

COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION COMMUNICATION TO THE COUNCIL
CONCERNING GUIDELINES FOR A COMMUNITY POSITION
WITH A VIEW TO THE WORK OF UNCTAD ON NATURAL
RUBBER

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Commission Communication to the Council concerning guidelines for a
Community position with a view to the work of UNCTAD on natural rubber

1. Natural Rubber within the UNCTAD Integrated Programme for Commodities

1.1 Resolution 93(IV) adopted at the Fourth UNCTAD in Nairobi in May 1976 lists the objectives, the commodities, the international measures and the follow-up procedures and timetable for the implementation of the measures of the Integrated Programme for Commodities. Among the list of 18 commodities identified by the resolution, and included in the hard "core" of 10 products considered suitable for buffer stock arrangements, is natural rubber. Natural rubber has in fact been the subject of international discussion for some 25 years within the forum of the International Rubber Study Group in which information about rubber is regularly exchanged.

1.2 In accordance with Resolution 93(IV) a First Meeting of a Preparatory Committee on Natural Rubber was convened by the Secretary-General of UNCTAD and took place in Geneva from 17-21 January 1977. This was followed by a meeting of an Intergovernmental Working Group (2-9 June 1977) and by a Second Meeting of the Preparatory Committee (6-10 June 1977) also in Geneva. At these meetings the Association of Natural Rubber Producing Countries (ANRPC) Malaysia, Indonesia, Thailand, Singapore, Sri Lanka, India, Papua-New Guinea put forward for consideration the Agreement which they had signed in Djakarta in November 1976 and followed this with proposals for an international buffer stock arrangement. These ANRPC proposals have provided the basis of discussion at all the meetings held so far. The Second Meeting of the Preparatory Committee agreed to set up an Intergovernmental Task Force on Rubber with the following mandate :

- to consider in greater detail and assess the specific elements of a possible commodity agreement for natural rubber (1) and other factors relating to natural rubber as already identified by the Intergovernmental Working Group in its report, together with any other proposals, in order to make concrete recommendations on them.

(1) See Annex 1

1.3 At the first meeting of this Intergovernmental Task Force, held in Geneva from 10-20 October 1977, discussions covered all the elements identified by the Intergovernmental Working Group as requiring further detailed examination. It was however accepted that the precise positions of producing and consuming countries are likely to be settled only if a negotiating situation is arrived at since they are not all susceptible to precise technical analysis. Nevertheless at the end of this first meeting, the Task Force was able to agree on a statement to depict progress (1).

1.4 A second meeting of the Task Force has been arranged for 6-9 December 1977 and is expected to prepare a report and recommendations for the Third Meeting of the Preparatory Committee, (scheduled 27 February - 3 March 1978) at which consuming countries have given a commitment to take a decision whether to agree to convene a negotiating conference aimed at concluding a formal Intergovernmental commodity agreement.

1.5 The present document is intended to propose guidelines for an EC position for this forthcoming meeting of the Task Force. It is to be emphasised, however, that at this stage in the discussions under the Integrated Programme for Commodities, no directive for actual negotiations is required or being asked for. The EC will not indeed face the necessity of adopting such a directive unless the Preparatory Committee at its Third Meeting agrees to proceed to negotiations, although it is advisable to anticipate that the Task Force will recommend this. Nevertheless, negotiations are unlikely to start before the Summer of 1978. However in that case the Commission will return with proposals necessary to establish such a directive.

2. Features of the World Rubber Market

2.1 Production

World production of all elastomers in 1976 was about 11.5 million tons, of which some 30% (3.540.000 tons) was natural rubber (NR). Production of NR is highly concentrated on South East Asia : Malaysia (1.56 million tons), Indonesia (848.000 tons), Thailand (373.000 tons) and Sri Lanka (152.000 tons) provide nearly 85% of world output, of which the first two alone some 70%. Other production areas outside Asia include certain West African countries, India and Brazil.

(1) See Annex 2

Some 65-70% of NR is produced by smallholders, the remainder on estates. However significant differences exist between the various countries; smallholders now account for some 67% of Malaysian output, 77% in Indonesia and 95% in Thailand, while the bulk of West African output is on estates. As a consequence of these structural differences (and the very impressive research results achieved by Malaysia in particular) productivity and consequently costs vary greatly between producers (1), as does the ability to "regulate" output by changing tapping schedules and tree inputs, which is mostly only possible on estates.

To maintain their share of the expanding world market, the NR producing countries must undertake the necessary large scale investments which will only be carried out against a reasonably stable economic background, particularly as regards prices.

Synthetic rubber (SR) is on the other hand largely produced in developed and centrally-planned countries, it being important in the present context to distinguish between three types of SR : the highly specialised SR's which do not compete with NR, general-purpose SBR which is the main current competitor of NR in a wide variety of uses, and the newer cis-polyisoprene, which is NR's most dangerous potential competitor, being an almost perfect substitute.

2.2 International Trade

With relatively little rubber manufacturing facilities in the NR producing countries, world exports of NR generally constitute about 90% of world production, and follow closely the same pattern, Malaysia and Indonesia being the dominant suppliers. With their long coastlines, both countries (and Thailand), however, ship some proportion of their exports through Singapore, giving the latter's market a significant role in the daily price formation, and indeed, it should be noted, in any regulating mechanism which may eventually be agreed. In total, Malaysia (1.58 million tons), Indonesia (811.000 tons), Thailand (373.000 tons) and Sri Lanka (137.000 tons) provided about 90% of world net exports in 1976, Brazil and India consuming all their NR output in their own industries. Export earnings averaged some \$ 2.25 billion in 1976, a high-price year, of which Malaysia \$ 1.2 billion, Indonesia nearly \$ 0.5 billion and Thailand \$ 0.25 billion. These sums represented about 23%, 5% and 8% of total export earnings for the three countries respectively.

(1) National average yields in S.E. Asia alone vary between 350 and 900 Kgs/hectare

Major importers of NR are the Community (23% of 1976 world total of 3.1 million tons), USA (22%), Japan (9%), USSR and China (7% each). Trade in SR is smaller (1.9 million tons in 1976), especially in comparison with its production, but can have a significant impact on prices in given countries.

2.3 Prices

The long-term tendency of NR prices was generally downwards for many years until the oil crisis of 1973, although considerable variations took place around the trend, with peaks in 1966 and 1969. Since 1973, following the rise in oil prices which led to big increases in SR prices, NR prices appear to have moved to a new higher level, despite the slackening in demand for NR owing to the world recession.

Prices of rubber have nevertheless continued to fluctuate considerably from year to year, and also from month to month. Year to year changes (1) over the past six years have for instance been as follows :

1976 on 1975	:	+ 47	percent
1975 on 1974	:	- 24	"
1974 on 1973	:	+ 8	"
1973 on 1972	:	+ 77	"
1972 on 1971	:	- 8	"
1971 on 1970	:	- 18	"
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average change:		30	"

Average monthly prices in the latest full year 1976 also fluctuated considerably between a low and a high 31% apart, within the space of 5 months. Price fluctuations are thus of much greater significance than for SR whose prices normally move within a much narrower range.

The rubber market has generally been an entirely free market although, in 1974-5, Malaysia succeeded by a series of supply control measures, mainly affecting its estates and extending over a number of months, in withdrawing sufficient supplies from the market to push prices to more remunerative levels. It was this success which gave birth to the ANRPC's buffer stock idea.

(1) Basis RSSI fob Kuala Lumpur

2.4 Consumption and Competition between NR and SR

Consumption of elastomers can be generally broken down into tyre and non-tyre uses. This is however a considerable simplification justified only by the scarcity of the available statistics. Estimates indicate that about 75% of world consumption of elastomers is for tyres and other transport equipment the remainder for non-tyre uses. Most NR goes into tyre construction, particularly into heavy-duty aircraft, truck and tractor tyres, and the new longer-lasting radial passenger-car tyres, the latter requiring higher proportions of NR than traditional car tyres, which are now mostly SR. NR also has a major share of the pharmaceutical, hygienic and certain other markets, but the great bulk of the numerous other non-tyre uses is taken by general-purpose and speciality SR's.

In most uses, substitution between NR is probably more dependent on technical factors than on price, except when price differences are perceived to be large and/or expected to be long-lasting. But the situation is more complex than this. Certain high-cost SR's have specialised uses for which NR is not suitable. NR also has very much its own market in heavy-duty tyres and hygiene articles, subject only to what is stated below for polyisoprene. The area of close price competition between NR and SR is thus relatively small. NR's present main competitor is the cheaper general purpose SBR synthetic rubber, although this does not have all NR's properties. However, NR's most dangerous potential substitute is the second-generation SR, cis-polyisoprene, (which almost exactly reproduces NR's principal properties), though the latter is not quite competitive with NR even at the current relatively high price of NR. But increases in NR prices beyond certain levels could stimulate heavy new investment in SR and especially polyisoprene capacities, and thus lead to significant replacement of NR in certain end-uses. The existence of polyisoprene thus sets an upper limit, in the longer-term, to the possible levels which NR prices could reach.

3. Guidelines for a Community position

3.1 The purpose of this Commission Communication is to establish the main lines of a common position with a view to the forthcoming work on rubber in the context of the UNCTAD Integrated Programme.

.In view of the lead taken by the producer countries, whose proposals for an international agreement on the stabilization of natural rubber prices were put forward months ago, the Community - like the other major consumer countries - finds itself obliged to settle rapidly on a position with a view to the adoption early in December 1977 of practical recommendation for the third meeting of the Preparatory Committee on rubber, which is scheduled to be held from 27 February to 3 March 1978.

The adoption of such a position at this stage of the work is obviously without prejudice to :

- the continued examination of the economic and technical problems involved, which will have to be studied in depth in any case before a negotiating conference is called. In this connection the following may be cited as examples, on the assumption of a draft agreement based on an international buffer stock : the size, composition and location of the stock; price levels and the width of the price band; the determination of an indication price representative of the market; price differentials according to the quality and type of rubber; the machinery for buffer stock intervention within the price band; the desirability and nature of any supply rationalization measures; the powers of the buffer stock manager; financing;
- the definitive solutions to the above problems which, given their importance, will for the most part have to be dealt with in the negotiations themselves.

3.2 There are already a number of considerations on which a Community position could be based :

- a) among of the commodities listed in Resolution 93 (VI) which will be suitable for stabilization through an international agreement based on a buffer stock rubber is indisputably the one on which the preparatory work called for in that Resolution is furthest advanced and it will therefore constitute a test case for the implementation of the Integrated Programme;

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- (b) fact that the world natural rubber market has for many years been subject to wide price fluctuations - which not only cause serious economic and social problems for the producer countries but have been acknowledged by the consumer countries at previous meetings of the Preparatory Committee and elsewhere - and this is a reason for making an effort to stabilize prices;
 - (c) the Community's wish to contribute to the carrying out of the action programme regarding the establishment of a new international economic order;
 - (d) the Community's objective as stated on a number of occasions in international fora, particularly in the context of CIEC* to conclude in appropriate cases international agreements between producers and consumers with a view to stabilising world commodity markets; in the particular case of rubber there is also an obvious interest in avoiding the unilateral implementation by producing countries themselves of the Djakarta Agreement, which they wish to see replaced by an instrument of international cooperation within the context of the UNCTAD Integrated Programme;
 - (e) the situation of the main producer countries concerned, their role as moderating influences in South and South-East Asia and their economic and demographic significance in the Group of 77 - nearly 200 million people in the four countries which produce 85% of natural rubber (plus India). All these factors are of great interest to the Community and to the other industrialised consumers, particularly the United States and Japan.

3.3 The Community should therefore be able to accept recommendations opening the way to negotiations for an international agreement on the stabilization of natural rubber prices.

At this stage of Community thinking and in the light of the studies carried out in certain countries and the views already clearly expressed by the producer countries and by consumer countries such as Japan and the USSR, the Commission considers, subject to the observations made in paragraph 3.1 above, that the negotiations should be concerned with an international buffer stock system, which would appear to represent the best possible solution in the case of rubber.

* The Conference on International Economic Cooperation

Support measures such as supply rationalization mechanisms could be worked out in the negotiations, whether involving restrictive measures (export or production quotas) or measures to boost supply (release of stocks and production policy).

4. Proposals

It is therefore proposed that the EC should be prepared to accept as the outcome of the work of the Inter-Governmental Task Force on Natural Rubber conclusions and recommendations to the Third UNCTAD Preparatory Meeting on the following lines :

1. a recommendation for negotiations to establish a formal inter-governmental commodity agreement between natural rubber producing and consuming countries with the objective of contributing to a reduction of the fluctuations in the price of natural rubber around the long-term market trend;
2. that such an intergovernmental commodity agreement be based either on a pure international buffer stock as the instrument to reduce price fluctuations or an international buffer stock system supported by supply rationalisation measures as a contingency mechanism;
3. that the guidelines for the intervention of the manager of the international buffer stock to defend the ceiling price should mirror those for the defence of the floor price;
4. that while consuming countries should accept financial obligations equal to those imposed on producing countries for the financing of the international buffer stock, the question of agreeing to an overall balance of rights and obligations-if this is taken to mean the acceptance by consuming countries of any responsibility for the cost of supply rationalisation measures as well - should be approached with the greatest reserve;

5. that it is recognised that a number of important aspects of such a possible intergovernmental commodity agreement still require further examination and/or may only be settled eventually if negotiations take place, including inter alia :

- a) the volume, composition and location of a buffer stock;
- b) the criteria for establishing floor and ceiling prices and the price bands between them, composition of the indicator price(s) and the actual price trigger points;
- c) the precise nature of supply rationalisation measures if any;
- d) methods of financing;
- e) the internal organisational structure and the decision making procedures within the Council established to implement any Agreement.

ELEMENTS OF A POSSIBLE COMMODITY AGREEMENT EXAMINED
BY THE INTERGOVERNMENTAL TASK FORCE

The elements which had been identified by the Intergovernmental Working Group as those on which Governments should focus their attention and undertake more detailed work include, inter alia :

- (a) The mechanisms which could effectively contribute to the stabilization of natural rubber prices;
- (b) The size, composition, management of an international buffer stock as a central feature of a possible commodity agreement for natural rubber;
- (c) The criteria for establishing floor and ceiling prices (as well as the inner price bands) under such an agreement;
- (d) The determination of an indicator price (or prices);
- (e) The nature and use of supply rationalization measures as contingency support for both floor and ceiling prices.

Other factors relating to natural rubber which should receive equally detailed attention and work include, inter alia :

- (a) Means for assuring increased productivity in the natural rubber industry, including appropriate transfer and dissemination of technical knowledge;
- (b) Financial requirements;
- (c) The decision-making process within a possible commodity agreement;
- (d) Effective exchange of statistical and economic information among producing and consuming countries;
- (e) Any other measures which can contribute to the accepted goal of increased price stability in natural rubber markets.

EXTRACT FROM REPORT OF THE FIRST MEETING OF THE INTER-
GOVERNMENTAL TASK FORCE (10-20 OCTOBER 1977)

Announcing a fuller appreciation of "some of the major factors relevant to natural rubber supply-demand, the desirability of price stabilization, the mechanisms currently proposed to introduce and maintain a measure of price stability and various parameters of a possible international agreement", and that in achieving a clearer understanding of various mechanisms and their applicability, the Task Force had been able to discern clear directions on which consensus might be considered possible and practicable. These included inter alia,

- "(a) a pure international buffer stock as the instrument of price stabilization, or an international buffer stock system supported by supply rationalization measures as a contingency mechanism;
- (b) the size of a buffer stock should be such as to ensure its effectiveness as a price stabilization mechanism;
- (c) a stabilization price range which would be remunerative to producers, fair to consumers, ensure adequate supplies, and wide enough to serve the purposes of the possible agreement;
- (d) a balance between producers and consumers of rights and obligations and benefits, in any possible international stabilization agreement on natural rubber."

It was recognised that many of the factors, including those implicit in (a) - (d) above, would require further consideration and would, in any case, be subject to negotiation if and when a decision is taken to negotiate an international price stabilization agreement. However, it was agreed that the progress in achieving a greater understanding, as well as the additional discussions at the December meeting, should enable the Task Force at its December meeting to make concrete recommendations to the Third Preparatory Meeting.

BASIC STATISTICS ON RUBBER

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977 (Jan-May)</u> (est)
	000 MT				
<u>World NR Production</u>	3570	3515	3315	3543	1435
<u>World SR Production</u>	7758	7575	6855	7960	3530
<u>NR as % Total</u>	<u>31.5</u>	<u>31.7</u>	<u>32.6</u>	<u>30.8</u>	<u>28.9</u>
<u>World NR Exports</u>	<u>3180</u>	<u>3110</u>	<u>2915</u>	<u>3175</u>	<u>1363</u>
Mayaysia	1591	1531	1424	1580	670
Indonesia	842	795	788	811	-
Thailand	368	365	335	373	199
<u>World NR Imports</u>	<u>3128</u>	<u>3155</u>	<u>2973</u>	<u>3133</u>	<u>1420</u>
EEC	731	707	652	727	329
USA	628	667	639	697	326
Japan	366	308	299	293	118
USSR	260	315	235	216	89
China	265	191	240	223	113
<u>World SR Imports</u>	<u>1928</u>	<u>1813</u>	<u>1603</u>	<u>1930</u>	<u>-</u>
<u>Prices</u> s Mal./Ton				
<u>RSS1 fob K.Lumpur</u>	<u>1655</u>	<u>1794</u>	<u>1357</u>	<u>1991</u>	<u>2036^{a)}</u>

a) 1977 : First 7 months : 2004; 4.11.77: 2060.

Source: IRSG Statistical Bulletin, September 1977.