The Rubber Market Situation

By M. Nadarajah

Sri Lanka's RSS and Latex Crepe can both get good prices if the presentation and marketing of these rubbers is improved. A rehabilitation of Sri Lanka's rubber industry will also require a planned approach at Governmental level for manufacture of rubber based products and for providing central processing facilities to the private sector, particularly small holders; maintains M. Nadarajah, an FPRI and FI Chem. (Ceylon), who was for several years a senior officer of Sri Lanka's Rubber Research Institute and is now a Marketing Consultant to the rubber industry and trade.

Natural rubber (hevea brasiliensis) has been in existence in Sri Lanka for the last hundred years. It is of vital significance to the three major plantation districts of Kegalle, Kalutara and Ratnapura; it accounts for about 15 per cent of Sri Lanka's export earnings; and provides employment for about 500,000 persons engaged in all aspects of the industry. The future rapid expansion of rubber production in Sri Lanka is limited as there is lack of suitable new land for planting with Hevea brasiliensis; due to neglect of replanting the yearly production may drop to even as low as 100,000 tonnes per year in 1986 from the present 130,000 tonnes and for the continued prosperity of the rubber industry, the years of neglected replanting must be caught up. Whilst there is no suitable land for new rubber planting in the wet zone to grow Hevea Brasiliensis there may be suitable arid areas in the North and East of Sri Lanka to plant guayule which is also a source of natural rubber. Guayule is a shrub native to the deserts of Mexico and Texas USA and steps are being taken by these two countries to commercially exploit this shrub as a source of natural rubber.

Though natural rubber is important to Sri Lanka as regards employment and foreign exchange earnings, it is comparatively a very small producer of rubber. In 1980 Sri Lanka produced about 133,000 tonnes of natural rubber with a world consumption of natural rubber of about 3,850,000 tonnes and a total natural and synthetic rubber consumption of about 12,450,000 tonnes. Thus Sri Lanka production is about one per cent of world rubber consumption.

When considering the marketing of even this small amount of rubber, it is necessary that the highest market value be obtained for the rubber produced. Today, Sri Lankan rubber is sold and not marketed. The difference between selling and marketing is that selling focusses on the needs of the seller and marketing on the needs of buyer. As long as NR is in short supply it can be easily sold but if there is a difficulty in selling and getting fair prices, then it must be marketed. Synthetic rubber (SR) production which has grown during the last 40 years from nil to a yearly consumption of nine million tonnes owes its success to its modern methods of marketing Whilst SR is marketed as an industrial raw material and sold direct to its consumers through a technical salesman, NR is traded in a manner similar to most agricultural primary commodities. Only Malaysia of all the natural rubber producers have made some effort at natural rubber marketing. Thus though NR is superior to SR in many respects, this has not been sufficiently impressed on consumers and this is one of the reasons for the depressed NR prices. Further, the demand of consumers is increasing year by year as far as the quality of NR is concerned. The main reason is that simple finished goods which are easy to manufacture are being produced in the developing countries and also in the NR producing countries where wages are low and only the very complicated compounds are being processed in developed countries, and this means that the raw materials must have a high quality standard. A type of NR in demand is the constant viscosity type and Sri Lanka should endeavour to produce and market this special rubber by the addition of a viscosity stabiliser and if necessary a peptising agent.

Table 1 gives the types of NR produced in Sri Lanka in 1979 and 1980.

TABLE 1 TYPES OF NR IN TONNES PRODUCED IN SRI LANKA

Type of Rubber	*Year* 1979	1980
RSS	81,800	72,400
Latex Crepe	36,300	31,800
Scrape Crepe	15,500	13,400
Sole crepe	4,800	4,300
Latex	1,100	1,500
Technically specified rubber (TSR)	13,200	9,700
Total	152,700	133,100

RSS

It will be seen that RSS is a major rubber produced in Sri Lanka. From 1952 upto very recently the export RSS 1, 2 and 3 was the monopoly of the Sri Lankan Government and nearly all of it was sold on a barter agreement to China at prices higher than those obtaining in the open market. This price was passed down by the Government to the small holder and this has had a stagnant effect on the rubber processing industry in Sri Lanka in that it severely limited efforts to divert small holders latex to other types of specialised rubbers such as centrifuged latex, latex crepe and technically specified rubbers. Thus Dunlops Limited who had a centrifuging plant in Sri Lanka and were exporting 5,000 tonnes of rubber as centrifuged latex closed their plant in 1957. Further the State Rubber Manufacturing Corporation who were manufacturing a technically specified rubber SLR5L from small holders latex had to be given a duty rebate to be viable.

Now RSS 1, 2 and 3 can be exported by the private trade but finding markets takes time. It has been the practice for the last 30 years not to press the RSS during baling as this was a requirement by the Sri Lankan Government to facilitate easy inspection of rubber being shipped to China, by surveyors of the Commissioner of Commodity Purchase. However, if the RSS is not adequately pressed during baling 1) the bales get out of shape and are difficult to handle 2) moist air can get into the rubber sheets

and cause the formation of mould. If RSS is to be exported in the open market, it will have to be well pressed. Very few shippers have at present the necessary presses or experience in pressing. This problem of improved pressing must be solved without delay. Otherwise it will not be possible to improve the image of the Sri Lankan RSS quality overseas. Consumers require well pressed RSS bales free from mould.

LATEX CREPE

Sri Lanka is the world's largest producer of thick latex crepe. The reason for Sri Lanka producing thick rather than thin crepe is that packing is not done by the producer but by the shipper and this delay in packing is more liable to cause mould growth in thin crepe than in thick crepe, and mould is a very serious defect in latex crepe. If thin crepe is to be exported, then a fraction must be removed and hot air drying to give improved mould resistance to the thin crepe.

Malaysia also produces latex crepe, but after 1970, has been agressively promoting the technically specified rubber SMRL as a competitor to latex crepe. We have done nothing to counter this competition and if this goes on Sri Lankan latex crepe will suffer a natural death. At present marketing of Sri Lankan latex crepe is only on colour and not on technological properties and in future technological marketing will also be needed. Sri Lanka should produce latex crepe grades superior to SMRL not only in colour but also in technological properties and advertise and market these grades to the consumer. In the case of SMRL it is not possible to take a fraction, whilst this is possible with latex crepe. Hence a policy decision should be taken to produce almost all Sri Lankan latex crepe after taking a fraction. This was advocated by me as far back as 1971, but it has still not received the attention it deserves. There would be two grades marketed. They are

A) a fraction taken and no bleaching agent used
B) a fraction taken and a bleaching agent used

Grade A would be the purest form of natural rubber with no toxic chemicals in it and would be used to manufacture rubber products for surgical and pharmaceutical use. An important use of latex crepe is to make remilled sole crepe and either grade A or grade B could be used for this purpose.

Since Sri Lanka is the world's main producer of latex crepe, forward sales for at least one year should be permitted for latex crepe rather than the six months permitted at present.

It is necessary to point out that the use of boric acid as a secondary preservative in the manufacture of L can cause serious problems to the consumer which problems are not-encountered if latex crepe. Sufficient market promotion has not been done as yet by Sri Lanka to highlight this superiority.

SOLE CREPE

Though sole crepe production originated in Sri Lanka, Malaysia is the world's biggest producer of sole crepe with a production of 20.000 tonnes per year. Sri Lanka produces about 5,000 tonnes of sole crepe per year and remilled sole crepe at about 22,000 tonnes per year were manufactured in Italy-USA and Western Europe, using as the principal raw material Sri Lankan latex crepe. The quality of remilled sole crepe is inferior to top quality plantation sole crepe. and consumer reaction has resulted in there being a reduced demand for remilled sole crepe. This reduction of an important demand for Sri Lankan latex crepe is a reason for the inadequate prices fetched at present for our latex crepe. A remedy would be to produce top quality plantation sole crepe to meet world demand rather than exporting our latex crepe for conversion to an inferior remilled sole crepe.

The production of sole crepe in Malaysia is expected to show a steady decline due to serious shortages of labour in that country, as sole crepe manufacture is labour intensive. Sole crepe can be considered a product and there is no other rubber product which uses as much labour as sole crepe. Hence the Sri Lankan Government should seriously consider giving some of the incentives offered for rubber products to any private industrialist who wishes to make sole crepe using crepe laces with a fraction removed as the ras material. The incentives suggested are investment relief and a tax holiday.

Further, since sole crepe is a product used in footwear in temperate countries. and having no other use, it should only be produced on forward orders. At present only forward sales for a period of six months are allowed. However to promote increased sole production in Sri Lanka, forward sales for a period of two years should be permitted.

The importance of technological market promotion of sole crepe and of latex crepe was highlighted at the Centenary International Rubber Conference held in Sri Lanka as far back as 1976. Sales promotion means advertising our product in a systematic manner and the after sales service will ensure that our customers will stay with us and will also speak about the service we provide, which makes the use of our product so easy. However there has been a serious lack of significant technological promotion of Sri Lankan rubbers.

TECHNICALLY SPECIFIED RUBBERS

Sri Lanka produced in 1980 about 13,000 tonnes of scrap crepe and a fair amount of RSS 4 and 5. These can be blended and converted to technical specified rubbers of the SLR 10 or SLR 20 to give a higher value and a better product rather than exporting them as scrape crepe on low grade RSS. This should be possible as licenses have been recently granted by the Sri Lankan Government to eight additional block rubber factories thus enabling more than 50,000 tonnes of TSR to be produced in Sri Lanka. The production of TSR in 1980 was about 10,000 tonnes.

SMALL HOLDERS' RUBBER...

About 67 per cent of rubber land in Sri Lanka is owned by small holders who produce about 50 per cent of Sri Lankan rubber. To enable them to produce high quality rubber, it is necessary to centralise their manufacture. The product could be as RSS, latex crepe, TSR (5L) or centrifuged latex. Some success has already been achieved in this respect.

In RSS manufacture. there are in Sri Lanka over hundred Group Processing Centres producing about 4,000 tonnes of high quality RSS using small holder latex. Some success has a lsobeen achieved in latex crepe manufacture using small holder latex. The SRMC manufactures about 1,500 tonnes of high quality latex crepe annually, several private sector factories are making high quality latex crepe and sole crepe, and organisations such as the SPC, JEDB and the BRISL are making some latex crepe. However. the total amount of such latex crepe produced would be about 3.000 tonnes per year. The SRMC also produces annually about 2,000 tonnes of SLRSL which is a TSR from small holder lated. The SRMC, Ceylon Co-operative Industries Union Ltd. and Gloweave Rubber Ltd. are manufacturing centrifuged latex using small holder latex and they use about 1,000 tonnes of rubber as latex. Thus central processing caters for only about 10,000 tonnes of small holders latex rubber, whilst the amount available is as high as 50.000 tonnes.

Hence, greater emphasis must continue to be given to the central processing of small holder latex rubber, price for the latex produced by him.

RELATIONSHIP BETWEEN RSSI PRICES AND PRICES OF OTHER GRADES OF RUBBERS

RSSI has always been adopted as the yardstick in trading natural rubber. The prices of the other rubbers are always influenced by the RSSI price but their degree of fluctuation is notably less than for RSS1. This is because RSS1 is the only grade used for hedging purposes and its price is called a 'paper" price as against a "physical" price.

In all major rubber markets, there exists "physical" and "futures" markets. In the physical market trading involves delivery of physical rubber. In the futures market, trading is not intended for the delivery of physical rubber but is done for hedging purposes against any risk of price fluctuations. This is called "paper" rubber. The rubber market is very sensitive to economic, monetary and political developments in the producing and consuming countries.

Prices of RSS 1 quoted by the Commissioner of Commodity Purchase based on the Singapore FOB market are nearly always higher than the CRTA price for RSS 1 in the Colombo market as the freight is not correctly computed. The Commissioner of Commodity Purchase is therefore not in a position to physically buy all the RSS 1 offered at the prices advertised by him.

CONCLUSION

In conclusion it can be stated that Sri Lanka is a producer of high quality rubber whether it is RSS, latex crepe or sole crepe.

a) There is still a world demand for RSS and Sri Lankan RSS can get the good prices it deserves if she improves the presentation and marketing of her RSS;

b) Sri Lanka is the world's largest producer of latex crepe but because of lack of market promotion its use is being superseded by the block rubber which can be considered an inferior product. With the necessary market promotion and improved presentation of our latex crepe in 331/3 Kg or 50 kg bales in block form good prices can be obtained for our latex crepe. Further its production can be easily stepped up in the existing crepe factories to cater for any increased demands;

c) A planned approach at Governmental level is necessary to step up the manufacture of products based on natural rubber for export. In this context it is necessary for the Sri Lankan Government to accept that sole crepe is also a finished product which suffers from high import duties from consuming countries and that its production in Sri Lanka should be actively encouraged;

d) Central processing facilities must be provided by the Sri Lankan Government and to some extent by the private sector, to the smallholders who produce about 50 per cent of Sri Lankan rubber. This could be done easily by the Government as nearly all the major raw rubber processing units in Sri Lanka are Government owned and come under the BRISL, SPC, JEDB and SRMC. These organisations have the necessary expertise and hence should play a key role in stepping up the quality of smallholders' rubber to enable small holders to get fair prices for their rubber.