

Auction System for Teak in El Salvador



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Overview

Over 6,000 ha of plantations were registered in El Salvador in 1996 and teak (*Tectona grandis* L.f.) was the major species. Around 42% of the registered plantations were concentrated in the Departments of La Libertad and Santa Ana. In 2003 teak constituted 47% of the total;¹ this equates with an area of **2,800 ha**. Registration does not include all plantations.

Teak plantations of El Salvador are characterised by small diameters (because of the lack of thinning) and poor form (because of the use of low quality germplasm). The species has been planted on unfavourable sites and there is a general lack of management.² Taken together, these factors limit the potential to manage the species on a sustainable basis and they endanger soil conservation.

In a survey of over 400 ha of teak in La Libertad, it is estimated that about 36% of the area belongs to cooperatives and the rest to the private sector.³ Most stands of the species are found on areas with steep slopes. In fact, in the cooperative property, about 65% of the area is on slopes with more than 17 degrees (teak should not be cultivated on slopes of 14 degrees or more because of the danger of soil erosion). At least 17% of private lands are also on steep slopes. This means that **over 1/3 of the existing teak plantations should be removed permanently** and given over to other crops or soil conservation.

In addition, poorly managed teak should be assessed to see if it is better to maintain the plantations or clearfell. If growth has stagnated due to poor management then it is best to remove the cultivation.⁴ At least 50% of measured plots in La Libertad were unthinned or unmanaged.

It is concluded that if plantations suffering from steep slopes or poor management, or both conditions combined, **at least 50% of the entire teak estate in El Salvador should be removed**, if not more. This means harvesting at least 1,400 ha of teak, with an estimated value of over \$ 20 m.

This scenario provides opportunities and challenges. On the opportunistic side, current market demand for teak in Asia is high and prices are relatively good. The challenge is to ensure that the growers, particularly small holders, obtain an equitable return for their produce. In order to do so, **it is proposed that an open and transparent international auction system for teak be established in EL Salvador.**



Other long-term opportunities also exist. After culling out poor teak or teak on inadequate sites, remaining growers should explore how they might obtain group Forest Stewardship Council (FSC) certification, with the eventual aim of obtaining a joint FSC/Fairtrade certificate for the advantage of the small growers of El Salvador. It should also be possible for the private sector to join with the small holders in this effort, to the mutual long-term benefit of all teak growers of the country.⁵



¹ Cuéllar, et al, 2003; 8

² Cuéllar, et al, 2003; 9

³ Butler, 2002

⁴ Keogh, 1987

⁵ Keogh, 2011 and TEAK 21 (see: <http://www.teak21.org/index.php>)

Proposal for Commercialisation of Small Holder Teak of El Salvador

There is an ongoing demand in Asia for Latin American teak.⁶ According to the same source, the annual teak trade of Central America is around 250,000 m³ and there has been a 20% growth in the last 6 years. The majority of trade occurs with India though demand from China is growing. Currently the Central American teak trade is highly fragmented but there are signs of consolidation.⁷

Potential opportunities exist for teak growers in El Salvador, especially those who are on inadequate sites or have not managed their estates, to liquidate their resource and export their produce to India and China at international market prices which are relatively high.

The challenge facing teak growers, especially small holders, in a country like El Salvador is that they do not have power in the market place and often receive a poor return for their produce. This is a worldwide phenomenon. In Cote d'Ivoire, for example, villagers have effectively been robbed of the value of their resource.⁸

Auction System

It is proposed that an auction system for small- and medium-sized growers be established in El Salvador to encourage the harvesting of teak that is placed on poor sites, is creating environmental problems (erosion) or that has not received proper management in the past. Growers who are running their estates sustainably can also avail of the auction system. Private sector growers, who have no established marketing structure, might also wish to avail of the system. The objective is to ensure an equitable price for growers.

The value of the small holders' growing stock is in the order of US\$ 12 m (Figure 1). Assuming that 65% of this estate is to be liquidated, the value of the harvest is about US\$ 7.8 m from liquidation alone. The aim is to ensure that at least 85% of this amount is provided to the owners themselves (i.e. US\$ 6.6 m). US\$ 1.2 could be used to:

- Attract and cover investments in setting up the auction and audit systems (30%);
- Develop market intelligence; cutting and transporting the harvest (30%);
- Running the auctions (20%);
- Assisting growers who will replant or continue to manage their plantations sustainably (10%);
- Assist growers to secure FSC certification; and, ultimately, to help them obtain joint FSC/Fairtrade certification (10%).

A method of linking the small growers and the auction system requires to be set up and mobilised, either through the cooperation of the growers themselves, local organisations and/or NGOs or all entities combined. The resulting links will be used to arrange for the harvest and transportation of the teak.

⁶ OLAM, 2011

⁷ OLAM, 2011

⁸ Maldonado and Louppe, 2000

Organisers, auctioneers, co-ordinators, auditors, insurers and security will all be covered by the investment and paid, ultimately, by the auction. All prices and payments will be made public. Each year an independent audit of the system will be carried out.

Figure 1 Ownership patterns, areas, areas of inadequate planting, and crop valuation

Owner	Area	Excessive Slope	Excessive slope %	Value \$US
Coop	1007	653	64.8	11,807,461
Private	1779	313	17.6	29,610,770
Other	14	0	0	494,181
	2800	966	34.5	41,912,412

Note: Statistics are based on provided references; the quantities may have changed subsequently due to exploitation of teak in El Salvador; however, the basic proposal remains unchanged

The auction system will consist of the following components:

- Administration (joint venture or separate company);
- Logging and harvesting entities (contract harvesting);
- Transport system (vehicle hire);
- Auction area (rent; 1 ha of land with necessary offices located conveniently in relation to the plantations (e.g. La Libertad));⁹
- Security (24-7);
- Insurance;
- Agreed grading rules;¹⁰
- Pricing mechanism;¹¹
- Auction (publicly announced in anticipation);
- Professional auctioneers;
- Web-site (publication of received auction prices according to the grading rules).

Steps to Realising an Auction System

The following steps are required in order to set up an auction system:

1. Obtain an estimate of the potential supply from interested growers;
2. Government support and advice;
3. Clarification of tax issues;
4. Set up or use existing legal arrangements (auctioneers);

⁹ <http://www.desytecint.com/contenido.asp?id=27>

¹⁰ e.g. Keogh, 2008

¹¹ The grading rules and linked/anticipated auction prices constitute the pricing mechanism

5. Attract initial investment to undertake the venture;
6. Agree payments of organisers and coordinators, etc;
7. Purchase or rent auction area(s) and offices;
8. Set up an auction website;
9. Make contact with teak growers and advertise the system;
10. Make contact with potential purchasers and obtain specifications;
11. Agree grading rules (in line with those of OLAT);¹²
12. Obtain teak timber from growers, first in La Libertad (pilot basis);
13. Advise growers about eliminating teak (regrowth) on inadequate sites;
14. Ensure that teak is delivered to the auction area before auction takes place;
15. Invite teak traders from Asia to the first auction system;
16. Carry out first auction;
17. Begin repayment of investments;
18. Announce teak prices internationally on the website (OLAT);
19. Develop subsequent auctions.

The specific auction system for teak in El Salvador will be the first of its kind in Latin America and the Caribbean. It is expected that others will follow in interested countries.

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http://www.tectonagcapital.com/index.php?action=company_profile

¹² See OLAT website: <http://www.olatgroup.com/en>

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