Chapter Eight

SUGGESTIONS FOR MAKING AUCTIONS MORE EFFICIENT

We have concluded in the last chapter that the auctions of wood at sales depots are the best available mechanism of marketing wood products in Indian forestry system. We also noted some of the deficiencies of auctions. In a publicly owned forestry system forest managers are required to follow the state's policies and many other considerations. Public accountability and impartiality are of prime importance in dealing with public property. Auctions help maintain both.

Auctions can be made more effective than today. Some suggestions are made here to better both operational and pricing efficiencies in the auction. Further research in this sphere is necessary and a few relevant topics are indicated at the end of this chapter.

Improving Operational Efficiency of Auctions:

Operational efficiency in forestry concerns achievement of minimum cost in accomplishment of basic marketing functions of felling, assembly, processing, transportation, storage, distribution and facilitating activities. Executing timely operations, maintaining cost effectiveness and a degree of personal involvement on the part of operators, are important.
It is, therefore, suggested that following actions may help improve the auctions operationally.

a) All the activities like felling, assembly, etc should be handled as independent Responsibility Centres. Each activity should be aimed to become self-sustaining and pay for itself. Cost/Benefit analysis should guide such activities.

b) Forests are going farther away from markets. It is therefore necessary to bring wood nearer to the customers. More number of sales depots should be opened, particularly in forest-poor areas. In the choice of location for sales depots, techniques like Transportation Model could be useful.

c) Impending shortage of fuels and rising costs of transportation should be considered while choosing locations and mode of transport. Transportation accounts for a major share of expenses in timber handling. Experience in Maharashtra indicates that, if the roads are good and facilities for banking, boarding and lodging are provided, buyers do not mind attending sales at interior places.

d) Auctions should be more frequent than at present.

e) Auctions should be synchronized with the other auctions in the Department, FDCM, FLCS, of the State and with sales in the neighbouring states in a region. Many auctions occur simultaneously today. Most of the buyers are common in a regional market. States could fix certain months for their auctions.
f) Quantity offered in auctions should not vary beyond reasonable margins. Department and other government agencies could publish the data on location of fellings, and approximate quantities well in advance of auctions. This will ensure better response from buyers and lessen uncertainty in the market.

g) In case of special fellings, such as for river valley projects, normal working should be deferred. Wood not cut is not deteriorated in a short period of one or two years. But glut in the market harms everyone concerned.

h) Lot sizes in auctions should be smaller. They cater to smaller buyers and increase competition and enhance the prices.

i) Certain species of wood have special demands. Such wood should be separately sold to specific buyers, instead of mixing it with main sales. Such wood otherwise gets cornered by some traders. Government and the ultimate user both suffer at hands of timber merchants.

j) All measurements and grading rules should be standardized at least for a region. They help in building up buyers' confidence and reduce unfair trade practices. Most of the buyers are concerned more about the quality and quantity than price.

k) Instead of publishing sale-lists at short notices a regular monthly bulletin can be published by the Department. Better still would be if all the states and their PDCs in a region join together in such a publication. Such bulletin should inform about coming sales, quantities, current market prices, expert's opinions on quality of wood, etc.
1) Deferred payments for the sold material are presently allowed. Experience in Nara Depot of Maharashtra and Sales Depot of MP at Delhi proves that a short period of 10 days is accepted by buyers. It is the timber traders who clamour for all possible concessions. Genuine buyer is always ready to pay for his needs.

m) Industries should be charged market prices for the raw material supplied to them. It will help stop the flow of wood from auctions to industries through traders and release more wood for public use.

n) A consortium of states situated in the same region could be an effective step in marketing wood. Today individual states compete against each other. Commodity Log Markets as suggested by some writers in USA may not be feasible in India. But regional consortia can work. For example, Eastern Maharashtra, Madhya Pradesh, Andhra Pradesh and Orissa are located on the Deccan Plateau and produce similar woods like Teak, Ain, Haldu, Kalam, Semal, etc. They could join together to regulate supplies and for timing of sales. They can jointly bargain for quotas of diesel for trucks and with railways, for wagons.

c) Sale of standing trees to contractors should be completely stopped.

Improving Pricing Efficiency of Auction:

Assurance of adequate and fair returns from the sale of the forest products is essential for continued forestry practice. Major share of the forest department's revenue is realized through auctions of its timber and firewood. It
is therefore necessary that the pricing in the department is equally efficient. Following suggestions may help to make the pricing mechanism more efficient.

i) At present the Upset Price of the timber and other wood in the sale depot is determined from the average of previous three auctions. Same is the basis for preparing scheduled rates. A more rational way of pricing of timber logs in the Delhi Sales Depot was seen. The price for the wood offered should recover all the costs incurred and provide for a fair margin of profit. It should also have a relation to current market price. Such markets could be local and also in neighbourhood of other depots. Prices of agricultural commodities are announced on All India Radio daily. Prices for forest produce are not even mentioned anywhere, not even in local newspapers. The suggestion of a Regional Forest Bulletin will help fill in this lacuna.

ii) Accurate price reporting needs good judgement about prices for each quality type and volume distribution according to quality. A standard classification system and uniform grading procedure, as adopted in Maharashtra, eliminates much of subjective judgement. It also increases precision of price formation process through better knowledge.

iii) Prices should also be fixed in relation to demand, utility, and relative price of other materials which are complimentary to timber in their use.
iv) Departmental prices also should reflect the seasonal demand variations. A constant monitoring of timber markets and interchange of information in various sales depots of the state, and of different states in a region will be necessary for this purpose. Practice of despatching sale results by post, many days after sales, serves very limited purpose.

v) There is an opinion today in forestry that India should export wood. There is such a wide gap between domestic demand and production that there is no reason why timber should be exported. There is also no dearth of foreign exchange at present. Government has therefore banned export of timber in round form. Processed wood and finished goods, like Completely Knocked Down (CKD) furniture, should be exported if internal demands can be met before. Export of such items today has boosted prices of certain timbers like Fir, Rosewood and Teak many times than before in the domestic market.

vi) Industries should pay for raw materials from forests at market prices. Department should also explore bulk supplies to certain industries directly.

vii) Quantities put to sale should be publicized well in advance. Wide fluctuations in quantities in different sales should be avoided. Department can hold excess cuts till rainy season when there is demand. If the Department can feel the pulse of the market it should be free to act accordingly, by adjusting its sales. This is possible only through the building up of an efficient Marketing Information System in the Department.
viii) Auctioning Officers should have authority to sanction sales on the spot instead of reference to competent authorities as done today. Competent authority should attend sales if need be. More confidence should be reposed on auctioning authorities. There are already sufficient safeguards built up in the procedures for fair play.

Scope for further research:

Forestry in general and forestry marketing in particular is a challenging field for the management experts. It is almost a virgin area for them. This work touches but only a single aspect in forestry marketing, by studying auctions. Many questions need looking into for making better judgements on auctions. Attempts have been made here to find some answers and they do indicate certain relationships manifested by timber auctions. However, more research is called for to establish such relationships by conclusive evidence. Some important relationships which need support of more research are:

i) timber prices and various wood attributes;
ii) market prices and auction prices;
iii) amount of subsidies enjoyed by traders due to government auctions;
iv) appropriate allocation of wood for the best alternative use;
v) role of auctions in such allocation;
vi) management of distribution channels in timber trade;

Convincing evidence would help the government as a seller to make auctions more effective from the point of view of both the seller and the buyer.