



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

SCANDINAVIAN FOREST ECONOMICS
No. 41, 2006



Proceedings
of the Biennial Meeting of the
Scandinavian Society of Forest Economics
Uppsala, Sweden, 8th-11th May, 2006

Lars Lönnstedt and Björn Rosenquist (eds.)

Uppsala

The scramble for cash: access and access mechanisms to income from a commercial NTFP

Anders Jensen

Abstract

Based on a case study on agarwood and *Aquilaria* spp. in Lao P.D.R., NTFP commercialisation is analyzed through its effect on income distribution, and with a specific objective to trace out mechanisms by which different economic agents along the commodity chain, that is in harvesting, trade, wholesalers and export, get access to income flows, and mechanisms by which they control and maintain their access. Various de jure and de facto mechanisms are identified, of which technical skills, market access, relations and credentials with state officials, political and administrative networks, social and family relations and *carte blanche* harvesting permits stand out.

Key words: Eaglewood, commodity chain, income distribution, South-east Asia

Introduction

Non-timber forest products (NTFPs) entering the global commodity chain become captivating in a development frame of reference. NTFP commercialisation figures prominently in discussions over the faith of tropical forests and is hedged in by a call to increase economic value of the resource and significantly contributing to rural livelihoods and serving as an augmented incentive for conservation. It builds on the recognition of NTFPs contributing to the livelihoods and welfare of forest dependent people (Arnold & Perez 2001, Gram 2001, Belcher 2005) and local people's incentive in preserving the resource (Salafsky & Wollenberg 2000).

Poor people rely on NTFP resources as means of subsistence while rich people are in a better position to exploit NTFPs commercially (Cavendish 2000, Warner 2000, Arnold & Perez 2001, Belcher and Kusters 2004). It seems almost to be a generic aspect of NTFP commercialization that poor people have little or no access to skills, technology or capital necessary to be able to fully benefit from opportunities presented by markets (Arnold & Perez 2001, Angelsen & Wunder 2003). Other factors may also explain why poor people may not be the winners of commercialisation, and importantly the observation of markets and market relations being embedded in a wider context of social rules, values and systems of power and authority (Granovetter 1992; Harriss-White 1996; Platteau 1994, Stuart & Johnson 2004)

The overall objective of the study is to analyze income distribution aspects of NTFP commercialisation and the market and non-market mechanisms by which income differentiations are shaped. The conceptual and analytical framework rests on Ribot's (1998) concept of 'access' and his study on the charcoal commodity chain in Senegal and the concept of 'bundles of power' by Ribot & Peluso (2003) as a contrast to 'bundles of rights' by (Schager & Ostrom 1992) and further inspired by He's (2004) study of the matsutake mushroom commercialization in Southern China.

Central to the analysis is access by economic agents to benefits in the commodity chain, i.e. income from agarwood. There are two types 1) access to resources, which is the classical notion of property, and 2) access to benefit, which is the ability to benefit from things, and may encompass market access, labour access, access to capital, access to social relations, access to knowledge and access to resources, i.e. agarwood. The analysis is thus directed towards mapping of differentiated agents' access along the commodity chain to key

points of economic power, and to analyze who benefits and how, and to eventually determine the dynamic aspects of access, access control and maintenance.

The analysis is based on the agarwood commodity chain in Lao P.D.R. (hereafter Laos), one of the poorest yet natural resource rich countries in Asia, and a socialist, one-party regime. Agarwood is regarded as one of the world's most valuable NTFPs, and develops in some trees of *Aquilaria* spp. as a chemical barrier to wounding, normally only one tree out of ten forms agarwood. The wood is fragrant and highly resinous with brown and black colours, and is either traded as 'mai dii' (good wood) or agarwood oil extracted from 'mai khilai' (bad wood) or 'mai phaktoo' (wood from stumps) with a price range started at 0.3 USD/kg for the cheapest 'mai phaktoo' to over 5,000 USD/kg for the best qualities of 'mai dii'. Agarwood trade was introduced in Laos at the end of the Second Indochina War in 1975 by Vietnamese war veterans and Thai merchants. In 2004, the estimated total export value is 14 mill. USD.

An unique data platform was built up from February 2003 to March 2005 by open-ended interviews and standardized and semi-structured questionnaire. It includes national harvest and trade survey with 103 harvesting group leaders, 73 agents and traders and all 45 wholesalers as respondents, an international market survey in Bangkok, Singapore and Dubai and interviews with key-informants: national-level traders and govt. officials, and a survey in all 18 provinces and visits to 22 districts and 50 villages, and discussions with state officials at national level. Data collection has benefited greatly from the author's knowledge of the Lao language and culture and working experience within the forestry sector in Laos. Most important to the observations and findings presented in this article, have been made during casual and informal discussions, often after interviews.

1. Harvesters

Detection of trees requires both intimate ecological knowledge and vast experience. Local use of *Aquilaria* spp. is limited, and no common pool of knowledge has been built up to draw upon by local people, and has to be acquired by cumulative trial-and-error learning. Many of the populations now harvested, have previously been searched by non-local, experienced harvesters. Many of the commercially valuable trees have already been removed and local people are disadvantaged both in terms of being able to acquire knowledge and experience and in income opportunities, and hence harvesting is characterized by a marked income differentiation.

Villagers who harvest in forests within village boundary or in adjacent forests, notably conservation forests, are by far the largest group (approx. 10,000 people in 2004), and have the lowest annual income among the three groups of harvesters, which further includes professional harvesters from Lao and harvesters from Vietnam. Villagers are not in the position and lack resources to effectively monitor and control often large areas of natural forests in which the exact location of agarwood forming trees is not known. Exclusion of outsiders is limited to harvesting of bulk products: 'mai phaktoo' and wildlings, and some kind of collective action exists for the harvest of these products and initiated by the village headman. Not involved in the process of annual quota setting, economic benefit is confined to these products and to nominal village fees, a kind of entrance fee to village forests and gives right to harvest commercial NTFPs in general, and official fees paid by traders and agents when buying wood, though the volumes and qualities are routinely understated.

Though secured under the present Forest Law, customary rights to commercial NTFPs do not operate *per-se*. Harvesting rights are granted to villagers contingent on licenses, permits, quotas, etc. obtained by a processing industry (a wholesaler) and any harvesting without a processing industry is in principle illegal. Villagers are therefore by a *de jure* mechanism tied to a wholesaler, who will try to purchase all wood within the area under his license, and at prices much below market prices. However, this monopsony is rarely

effective, at least not to experienced harvesters with better market access than villagers. Villagers realize and acknowledge that they lack both market access and technical skills but object to exclusion from lucrative production and trade.

Professional harvesters from Laos (approx. 1,000 – 2,500), dignified for their technical skills as ‘visakaans’ (technicians), gain access and withdrawal rights on a de jure basis through harvesting permits to National Production Forests. These permits are legally under a wholesaler’s license and professional harvesters are thus in a mutual state of dependence. However, the loyalty of visakaans goes with the cash, and the monopsonic condition prevails only in part.

Harvesting habitually takes place outside of NPFs, i.e. in conservation forests. Restrictions on length of harvesting trips (normally 30 days) and season (no harvesting in the rainy season), are observed as they are easier controlled than harvesters whereabouts. Contact to villagers is frequent as professional harvesters often go back to forest areas which they searched incompletely, and are dependent on a good rapport with village chiefs for guidance and purchase of food stuffs. Contrary to Vietnamese harvesters, professional harvesters do pay village fees, and nurture good relations with village headmen, often along ethnic and linguistic lines. For these reasons, professional harvesters will limit themselves to a few provinces whereas Vietnamese harvesters are mobile throughout the country.

Ethnic Vietnamese harvesters (approx. 500) have no de facto entry barriers and are furthermore renowned for their abilities and shrewdness, and high income from agarwood. Their access and withdrawal rights are sheltered under extra-legal de facto mechanisms not only to agarwood resources but also to other commercial NTFPs and understandable only by the special relationship between Laos and Vietnam. Attempts by provincial and district authorities to restrict access are not effective, and Vietnamese harvesters possess a *carte blanche* permit with no restrictions on length of harvesting trips, season and location.

Vietnamese harvesters avoid contact with villages except for purchase of rice and other consumables and when hiring local guides, who only are paid in case of detection of trees. With no ties to wholesalers in Laos and with international market access to Vietnam, most of their harvest is channelled out of Laos. However, prices for ‘mai dii’, the sole product of interest to Vietnamese, are higher in Laos than in Vietnam but Lao traders, agents and wholesalers avoid trading because earlier encounters involving dishonest tricks and cheating.

2. Traders and agents

Traders and agents (in total 500 – 1,000) are positioned as intermediaries between harvesting and wholesale and with main functions in trade of all products and processing of ‘mai dii’. By far the largest profit margins potential lies in the trade and processing of ‘mai dii’ whereas ‘mai khilai’ and ‘mai phaktoo’ require bulk and transport. Trading in ‘mai dii’ is delicate and demanding skills in grading of wood and a substantial capital facility, and many traders and agents have experienced grand losses.

Locations for trading are at factory gates, trading offices in district capitals, in villages when traders/agents go on purchase trips and sometimes stay for prolonged periods to wait for harvesters coming back from the forest, often the case of newly opened areas for harvesting. At all these locations, good rapport with village headman, district governors, state officials, etc. is of decisive importance, as any unresolved conflict, voiced mistune and unfavourable comments will inflict negatively on the status of traders and agents. In this respect, traders/agents with ethnic and linguistic affinities have a distinct advantage. Unofficial payments to officials are seen but payments are often towards charity and traditional ways of doing business. For instance, any wood purchase is sealed with a small

hospitable party paid by traders/agents, something that Indian agents because of their Muslim faith find difficult.

Agents' activities are sheltered under a wholesaler's license - either they are employed by a wholesaler, which is the case for Indian wholesalers or attached to one wholesaler to which most of the traded wood goes to, not necessarily the most valuable. Traders work independently, and are either general NTFP traders with a portion of their business in agarwood or agarwood traders with no ties to one wholesaler and often with access to international markets, i.e. Vietnamese agents with status as *carte blanche* economic agents, similar to that of Vietnamese harvesters. NTFP traders mainly make income through transport provision. A large group of traders exist at local level, village traders, and not included in this analysis. The only function is to store 'mai khilai' and 'mai phaktoo' from villagers harvesting in own areas, an activity that will only last for 2 – 3 years.

Trade in agarwood is largely an unregulated domain in that few policies directly touch on this part of the commodity chain. Regulations applicable are part of the wholesalers license and include trade permits and transfer fee payable for transport of wood between provinces, and fees to villages for buying wood. Unsanctioned, random checks by police and forest officials are common except for Vietnamese agents, and those without patronage from wholesalers and state officials risk losing income to pay-offs – even if they are working perfectly within the bonds of the law. Most of the agents and wholesalers come from Pakkading District (see further in section on wholesalers) and here these pay-offs are paid routinely standardized to an amount equivalent to the amount requested for minor traffic offences. Viewed as negligible and therefore paid routinely to wind off further questions.

3. Wholesale

Wholesalers are the 'Lords of the Scent' and have dominant position in agarwood business. Wholesaler is an umbrella term used for other terms which could be used interchangeably: merchants, factory owners and national-level traders. They gain control over access to agarwood resources, processing and distribution by various *de jure* and *de facto* mechanisms and maintain and control their position by technical skills and expanded market access as well as management of cash flow. There are two groups: in numbers dominate approx. 40 Lao wholesalers where as 4 Indian wholesalers work through joint ventures largely along the same mechanisms as Lao wholesalers. Indian companies are branches of the largest companies in Dubai, the global agarwood centre.

By far the largest number of Lao wholesalers, >20, is located in Pakkading District, Bolikhamsai Province, and most of the other wholesalers in other provinces are somehow related to these wholesalers through family and social relations. Often these wholesalers are women whose husbands or other close relatives work in the government and/or are influential party members. New factories are started by already established wholesalers, family members or by former employees, who maintain close business connections with their former bosses and receive loans and advances and supply wood in interlocking arrangements. Outsiders to the Pakkading clans need to gradually build up social ties with state officials, and in general, have to shell out higher unofficial payments.

Two other groups also exist: 3 to 4 Vietnamese traders getting a quota with no processing units and access under an aforementioned *carte blanche* permit, and illegal factories along the Myanmar border (approx. 10) run by Lao wholesalers with no legal permits. Their access is through cover from forestry officials based on credentials and relations and political and administrative network established during times with legal papers. It shows that these networks and relations exist and an investment in these may be of value to other business ventures too.

To legally operate as wholesaler requires an array of licenses, permits are required and in principle, also an annual quota, though this is not a strict requirement. These papers are obtained through administrative procedure, and has a time horizon of 8 to 10 months, and give the right to trade in and processing agarwood, and furthermore, to buy firewood and to employ people. Little or no profit is actually made from agarwood oil. Distillation continues to keep business going and to gain legal access to 'mai dii' on which profits can be made.

Only one company has the right to export unprocessed wood, i.e. 'mai dii', other companies are forced to export 'mai dii' illegally or not to export at all, what most Lao wholesalers do. This was gained not by unofficial and official payments but by political tomtoming and reasoning of rural development, so rational arguments do occasionally gain weight.

Investment licenses are issued for a 5 to 10 year period and under controlled by the province governor. Quotas are negotiated on an annual basis and are not based on inventory data and local people have no vote. Quotas are, if availed, only a measure to determine payments to the government, not reflection of resource status and management objectives. While the official payments for investment license and quota is a scant reflection of economic potential resource, the handsome, unofficial payments are, often jumped up by secretive bidding between competing wholesalers.

Trade between wholesalers is striking and a few wholesalers have gained a significant position for volume of oil and wood traded. Within the tightly knit network of Lao wholesalers, any adulteration of oils and other malpractices are frowned upon. Since pure oil is a rarity on international markets and most of the oil is bought by Indian wholesalers for export, a competitive advantage is actually handed out free of charge. Surprisingly, there seems to be no price collusion among Indian wholesalers, which would have added to their advantages, and in contrast to Lao wholesalers, there is no network among the Indians.

Conclusion

This study has provided material evidence to a theory on access and access mechanisms of commodity chains based on framework provided by Ribot (1998) and Peluso and Ribot (2003). Much of agarwood commodity chain in Laos is left in a legal limbo as key points of economic power, notably trade, are unregulated and state officials conspicuously fail to monitor and assess the status of harvesting, trade, processing and export and to provide adequate measures. On the other hand, state officials do accept routine and discretionary payment to fulfil private objectives of agents, traders and wholesalers. Circumvention of laws and policies and allocation of permits, licenses, quotas, etc. and exemption from legal inflictions, are thus not at all random but run along specific lines. Not all favours are honoured by cash payments, however, and many non-market exchanges do operate. These access mechanisms occur based on socio-geographic identity (linguistic and ethnic similarities), relations and credentials with state officials through kinship and social ties, establishment and investment in political and administrative networks and mediating roles and functions that especially wholesalers take on. Vietnamese harvesters and traders have a special status in Laos and a *carte blanche* permit to their activities. Of the market based mechanisms, technical skills in processing and grading are prominent and a distinct entry barrier, and furthermore provision of financial facilities and international market access are furthermore explaining income differentiation in both vertical and horizontal directions.

References

Angelsen, A. and Wunder, S. (2001) Exploring the forest-poverty link: key concepts, issues and research implications. CIFOR Occasional Paper No. 40. Center for International Forestry Research, Jakarta, Indonesia.

- Arnold, J.E.M. and Perez, M.R. (2001) Analysis: can non-timber forest products match tropical forest conservation and development objectives? *Ecological Economics* (39): 437-447.
- Belcher, B.M. (2005) Forest Products markets, forestry and poverty reduction. *International Forestry Review* (7): 82-89
- Belcher, B.M. and Kusters, K. (2004) Non-timber forest products commercialisation: development and conservation lessons. In: K. Kusters and B.M. Belcher (eds.): *Forest Products, Livelihoods and Conservation: case studies of non-timber forest product systems*. Center for International Forestry Research, Jakarta, Indonesia. 1-22.
- Cavendish, W. (2000) Empirical regularities in the poverty-environment relationship of rural households: evidence from Zimbabwe. *World Development* (28):1979-2003
- Gram, S. (2001) Economic valuation of special forest products: an assessment of methodological shortcomings. *Ecological Economics* (36): 109-117
- Granovetter, M. (1992) Economic action and social structure: the problem of embeddedness. In: Granovetter and Swedberg (eds.): *The Sociology of EconomicLife*. Boulder: Westview Press.
- Harriss-White, B. (1996) Free market romanticism in an era of deregulation. *Oxford Development Studies* (24) 1:27-45
- He, Jun (2004) Globalized Forest-Products: Commodification of Matsutake Mushroom in Tibetan Villages Yunnan Province, Southwest China. Presented at "The Commons in an Age of Global Transition: Challenges, Risks and Opportunities," the Tenth Conference of the International Association for the Study of Common Property, Oaxaca, Mexico, August 9-13.
- Platteau, J.-P. (1994) Behind the market stage where real societies exist – part I: the role of public and private order institutions. *Journal of Development Studies* 30 (3):533-77.
- Ribot, J.C. (1998) Theorizing access: forest profits along Senegal's charcoal commodity chain. *Development and Change* (29): 307-341
- Ribot, J.C. and Peluso, N. (2003) A theory of access. *Rural Sociology* (68): 153-181.
- Salafsky, N. and Wollenberg, E. (2000) Linking livelihoods and conservation: a conceptual framework and scale for assessing the integration of human needs and biodiversity. *World Development* (28) 8 pp.1421-1438
- Schlager, E. and Ostrom, E. (1992), Property-Rights Regimes and Natural Resources: A Conceptual Analysis, *Land Economics*, 68: 249-262.
- Start, D. and Johnson, C. (2004) Livelihood options? The political economy of access, opportunity and diversification. Working Paper 223, Overseas Development Institute, London, UK.
- Warner, K. (2000) Forestry and sustainable livelihoods. *Unasylva* (51): 3-12