Smallholder Teak Marketing: Current Practice, Problems and Opportunities

Iwan Kurniawan and James M. Roshetko

World Agroforestry Centre
TRANSFORMING LIVES AND LANDSCAPES

Correspondence:
Iwan Kurniawan (k.iwan@cgiar.org)

WINROCK INTERNATIONAL

Abstract

In most forest product sectors, access to and understanding of market information equates to economic and bargaining power. For smallholder teak producers, market information is inadequate, difficult to access, and not publicly available. Teak producers didn't know how wood quality affects the price. Similarly the teak industry is not fully informed regarding the potential of smallholder teak production, including the available standing stock, the real and potential quality of the stocks, the resource location, and how to deal with teak producers. The objectives of the study are to enhance market access by smallholder teak producers and to establish clear understanding of current practices, problems and opportunities in creating market linkages. The study was conducted in Gunungkidul district, Yogyakarta on July 2007 – June 2008. There are five factors that determined teak producer's perception on the best time to cut their teak tree: natural rotation; urgent cash need; market price; market demand; and other factor. On average, 80% of producers cut teak tree when they need cash and 14% of them harvest when trees achieved biological/economic maturity. Teak producer prefer to selling standing trees and still act as price taker. The challenging in improving smallholder teak marketing is increase quantity and quality of logs and reduced asymmetric market information. This can be achieved through the application of better silvicultural practices and improvement of their market capacity. Specifically, they should improve their understanding on market specifications and market channels and conduct collective marketing to achieve economics of scale.

Curent Practices

Growing trees, especially teak, takes a long time to achieve an expected production volume. The technical aspect of management is not enough to determine the optimal efficiency of trees harvesting. The most farmers have no specific teak harvesting plan. Harvesting teak trees is last option for household to raise funds, cattle and other assets are sold first. In term of bargaining power, some farmers still act as price taker when selling teak trees.

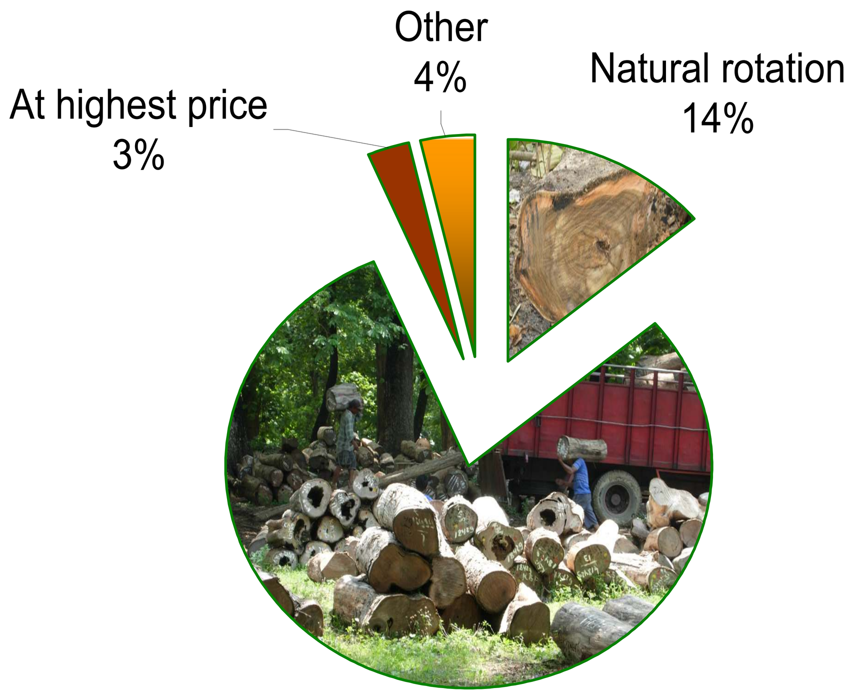

Figure 1. Farmers' reasons for harvesting teak

Problems

A lack of capital and limited technical knowledge (regarding silviculture and harvesting) are the reasons farmers do not manage their teak trees. Furthermore, the lack of farmer harvesting plans cause uncertainty in the supply chain.

Opportunities

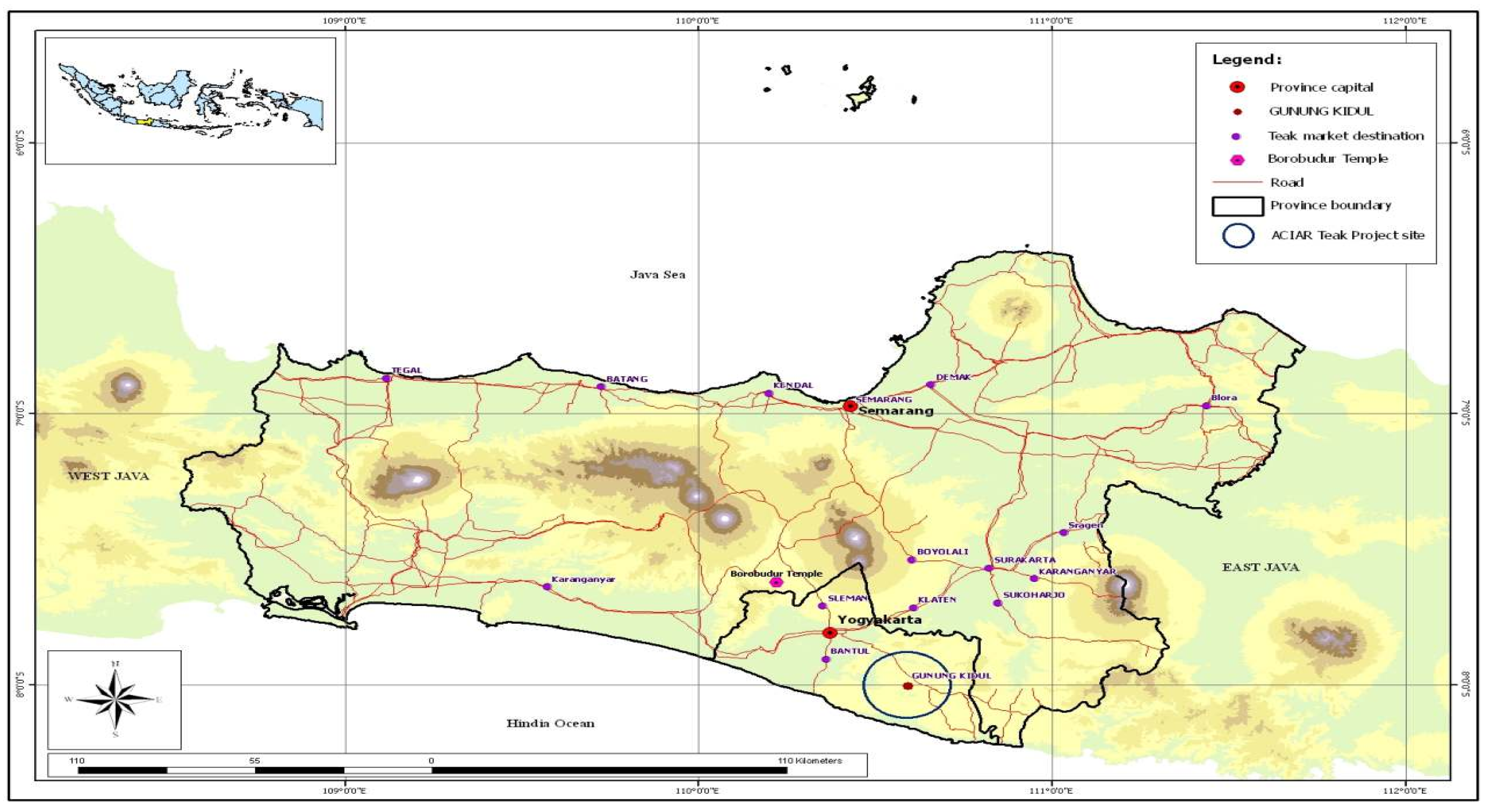

Figure 2. ACIAR Teak Project site with teak market link

Table 2. Range of prices for standing teak trees and logs in Gunungkidul District

Tree Age (Year)	DBH (cm)			Farmer's Received Price (USD/tree)			Volume (M3)			Total Gross Log Value (USD)		
	Min	Max	Average	Min	Max	Average	Min	Max	Average	Min	Max	Average
10	12	18	14	3	6	4	0.045	0.189	0.107	3	25	12
15	13	31	18	5	30	14	0.060	0.515	0.233	6	123	40
20	21	45	29	10	265	79	0.307	1.061	0.550	57	284	129
25	23	49	37	20	296	149	0.320	1.321	0.769	54	329	193

Teak growers face market risk because they do not have adequate market information and face difficulty in accessing that information. There are no standard prices for purchase of standing teak trees. Table 1 provides information regarding the wide range prices farmers have received for their standing trees.

Table 1. Gunungkidul's teak wood market destination

No	Market Destination	Volume of Log (M3)	Share (%)
1	Jepara	36,709.10	54.01%
2	Klaten	10,460.71	15.39%
3	Boyolali	6,472.47	9.52%
4	Bantul	5,086.12	7.48%
5	Sukoharjo	2,623.03	3.86%
6	Karanganyar	706.25	1.04%
7	Batang	630.74	0.93%
8	Semarang	606.40	0.89%
9	Sragen	507.43	0.75%
10	Demak	426.54	0.63%
11	Others	3,735.96	5.50%
Total		67,964.76	100.00%

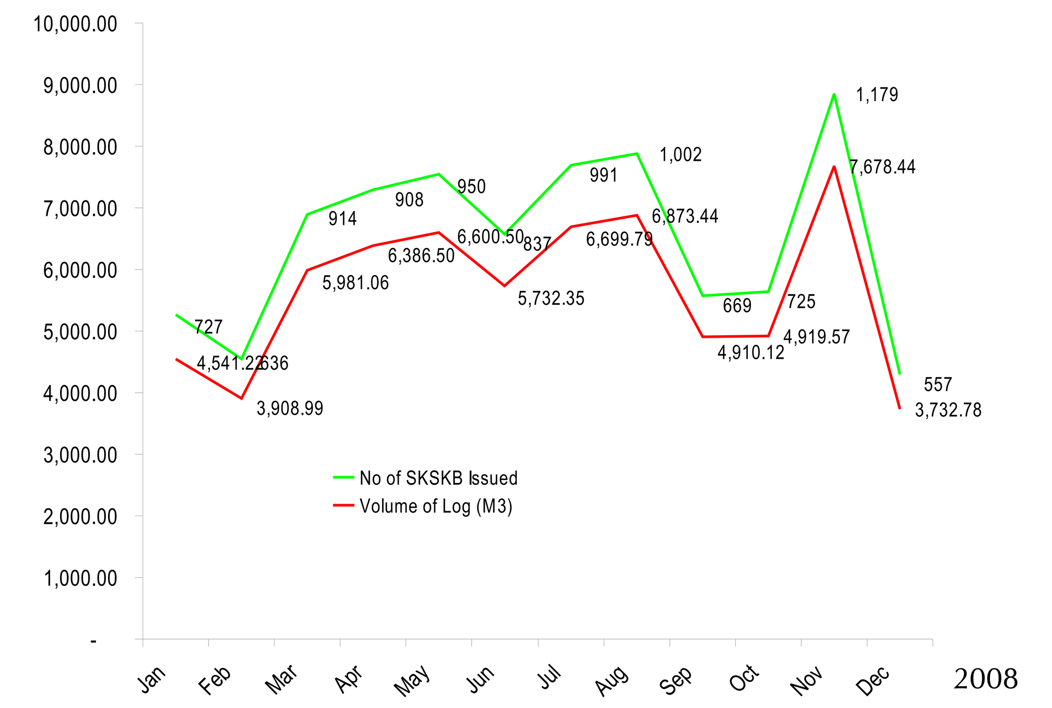

Figure 3. Monthly smallholder teak log production in Gunungkidul during 2008

Smallholders in Gunungkidul District supports the teak-based industry in Java by supplying good quality timber. The fact that most Gunungkidul teak timber goes to factories in Jepara contradicts Jepara traders opinion that Gunungkidul teak does not match Jepara's market requirements. In term of log supply, monthly volume of teak timber traded in 2008 varied as presented in Figure 3. Declining production on May-June correlates with crop harvesting. However, farmers cut and sell more trees in June-July to pay school fee.

Improving economic benefits from teak

The potential for teak growers to demand higher prices for their teak depends on their ability to differentiate their teak products and to create a favorable 'image' with consumers.

Conclusions

In order to compete in timber market and possible to obtain better price, farmers need to improve the quality and reputation of the timber they produce. This can be achieved through the application of better silvicultural practices and improvement of their market capacity. Specifically related to marketing, farmers should:

- Improve their understanding on market specifications and market channels.
- Only harvest trees of commercial size that correspond to market specifications.
- Develop farmer associations that engage in collective marketing to achieve economics of scale.
- Collaboration with teak industry to create mutually beneficial market linkages based on commitments to 'win-win solution'.
- Develop and institute Verification of Legal Origin (VLO) standard or other certification schemes to obtain a 'green' premium (long-term objective).

Acknowledgement

This research was implemented through the Improving Economic Outcomes for *Smallholders Growing Teak in Agroforestry Systems in Indonesia (FST/2005/177)* project supported by the Australian Centre for International Agricultural Research (ACIAR). Project partners include ICRAF, Winrock International, CIFOR, Inter-CAFÉ IPB, Forest Research and Development Agency (FORDA, Department of Forestry, Indonesia) and Pokja Hutan Lestari Gunungkidul.

Australian Government
Australian Centre for International Agricultural Research
CIFOR
Forestry Research and Development Agency (FORDA)
Inter CAFÉ
KELOMPOK KERJA HUTAN RAKYAT LESTARI KABUPATEN GUNUNGKIDUL