

WILL THE RUBBER PRICES DECLINE IN THE FUTURE?

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When natural rubber prices were below Rs 40 per kg before the last quarter of 2002, nobody expected it to improve even to Rs 100 per Kg level again. At that time, rubber industry was considered as a “Sun Set” industry by economists and planters. This was the time that even Malaysia who were leading the world as the major rubber producer for couple of decades, converted most of their rubber lands to Oil Palm.



Conversion of Rubber Land

In Sri Lanka too, some of the plantation companies were seeking financial support from international organizations to convert their rubber plantations to the so called “Golden Crop” oil palm. However, RRI Sri Lanka was on a firm footing that the traditional rubber lands should not be converted to this new crop which was test planted at Nakiyadeniya estate in the southern province 30 years ago with unattractive crops and also with an adverse effect on the environment of the country.

Oil palm tree absorbing soil moisture and transpiring it to the atmosphere is known all over the world as a tree crop drying streams and water spouts. But, the short sighted decision taken by the government in power at that time permitted some of the companies to replace their rubber lands with oil palm and as a result, during this period approximately 7000 acres of rubber lands in the country, particularly in the southern province were converted to oil palm.

As a result of this monumental blunder, it has not been possible still, to produce sufficient rubber to run our rubber products factories, which are earning over one billion dollars annually. Since year 2000, in some of the years the total tonnage imported has exceeded 14,000; in the form of good quality sheet rubber. Fair amount of centrifuged latex is also imported annually to cater to the gloves manufacturing industry of Sri Lanka. This is allowed by the government to enable the export of latex crepes which we have been producing for export to niche markets in the world. But in order to curtail the importation of raw rubber to Sri Lanka, efforts must be taken to increase the rubber production in the country by growing rubber in the Eastern province of Sri Lanka and also in Monaragala and Hambantota districts, which are relatively dry districts compared to the rubber growing districts like Kalutara, Ratnapura and Kegalle. Small holders must be encouraged to produce No. 1 to 3 grade RSS sheets needed by the industry without producing low grades of RSS which are needed only by the Solid tyre industry.

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However, today most of the plantation management companies are covering their losses from other crops thanks to the income gained from the rubber areas they have. After this price recovery starting from the last quarter of year 2002, natural rubber prices in the world market shot up to nearly Rs 550 per Kg and then slightly declined to Rs 375 per Kg level by now. Why?

International rubber price depends totally on the demand and supply situation. With the world recession experienced since 2009, the demand for industrial rubber products and hence, the demand growth for natural rubber has declined remarkably during the last couple of years. Total synthetic and natural rubber growth rate in 2010 was at 15.3%. But as a result of the recession, this has now come down to mere 5%.

Glut Situation

With this increase in rubber prices since 2002, all rubber producing countries in the world, particularly the largest natural rubber producers tremendously increased their extent of rubber cultivation. Malaysia, which fell down to the 5th position among natural rubber producers from the first place they occupied until 1992 for decades, also converted some of their oil palm plantations to rubber and reached the third place among rubber producing countries by 2011. Total area under rubber in Thailand today is over 2.7 million Ha compared to the total extent of only 115,000 Ha we have under rubber in Sri Lanka. During that period particularly during 2005 and 2010, Thailand has planted rubber at a rate between 50,000 and 100,000 Ha per year. Similarly in most of the traditional rubber producing countries, and even in countries like Myanmar, Cambodia and Vietnam, large areas have been planted with rubber. Those newly planted areas are coming into bearing now and at present, particularly this year and in next few years, the International Rubber Study Group (IRSG) has predicted an excess of natural rubber in the world.

According to Dr Hidde P Smith, the former Secretary General of the IRSG who is a world renowned market analyst, the rubber prices may come down to Rs 300/Kg level during this year. In another couple of years, there is every probability that the prices of rubber may witness a marginal drop.

But this is not a signal for the short-sighted oil palm promoters to start a campaign again by totally ignoring the environment of the country to diversify the rubber lands to oil palm. Dr Smith, himself has predicted giving reasons that the prices of natural rubber will start rising again towards the end of this decade. After which prices will shot up according to him to over Rs 650 per Kg without showing any reason to decline again for a couple of decades.

According to the Rubber Development Department of Sri Lanka, there will be a decline in the rubber production in the country this year by 33,000 Mt due to high immature extent in the country, thereby increasing the domestic rubber prices offsetting the decline in price caused by the excess production in the world.

National Obligation

Hence, the rubber growers in Sri Lanka should be determined to maintain their rubber farms, enjoying the huge fertilizer subsidy offered by this government, until 2020 to reap the benefits of this increased price in another six to seven years. If they neglect their plantation during this period of little low rubber prices, bringing their trees back to the top yielding level will take some time. If they totally neglect them during this period, trees will not return back to that level again.

During this period of time, RRI should be vigilant to see how the plantation management companies are maintaining the rubber plantation. The Rubber Research Act is clothed with enormous powers in that RRI could visit estates without prior notice to ensure that correct agricultural practices are followed by the estates. RRI should make sure that the management companies are continuing the replanting of old plantations at the RRI recommended rate, without neglecting them. Then only there will be a tremendous chance for Sri Lanka to enjoy the benefits of the high prices of rubber predicted by Dr Smith in 2020.