

Tyre and Rubber Industry's contribution to a public consultation on the Raw Materials Initiative

17.09.2010

The European Tyre and Rubber Industry welcomes the opportunity to contribute to the European Commission consultation on the Raw Materials Initiative.

To place the sector in an economical perspective, the European Tyre and Rubber Industry represents a substantial economic sector in the EU and in global markets employing directly 360 000 people in Europe and worldwide.

POLICY AREA: DEFINING CRITICAL RAW MATERIALS

1. Do you have any comments on the methodological approach, including the scope, to determine criticality at EU level? If so, please specify.

The scope of materials analysed should be broadened. Currently too much emphasis is given to metals and minerals which nevertheless is a good starting point. Metals and minerals are not, however, the only important raw materials for the EU Industries.

Doubling of global raw materials consumption can be expected in the 30 years to come and the market will continue exerting pressure with a significant increase in raw materials prices that cannot be economically absorbed. Analysts predict that demand will continue to outstrip supply and it may last for the next decade.

There should be a critical assessment not only from the economical point of view but also from other angles. Supply shortage in some sectors may have consequences which affect, for example, societal strategically important sectors, such as healthcare, medical science and transport.

In the light of the above, The European Tyre and Rubber Industry encourages policy-makers to further work closely with stakeholder to indentify critical raw materials for the

EU industry. Broader scope of stakeholders should also be considered and in our industry, we feel the World Rubber Forum and more especially the Intergovernmental Rubber Study Group (IRSG¹) would be an appropriate interlocutor and contributor to deal with natural rubber.

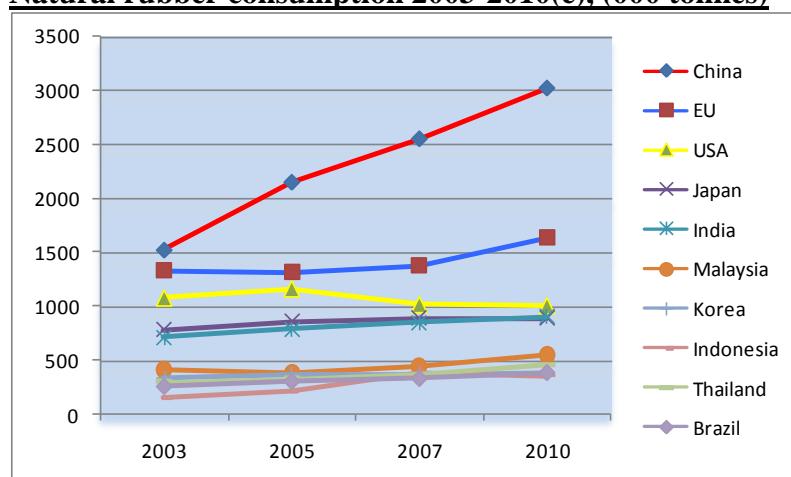
2. Do you see any additional raw material that should be considered as critical?
If so, please explain.

The European Tyre and Rubber Industry is dependent on many materials, among others, steel, oils and natural rubber. Recently some materials, like Solution SBR (Styrene-Butadiene Rubber) and anything containing butadiene monomer, used in rubber manufacturing have become either scarce, expensive or both. These raw materials should be considered critical because, as for many other substances used in the rubber industry, substitution might not be possible, and in any case would involve slow and expensive work requiring highly skilled and specialized researches and costly up-to-date laboratories.

Moreover, our industry is highly dependent on natural rubber to manufacture tyres and we import it from third countries. Today, we are not able to find a substitute material to natural rubber which could guarantee the same tyre performances. We therefore believe that natural rubber should be part of the EU list on critical raw materials for the following reasons:

A) Demand is growing, especially in emerging markets, but also due to growing need for transportation, trends of urbanization and globalization (estimated population growth into 8 billion by 2025). By 2035, it is anticipated that the global natural rubber demand would double.

Natural rubber consumption 2003-2010(e), (000 tonnes)



Source: IRSG

¹ See response to Question 6

B) Cultivation is not growing according to the growth of consumption, or worse, in some occasions even diminishing, due to intrinsic challenges in the cultivation process (need for skilled labour, slow yield from new plantings, arrival in 2010 at the point where large part of the planted hevea tree producing natural rubber needs to be rooted and replaced etc.).

The Tyre Industry is by far the largest end-use market for natural rubber.

Consuming around 70 % of the produced natural rubber, it also accounts for 25 % of the companies' raw materials costs. The world's three largest producers of natural rubber are located in the ASEAN region and account for close to 70% of global production and 85% of global exports. The European market is the second export destination of natural rubber after China. In this context, any production decrease or supply restriction could immediately threaten the manufacturing capacity of the European Industry.

For example, tyres are made from more than 100 raw materials. The increase of raw materials prices for the Tyre Industry has been over 60 % compared to the level of 2002. Over these years oil prices have nearly tripled and natural rubber prices have increased by nearly 400 %, driven by lower production at rubber plantations in South East Asia and higher demand from China (the EU is the second biggest consumer of natural rubber with a consumption of 1.3 million tonnes in 2007, while China being the biggest with its 2.5 million tonnes consumption).

Automotive tyres are essential components without which road transport will not exist as we know it today. But other key industries such as car-makers and construction companies are important consumers of natural rubber, for example for seals, belts and hoses as well as for seals and roofing.

Worldwide trends of production and consumption of NR

The production of natural rubber depends on prices, exploitation of rubber land and on continuation of planting policies. According to IRSG, the following projections are formulated:

(‘000 tonnes)	2000	2005	2010	2015	2020
Production of NR	7 416	8 576	9 828	11 844	13 805
among which, Thailand	2437	2725	2956	3540	3809
Indonesia	1776	2138	2690	3428	4179
Malaysia	1000	994	911	856	846
Consumption of NR	7 378	9 073	10 595	12 306	13 981

3. Do you have any comments regarding the recommendations of the report? If so, please specify.

ETRMA welcomes the recommendations, notably those aiming to ensure a level playing-field and fair access to raw materials in global markets, based on the pillar 1. of the proposed strategy. Regarding pillars 2. and 3. of the strategy, we would like to make the

remark that, as stated before, no natural rubber is cultivated in Europe and substitution of it is not possible.

We would nevertheless like to see a broader scope of raw materials being analysed to encompass other materials outside metals and minerals groups.

4. Are you aware of any initiatives in your country that aim to assess the criticality of raw materials? If so, please describe briefly.

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5. The functioning of raw materials markets has not been dealt with. Do you think that further analysis of their functioning should be carried out? What actions should be proposed to increase their transparency?

Raw materials markets encompass a wide range of actors operating throughout the supply chain: multinationals, smaller companies, state-owned enterprises and governments, etc.

Fair access to raw materials is not dependent only on the level of production and demand, but increasingly of the workings of its markets. In this context it should be mentioned that in the recent years we see traditional supply and demand market mechanisms not working anymore, as financial speculation is driving raw material prices in different directions. An example would be a market, whereby typically high producer inventories would lead to falling prices and low producer inventories would lead to rising prices – in a financially driven price scenario, prices would continue to go up despite a rise in producer inventories.

6. Do you think that the EU should propose a system of stockpiling for the critical raw materials? If so, please indicate whether you consider it more appropriate to do this at Community or alternatively at Member States level.

The international organization for such EU activities could be the IRSG which is an inter-governmental organization in existence that has a ready platform for discussion on partnership activities to obtain sustainability. IRSG should be strengthened so that it can perform its objectives efficiently. China (now the major consumer and a producer) should become a member and Indonesia, the second largest natural rubber producer in the world must be encouraged to return as a member (Indonesia resigned due past financial constraints but should now be in a position to be able to afford the contribution). The Indonesian government needs encouragement to rejoin.

Furthermore, any stockpiling activity should nevertheless avoid negative consequences like price-volatility.

POLICY AREA: TRADE

7. Do you think that the importance of trade is adequately reflected in the work carried out so far in the Raw Materials Initiative?

The approach and effectiveness of the Directorate-General Trade of the European Commission to global trade disturbances is well respected by ETRMA. Many examples of fruitful cooperation have taken place (like Market Access Strategy) and these should be continued and further developed to meet the evolving future needs.

8. Do you have any comment regarding the main findings of DG Trade activity report? What activities should be prioritised? Are there, in your opinion, additional activities not mentioned in the report which should be pursued in this strategy?

According to the report, the action of DG Trade has focused on three goals:

- 1. Defining the rules of the game, by integrating trade disciplines most relevant to raw materials in ongoing trade negotiations;*
- 2. Enforcing the rules of the game, by tackling the illegal trade barriers most harmful to the EU economy;*
- 3. Reaching out to third countries to exchange views and analysis, be they importers or exporters of raw materials, so as to favour a coordinated approach amongst all relevant actors.*

ETRMA subscribes to these priorities and emphasizes the significance of the enforcement: negotiated agreements lose their meaning unless sufficient enforcement and follow-up actions take place.

Regarding the main consumer markets of natural rubber, such as the EU, USA and Japan, it might be beneficial to join forces in order to build up synergies for coordinating actions at the international level and especially through OECD, UNCTAD and WTO.

9. Please identify trade distortive measures (i.e. export restrictions) concerning raw materials that in your view should be tackled.

Something which could amount to trade barriers relates to the definition of waste and recycle/end of life material. Export or import of materials might be restricted on the basis of defining it as waste. However, this material might well be and important – economically and environmentally sustainable – raw material for another product. In order to establish a genuine recycling society, more careful attention should be paid in questions like this and, in overall, definitions such as 'resource efficient', 'green product' or 'waste' should be (re)defined more precisely taking into consideration sustainability, economic, environmental, societal aspects etc.

Regarding other type of trade restrictions, we would like to highlight that at this time there are no export duties for natural rubber but Malaysia and Thailand has "cess" collected for replanting etc. Such tax might not be termed barriers to trade in this context as cess is supposed to increase and maintain supply for the future, which is a goal we fully support.

We remain concerned about the large power exercised by natural rubber producers which sit in the same organisation, so-called IRCO (International Rubber Consortium). Founded in early 2000, IRCO has primarily expressed their position that they will shore up natural rubber prices by regulating supply and implementing export control if necessary. We naturally believe this is a "threat" for the EU industry relying on natural rubber.

10. Are you aware of any initiatives in your country that have one of the above goals in mind such as, for example, developing a raw materials diplomacy, or supporting companies to invest in third countries in the raw materials sector? If so, please describe briefly.

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POLICY AREA: DEVELOPMENT

11. What specific actions would you consider most relevant needed in the following areas:

- Good governance;
- Infrastructure / investments;
- Geological knowledge / skills.

Regarding good governance, it has to be borne in mind that the raw material market, and as an example, the natural rubber market, is composed of actors as different as smallholders and state enterprises.

As to infrastructure and investments, with a focus on natural rubber, ETRMA recommends encouraging transparency and capacity building in developing countries. It is essential that the EU sets the relevant tools to ensure the producing countries of natural rubber are able to implement sustainable raw material policies contributing to securing the expansion of rubber production.

Such policies could include partnerships for direct foreign investments (private and public), through the setting up of mechanisms allowing achieving productivity increases and inciting to pursuing natural rubber production. But attention should be paid to avoid the producing countries setting – disguised – export restrictions or quotas that could lead to undertaking actions at WTO level.

Regarding skills, natural rubber is a labour intensive crop due to the necessity of performing frequent tapping. This specific action implies relevant skills and there only a limited number of skilled tappers which may not facilitate the development of natural rubber plantations. Again, using partnerships mentioned above could also tackle the problem of shortage of skilled tappers.

12. Regarding transparency, what measures do you believe the EU should take to foster revenue transparency in the mining industry in raw material resource-rich countries? What are your views regarding existing initiatives currently being taken in this area, namely by the Extractive Industries Transparency Initiative (EITI₂)?

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13. Concerning the recent agreement between the European Commission and the African Union Commission, in your view, what concrete objectives, targets and deliverables should be included in such a partnership?

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14. Do you consider that wood should be addressed in the framework of development policy? If yes, please specify what are the main issues to be analysed.

Mirrored against the ambitious targets of tackling the Climate Change, planting and replanting trees carries a significant potential impact. Ideally, this would be as much as possible in line with a sustainable economic use of trees and tree-related products.

15. Are you aware of any initiatives in your country that contribute to promoting exploration and exploitation of mines in developing countries? Should such initiatives be better coordinated or promoted at the EU level?

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² <http://eiti.org/>

POLICY AREA: IMPROVEMENT OF THE REGULATORY FRAMEWORK CONDITIONS INSIDE THE EU

16. Do you agree that these topics correspond to the major challenges in this policy area? If not, please specify.

As is the case for most industrial raw materials, the European Tyre and Rubber Industry is largely or entirely reliant on imports. In the case of natural rubber, the Industry is completely import dependent, there is no domestic production and therefore the Industry does not have experience on raw materials production activities in or near Natura 2000 areas.

17. Do you think of any other avenues which should be followed by the Commission? If yes, please specify.

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18. Do you agree with the recommendations made in the report on "Exchanging Best Practice on Land Use Planning, Permitting and Geological Knowledge Sharing" or do you have any specific once to be added. Please explain.

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19. Do you consider it useful to establish an EU geological service based on a network of Member State geological services?

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20. Do you consider that EU regulatory framework conditions for wood and/or recovered paper need to be further analysed? If yes, please specify.

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POLICY AREA: PROMOTING SKILLS AND RESEARCH, DEVELOPMENT AND INNOVATION

Skills:

21. What type of actions would you propose to provide better cooperation between companies, universities and public authorities in order to promote skills and in the extractive or other raw materials sectors? Please specify.

Natural rubber is only produced in developing countries, located mainly in Asia. With the exception of Africa, Vietnam and China (the biggest producers are Thailand, Indonesia and Malaysia) the production of natural rubber is predominantly assumed by smallholders and is primarily export oriented. Some uncertainties both for producers and end-users lie in the re-planting of rubber trees whenever returns are insufficient: from 7 to 10 years are necessary to collect latex. In addition, the main natural rubber producing countries are in their majority facing a low national income, slow growth and political instability.

The EU should therefore take policy measures to ensure a sustainable and affordable supply of natural rubber. These actions should be complemented at Member States and international levels to guarantee the profitability of producers and the continuous supply. This could be organised through direct foreign investments: private investments and public-private partnerships, through the setting up of mechanisms allowing achieving productivity increases and inciting to pursue natural rubber production.

Research, Development and Innovation:

22. Are you aware of any research, development and innovation programme(s) at national, regional or local level? Please specify.

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23. Where do you see the major gap / the urgent need for the raw materials sector related research, development and innovation at EU level. Please provide details.

Please, see the next answer.

24. What is your idea of a major research and innovation action that would have the highest positive impact on the security of raw materials supply for the EU industries? Please specify.

Generally speaking, a full life cycle perspective is needed to improve the resource efficiency of products. Regarding greater efficiency, for example end-of-life tyres constitute a significant efficient alternative to existing resources. Support to applications and standardization efforts should therefore be encouraged.

Key areas are resource efficient material use, establishment of a genuine recycling society and research to find substitutive materials. The European Tyre and Rubber Industry is engaged in large number of research projects to substitute materials used in tyre production but, as is the case with natural rubber for example, today there is no substitute that could be used in replacement in all its current applications.

25. Are you aware of innovative exploration and extraction technologies, where project partners on a European level are needed to develop and implement the new technologies and which are the innovative technologies which need to be developed further. Please provide details.

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26. Are there any other aspects related to skills, R&D and innovation for other raw materials, such as wood, that need to be further promoted? Please, specify.

Please, see the answer to the question number 21.

POLICY AREA: RESOURCE EFFICIENCY & RECYCLING

27. In your view, and beyond measures already being taken (e.g. the recast of the WEEE Directive), what practical measures can be taken by the EU and by Member States to prevent the illegal shipment of obsolete end-of-life vehicles and electronic equipment?

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28. In what ways should statistics on trade in, and recycling of, products containing secondary raw materials be improved?

By providing national statistics per end-of-life recovery route for end-of-life tyres; data of end markets for recycling of end-of-life tyres.

By engaging with industry in efforts aimed at fostering harmonisation at EU level of recycling statistics for end-of-life tyres (e.g. Eurostats publishes annual recycling and recovery figures for packaging waste recycling).

29. Have you identified major problems with recovered paper? What are the main issues that need to be further analysed?

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