

The OPEC of rubber? There is such a thing, and it's about to get some teeth

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The International Rubber Consortium, a cartel of the world's three largest natural rubber exporters -- Thailand, Indonesia, and Malaysia -- has asked Vietnam to join the club. IRCo already produces 75% of the world's natural rubber, but without Vietnam's rubber plantations the group lacks clout (The Wall Street Journal, 10 March 2010).

This became evident as rubber prices plunged to a five year low in 2008. IRCo's response, to reduce exports by 700,000 metric tons was undercut by Vietnam's producers, which actually boosted output last year.

This year, Vietnam's expected to produce nearly 770,000 tons of natural rubber, a 39% increase in just four years. Soon, it may surpass India -- where most output is locally consumed -- and Malaysia -- where production is falling as farmers shift to more lucrative palm oil production -- to become the world's No. 3 producer.

Hence the invitation from IRCo. Better coordination with Vietnam to turn the rubber tap off means cheap natural rubber may become a thing of the past. For example, Thailand, still the world's largest rubber producer, "favors" rubber prices above \$2.60 per kilogram. Having doubled in the past eight months, prices already sit well above that, but any retreat will surely be met with more production cuts. With Vietnam on board IRCo will control 84% of the world's natural rubber output, more than 90% of its global trade.

To be sure, obstacles to IRCo's ambitions, like convincing small growers to fall in line, linger. But controlling rubber supply is easier in Vietnam where 60% of production is controlled by state-run companies, and one company alone controls nearly half. In Indonesia, Malaysia and Thailand most of the rubber output is from small growers.

Vietnam, given a choice between accepting restrictions on its expansion plans, and gaining greater control over prices, is leaning toward the latter. It's agreed "in principle" to join the group.

Tire makers -- which consume 70% of the world's natural rubber output -- need to watch out.

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