



S I N G A P O R E

## **The Markets for Latin American Teak**

**Panama City, May 2016**

# Presentation Basis

- Delegate and speaker profile. **Combination of Teak 101 + 201 talk**
- No claim to fame of being a **'teak expert'**
- We however do know **'teak sourcing & marketing'**. Me and my team have commercially handled teak in Asia, Africa & Lat Am over the last 20 years
- **A commercially led**, and not a research led, presentation. Few slides, no charts, few key numbers. **Three key takeaways at the end**

# Introduction to Aron Global

One of the three **dominant teak traders** in the Latin America to Asia trade flow

## Procurement Offices

### • Latin America & Caribbean

- Panama
- Costa Rica
- Ecuador
- Guatemala
- El Salvador
- Trinidad & Tobago
- Colombia (4thQ 2016)

## Singapore Head Office

## Sales Offices

### • India

- Mundra
- Chennai
- Mumbai
- Tuticorin
- New Delhi

• Significant sales reach across  
**Vietnam and China**

Sales partner of Floresteca, Brazil, the largest teak plantation in the world.  
Cumulatively, Aron Global & Floresteca are the **biggest teak supplier to the World Market**

# What is Teak?

- The **only** medium to high value tropical hardwood species amenable to plantation management
- 29 million hectares natural teak & 4.3 million hectares plantation teak worldwide
- Vast majority in Asia. **Most will not be commercially exploited**
- For commercial purposes **disregard 99 percent of Asia and Africa teak plantations**. In any case, too long growth cycles preclude acceptable IRRs
- **In plantation teak only the 350k hectares in Lat Am and a few viable plantations in Asia and Africa are commercially relevant**

# Myths in the Lat Am Teak Story

- Latin American Teak is equal to Burma Teak and is **'high end'**. Burma teak winding down means massive opportunity for Lat Am teak.
- **MAI** assumptions of 30, 45 or 60 cbm.
- **Shortage of wood** in the world. Tropical - Yes / Temperate - No
- World **teak market is huge**. Pine or Eucalyptus kinds?
- Massive **China consumption of teak is** just around the corner
- **Direct sales channel from plantation owner to final customer is the solution**  
In a fragmented buying & selling environment this is difficult. Large ones?

Missing understanding of how traders offer logistics, marketing and liquidity support. They also cover default risk, currency risk, price movement risk and liquidity risk. **Trading space is highly competitive. 5-7% Net Margins.**

# Key Features of Lat Am Teak

- Medium Quality plantations because of 20 year growth cycle
- A **poor image** due to unreasonable returns logic – primarily high MAI led and/or Burma teak prices led. On top of that quite a few mismanaged tax savings, Govts grant and Small/Medium holder plantations accentuated the image issue
- However **there are well planned commercially viable plantations also**
- Retail investors out of the game since long. Serious investors like TIMOs, University Endowments, Pension Funds in the play since early 2000s
- **350,000 hectares** planted area in Lat Am. 80-85 percent 1995-2008 plantings
  - LARGE** – Ecuador, Brazil, Panama
  - MEDIUM** – Costa Rica, **Mexico**, Colombia (?)
  - SMALL** – Guatemala, **Nicaragua**, Trinidad/Tobago, El Salvador, Venezuela

# Lat Am Teak Uses & Markets

- Medium quality means significantly lower prices compared to natural teak or long growth cycle plantation teak
- Usage is not high end ship building, high quality furniture or high end decorative purposes. **It is 80% door frames in Indian middle class homes**
- Other uses are medium quality indoor & outdoor furniture. A very small percentage on flooring and other decorative uses
- The traded plantation teak market worldwide is only around 1.25 million geometric cbm valued at US\$400m p.a. Of this, Lat Am is 0.75 million
- What Vietnam AND China import in a year is what India **imports every two weeks.** EU, US, Oceania do not even move the needle
- In effect, 95 percent of the plantation teak market is India

# India – Pictorial Representation

**Massive**  
1.25 Billion.  
2+ Trillion GDP

**Fragmented.**  
600 Customers  
across 7 ports

**Purchase**  
Spot. Credit  
Terms.

**Unreliable**  
Difficult  
Customers

**Complex.**  
Region wise  
preferences.

**Likely Growth**  
7-8 % GDP  
Growth Rate



# India's Teak Future

By 2030, India will be the world's 3<sup>rd</sup> Largest Economy. **Equal to Lat Am GDP**

There is a high correlation between GDP growth and Timber Usage growth

**Malaysian hardwoods 'owns' the India timber space.** On a shallow decline

Teak is no more than 15 percent of India's timber imports. **Headroom exists**

Eventually GDP led growth and replacement growth will both be seen.  
**India alone may not be big enough market for the world's teak**

# Short Term Risk Assessment

Lat Am Teak production today **is a fraction of capacity basis planted hectares**  
At maturity, 350k hectares, MAI of 10, means supply of 3.5 million cbm yearly

The market size is only 1.25 million cbm. Trouble is already visible in the **40-65 cm and clonal thinnings** segment. Late thinnings & final harvest are alright.

Very encouraging that India is moving towards Lat Am teak from Africa teak. However even if market size doubles for Lat Am from 0.75 million cbm yearly to 1.5million cbm yearly, **India is not going to be large enough.**

**Essentially the Market will see oversupply in significant segments**

# Medium to Long Term Risk Assessment

Uncertainty in the teak trade beyond India

Upside can come if the tropical trade in Asia is strangulated

Upside can come if FSC certified timbers gain traction. Today negligible

In Asia sustainability not sellable. Nanotech led 'modify pine to teak' risk

Recognize that the teak business is actually a medium risk investment

# Way forward for Lat Am Producers

**Recognize reality.** Reality different across girths, qualities and countries

Asia - if scale, create **own sales network** . If not, work with **quality traders**

Lat Am – Industry Collaboration/ Govt assistance for value added products

Sales is now a key business activity. Prepare ahead for a difficult marketplace

**Low cost & proactive producers will manage the short term and excel later**

# Three Key Takeaways

- Latin American teak is **what matters commercially** in the teak world. Teak market revenues worldwide are small at **US\$400 million per annum**
- Within that space, **India is literally the only market**. Short term, the India market is not big enough for segments of the upcoming supply. Medium to long term is a significant unknown
- Therefore, recognize that investment in Latin American teak **carries significant risks**. Teak producers need to think through and **prepare their strategy** well to ensure a robust future



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**Thank You**