Import duty hike on Natural Rubber enough to support India Rubber prices?

Indian rubber farmers are hopeful that the proposed 20% import duty hike on India's natural rubber imports is likely to cap cheaper influx and lift the farmer-lot from their state of pathetic condition. Yes, the farmers here are depressed about the persisting negative trend in natural rubber prices even as tyre companies continue with aggressive imports; not to speak of the emerging threat from cheaper synthetic rubber availability."We are unable to manage rubber production costs. Many plantations in top producing Kerala State have remained untapped due to significant fall in natural rubber prices followed by severe labour shortage and higher wages," said a Kottayam based rubber farmer."The government should take necessary steps to reduce the burden on farmers by hiking import duty and do what ever that is necessary in this regard" he noted.According to the proposed formula by growers from Kerala state, new import duty on natural rubber will be 20 per cent of the domestic price until the price reaches Rs. 171 a kg, at which point the duty will be capped at Rs. 34. The figure of Rs. 171 was arrived at after taking the average of the domestic price over the past three years."A 20 percent import duty hike on natural rubber will definitely help the rubber growers in the country by capping imports," said Professor Philip Sabu, Kerala Agriculture University."A mismatch between natural rubber production and consumption in the country has been forcing tyre companies to depend more on imports from South East Asian nations and is the key reason behind the fall in natural rubber prices," he added.Quality issuesMeanwhile a tyre industry official based out of Kerala has a different opinion regarding growing rubber imports by tyre companies which are operating in India. He attributed it to quality issues."Tyre companies in India don't get quality natural rubber from domestic market which is suitable for radial tyre production. Due to this, we have to depend upon imported natural rubber suitable for radial tyre production," he said."Natural rubber sheets produced in the country generally include particles of sand, soil and other impurities. These impurities make the sheets unsuitable for radial tyre production," he pointed out."At present, a major share of the natural rubber for the production of radial tyres is imported from our neighbouring countries (Indonesia, Vietnam and others). In India, including Kerala, both rubber farmers & tappers are ignorant about industrial needs," he noted.India has imported 23968 tons of natural rubber in November 2012, a rise of 48.63 percent when compared to 16125 tons in the same period of 2011. Meanwhile, exports were at 568 tons against 622 tons, a fall of 8.6 percent, according to the data released by Kottayam based Rubber Board, government body on India's rubber sector.Rubber traders are also not happy with the current natural rubber scenario. "We are not happy with prices and have good stocks and expecting prices would go up soon with the imposition of 20% duty hike on imports," said a Kochi based rubber trader."Growing synthetic rubber industry, ongoing Eurozone crisis and global economic slow down are responsible for current down trend in natural rubber prices," he noted.Synthetic rubber alternative"Synthetic rubber is becoming cheaper when compared to natural rubber prices. Growing synthetic rubber industry is a threat to natural rubber due to its unique quality, cheaper availability and others," the trader added."Tyre industry, the biggest consumer of natural rubber has started focusing on synthetic rubber as it has less processing costs when compared to natural rubber. The move is dangerous as far as rubber traders and farmers are concerned," the trader said.For the time being, a down trend in crude oil prices as result of economic slump is supporting the synthetic rubber industry in the international level. Growing synthetic rubber industry in India and around the world is expected pressurise natural rubber prices in long run.A synthetic (butyl) rubber plant under the joint venture between Sibur, a Russian based petrochemicals giant and synthetic rubber producer controlled by Russian billionaire Leonid Michelson and India's industrial giant Reliance is expected to be operational in 2014 with a production capacity of 100,000 tons a year at Jamnagar in Gujarat. The move would indirectly affect prices of natural rubber in the country.Obviously the question is whether the negative effect on natural rubber prices could be countered simply by hiking import duty on foreign rubber even as cheaper synthetic rubber gains currency.Futures impactedNatural rubber futures trading on India's National Multi Commodity Exchange (NMCE) has also been impacted by current down trend in rubber prices. Traders are not willing to indulge in trade as they used to when prices reached their peak in past years.Natural rubber spot prices are ruling at 163.50 per kilogram as on March 20, 2013 down by 18.25% when compared to 200 per kilogram as on 31st March 2012.Natural rubber production in the country stood at 98000 tons in November 2012 against 94400 tons during the same period in 2011, a rise of 3.81 percent. Also, domestic natural rubber consumption was at 78245 tons in November 2012 when compared to 82440 tons in November 2011, a fall of 5.0 percent.