Top rubber producers must agree on price mechanism for stability

PETALING JAYA: Top world rubber producers at the current International Tripartite Rubber Council (ITRC) meeting in Bandung, Indonesia, will need to reach full agreement on the “alert, trigger and defence” pricing mechanism to ensure natural rubber stays stable and curb the current downtrend in prices.An industry source close to the council said the outcome of the meeting in Bandung was crucial as “it will have a significant influence on the future direction of the world rubber prices which have fallen by about 30% so far this year.”This move would also help to rebalance the world supply and demand for natural rubber currently traded at a huge discount to synthetic rubber, he told StarBiz yesterday. “By right, natural rubber price should be traded 20% higher than synthetic rubber given the former’s environmental-friendly status.” According to the source, Thailand, Indonesia and Malaysia which control about 70% of the total world rubber production, had earlier agreed to implement the Agreed Export Tonnage Scheme (AETS) as well as the Supply Management Scheme (SMS) but failed to reach agreement on the level of pricing mechanism.“It is believed that Thailand suggested US$2.80 per kg while Malaysia and Indonesia wanted US$2.70 per kg as the pricing mechanism,” the source added.The AETS which tightens the global supply of natural rubber in the market following excess in rubber supply and low demand, has been proven to be a good price mechanism to ensure fair prices.The SMS, meanwhile, is aimed at rubber production control at plantations for the long-term programme through rejuvenation, farm diversification, increasing domestic consumption and prohibiting new plantation areas.Thailand is the world’s largest rubber producer with about 3 million tonnes annually, Indonesia produces over 2 million tonnes and Malaysia about 1 million tonnes.On Aug 16, Thailand, Indonesia and Malaysia have agreed to cut natural rubber exports by a total 300,000 tonnes to support prices. The Thai Rubber Association had said the export ban in Thailand would take effect from October. The government would cut quotas for companies, leading to a drop in exports each month of around 10%, or 25,000 tonnes.In 2009, the plunge in rubber price to a near seven-year low of US$1.10 per kg as the global recession loomed saw the top three producers scrambling to slash exports by a total of 915,000 tonnes to help prop up prices.The export restriction plan had never been strictly enforced as the rubber market rebounded in mid-2009 mainly due to the rising demand from tyre companies in China and India.Meanwhile, National Smallholders Association president Datuk Alisak Ambia said that in Malaysia, smallholders contributed over 90% of the country’s total rubber output and the same goes to Thailand and Indonesia.“All top producers must fully agree to implement reduction in production and export to ensure stability in rubber prices,” he said, adding that more importantly, rubber farmers must get remuneration with fair production costs and selling prices.For Malaysia, Alisak suggested the Government play a more active role by setting up a special fund for the rubber sector especially to help rubber smallholders cope when prices fell below US$2 per kg.“There is an immediate need for such a fund and Malaysia can no longer do it on an ad-hoc basis given changes in the global economy particularly in the United States and the eurozone debt crisis,” he added.