

## **RUBBER LATEX MARKET- SOME RELATED PROBLEMS**

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### **ABSTRACT**

Development of latex based industries leads to a new market channel in rubber marketing system. This facilitates some of the smallholders immensely as this system provides them easy access to the market and also considerably higher prices compared to sheet rubber. The system is well established as it is connected to the rubber based end product system. However, the monopoly in the end product sub system indicates high susceptibility of the system to any negative development in the end product sub system.

### **INTRODUCTION**

At present, marketing of rubber as raw latex has become an easy avenue for some of the smallholder rubber growers. The main reason for this is that the establishment of centrifuged latex based multinational industries. Therefore, the marketing channel of the rubber is being enforced with latex producer and buyer segment. (fig 1). This article discusses the related benefits and problems of the new marketing channel with special reference to a recently reported problem of selling field latex of the smallholders to centrifuged latex factories in Kalutara District. To verify about this problem and to make necessary recommendations to overcome related problems in future, a rapid appraisal study was conducted on the following aspects.

1. Reasons for the problem
2. Significance of the problem
3. Different elements of the marketing system affected
4. Possible short and long term remedies to overcome the problem.

### **Methodology**

A survey was conducted to study the above aspects. The elements covered were Ansell Lanka Pvt. Ltd., Private Latex Collection Agents, A Cooperative Latex Collector (SARASA) and 25 smallholder rubber producers. The farmers were selected from Nagoda, Millawa, Horana and Yatadola RDO regions where most of the latex sellers are supposed to be distributed. The private latex collecting agents covered were,

Premier, Zion, S&C and Glenrose. Although the sample size is small as a whole, it covered most of the related elements for the problem.

## **RESULTS AND DISCUSSIONS**

The survey revealed some of the main factors involved in the rubber latex marketing system and also possible negative consequences that could be arised due to unhealthy developments in the system. The necessary measures should be taken at earliest because the magnitude of the negative impact may be considerable as at present there is private monopoly in the production system.

### **The nature of the latex market system**

This market system is connected to a multinational product units. At present there is monopoly in this latex based industries. Currently almost 80% of the latex is absorbed by the Ansell Lanka Pvt. Ltd. There are private latex collecting agents who collect latex directly from the smallholders, through cooperative societies or through group processing centers and supply to the end producers (fig 1).

### **A problem observed in the system**

A problem of selling latex has been reported as Ansell's Lanka Pvt. Ltd stopped purchasing latex from some of the private latex collecting agents. However, the management of the Ansell's Lanka Pvt. Ltd. at Payagala was reluctant to reveal details on the subject to maintain the confidentiality of their customers. However, the private latex collecting agents, Premier and Zion from Ingiriya disclosed that Ansell's Lanka Pvt. Ltd. has refused to purchase their latex since May 1997 (by June 1997 the problem was settled). Ansell's Lanka (Pvt.) Ltd. also accepted the fact that they stopped purchasing from the agents Premier and Zion. However, they continued to purchase latex from 5 other agents.

The reasons for stopping the purchase of latex by the Ansell Lanka Pvt. Ltd., is not clear. In fact the management at Payagala refused to disclose any information on this aspect. However, the information gathered from private latex collecting agents and the management at SARASA Co-operative Society at Kalutara disclosed 2 possible reasons,

1. World market for the surgical gloves produced by the company is lost due to the alleged allergy problem of the gloves.
2. Some of the workers refused to involve in the production process of the surgical gloves due to health risk.

According to the information provided by them a plant with a capacity of 200-300 tons/day has been out of production since May 1997. Therefore, it is advisable to inquire the real cause for the present situation from the top management of the Ansell's Lanka Pvt. Ltd. Inquiry should be conducted from the top level policy decision makers to gather tangible results so that the information may be helpful to rectify the situation in future.

### **The significance of the problem**

1. The worst affected by this situation was one of the latex collecting agents (Premier) from the Ingiriya. According to them they have invested heavily on equipment to produce centrifuged latex for Ansell's Lanka Pvt. Ltd. They have provided around 96,500 kg (DRC) of centrifuged latex per month of which around 60% is from smallholders and around 60,000 kg (DRC) of field latex per month to the Ansell's Lanka Pvt. Ltd.
2. The latex collecting agent Zion has not processed field latex into centrifuged latex, instead they supplied field latex to Ansell's. Therefore, they can overcome the problem by finding other buyers like Dipped Products for latex or converting latex into other forms such as sheet rubber. However, at the time of the survey they were struggling to find other avenues to sell their latex. They have provided around 53,000 kg of latex per month since May 1996 to Ansell Lanka Pvt. Ltd., of which around 6700 kg was collected from smallholder producers.
3. Some of the Cooperative Societies who have purchased latex from the smallholders and sell to the agents of Ansell Lanka Pvt. Ltd. are also affected. A well established cooperative society at Kalutara (SARASA) was trying to dispose their purchases to other markets at the time of the survey.
4. The total production of latex by the smallholders in the district could be estimated at around 110,000 kg/day. Most of the latex are converted into other forms like sheet rubber. Information gathered from the Rubber Development Department shows that around 10 to 15 percent of the smallholders sell their rubber as latex. The smallholders who dealt directly with 'Premier' and 'Zion' are already affected. However, the sample survey indicates that they could convert their latex to sheets at extra cost. The facility for this is available at most smallholders or at most of the group processing centers.

## **Different elements of the marketing system affected**

Different elements involved in the smallholder rubber marketing system are presented in figure 1 and the following factors referred to the elements that could be affected due to the problems arise in the new marketing channel.

1. The direct effect is on centrifuged latex producer system. The study revealed at the time of survey the private latex collecting agent 'Premier' disposed their stocks at very low prices to other avenues so that other collecting agents are also affected. Considering the fact that the investment made at the cost of interest payable to banks this is an unavoidable event in short run. Sub agents to the this private dealer were also affected in the same dimension
2. The survey results indicate that the price paid to the smallholder latex is considerably high compared to the prices received by the sheet rubber. The price paid to the latex was calculated based on auction price of RSS1. In general producers are being paid Rs.3 less than the RSS1 auction-price.
3. The smallholders who depended on this latex market system faced an immediate threat of reducing their market margin if any problems arise as they had to convert their latex to sheets at an extra cost. Also, they should face low prices for their sheets which is estimated based on average price of RSS3. Smallholders who produce sheet rubber, generally depend on village buyers to sell their sheets. The exploitation of smallholders at this level is very high as they depend on them for their daily credit requirements as well. This situation of smallholder market could be rigidly defined by the credit facilities from the dealers to the producer. The figure 2 show the average market margins retained by the dealers. These figures indicate that the percentage increase in market margin is higher than the percentage increase in prices. In other words the benefit of recent increase in the rubber prices has not been properly passed to the producers in the rubber sheet market system at smallholder level.
4. The survey revealed that the latex market system was well established. As figure 1 shows this system is connected to a well organized rubber end product producing system. Therefore, smallholder producers were able to get better prices from selling latex than selling sheets. So any disturbance at this market channel may have negative effects on some of the smallholders. The vulnerability of the system is very high at smallholder level as there is private monopoly in the production system. Possibility is always there that these industry people may depend on other markets for their inputs under the open market conditions.

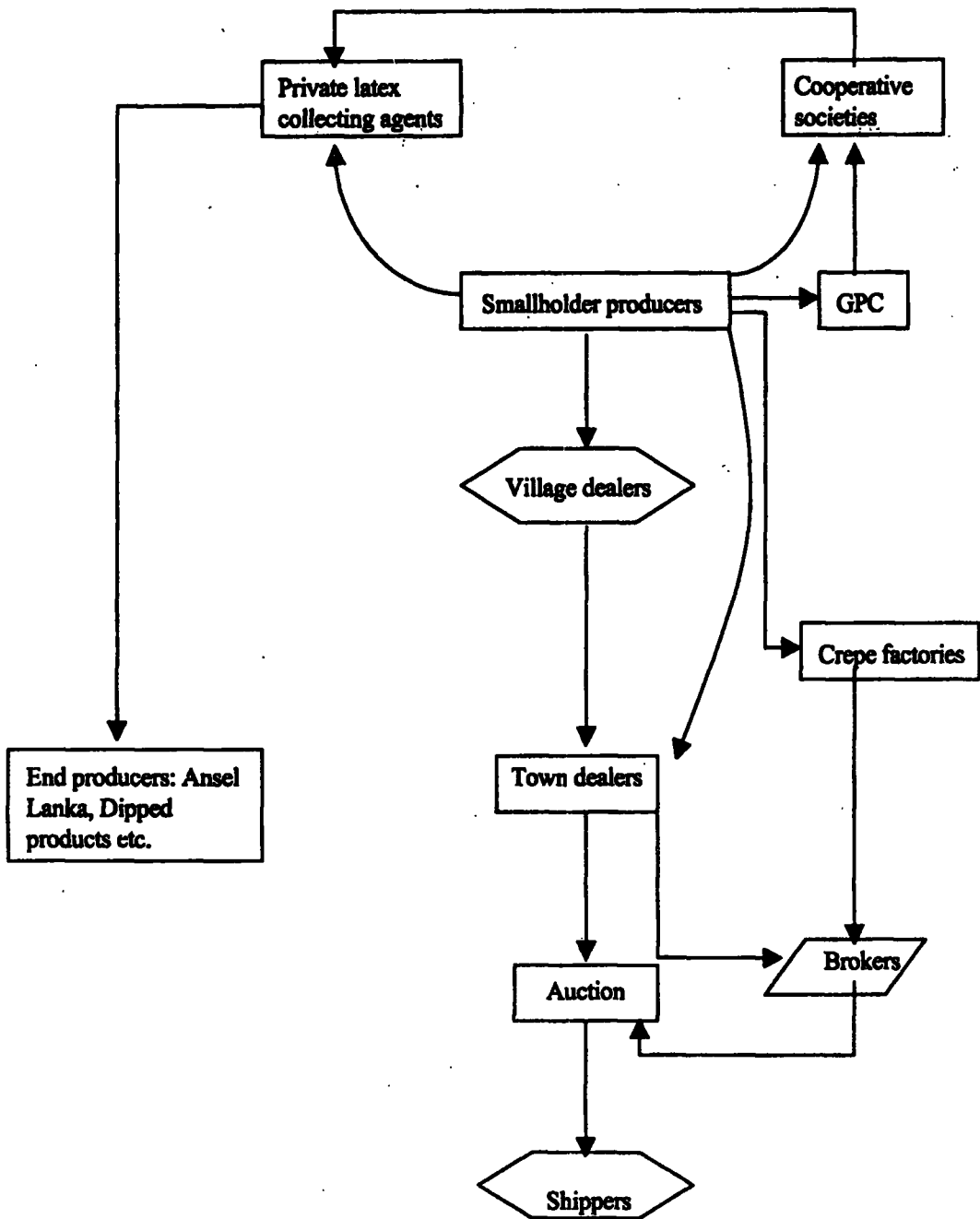
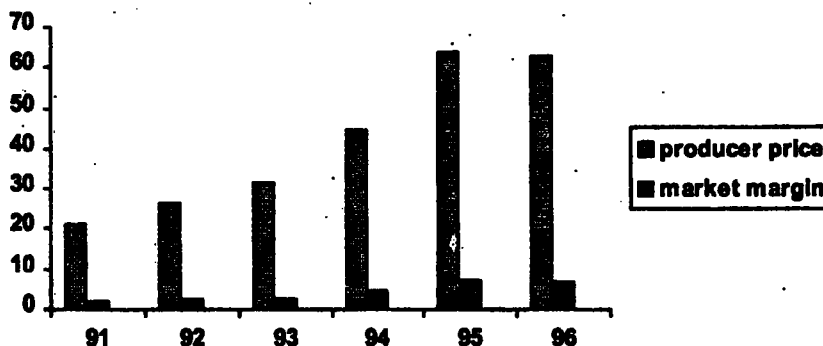


Fig. 1. Smallholder rubber marketing system – A schematic presentation



Source- Central Bank Annual Reports

Fig. 2. Comparative behavior of producer prices and market margin at smallholder rubber sector

#### Possible remedies to avoid similar problems in future

1. Intervention of Rubber Development Department through their relevant RDO's to facilitate the proper functioning of the sheet rubber processing units at different GPC units. The survey revealed that at present some of these units are out of use due to direct latex market system.
2. Rubber Development Department should directly cooperate with the latex collecting agents to facilitate them by accelerating any due subsidy or credit payments for them. Also, they should be paid due incentives for generating their own power plants. Immediate steps should be taken so that the local entrepreneurs will not be discouraged.
3. Provide all possible economic incentives for private latex collectors and to well organized Cooperative Societies to establish possible small or medium size rubber end product factories. This is an essential item to avoid possible private monopoly developments in this system which has now become an evil in pseudo open market systems.
4. Diversify the raw material processing units of the latex collecting agents *i.e.* agents like Premier could expand to produce crepe rubber as well.
5. All possible incentives should be provided by the Rubber Development Department to increase the functioning efficiency of GPC's and the Cooperative

societies. Effective functioning of these units could rescue the smallholders from the vicious cycle of indebtedness to the village and town dealers. Present survey revealed that their activities marginalised mainly due to lack of transport facilities.

6. It is advisable to conduct further research on post harvest technology. Some of the field latex collecting agents complained about the low quality of smallholder rubber latex. The Extension Officers Rubber Development Department could also involved in more productive ways to improve the quality of latex through proper demonstrations in the field.
7. It is also important to accélerate the relevant research on quality improvements in rubber end products including the possible ways to overcome latex protein allergy problem, if any.