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Expert Group Meeting on the Study of
Synthetic versus Natural Products

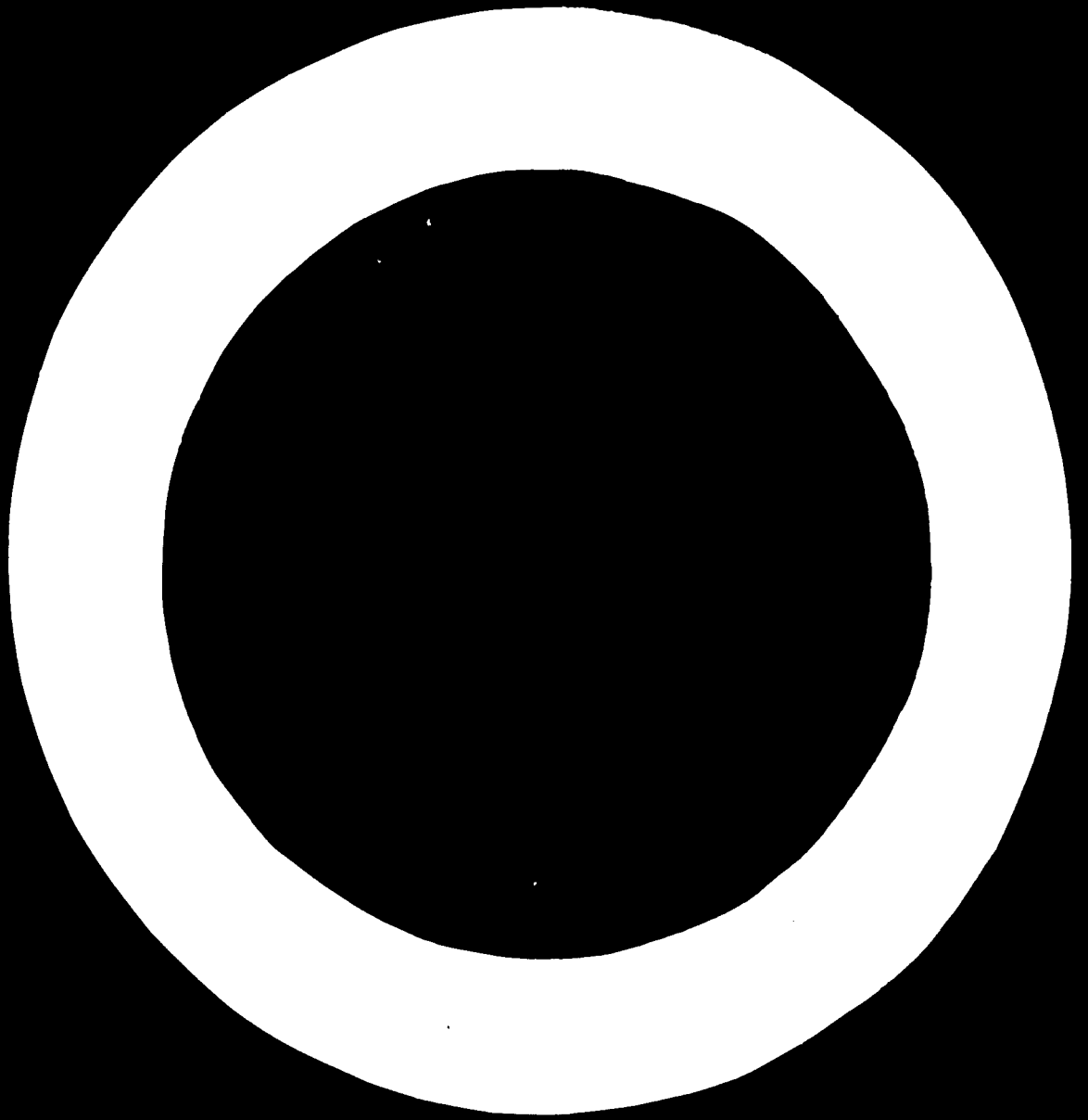
Vienna, Austria, 16 - 20 September 1974

AGRICULTURAL RAW MATERIALS

NATURAL RUBBER

Extract from **FAO's Commodity Review**
(World Market Situation for Rubber)

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.



Summary

World output of natural rubber increased considerably in 1973. as sharp rises in prices brought increased tapping in all producing countries. Demand was strong, partly as a result of uncertain supply conditions for synthetic rubber due to the development of the energy crisis in the second half of the year. The volume of trade was substantially higher, but, largely as a result of the strong rise in prices, export earnings from natural rubber were more than double those of 1972.

Prices are expected to remain firm in 1974, although at levels below the extremely high ones which prevailed in 1973, primarily because of continuing uncertain supply conditions for synthetic rubber. The energy crisis will, however, probably adversely affect demand for elastomers, although the bulk of the loss is likely to be absorbed by synthetic rubber, and a reduction in the latter's portion of total elastomer demand is expected for the first time in many years. The longer-term relationship between natural rubber and synthetic rubber will depend to a considerable extent on the development of the market for petroleum products and its effect on the cost structure of synthetic rubber and the secondary effect on the structure of overall elastomer demand. In this context the ability of natural rubber producers to provide adequate supplies at fully competitive prices will be crucial.

Sharp increases in natural rubber production in 1973

World production of natural rubber increased significantly (by 11 percent) in 1973 for the first time since 1969. Rapidly rising prices on world markets was the dominant influence: they resulted in an increased rate of tapping in virtually all producing countries and a wider use of ethrel stimulants. The increase in output from Malaysian smallholdings, where tapping was reported to have been reduced in 1972 because of low prices, was particularly large - one-third more than the previous year.

Output in Thailand and India is also estimated to have increased substantially. Even in Indonesia, where the possibility of raising production is reportedly limited because of the low rate of replanting over the last decade, and in Sri Lanka, where political difficulties had been exercising a depressing effect on production, output is estimated to have increased, in some areas as a result of excessive tapping and chemical stimulation. Among the smaller producing countries, too, price was the dominant influence: in Vietnam the decline in output seems to have been stemmed, also as a result of more settled political conditions; in Africa, the increase seems to be primarily due to higher output in Nigeria, where the usually heavy burden of high transportation costs has been offset by high world market prices and by increasing domestic consumption.

Utilization of both natural and synthetic rubber higher

World consumption of both natural and synthetic rubber rose more rapidly in 1973 than the previous year, the dampening effects of the energy crisis making their impact only in the very last months of the year. The utilization of natural rubber rose by close to 5 percent, slightly more than in 1972. For all developed countries combined, the rate of increase was only slightly lower - 4 percent - although this continues to compare unfavourably with the expansion in synthetic rubber consumption, which is estimated to have grown by roughly 8 percent. Thus 1973 saw a continuation of the slow but steady downward trend in natural rubber's share of total elastomer consumption. In the United States, however, by far the largest single consuming country, accounting for 20 percent of world natural rubber utilization, the use of natural rubber rose more rapidly than that of synthetic rubber for the second year in a row. This reflects the continuing shift to radial tires, which consume some 10 - 15 percent more natural rubber than standard bias-ply tires. Thus in the United States, which currently has the lowest proportion of natural rubber to total elastomer consumption, the past two years have seen an increase in this proportion from 21.5 percent in 1971 to 22.2 percent in 1973. Although small, this represents the first reversal in the downward trend since the post war Korean recovery, and is expected to continue in 1974. In western

Europe, on the other hand, the consumption of natural rubber remained unchanged again in 1973, the further decline in Italian utilization (10 percent) fully offsetting small increases which occurred in some other countries. In both Italy and the United Kingdom, the effect of continuing depressed economic conditions was accentuated by the miners' strike in the latter country and in both by the impact of the petroleum crisis towards the end of the year. In Japan and Germany, the utilization of natural rubber continued to increase (by 7 and 15 percent, respectively) but still at a much lower rate than that of synthetic rubber (19 and 16 percent, respectively).

The rapid expansion in Japanese synthetic rubber production and consumption has, in fact, been subject to serious criticism by the natural rubber producing countries during the past year or so. Late in 1973 a ministerial meeting of ASEAN countries agreed that a "forum" would be established in which the dialogue between ASEAN members and Japan on the question of synthetic rubber would be continued. Although no precise concessions appear to have been made in this respect despite several meetings, discussions were continuing in an attempt to convince Japan to "harmonize" its production so as not to create dislocations in the economies of natural rubber producing countries.

Among the developing countries, the largest consumer, India, strongly increased its utilization of natural rubber in 1973 owing principally to the continuous growth in its demand for tires. For all developing countries combined, however, utilization of synthetic rubber increased sharply as imports for domestic manufacturing industry were increased and production began or was expanded in several countries. In the centrally planned countries, natural rubber utilization is estimated to have remained unchanged in 1974, apparently as a result of a further expansion in synthetic rubber production in line with the established policy of reducing natural rubber's proportion of total elastomer consumption.

Sharp rise in stocks

World stocks of natural rubber are estimated to have risen substantially in 1973, with the principal increases registered in the centrally planned countries, in Japan (where heavy buying due to currency uncertainties was reported to be a key factor), and to a lesser extent in the United States. Stocks afloat and in transit were also substantially larger, primarily because of bunkering difficulties which developed in most countries towards the end of 1973, the abundant stocks of natural rubber proved to be one of the few reassuring features of the elastomer market situation.

Disposals from United States Government strategic stocks amounted to some 67 000 tons in 1973, almost 20 percent more than the previous year. In July, the Government announced an increase in the rate of release, to 10 000 long tons per month, a doubling of the previous rate, but actual sales did not approach this level until the last quarter of the year. With world market prices at record levels, however, releases from the strategic stockpile are not at present the subject of concern that they have often been in the past.

Significant increase in trade, prices and export earnings

World trade expanded considerably in 1973 for the first time in several years, reflecting increased shipments from most producing countries and larger purchases by most consumers. Part of this increase in imports went into stocks in consuming countries, however, and the growth in utilization was far smaller. The value of natural rubber exports were almost or more than double the amounts realized in 1972, with large benefits accruing to all producing countries. The value of Malaysian exports of natural rubber, which account for some 30 percent of their total export earnings, more than doubled, and in April the Government announced that a new export surcharge would be imposed in an attempt to absorb excess liquidity.

Although the increase in earnings was in part due to a larger volume of shipments, the most important factor by far was the sharp rise in the average price received. Prices moved from the 22-year low reached in April 1972 to an all-time high in January 1974, with an almost uninterrupted upward movement during most of 1973. The result was an average level of prices almost double that of 1972. While the rise in prices during early 1973 resulted principally from a low level of stocks, and a tight short-term supply/demand situation, accentuated by uncertain monetary conditions, the second half of the year was influenced strongly by the growing difficulties in world petrochemical markets. Rising prices and short supplies of synthetic rubber and the feedstocks from which they are manufactured; increased purchases of natural rubber by consuming countries (particularly Japan, China and the USSR which together increased their purchases from Malaysia by some 50 percent); and heavy speculative buying due to currency uncertainties, the disturbances in the Middle East, and widespread apprehension over the effect of the oil crisis on synthetic rubber, all contributed to bring prices on the London market to the average January 1974 peak level of £ 542.- per metric ton. This compared to £ 213.- per metric ton in January 1973 and the low of £ 122.- per metric ton in April 1972. February and March of 1974 witnessed some decline in prices, principally due to a low level of physical offtake (stocks in consumer countries were high and demand was reported to have been out back sharply as a result of the shortage of oil and reduced automobile production) combined with a heavy liquidation of paper holdings. This fall seems to have been stemmed, however, and prices have been maintained at £ 330 - 350.- per metric ton throughout most of April and May.

Short and medium-term outlook

World supply of natural rubber is likely to rise in 1974, although the extent of the increase will depend on the degree to which prices are maintained at, or close to, current levels. Output in Malaysia continued to expand at a record rate during the early months of 1974 and, given its excellent base of replanted and new acreage coming into bearing,

this country is again expected to provide the bulk of the increased supplies during the remainder of the current year. As in previous years, the lack of past smallholder replanting will limit any increase in Indonesian output of the relatively small estate sector, though if prices are maintained at the high 1974 level, some further increase in output from smallholdings may nevertheless be forthcoming.

The outlook for demand for natural rubber in 1974 is, at mid-year, still highly uncertain. Overall elastomer consumption is, for the first time in fifteen years, unlikely to increase and may even decline slightly as a result of the impact of the oil crisis on general economic conditions and on automobile production in particular. Sales figures for the first quarter of 1974 indicate a decline of 20 - 30 percent in some countries, and in the United States - where sales were reported to be 50 percent below the previous year's level - a reduction of 15 - 30 percent in automobile output is envisaged. Similar percentage falls in output are forecast in other major automobile producing countries. In addition to the market for original equipment, moreover, the demand for replacement tyres may also be affected because of the increased price of gasoline in most countries and its scarcity in the United States is expected to reduce the mileage travelled. Since demand in the tyre and tyre products sector accounts for one half to two thirds of total elastomer consumption in most developed countries, a considerable fall in total elastomer consumption could result.

Prospects for natural rubber are, however, somewhat more positive. Although overall tyre production is likely to be lower, the output of radial, bus and tractor, and heavy equipment (off-road) tyres, all of which use proportionally more natural rubber, is likely to continue to increase. In the United States, in particular, radial tyres are expected to increase their share of the market from percent in 1973 to percent in 1974. Moreover, difficulties in obtaining supplies of synthetic rubber are likely to cause some consumers to turn to natural rubber which, as has been indicated earlier, is likely to be readily available. In summary, therefore, a decline in elastomer consumption, if it occurs, is likely to affect synthetic rubber almost entirely, whereas the utilization of natural rubber should be

as large if not larger than the previous year.

Because of the significant increase in natural rubber prices during the period since the oil crisis began, the improvement of natural rubber's competitive position has so far been largely due to shortages of supplies of synthetic rubber, rather than to any advantage in terms of price. For, although there were notable increases in prices of synthetic rubber between September 1973 and January 1974 - these are reported to amount to at least 30 percent or considerably more in western Europe and up to 50 percent for some types in Japan - this same period saw an increase of almost 50 percent in London spot prices for RSS 1.

Since January, however, natural rubber prices have fallen, with the overall rise between September 1973 and March 1974 amounting to only 12 percent. Although no new increases in synthetic rubber prices have recently been announced, there is no reason to expect them to be reduced in the near future. This means that if natural rubber prices are maintained at or below their March levels - as is expected - incentive may exist for consumer to switch from synthetic to natural rubber for reasons of price, as well as availability of supply.

Over the longer term, the need remains to maintain international prices of natural rubber at levels which are fully competitive with its main synthetic substitutes and to ensure that supplies are readily available to consumers. While the recent high levels of prices provided some valuable short-run gains in export earnings for natural rubber producing countries, and in income for the producers themselves, the long-term competitive position of natural rubber is best served by the stabilization of prices at levels which are fully competitive with synthetic rubber but which ensure a reasonable income to producers (see FAO Commodity Review and Outlook, 1972-73). Developments during 1973 have been encouraging in that the rise in the basic cost of production of synthetic rubber due to the increase in crude oil prices would seem to confirm the widely held belief that, while great potential still


exists for further reduction in the costs of production of natural rubber, synthetic rubber has clearly emerged from the period in which held true.

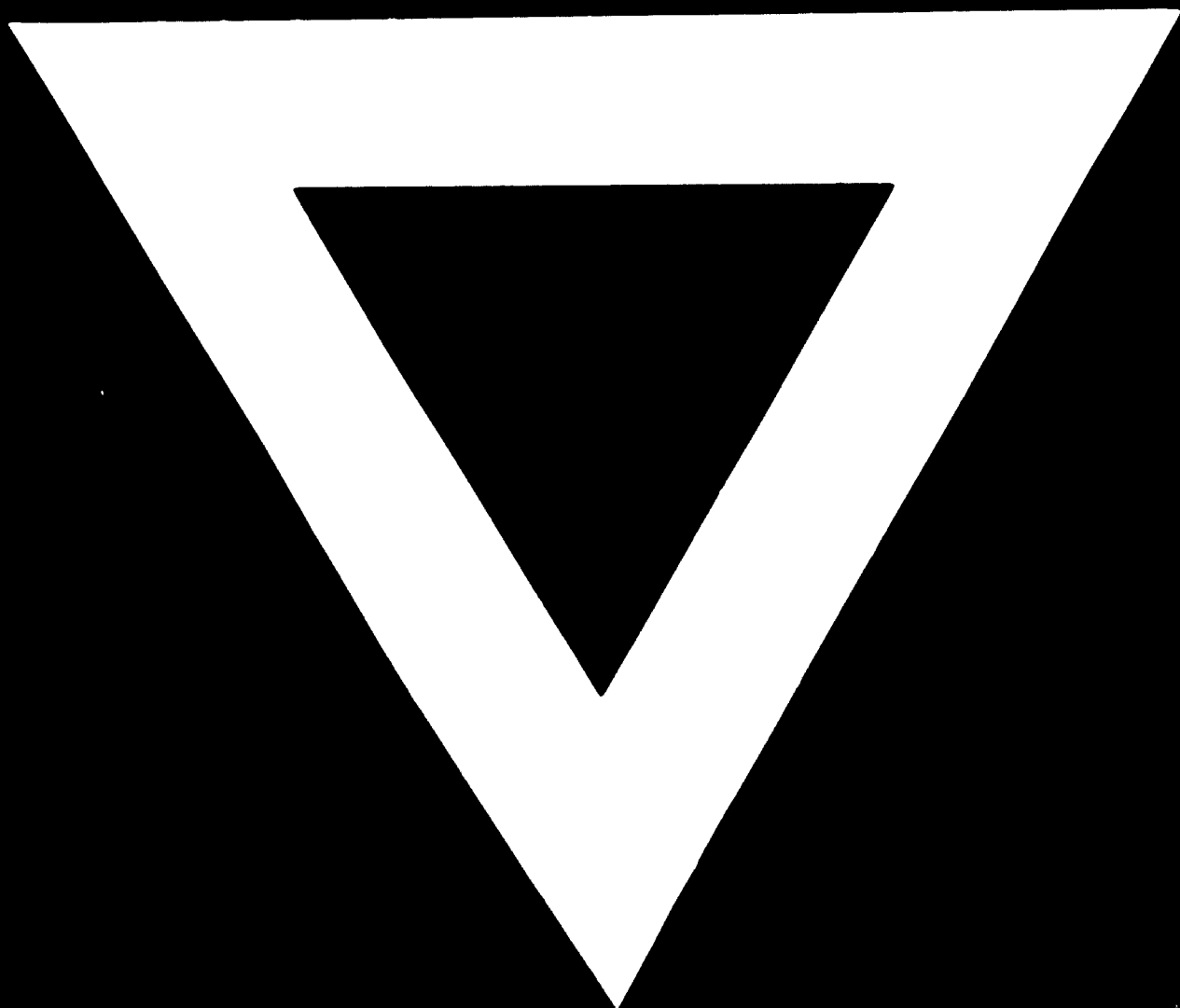
New policy measures in Malaysia

Although international action directed towards stabilising prices at competitive levels and ensuring a continuous flow of supplies at such prices is still at a preliminary stage of discussion and study, national action by the major producing country has been considerable during the year under review. The various Malaysian institutions dealing with natural rubber have been extensively re-organised, with a view to effecting further improvements in smallholder productivity and rationalizing the system of marketing and distribution, both areas which will provide essential support to any action eventually taken in the field of price stabilization. Among these are the extension of the technical assistance programme of the Rubber Research Institute from peninsular Malaysia to Sabah and Sarawak, where the bulk of the rubber is on smallholdings; the creation of the Rubber Industry Smallholders' Development Authority (RISDA), to ensure that the benefits of efforts in the field of research, extension, credit, processing and marketing reach the smallholder sector, and the recent (early 1974) allocation to RISDA of Malaysian \$ 1.5 million to provide smallholders with credit for purchasing fertiliser, ethrel stimulants, and planting materials; the creation of the Malaysian Rubber Exchange Licensing Board as an integral part of Malaysia's attempts to shift the main terminal market from Singapore to Kuala Lumpur to support this shift measures such as the enlargement of Port Klang shipping facilities, improvements in local telecommunications systems, and an easing of credit facilities to local dealers have been decided. Finally, arrangements are being developed by the Malaysian Rubber Development Corporation, the organization handling the processing of smallholder rubber into technically specified varieties, to set up stocks in consuming countries in an attempt to meet the immediate requirements of rubber manufacturers.

International Policy Decisions

At the international level, limited approaches in the area of price stabilization arrangements have begun in the form of dialogues within the International Rubber Study Group and the Association of Natural Rubber Producing Countries (ANRPC), but no concrete results are yet forthcoming. The ANRPC also has under consideration the establishment of a joint regional marketing scheme and an international network of stocks, but as yet both are still in the stage of study. For the moment, therefore, it would seem that international action is given less priority compared to activities at the national level, although the latter, if widely spread and well co-ordinated among producing countries, can be envisaged as laying the necessary groundwork in the form of improved production and marketing for eventual joint action.





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