

# POLICY CHANGES ARE NEEDED TO UNLOCK THE POTENTIAL OF THE SMALLHOLDER PLANTATION RESOURCE IN LAO PDR

## Policy Brief: July 2016

Lao PDR has a long history of plantation development and planted trees have been widely promoted for poverty reduction, improving forest cover and timber supply. In recent policy decisions, the Government of Lao PDR has reiterated the importance of legal and sustainable forest management and the contribution that plantations can make to domestic processing. An ACIAR project on “**Enhancing Key Elements of the Value Chain for Plantation-Grown Wood in Lao PDR**” has identified key issues and makes recommendations to assist in meeting these policy objectives.

FINDINGS AND KEY ISSUES	RECOMMENDATIONS
There are approximately 15,000 ha of plantation teak in Luang Prabang Province, in small parcels, owned by individuals, families and others. However, unpredictable and low levels of wood supply limit investment in improved wood processing technology.	Extend the teak mapping program to other provinces. Government, industry and researchers should explore innovative partnerships and funding approaches that strengthen the domestic teak value chain.
Regulations for plantations and plantation grown wood are complex and compliance can be costly. Farmer-owned and community-based plantation enterprises have great potential to provide wood to the domestic processing sector, but they are uncompetitive due to the complex regulations and high transaction costs.	Government should streamline and simplify regulations and reduce transaction costs to increase value chain efficiency and improve the competitiveness of plantation enterprises. Government should develop a clear and consistent regulatory framework to enable competitive farmer-owned and community-based plantation enterprises.
Certification is not economic for smallholder plantations and legality verification is difficult to achieve due these complex regulations	Certifiers should simplify procedures and recognise the low-risk nature of farmer-owned plantations as compared to other sources of timber.
Regulatory costs provide government revenue but act as barriers to effective tree growing and the efficient and cost-effective flow of timber from farmers to industry.	Relevant agencies should review the rationale for regulations and explore options for alternative revenue generating mechanisms. National and provincial governments and the timber industry should adopt a philosophy of facilitating smallholder plantation production and local industry development and examine mechanisms for capturing revenue through other areas of this economic activity.
High regulatory and transaction costs, lack of predictable log supply, competition from unlicensed factories and uncertainty in Government policy limit competitiveness in the global teak market.	Government should clarify policy on small-scale and domestic processing and develop an export strategy Industry should focus on design, standards and marketing opportunities in major consumer countries.

# 1. Plantation wood supply and availability

Direct mapping using high resolution digital aerial imagery identified around 15,000 ha of teak in Luang Prabang Province. This resource is diverse in structure and geographically distributed across the landscape within the province.

Four percent (4%) of the teak plantations are in size classes greater than 25 cm tree diameter, 76% are in sizes less than 25 cm tree diameter, 20 % are of mixed size class or is partially planted. There is an additional area (about 3%) in very small plots (<0. 35 ha) or scattered plantings, such as around paddy.

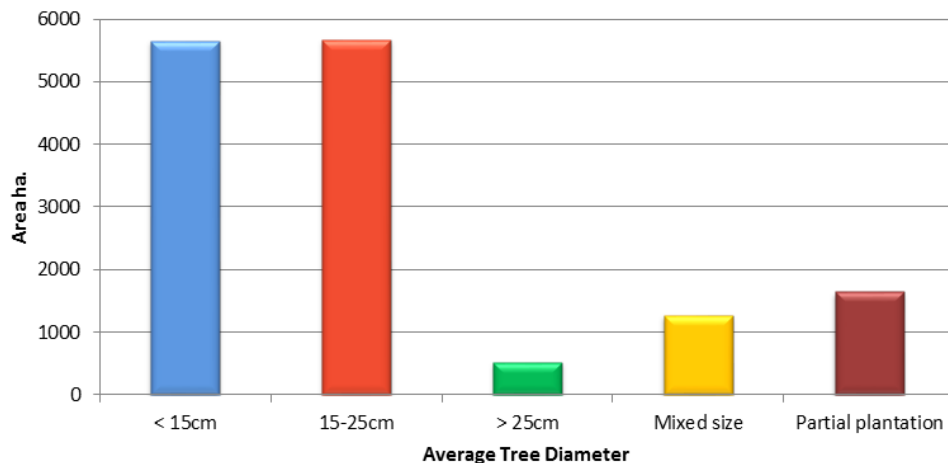
The geographically dispersed nature of the resource means that ensuring timber supply to industry is challenging. Farmers’ decisions about plantation management and tree harvesting are not well understood, which means that wood supply is not predictable.

Competition from other land uses means that plantations may be harvested and not replanted, which will impact sustained supply.

## Recommendations for Government and Research Partners

- Extend the mapping of teak and other plantation resources into other provinces and undertake further research into the volume, growth and yield of teak.
- Explore incentives that could promote the expansion of local wood processing, including farmer-based enterprises.
- Streamline and clarify regulations for transport to reduce regulatory costs and provide subsidies for transport to domestic wood processors.
- Undertake research into the socio-economic factors that influence plantation owner’s decision making about plantation management and harvesting so that wood supply is more predictable.
- Develop mechanisms for integrated planning and management of the plantation resource and test innovative approaches to wood supply that meet the demands of industry and the needs of plantation owners.
- Assess the potential to expand the suitable land base for the plantation resource into degraded/bare village use forests and within Production Forest Areas.
- Explore innovative partnerships and funding approaches that strengthen the domestic teak value chain.

Area of Plantation size class



## 2. Regulations and Costs

The regulatory environment for the plantation value chain is extensive and complex, with many steps and costs to produce, transport, process and export legal timber. This reduces returns to smallholders and industry, and the incentive to grow and process plantation wood.

Duplication of functions between government departments and lack of clarity about regulatory processes provides opportunities for the misapplication of rules and the imposition of additional/duplicate charges. Unofficial transaction costs are also of concern to smallholder plantation owners and wood buyers.

Many of the rules that apply to the plantation value chain have been transferred from laws designed to reduce unsustainable or illegal harvesting of natural forests. They are therefore more restrictive than rules need to be for plantations and plantation grown wood.

### Recommendations for Government

In order to streamline regulatory process and minimise regulatory and other transaction costs for plantations and plantation wood it is recommended that:

- a. Government develop specific regulations for the farmer owned plantation resource that reflects the low level of risk associated with establishment, harvesting, removal and sales of this resource.
  - i. Plantation registration should only be required in the absence of other acceptable land user-rights documentation that demonstrates plantation ownership.
  - ii. Plantation registration should cover several plantation rotations to encourage better plantation land management and replanting after harvest.
  - iii. Approvals for harvesting and movement from to log landing 2 should be through a notification system to the village (village forest officer) or kumban.
  - iv. Clarify approval procedures and fees for transport of plantation grown teak from log landing 2; consider approvals through a notification system;
  - v. Review the technical standards for plantations to allow for a broader range of planting systems.
- b. Review the fees and charges applied along the value chain, including tax exemptions and incentives. Identify more efficient means for plantation owners, traders and processors to contribute to government revenue. Undertake a regulatory impact assessment of options.
- c. Communicate and encourage farmers and processors to take advantage of cost discounts, fee remissions and tax incentives.
- d. Consider tax or other incentives to promote good plantation management and to encourage the growing of higher quality resources. For example:
  - i. Provide plantations with the same taxation treatment as agriculture crops, with the only cost to farmers being the payment of land tax.
  - ii. Introduce a simple, progressive tax system for community based enterprises which provides incentives for the processing of small log and intermediate products.
- e. Publicise fees and service charges.
- f. Provide clear and jointly agreed guidance on the regulatory mandate of each agency along the plantation value chain.
- g. Improve enforcement of anti-corruption laws to reduce imposition of unofficial costs.
- h. Undertake strategic investigation and enforcement of plantation log exports to discourage illicit activities.

### 3. Grower Groups and Enterprises

There are many potential benefits from smallholder farmers working together, including the ability to generate economies of scale for activities such as buying inputs, accessing credit, wood sales and marketing. However, there is some scepticism among farmers about cooperatives and the benefits they might receive.

Compared to agricultural products farmers groups, in which members come together for short periods (usually one season) to produce and market their crops, tree grower groups are much more challenging to sustain over the whole growing cycle, because of the long period before there are returns on the investment.

The costs of grower group membership currently outweigh the benefits; the viability of the teak farmers groups depends on being able to supply the market regularly, and buyers being able to meet customer orders for wood.

Rapid agrarian transformation is taking place in rural areas, which is both reducing the importance of teak in household livelihoods, and reducing the social capital within a village that is vital to build and maintain the trust needed to sustain such groups.



### Recommendations for Government

- a. Encourage grower groups to form farmer group enterprises (FGE) or cooperatives in accordance with government policy, and provide co-funding for investments, such as through low interest loans.
- b. Build awareness of existing government policies on cooperatives and enterprises, and develop communication and extension material to ensure the concept of plantation cooperatives and their benefits is well understood by farmers and supporting agencies.
- c. Develop supporting regulations and provide extension services to ensure that cooperatives are able to function effectively and meet the expectations articulated in national strategies and policies.
- d. Provide grower groups and enterprises with guidance on how to adopt simple and clear governance arrangements and integrated structures, where this is necessary.
- e. Grower groups and/or enterprises should cover both certified and non-certified plantations.
- f. Facilitate the establishment of a grower funds or investment partnerships that aggregate resources, facilitate sales based on the needs of farmers or provide opportunities for farmers to draw down against the value of their individual plantation resource as income is needed.
- g. Ensure that the grower group committees have the capacity and ability act independently and are sustainable.
- h. Establish a Provincial Teak Platform for the management and promotion of teak in Luang Prabang Province.

## 4. Certification and Verification

Voluntary certification systems have failed to deliver cost effective market benefits to smallholders. They are complex and do not add value.

Current certification systems apply a similar risk profile and compliance cost structure to smallholder plantation growers and large, industrial growers. Few smaller, private growers are able to adopt these systems, and those that do so in Laos generally receive no improved market access or price premium.

External support s been provided for certification, however, low take-up by small, farmer-scale, plantations indicates that verification or compliance requirements are too complex and costly to adopt.

Where certification has been adopted, the expected increases in returns to plantation owners have not occurred.

Where certification has been implemented it has been reliant on external funding from international donors. These funding arrangements need to be put on a more sustainable basis.

Complex and inflexible measures are used by multiple different certification systems to assess sustainability. Certification systems must simplify their

requirements and demonstrate value to small holders if they are to increase the involvement of small-scale growers in markets for sustainably managed timber.



### Recommendations for Certification Bodies

- a. Undertake a broad risk assessment of small, individual owned plantations.
- b. Review requirements for small holder plantation growers to better reflect the risks for these growers
- c. Allow for flexible approaches to verification that are appropriate to farmer owned plantations. Options include self-assessment of pre-harvest, harvest and post-harvest activities by farmers, Village Forestry Units or grower groups.
- d. Consider partnerships whereby companies can include smallholders in their certification or supply chains.
- e. Clearly communicate the process and costs of certification and provide realistic information about the likely benefits.
- f. Develop more efficient and cost-effective approaches to timber plantation certification for smallholders..
- g. Assess the potential benefits of a national certification scheme, or other national systems and approaches to legality; ensuring consistency with the ASEAN Consultative Committee on Standards and Quality.

## 5. Markets

Lao PDR has a policy of promoting domestic wood processing, however most of the plantation grown wood is being exported as unprocessed timber.

Global demand for plantation-grown teak remains strong and is estimated at 1.4M m<sup>3</sup> annually. China is the leading market for Lao teak with current imports exceeding 10,000 m<sup>3</sup> per year.

Markets for mature teak from both native forests and older plantations are well established and have been influenced by recent restrictions in exports from Myanmar. Markets for small-sized, fast-grown teak logs are expanding rapidly.

Market linkages for Lao plantation-grown teak are weak and are not efficient.

Global furniture markets are very competitive and furniture manufacturers are extremely price sensitive. Small-sized teak from Lao PDR must compete with other tropical hardwoods such as acacia, eucalypt and rubberwood and commonly traded temperate hardwoods.

Industry concerns include: high regulatory costs; competition from unlicensed factories; uncertainty in Government policy and lack of log supply.

The fragmentation of the plantation teak resource across many thousands of smallholders makes it challenging to provide regular consignments of commercial size and quantity that meet regulatory and market requirements.



## Recommendations for Government and Industry

- a. Review product classes and standards and consider including primary products such as small round logs, squared logs and thinnings.
- b. Review industry regulations for the approval of small-scale wood processing facilities to encourage investment in local wood processing, which would reduce transport costs and increase local benefits.
- c. Assess the procedures by which wood processing facilities obtain wood from registered and unregistered plantations, and the documents required to support this.
- d. Promote best practice and technical guidance on wood processing.
- e. Review the export procedures for plantation timber and provide consolidated guidance for industry.
- f. Review the classification of plantation teak as a 'special timber' species.
- g. Focus on design, standards and marketing opportunities in major consumer countries.
- h. Develop an export strategy and promote through branding products from the Lao smallholder plantation teak resource.



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<b>Project partners</b>		
<i>Melbourne University, Australia</i>	<i>National University of Lao PDR</i>	<i>Australian National University</i>
<i>Souphanouvong University</i>	<i>Pakpasack Technical College</i>	<i>Lao Furniture Industry Association</i>
<i>Department of Industry, Ministry of Industry and Commerce</i>	<i>Queensland Department of Agriculture and Forestry</i>	<i>Lao National Wood Industry Association</i>
<i>Department of Forestry</i>	<i>Department of Forest Inspection</i>	<i>Luang Prabang Teak Program</i>

The full reports from this study can be downloaded from <http://www.laoplantation.org/>

More information about ACIAR can be found at <http://aciarc.gov.au>

### **New Project on Improving Plantation Policy in Lao PDR and Vietnam Launched**

ACIAR, together with the Governments of Lao PDR and Vietnam, is supporting a new project: "*Improving policies for forest plantations to balance smallholder, industry and environmental needs*". The aim of this project is to provide policy options that achieve national goals for forest plantation industry development in Lao PDR and Vietnam through improved linkages between commercial investment and smallholder production. This project will build on the work undertaken by VALTIP2. It will run from 2016 until 2018.

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