



EUROPEAN TYRE & RUBBER  
manufacturers' association

[www.etrma.org](http://www.etrma.org)

# TRANSPARENCY ON NATURAL RUBBER FUNDAMENTALS ROLE OF IRSG

*European Parliament – INTA Committee*

*December 20, 2011*

*Fazilet CINARALP, Secretary General*



# NATURAL RUBBER

- Single user industry –dominated by tyre demand (**70%**); major constituent of a tyre  
**→ upto 40% of tyre weight**
- Industry needs Predictability and Continuity in raw material supply

## *Natural Rubber Production concentrated in SE Asia (93%)*

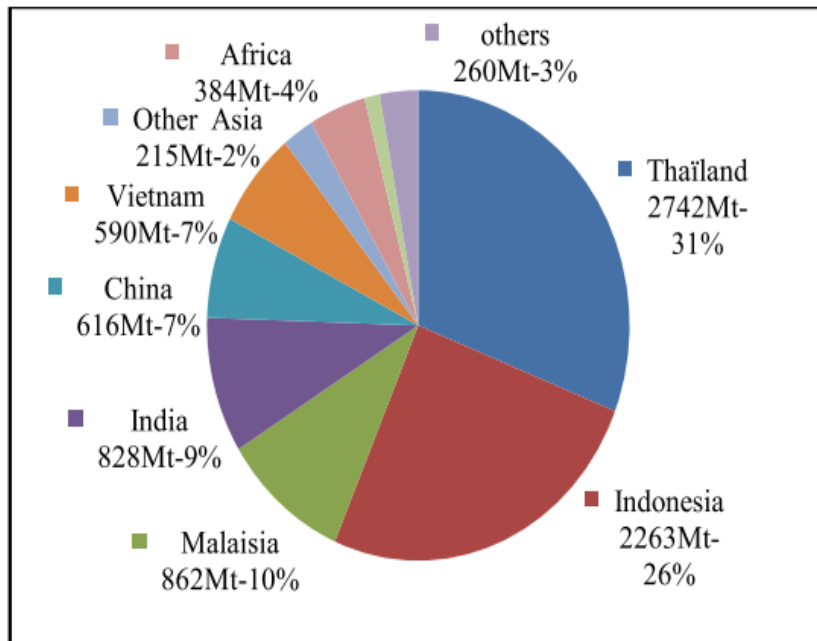


Fig. 1: World NR production (source SIPH, 2010)

- ➔ 85% of the world production comes from smallholders (<3ha)
- ➔ Long gestation period: 7 years to see returns → Returns are unknown at time of planting
- ➔ Weather conditions (floods, ...)

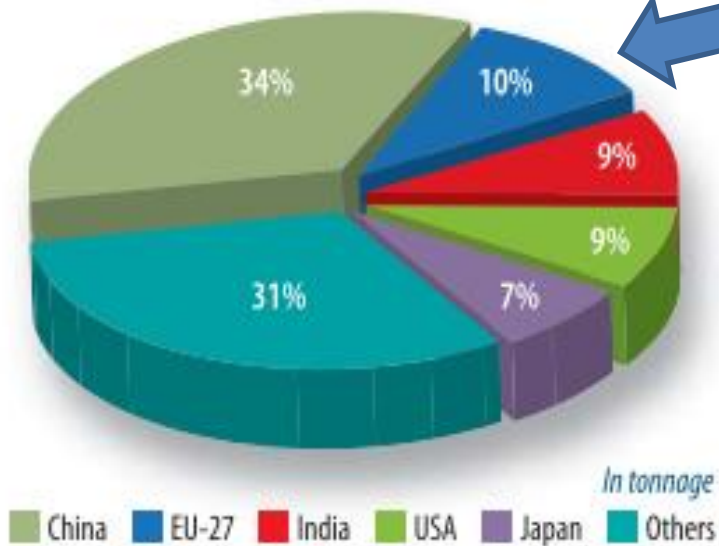
### Uncertainty for both producer and end-user

Smallholders will choose other crops whenever returns are insufficient. They will plant more rubber if returns are good

Results in Boom and Bust cycle with 7-10 years time lag.

# World NR demand

Breakdown of world NR consumption 2010



Source IRSG

•EU is 100% important dependent on NR

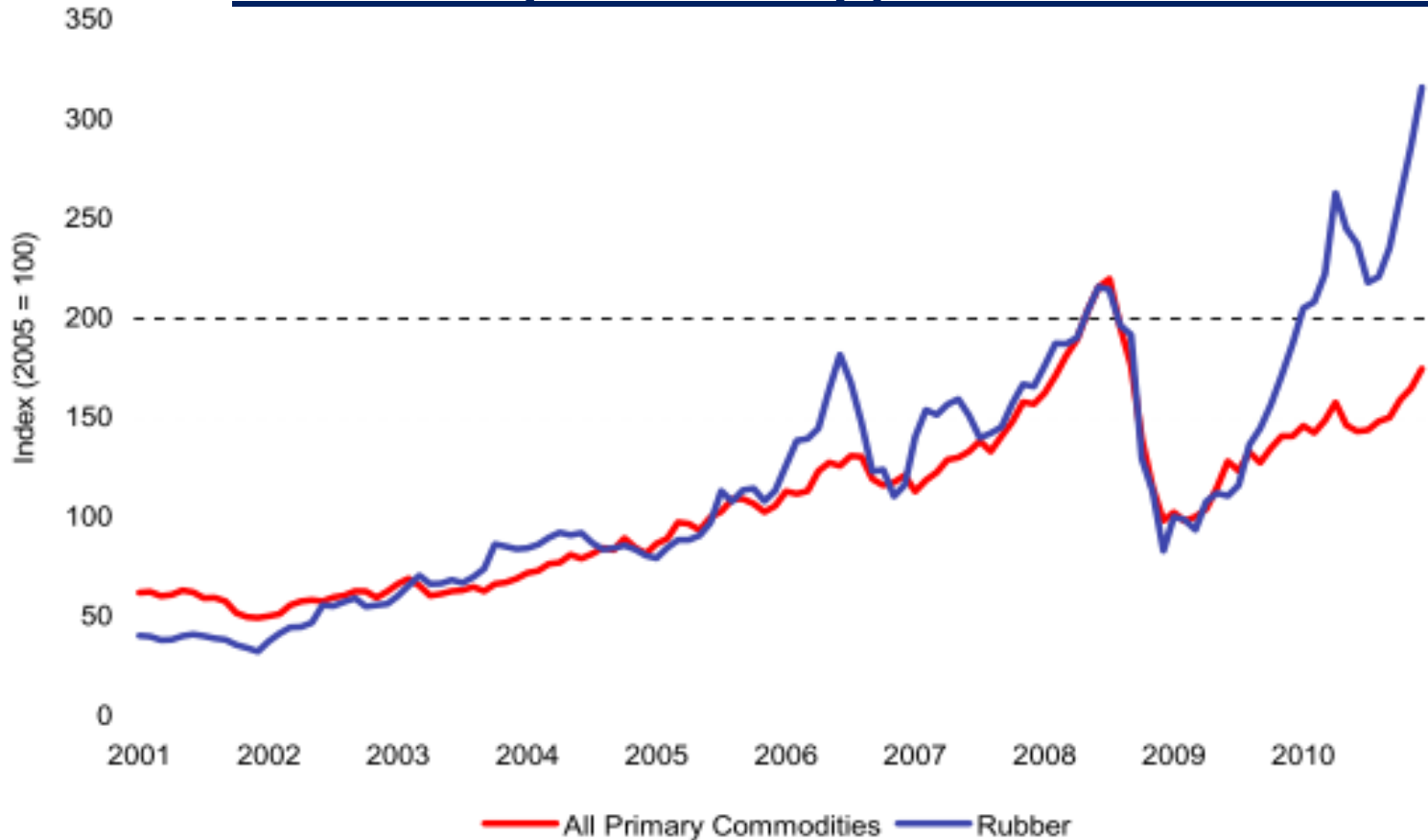
•Markets with highest growth rate are in SE Asia (China, India, Indonesia, Thailand...)

•Predictability & continuity under stress !



# NR markets subject to unprecedented price volatility

## IMF Primary Commodity price index and rubber

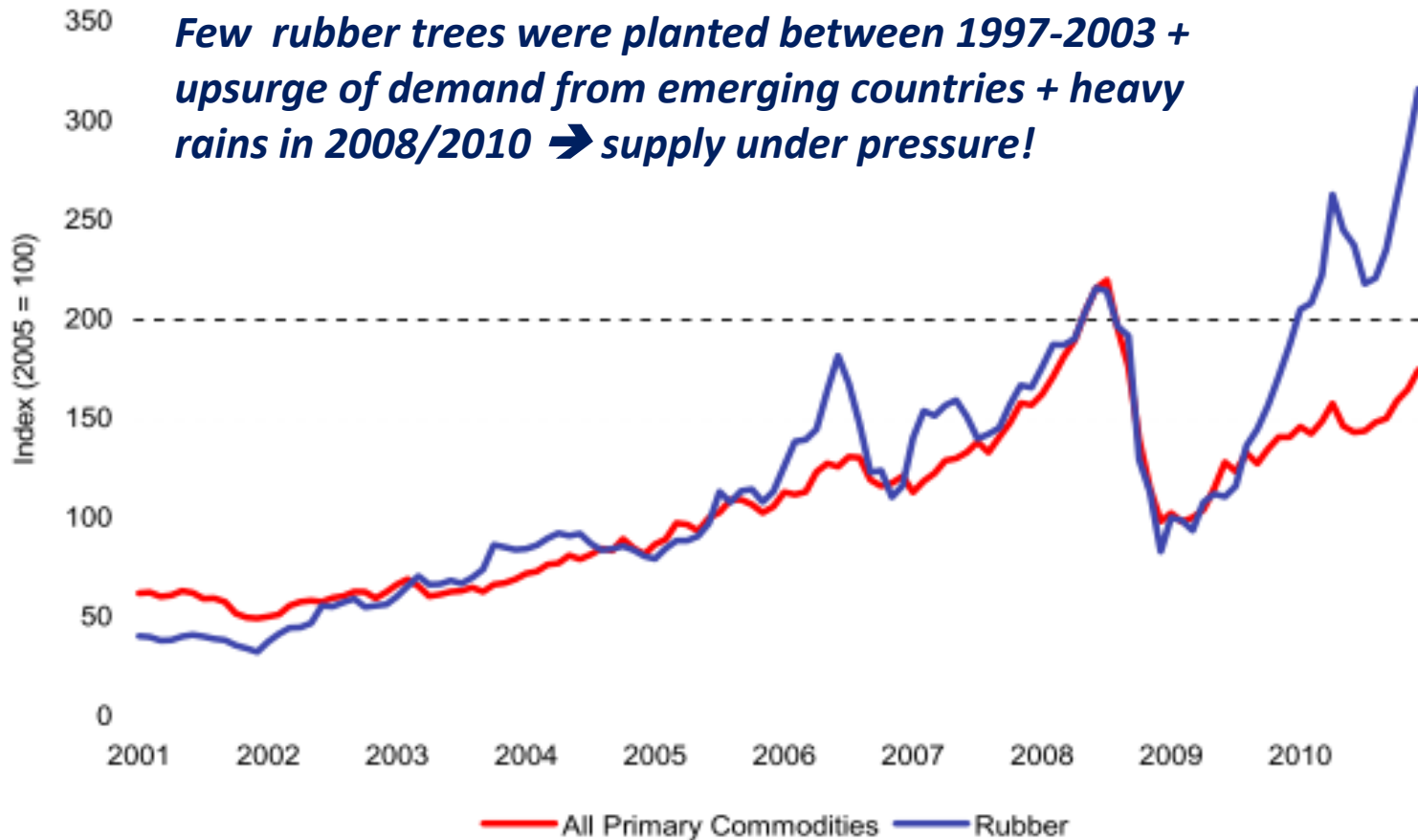


Source: IMF, International Financial Statistics



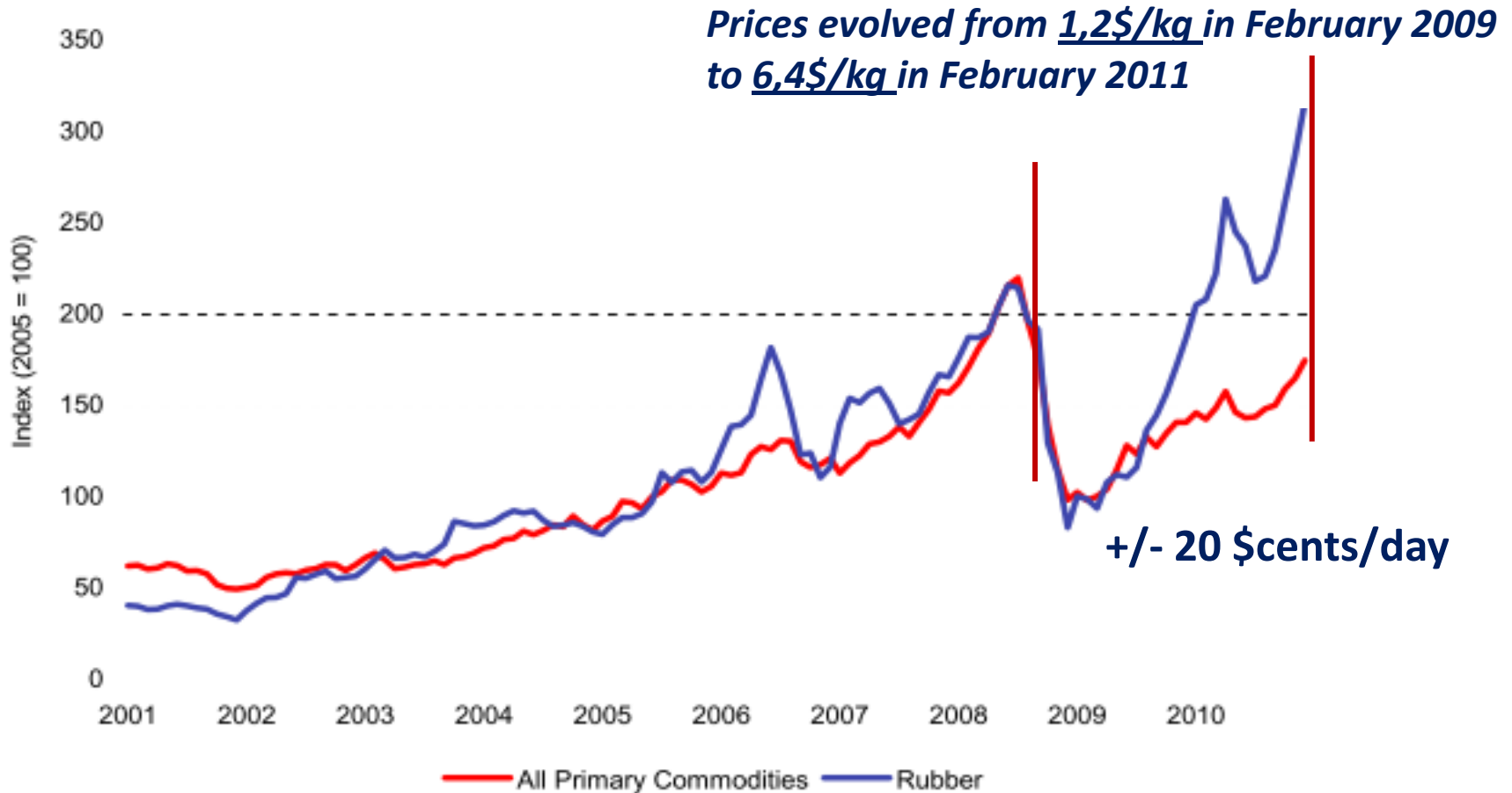
# IMF Primary Commodity price index and rubber

*Few rubber trees were planted between 1997-2003 + upsurge of demand from emerging countries + heavy rains in 2008/2010 → supply under pressure!*



Source: IMF, International Financial Statistics

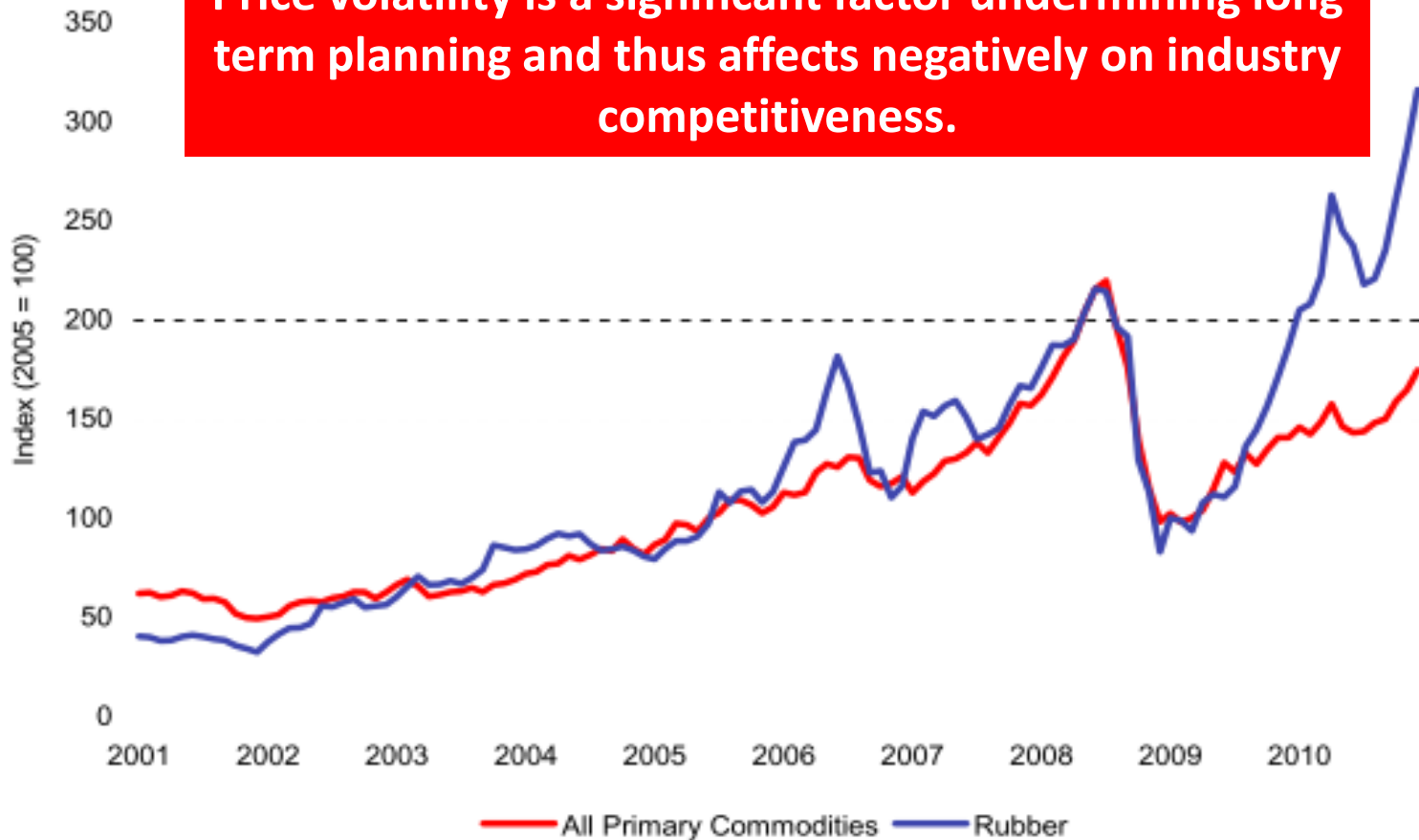
# IMF Primary Commodity price index and rubber



Source: IMF, International Financial Statistics

# IMF Primary Commodity price index and rubber

**Price volatility is a significant factor undermining long term planning and thus affects negatively on industry competitiveness.**



Source: IMF, International Financial Statistics





***ETRMA commissioned a study in May 2011, to look at the factors behind the NR price volatility with a view to identify the means, including assessing the existing tools, for improving market transparency***

# “Understanding Natural Rubber Price Volatility” – A Study for the ETRMA

*Strategic Considerations, Key Conclusions and Recommendations for the European Parliament*

Alexis Lautenberg, James Searles

STEPTOE & JOHNSON LLP

[www.step toe.com](http://www.step toe.com)

20 December 2011

# Backdrop to and the drivers behind the Study

- Financial crisis starting in 07 raised awareness of the steep increases and huge price volatility of commodities
- This awareness generated broad and significant range of activities in international fora designed to assess and better control the pricing phenomena
- Resulting momentum generated uncertainty about the role of financial markets and the relationship between producers and consumers

# Strategic considerations of the Study

- Better understand the economics of commodity pricing and volatility developments (fundamental and exogenous factors)
- What patterns are common to commodities generally and what is specific about Natural Rubber
- NR's specific trading culture and impact on trading platforms
- The institutional follow-up to G8/G20 initiative: Which existing and new bodies are active in dealing with commodity issues (G20, World Bank, OECD, FAO etc.) and how is NR affected or not
- Global considerations and European specificities.

# Scope of NR Trade Concerns

Regulators and ETRMA need to have regard to three market elements crucial to transparency and proper evolution of pricing in the NR market:

- the physical trade,
- the financial platforms,
- overarching trade policy arrangements.

# Transparency in Physical Trade of NR

- Improved transparency on NR production (supply) remains principal objective and key to securing necessary level of transparency in physical market overall
- Reliable and timely statistical data on both NR supply and demand (and on inventories as possible) essential for trust of all stakeholders; development of credible data repository
- Support re-launch of International Rubber Study Group (IRSG) as primary platform for NR market data exchange
- Enhance authorities' access to quality market information and legal powers to investigate, intervene and impose penalties in instances of manipulative/abusive conduct

# Transparency in Financial Platforms

- Transparency = efficient price discovery
- Reform of EU financial markets re Commodities trading does not impact current NR purchasing arrangements, but still relevant to establish int'l. model for transparency and to fight market abuse
- Commission and ESMA both equipped with third country competences
- No proof that financial investors have unduly impacted price trends or volatility but NR sector has clear interest to track “financialisation” debate having regard to specificities of current NR futures exchanges (Singapore, Tokyo, Shanghai,)

# Trade Policy Instruments for Commodities

- Use EU GSP and bilateral instruments (FTAs and P&C agreements) to help secure fair terms/access to essential commodities and raw materials  
(FTAs not currently envisaged for all NR producer countries)
- OECD and G-20 contribution to larger trade debate should not be underestimated
- Prepare ground for potential additional multilateral trade disciplines, e.g. to enact “fair access to supply” principle for essential commodities and other raw materials; WTO will remain the most appropriate platform (also for dispute settlement).





# Recommendations Going Forward

European Parliament is invited to:

- Endorse (politically/financially) IRSG continuity as an essential NR multi-stakeholder platform;
- Call for further strengthening of governmental membership and broadening of IRSG role to become model international commodity data body;
- Ensure all relevant EU trade agreements incorporate clauses enabling effective action against physical and financial market abuses.