |      |      |                     |      |      |      | [Substantial]                    |      |      |      |
| Mouldings & Joinery         | [Medium to substantial]    |      |      |      |                  |      |      |      |                   |      |      |      |                     |      |      |      |                     |      |      |      | [Low to medium]                  |      |      |      |
| <i>from plantations:</i>    |                            |      |      |      |                  |      |      |      |                   |      |      |      |                     |      |      |      |                     |      |      |      |                                  |      |      |      |
| Pulp                        | [Minimal trade]            |      |      |      |                  |      |      |      |                   |      |      |      |                     |      |      |      |                     |      |      |      | [Low to medium]                  |      |      |      |

**Likelihood of illegality in the supply chain**

- Low (<10%)
- Low to medium (10-30%)
- Medium to substantial (30-60%)
- Substantial (>60%)
- Minimal trade

Table 1: Estimated likelihood of illegality for Lao PDR's main exported wood-based products<sup>21</sup>

<sup>21</sup> In the case of pulpwood, only a score has been provided for 'trade matters' because the great majority of the pulpwood for the export-oriented mill in Lao PDR is supplied from Vietnam. No assessment has been provided for the earlier years, as there were no or minimal exports of pulpwood.