

STATE SECTOR DEVELOPMENT STRATEGIES

by

* D. L. FERNANDO

I have been asked to present a paper today on the subject of State Sector Development Strategies. The strategy of JEDB vis-a-vis development of its rubber factories has been based solely on how rubber markets have preformed in the past. In other words we have been developing our rubber factories to continue to produce the rubbers that have generated good prices in the past. viz sole crepe and latex crepe. This is because those actively concerned in the rubber trade in production, exchange and export of these high quality rubbers as well as the State Authorities involved have been lulled into a sense of complacency that prices enjoyed in the past would continue to be maintained. No one bothered to undertake overseas market surveys to ascertain what the future is for these rubbers which are not produced to any appreciable extent except in Sri Lanka.

Between the addresses of Dr Sunil Fernando and Dr Senaka Perera, the Secretary General Mr Sepala Ilangakoon briefly referred to the apparent lack of market study and market promotion overseas for our Latex crepe rubbers. In my address I wish to focus specifically on this improtant aspect which has been virtually ignored in the past.

JEDB, as one of the two large producers, has for some years been concerned at this situation because the producers have been manufacturing sole crepe and latex crepe rubbers in the same old way for perhaps as much as 75 years, without bothering to find out what the consumers want. In this modern age, this must surely be the only commodity which is produced without any regard for coinsumers specifications. In fact, there has been no dialogue whatsoever between the producers and eventual consumers.

As far back as February 1983 I presented a paper at a Seminar held at the ARTI and organised by Dr O S Peries, former Director of the RRISL, on a market strategy for Rubber from the Producers point of view.

* The author is the Deputy Manager of JEDB.

At that time I warned that although it was accepted that Sri Lanka's latex crepe rubber was the best in the world we could not afford to be complacent and should do everything to safeguard the future for this commodity. To illustrate our lack of concern regarding marketing trends, it is pertinent to mention the example of the purchases by the Peoples' Republic of China which amounted to over 9,000 tons of latex crepe rubber per year in 1975 and 1976 or 25% of our total output, falling to 2,400 tons in 1977 and virtually nothing thereafter. No one at that time bothered to find out what had become of this major market and to this day I have not been able to obtain information in this regard.

On the other hand, if Sri Lanka had lost 25% of its Tea Market in the same manner, one can imagine the shock that this would cause and the action that would be immediately instituted in an endeavour to retrieve the situation.

Then again, the USA and the Western Europe were major buyers of latex crepe until the early 1970s when gradually we began to lose those markets without any action being taken to halt the trend. As for sole crepe, Malaysia was the largest producer until the early 1980s with 20,000 t per year or about 5 times Sri Lanka's output of this commodity. At that stage Malaysia gradually turned away from manufacturing sole crepe primarily because it is a labour intensive product and their high labour wages made the cost of its continued manufacture prohibitive. What has Sri Lanka done to fill the vacuum caused by the Malaysian withdrawal from the sole crepe market? The answer is absolutely nothing and in fact there appears to have since even been an erosion of a part of Sri Lanka's own already small sole crepe market.

1987 severely jolted our complacent attitude when, for virtually the whole year, latex crepe prices were lower than those for sheet rubber. This situation is obviously the culmination of warnings that have been expressed in recent years regarding the need to undertake an overseas market study for our latex crepe.

Even at this late stage Sri Lanka should study market prospects for sole crepe and latex crepe rubber and undertake market promotion of these grades among actual consuming countries such as the USSR, Western Europe, USA and Japan. Any market promotion team should include producers and a Rubber Technologist to ascertain consumers requirements in terms of technological properties. The first such overseas visit was undertaken in 1976 by Mr Vangelder, Mr S W Karunaratne and Mr L M M Dias (Snr) but did not include perhaps the most important person, the producer. Unfortunately, little note was taken of their report following this visit. The next rubber export promotion tour was undertaken in March 1983, to the European Economic Community countries co-ordinated by the Ministry of Trade.

At that time the JEDB tried very hard to be included in the team but we were told that producers were not required! In the event, the team comprising mainly of rubber exporters and led by Mr Cumranatunge of the Ministry of Trade visited the EEC countries; the producers and technologists were excluded. We producers are still waiting for their report 5 years later to see what information they gathered vis-a-vis market trends. This best illustrates the most unsatisfactory manner in which Sri Lanka treats the marketing of one of its primary commodities.

Even where International Rubber Marketing Conferences are concerned, the producers have been excluded right along until, quite by chance the JEDB & SLSPC became aware of the ANRPC/UNCTAD/ESCAP Rubber Marketing Workshop in Changmai, Thailand in February 1987. This was the very first overseas conference on Rubber Marketing ever attended by the JEDB and SLSPC. One very important aspect was spotlighted in our report thereafter was to question Sri Lanka's continued membership of the International Natural Rubber Agreement, in view of the fact that as much as Rs. 210 million had been spent on membership of the first agreement during the preceding 6 years. Even the Ministry concerned admitted that this large expenditure could be better utilized for product adaptation and development, processing, market research and marketing of natural rubber both by the State sector and the Private sector. In view of this obviously useful contribution made by JEDB and SLSPC following their attendance at the Thailand Conference in February 1987, we were assured that we would be given the opportunity of being exposed to more international thinking on the subject of rubber markets by attending further such meetings. However, despite this assurance we had received earlier, a delegation from a certain Ministry attended an IRSG meeting in Hamburg recently without intimation whatsoever to the JEDB and SLSPC. From persons who attended that meeting, we have heard various rumours that the future of the latex crepe market is in doubt. However, what we are concerned about is that we are not being given the opportunity, first-hand, of finding out for ourselves what lies in store for the primary rubber product manufactured by the SLSPC and JEDB. It is high time that the producers are brought into the picture in this regard, instead of only allowing officials from various Ministries to attend such International Rubber Conferences.

We have been seeking the assistance of the SLEDB to undertake an overseas Rubber Market survey for our latex crepe rubbers.

The EDB's Advisory Committee on Rubber and Rubber products Chaired by Mr Lance De Mel and including producers, brokers, exporters, technologists as well as industrialists in their final meeting on 12th February, 1987 strongly emphasised the need for the EDB to do something in regard to a rubber market survey. The EDB finally arranged for Dr Senaka Perera, Head of the Raw Rubber Development section of the RRISL to undertake a study of the sole crepe and latex crepe rubber industry in Sri Lanka and I was very happy indeed when his report came to hand just a few days ago. I have done a preliminary study of this report which I have found to be very interesting and it could prove to be extremely useful indeed if the EDB takes steps to implement Dr Perera's recommendations. However, in view of Sri Lanka's past performance in regard to protecting if not improving its markets for primary commodities I am not at all optimistic in this regard.

Assuming that Sri Lanka loses its markets for sole crepe and latex crepe rubbers what action should the JEDB and SLSPC which are the major producers, take regarding alternative products. Merely because, over the past year, smoked sheet prices have been better than for latex crepe rubber, we have been rehabilitating existing facilities for smoked sheet manufacture which have been neglected in the past. However, there has been traditionally only limited facilities say about 30 to 40% of total production. What, then, do we do? Are we to expand the facilities for smoked sheet production? In the long term, in this event, I am strongly of the view that we should consider manufacture of some of the balance latex into block rubber which will become increasingly in demand worldwide and particularly in Western Europe and the

USA to cater to the vast strides being taken by modern technology. The draw back in smoked sheet manufacture is that it is being undertaken on many scattered estates, each on a small scale.

It is therefore impossible to ensure that large quantities will have uniform quality whilst our traditional methods of packing RSS leave much to be desired insofar as discerning consumers would be concerned.

In such a case, if we could channel some of the balance latex into one large central block rubber factory for the manufacture of TSR rubber, large quantities of uniform quality rubber could be ensured, properly packed to suit the demands of sophisticated consumers. I have advocated that JEDB should have a block rubber factory which even if it is not processing latex can work at least one shift turning out block from fraction and scrap rubber which is over 10% of our production or about 2,000 t per year. In this connection it is important to bear in mind that the State already owns two large block rubber factories which are working under capacity owing to a shortage of raw materials. Our efforts to come to some arrangement for part ownership of one of these block rubber factories have come to no avail in the past. On the other hand the cost of establishing a new block rubber factory, which would be a capital intensive project, is prohibitive entailing the importing of costly machinery from abroad. This appears unwarranted in the light of the fact that the two state-owned block rubber factories have always been operating under-capacity. This is something that should be resolved by those in authority.

There is also the matter of centrifuged latex of which the JEDB has the capacity to produce upto 1,500 t per year or about 7 1/2% of its rubber output. We are presently catering mainly to three large industrialists manufacturing items such as rubber gloves, foam rubber mattresses and cushions, balloons, toys etc. We have been having discussions with one of the largest manufacturers in the world, of surgical and household rubber gloves who has been interested in establishing a plant in the FTZ. If this project materialises we would expand our centrifuged plant to cater to its requirements because we are very conscious that the export of finished products such as household and surgical gloves has considerable value added from the countries foreign exchange point of view as opposed to merely shipping raw natural rubber. Worldwide, the market for centrifuged latex shows the largest growth among natural rubbers and Sri Lanka must capitalise on this aspect.

In conclusion, it is very necessary to spotlight the very high export duty in excess of Rs. 9/- per kg. presently applicable to all grades of natural rubber. This is an increase of well over 100% on the figure at the same time last year. On the other hand the prices that latex crepe producers have received have seen a sharp drop to the extent that 1987 would perhaps just result in our covering our cost of production assisted, at the last moment, by very favourable weather conditions in December which enabled the maximum harvest in that month. The JEDB sought from the working group on Tree Crop Taxation and producer margins a change in the export duty structure to an advalorem basis which would have helped producers of latex crepe rubber in the light of lower prices payable compared to RSS. However, a rebate scheme was agreed on instead based on the rubber stabilisation fund. Up to date the promised relief has not materialised, whilst on the other hand the export duty continues to rise steadily influenced by the strong Singapore Dollar which is used for the purpose of calculation. Why should producers of latex crepe rubber be penalised by lower prices payable for their product, due to the calculation of RSS prices in Singapore based on a strengthening Singapore Dollar ?

I hope that what I have stated would be thought-provoking insofar as the objectives of this Colloquium are concerned. Let us hope that the very useful report prepared by Dr Senaka Perera will be followed up expeditiously so that Sri Lanka's latex crepe rubber industry could be saved even at this late stage.