
Vietnam: Construction of Kontum pulp and paper mill suspended

On 24 October 2002, provincial authorities announced the suspension of construction of the new 130,000 tons a year pulp and paper mill at Dac To in Kontum province, in Vietnam's Central Highlands. The state-run Vietnam News Agency (VNA) reported that construction was stopped because of "a failure to draw up a credible master plan".

Six months earlier, during a two-day trip to Kontum, Deputy Prime Minister Nguyen Cong Tan had demanded that the Vietnam Paper Company, Vinapimex, must publish a plan indicating where the raw materials were to come from to feed the mill.

Vinapimex had planned the Kontum mill on the assumption that more than 20,000 hectares of plantation were available to feed the mill, and that more land could be planted. However, three years later, less than 15,000 hectares of plantations existed and some of this area encroached on people's land and homes. After construction was stopped, Kontum's provincial authorities told VNA that expanding the area of tree plantations to provide more material was simply not feasible.

Jaakko Poyry, the world's biggest forestry and engineering consulting firm, was the project consultant for the proposed mill. In 1998, Poyry produced a feasibility study for Vinapimex on the mill, and prepared the bidding documents for tender in May 2002. The total cost of the mill was estimated at US\$240 million, including US\$163 million worth of equipment from Western Europe.

The suspension of construction at the Kontum mill is only one of the problems facing the state-run Vinapimex, Vietnam's largest paper producer. Vietnam has the capacity to produce 360,000 tons of paper a year or approximately 70 per cent of the paper consumed in the country each year. However, in August 2002, VNA reported that Vinapimex's warehouses were at bursting point, with 28,500 tons of stockpiled paper, including 16,000 tons from the previous year. The company accused foreign exporters of dumping cheap paper in Vietnam, but the reality is that imported paper is both cheaper and better quality. In 2002, Vietnam imported 52,000 tons of pulp and 290,000 tons of paper.

In an attempt to compete with the imports, Vinapimex reduced paper prices twice during 2002. Meanwhile, paper production costs increased in October when the government hiked the price of electricity. Vinapimex has asked the government for a reduction in electricity charges to pre-October 2002 levels and is looking to the government for other subsidies, through preferential credit loans and a reduction in value added tax.

The outlook is not good for Vinapimex. This year, under the ASEAN Free Trade Area rules, Vietnam has to reduce tariffs on imports of paper from 50 per cent down to 20 per cent.

In 2000, Dang Van Chu, Vietnam's Minister of Industry told the trade magazine Pulp and Paper International that Vietnam had a clear strategy for the pulp and paper industry for the next decade. "Within 10 years, we want our industry to meet 80-90 per cent of domestic demand, with an average growth rate of 10.4 per cent per year," he said. He added that the country also hopes to increase trade on the international market.

Only two years later, the plans are in tatters. In July 2002, Deputy Prime Minister Nguyen Tan Dung instructed the Ministry of Industry to adjust its development plan for the paper industry up to 2010. Dung requested that all proposed new paper mill must take into account plans for raw material supply.

Meanwhile, Vinapimex continues with its expansion plans. A 250,000 tons a year pulp mill is planned at Phu Tho, with the aim of supplying Vietnam's largest pulp and paper mill at Bai Bang.

In October 2002, the government approved Vinapimex's plans for a US\$104 million pulp and paper mill in Thanh Hoa province. The mill is to have a capacity of 50,000 tons of pulp and 60,000 tons of paper a year.

In Lam Dong province, Vinapimex plans a US\$250 million pulp mill, with a capacity between 200,000 and 400,000 tons a year. The Lam Dong People's Committee Deputy Chairman, Hoang Si Son, told the Vietnam Economic Times, "Vinapimex has planted an area of 10,000 hectares to add to the existing 30,000 hectares; we plan to increase the forest cover to 135,000 hectares."

Apparently, Vinapimex sees building more pulp and paper mills as the only way it can survive as an organisation. Of course the company can simply build more and bigger warehouses for the massive stockpiles of loss-making paper that it produces. Then it can turn to the government and international aid agencies for the subsidies it needs to ensure its bureaucratic survival. The impacts on Vietnam's rural communities, their forests and their livelihoods will not be so easily resolved.

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