

An International Rubber Agreement Key to Price Stabilization

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The need for price stabilization in the export commodities of the developing countries has been an important subject of discussion and international action over the last decade. Signs of major agreements now appear to be in sight for a few such commodities, with rubber about the nearest. Cyril Gamage, Senior Asst. Secretary of the Ministry of Plantation Industries, discusses here the potential and connected issues in such an agreement.

The prospect for an international agreement to stabilize rubber prices appear brighter than ever before. The United Nations Conference on Trade and Development (UNCTAD), one of the foremost and significant organs of the UN, whose particular concern is to help developing countries expand their trade and thereby obtain increasing resources essential for their self-sustained growth, is hopeful of very soon achieving one of the goals it has worked towards over the last few years. The stabilization of prices seems in sight for this commodity, which can go a long way to strengthen the economic situation of many countries of the Asian region. There appears to be a very strong chance of clearing all ground for price stabilization in the field of Rubber at the forthcoming UNCTAD meeting to be held in Geneva later this year.

How did the need to stabilize prices arise in Rubber? What factors and circumstances conditioned the demand for developing countries to bid for a Commodity Agreement in Rubber? What are the ingredients of the Commodity Agreement that are likely to emerge at the meeting of the UNCTAD?

The answer to these questions must necessarily be found in the vicissitudes and fluctuations that the rubber market has faced from its inception. The Rubber Industry is a 19th century creation which grew mainly from the invention of the masticator and the vulcanization process; and the need to

open up plantations in the colonised countries to supply the raw material requirements of the industrialised world. While rubber which grew in Brazil and Africa gave way to a more methodical plantation in Asia, in countries such as Sri Lanka and Malaysia the early 20th century saw the further growth of natural rubber plantations; modernization of the industries based on rubber in the U.S.A. and Western Europe, and the growing results of research in rubber production. These were some of the factors which encouraged this growth.

The unique position that natural rubber held in the world market was challenged by synthetic rubber after World War II. The U.S. Government launched a massive programme for synthetic rubber production and in 1945, the U.S. produced as much as one million tons of synthetic rubber for a year. The expansion of synthetic rubber continued unabated, reducing the share of natural rubber in the world today to as little as 31 per cent.

What is the pattern that emerges from the focal positions of natural rubber and synthetic rubber in the World today? Japan, U.S.A. and the European countries account for 75 per cent of the world production of synthetic rubber. Further, the synthetic rubber market is oligopolistic in nature with multinational corporations and firms dominating the scene. As far as price competition for synthetic rubber is concerned the competition is limited to a few large combines who produce synthetic rubber.

In the natural rubber growing areas production on the other hand is concentrated largely in Asian countries. Malaysia, Indonesia and Thailand account for over 80 per cent of the world production of natural rubber. Sri Lanka's contribution is less than 5 per cent of this production. Though it originally developed as an estate-type crop, natural rubber later became a smallholders' crop — 100 % in Thailand, 80% in Indonesia, 65% in Malaysia and 53% in Sri Lanka, of the rubber production (taking 40 hectares as the cut-off point) remains in

the hands of smallholders. So that in comparison with synthetic rubber, natural rubber is largely in the hands of small holders and consists of small units. It has been calculated that there are more than one million of such small units in the natural rubber industry; whereas in synthetic rubber production it is controlled by a few more than 100 firms. Parenthetically it may be asked:— Is the smallholders system of production in any way inferior to and less effective than the estate ownership production? The following quotation from P. W. Allen — (Natural Rubber and Synthetics) shows the versatility of natural rubber in both estates and small holding operations. "There is no question of rubber being better produced by estates than by smallholdings or vice-versa. Both sectors have their distinctive attributes and both are capable of producing rubber economically, while providing their owners with fair returns. Estates because of their size and organization tend to be the innovators, risk-takers and trend setters; they possess the appropriate managerial skill and may be able to take some advantage of economics of scale (though these economies are nowhere near as prominent as the case with the synthetics). Smallholdings, especially when of adequate size, and when provided with proper support (advice plus perhaps central processing and marketing facilities) can make a vital contribution to the national well-being".

How has natural rubber and synthetic rubber fared in the game of competition? The rapid expansion of modernization in Western Europe and Japan as well as in the other areas of the world in the 1950s and 1960s created a demand for elastomers; this demand increased at more than 9 per cent per annum and was unable to be satisfied by natural rubber production which during the same period was increasing at less than 3 per cent per annum. This gap was filled by synthetic rubber which grew at about 9 per cent per annum. Natural rubber has thus been steadily losing ground to the synthetic version in the international rubber market.

The natural rubber industry was obviously under great pressure. It was shrinking, but it showed its elasticity (like rubber

WORLD PRODUCTION OF NATURAL RUBBER

(in metric tons)

	1966	1976
Malaysia	972,837	1,639,440
Indonesia	736,675	847,500*
Thailand	207,535	392,465
Sri Lanka	131,015	152,134
Vietnam	48,841	32,500*
Cambodia	51,330	20,000*
India	53,195	147,758
China	—	25,000*
African Continent	176,928	203,353*
Brazil	24,347	20,298
Other S. America	7,000*	17,000*
World	2,392,500	3,560,000

Asterik indicates estimated figure.

Source: *International Rubber
Study Group*

itself) in different ways. Research into high yielding varieties of trees and replanting continued on an accelerated scale in certain key producing countries in Asia, such as Malaysia and Thailand. The natural rubber industry moulded itself to the changing requirements of the market by introducing technically specified block rubber which provided savings in transportation, handling and storage. Another technical innovation in the 1970s, of high significance to natural rubber, was the use of chemical stimulants to increase the yields; which was really the result of long years of research on the use of natural stimulants for the same purpose.

Trade and Price Trends

There are a few distinctive characteristics of natural rubber in world trade circles which are useful to bear in mind in any attempt to understand moves to stabilize prices. Rubber is a typical export commodity. 90 percent of natural rubber is exported, whereas only 25 percent of synthetic rubber is exported. Sri Lanka's exports incidentally account for only 4.5 percent of the export market. In the post-war period Malaysia and Thailand — the chief Asian exporters — increased their export share at the expense of Indonesia and Sri Lanka, while Asia on the whole produced 94 percent of the total natural rubber in the world.

The second characteristic of the rubber trade is that the main

importers of natural rubber are the developed countries. This is yet another example perhaps of the dependency relationship of developing countries on developed countries, according to the theory of dependency. The increasing consumption of synthetic rubber to the detriment of natural rubber by the developed countries is clearly seen in the sharp drop of natural rubber consumption by 15 percent during the 20 year period from 1955-57 to 1972-74.

In more recent times, however, particularly after World War II, natural rubber enjoyed two boom periods — one due to the Korean War and the other due to the oil crisis. The oil crisis imposed critical constraints on the production of synthetic rubber which depended heavily on oil for its processing and manufacture. The quadrupling of crude oil prices resulted in the doubling of costs of synthetic rubber production between 1973 and 1975. These 'events' had the effect of changing substantially, the predominant position held by synthetic rubber in the world market, which was upto then playing the role of price trend-setter.

This raises the most sensitive question for natural rubber producing countries such as Sri Lanka. What is the future for natural rubber? A study of the types of rubber utilized in manufacturing various products in the tyre-related and non tyre-related areas (which incidentally provides a broad differentiation of use) indicates that there are a multiplicity of factors which determine the use of various types of rubber — factors which are technical as well as non-technical. In the non-technical field political factors which take into consideration self-sufficiency and security reasons, play as important a part as technical factors or even more.

There are, however, certain factors which favour the natural rubber industry at the moment, apart from the boost that natural rubber received from the two 'events' referred to above. There are certain circumstances facing synthetic rubber which are in favour of natural rubber. For instance, the availability and price of chemical feedstocks and the growing pressures against pollution of the environment, concern caused by health hazards through

long exposure of workers to chemical products such as benzene which is now being investigated by the U.S. Government are some of them. On the other hand, natural rubber is reaping the benefits of long-term research and technical innovation in production and processing. For instance, the biologically based cis-polyisoprene has been proved to be technically and economically superior to its synthetic counterpart.

International Action

The action now being taken on a multilateral scale to establish a world-wide price stabilization scheme, that would be beneficial both to producers and consumers, is one of the most fruitful and meaningful measures taken in recent times to ensure fair market prices for commodities. The producer-consumer consultations which have begun in the context of UNCTAD'S Integrated Programme for Commodities and the Agreement among the producers which is being worked out by the Association of Natural Rubber Producing Countries (ANRPC), which incidentally held one of its sittings in Colombo in April this year, have prepared the ground for a significant break-through in the attempt to stabilize prices for rubber. The ANRPC is in fact the child of the tumultuous situation created by declining prices in natural rubber. In 1967, natural rubber producing countries met in Kuala Lumpur for the first time to decide on the need for co-operation among the producing countries in the marketing of natural rubber. It is noteworthy that within a short period of less than a year, UNCTAD held six meetings on this subject.

An International Rubber Agreement on prices could briefly take the form of building a Buffer Stock with contributions from the natural rubber producing countries as well as consumer countries, as it is an agreement that is intended to safeguard the interests of both parties. The Agreement will decide on the quantum of contribution from each country and also the location of stocks. It will also provide for an Administrative Account to meet the costs of administering the Buffer Stock, while stipulating the basis of vote-entitlement of members to the Agreement and the