

# Afforestation and Woodchip Production Business in Vietnam

Create a Business Model to Achieve Both Reforestation and Woodchip Production

February, 2014



Is it at all possible to restore forests while continuing to produce and sell woodchips? At first glance, these two actions, logging for woodchip production and restoring forests, appear to be in conflict. Sojitz reconciled the two through afforestation, taking a unique approach to promote afforestation and the woodchip production business. Vietnam Japan Chip Corporation Ltd. (VJACHIP) is an afforestation and woodchip production business company. We have a more than 20-year record of business with our stakeholders.

## Business Model Promotes Independence of Tree Plantation Operators

The business was first started in response to a request made by the Vietnamese government during a conference between the government and Sojitz (formerly Nissho Iwai) in 1987. They wanted cooperation from us for afforestation and job creation in Vietnam. Because of war and traditional slash-and-burn agriculture, the forested land area was reduced to 29% of Vietnam's total area in 1990 (it had been 43% in 1943). Restoring the forests of degraded land was an environmental issue.

Upon request from the Vietnamese government, Sojitz established VJACHIP, afforestation and woodchip production company in 1993 with five state-run forestry companies as partners.

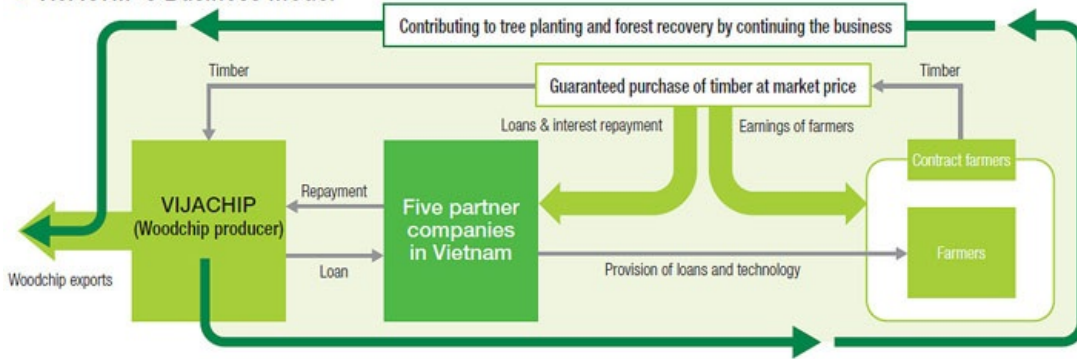
VJACHIP started by establishing a business model that promotes independence of tree plantation operators. The company provided financing and tree planting technologies so farmers could begin tree cultivation, developed environments that facilitate the commencement of tree planting, and made guarantees to purchase timber. By switching from the earlier slash-and-burn agricultural sources of timber to products expected to produce steady income, the company supported the independence of many farmers as tree plantation operators. In 2001, VJACHIP began providing free seedlings to small-scale farmers, successfully expanding their perspectives as tree plantation operators. Through 2010, the company provided more than 30 million\* free seedlings.



VIJACHIP as well as VIJACHIP Vung Ang (established in 2001) and VIJACHIP Cai Lan (established in 2004), which also adopted this business model, successfully planted a total of 39,274 ha through the end of 2010 and created approximately 500,000 jobs annually. This business model, which promotes sustainable forestry, continues to contribute to regional environmental stability and economic development.

\* Total for VIJACHIP, VIJACHIP Vung Ang, and VIJACHIP Cai Lan.

#### ▶ VIJACHIP's Business Model



In most of the reforestation, *Acacia hybrid* is used to restore soil fertility. We are also considering mixed planting with other tree species in the future.



Tree planting work. In consideration of sunlight, seedlings are planted about 2 meters apart.

## A Founding Member's View

"Our work is meaningless unless everyone involved in the business is happy." That business spirit has been handed down since VIJACHIP was established.

Operating a woodchip manufacturing company is not feasible without a stable supply of timber from farmers. For our efforts to secure stable timber supplies and continue restoring forests through the expansion of tree planting, it was essential to create a structure that would bring benefits to farmers in the same supply chain.



Tadahiro Kinoshita  
Vice President for Foods Resources  
Consumer Lifestyle Business Division

Immediately after I was assigned to Ho Chi Minh City, I worked on starting up VIJACHIP. At that time, many people came to Vietnam from HQ to work on the startup, and every day we were frantically busy. I will never forget the sense of energy that was generated from building a business model with the cooperation of stakeholders in many different perspectives including the Vietnamese government, partner companies, farmers, and employees.



Noriaki Shutoh  
General Manager, Hanoi  
Branch, Sojitz Vietnam Company  
Ltd.

Twenty years ago, the site where I now operate a plantation was barren land and no one lived in the area, but an economy and society developed as a result of the tree planting business with VIJACHIP. My personal standard of living has increased, and above all I am proud that the tree plantation business has contributed to restoring the forest and to economic and social development.



Nguyen Duc Them  
Tree Planting Operator

## Responsibility as a Manufacturing Company



Takafumi Matsumoto  
President, Vietnam Japan Chip  
Corporation Ltd.

“Manufacturing companies place the highest priority on employee safety. It is my responsibility to provide a safe working environment to employees,” says President Matsumoto of VIJACHIP.

“Ensuring the safety of employees is the number-one priority of managers of manufacturing companies, followed by the environment. It is hard for a company to stay in business if it causes trouble for society. The concept of “safety first” is taken for granted in Japan, but establishing this concept at overseas sites requires repeated and sustained communication of its priority from management. Only then do employees realize the prime importance of safety, and eventually it becomes routine.

We hired an outside consultant to educate employees about 5S activities (seiri, seiton, seiso, seiketsu, shitsuke which mean sorting, straightening, cleaning, cleanliness, and training) and took various measures such as unannounced inspections. The aim is to create opportunities for employees to get a real sense of the importance of safety.

By using two approaches—direct dissemination by management and creating opportunities for employees to sense it themselves, innovations for improving safety with roots in the workplace will be generated little by little. I think that’s the instant that employees take “safety first” for granted. We will continue our efforts until “safety first” is taken for granted. The result will be a safe work environment for employees. I believe that is the first responsibility of managers” says Matsumoto.



Nguyen Phuc  
Vice President, Vietnam Japan Chip  
Corporation Ltd.



Vice President Nguyen Phuc commented, "I feel that VJACHIP's contributions to Vietnamese society and the environment are considerable. Our job is not just managing the company, but also creating beneficial results for the country. I am proud to be a part of work that has these meaningful effects. The employees are my second family. Of course, management wants to create an environment where its family can work safely and healthily."

Occupational accidents including minor ones previously exceeded 50 per year, but since the adoption of "safety first," the number of accidents has fallen sharply, and in the fiscal year 2012, there were just two. The company will continue to reinforce its measures to create safe and comfortable work environment for its employees.

## Woodchip Making Process: Safety Measures



Logs that are approximately seven years old are delivered to VJACHIP by contracted farmers in various regions on a daily basis.



Employees transport the logs to woodchip production equipment. Since the work takes place near heavy equipment, priority is placed on safety. Unannounced inspections are also conducted.



Workers making woodchips. Within the plant, work is divided into teams, and team leaders play a central role in ensuring work rules are observed and raising awareness about safety.



Posting the number of accident-free days in places where employees gather promotes greater safety awareness.

Woodchips are piled as high as 30 meters, and handling heavy machinery involves risks, so regular operational training is provided.



The woodchips are exported to paper making companies, mainly in Japan and China.

## With a More than 20-Year Track Record, Sojitz is Number One in Volume of Vietnamese Woodchip to Japan



Yoshitaka Takao  
Manager, Paper Material Section,  
Forest Products Department,  
ConsumerLifestyle Business Division

Woodchips are made by cutting logs into fine flakes. A substance known as lignin is removed from the woodchips by cooking with chemicals in a digester to produce cellulose fibers, which is pulp used as a material in printing and publishing.

Vietnamese woodchips have price-competitiveness attributable to its low cost of local materials and production and its low logistics cost resulting from short transportation distance to Japan compared with other major woodchip exporting countries. In terms of export volume, Vietnam exported 5.4 million tons in 2011, setting a new record and overtaking Australia to become the world's largest woodchip exporter. Vietnam maintained its world-leading position in 2012, with exports of 5.76 million tons (according to statistics by RISI). Out of this amount, about 1.6 million tons were exported to Japan, accounting for about 14% of Japan's total woodchip imports of 11.13 million tons (according to statistics by the Forestry Agency, Ministry of Agriculture, Forestry and Fisheries, Japan). Then, Sojitz handled about half of those imports, making it the number one dealer of Vietnamese woodchips in Japan.



Shunji Sakamoto  
Paper Material Section, Forest Products  
Department, Consumer Lifestyle Business  
Division

"When paper making companies and suppliers want to know about woodchip market conditions in Asia including Vietnam, they first come to us. To meet their expectations, we have long gathered information from various sources and distributed it and engage in thorough consultations with clients. Companies doing business with us not only enjoy commercial benefits, but also obtain greater added value. The ability to build trusting relationships with many clients is the biggest advantage of being number one.

Leveraging the network of contacts in Vietnam built by our predecessors, we will tirelessly work to meet the expectations of our business partners and other stakeholders. I am convinced that this attitude is what has enabled us to continue this business for twenty years. A commitment to meeting the needs of others will continue to drive us forward. By transforming that commitment into action, we will build a lot of trust among stakeholders that Sojitz can fulfill their wishes. I hope that this trust leads to the continuation of this business

as well as the creation of new business opportunities.”Takao

“I am proud to have worked in VIAJACHIP’s afforestation and woodchip production business, which has been conducted for more than 20 years amidst many drastic changes in the business environment. I hope to continue meeting market needs while contributing to developing in both Japan and Vietnam through this business and also to hand the baton to the next generation.” said Sakamoto.

Sojitz entered the afforestation and woodchip production business when it received a request from the Vietnamese government for cooperation with afforestation and job creation. Over more than 20 years, we have developed a track record and trusting relationships with a wide range of stakeholders including local governments, forestry companies, tree plantation operations, and employees. We seek to create new business by maintaining and expanding our operations.

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