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Indian Rubber Industry
- Current Trends and Outlook -

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I. Introduction

With the economic reforms initiated in India in 1991 and the removal of QRs on the import of natural rubber, the Indian rubber industry has undergone radical changes from the status of an insulated and internally regulated island to become an intrinsic part of a highly competitive world economy that is ruled by free market forces. As a consequence, Indian NR market witnessed unprecedented price fluctuation during the post-reforms period. Given the integration of the domestic NR market with the world market, the prospects of the Indian rubber sector, to a large extent, depends on the developments in the global NR sector. In a globalised set up, the rule of the game is that the countries that innovatively change production technologies leading to attainment of cost efficiency and quality improvement will have an edge over others. While this new world economic order poses challenges to the Indian rubber plantation and rubber goods manufacturing industries, it offers opportunities as well.

II. Development of Indian Rubber Plantation Industry

Though the Indian rubber plantation industry was dominated by large estates during the initial five decades, it has subsequently undergone important structural transformation leading to the dominance of smallholdings. Today smallholdings account for 88 percent of the area and production

Despite the dominance of smallholdings, more than 98 percent of the total area under the crop is occupied by high yielding varieties. The most noteworthy factor is that the smallholding sector occupies almost the same status as that of the estate sector in adoption of productivity enhancement measures. On account of these factors, the productivity measured in terms of average yield per unit hectare, which was as low as 284 kg during 1950-51, increased sharply over the years. With the average productivity of 1663 Kg realized during 2003-04, India occupies the first position in productivity among the major producers of NR in the world.

As a result of the consistent increases both in tapped area and productivity, the production of NR increased at the average annual growth of 8.4 percent during the Eighth Plan (1992-97) period and 2.8 per cent during the Ninth Plan period (1997-2002). The production growth anticipated for the Tenth Plan (2002-2007) is 5.9 per cent. As regards the Tenth Plan period, production grew by 1.0 per cent during 2002-03 and 9.5 per cent during 2003-04. The growth anticipated during 2004-05 is 6.0 per cent.

Since the average growth in production in India during the past five decades was faster than the corresponding global rate, the relative share of India in the global output of NR also increased from 1.2 percent during 1955 to 4.1 percent during 1975 and again to 8.9 per cent during 2003. India now occupies the fourth position in the global production of NR.

The achievements of the Indian rubber plantation industry during the post-independence period are attributable to the positive policy interventions by the Government of India through strong R&D and extension support rendered by the Rubber Board, coupled with the enlightened nature of the Indian rubber planting community who has always been zealous in quickly absorbing knowledge and skills and taking bold investment decisions. Whereas labour shortage has been a serious problem in many NR producing countries, this has never been an impediment in India. Because of the efficient marketing network, the growers even at the village level are able to realize more than 90 per cent of the terminal market price at their farm gates.

III. Development of Indian Rubber Good Manufacturing Industry

Owing to the accelerated growth in consumption of NR in the country during the post-independence period, there is significant improvement in India's share in the global consumption which increased from 1.3 percent during 1955 to 3.8 percent in 1975 and

further to 8.9 percent during 2003. India is currently the fourth largest consumer of NR in the world, after China, USA and Japan. Today the Indian rubber goods manufacturing industry enjoys a turnover of more than Rs.18000 crores and provides employment to four lakh people. Though there are nearly 4900 rubber goods manufacturing units in the country, 65 per cent of the consumption is accounted for by 57 large units. It has to be underscored that the annual consumption of 2022 number of units is less than 10 tonnes only. It merits mention that rubber products manufacturing sector is one of the few sectors for which India enjoys a trade balance. During 2002-03 India exported rubber products valued at Rs. 2528 crores as against the imports worth Rs.770 crores.

IV. Import Policies

The policy of the government towards import of NR has undergone considerable changes since the beginning of 1990s. Though import of NR into the country was decanalyzed in April 1992, till March 2001 import was quantitatively restricted by including it under the "negative list". Later, on 1st April 2001 NR was removed from the "negative list" in accordance with the regulations of the World Trade Organisation. The WTO-mandated regime does not permit import duty to go beyond a ceiling, called Bound Rate. For NR, which comes under the class of "other products" rather than "agricultural products" in WTO's classification, the bound rate of solid forms of rubber is 25 percent in India. Against this, the applied rate of basic import duty in India, effective from 9th January 2004 is 20

percent. For NR latex, which is unbound, the prevailing rate of basic duty is 70 percent.

V. Export of NR

As the removal of QRs led to a surge in import of NR during 2001-02, in order to maintain a balance between demand and supply in the domestic market, some measures were taken to promote export of NR. Though export of NR is freely allowed since 1992, until 2001-02 the volume of export was very small. As a result of the concerted efforts made by the Board, the Indian NR which was quite unknown to the world market until 2001-02, managed to find a niche in the highly competitive global NR market. Against the export of merely 6995 tonnes exported during 2001-02, the export was 55311 tonnes during 2002-03 and 76000 tonnes during 2003-04.

VI. Price Trend

Till 1991 the price of NR in the domestic market was considerably higher than the international price. But, the liberalization of Indian economy since July 1991 contributed to the Indian NR market moving in tandem with the international market. However, in accordance with the demand and supply, the domestic market has marginally fluctuated on either side of the world market.

There was a sharp increase in the international price in October 2003. The average price of RSS 3 in the international market during

October 2003 was Rs.5737 per 100 kg as compared to Rs.5032 during September 2003. The main factor that propelled the international price was the erosion in the value of US dollar against the domestic currencies of NR exporting Asian countries. Since the price rise in the international market was not fully transmitted to the Indian market, the gap between the Indian price and the international price, which remained marginal up to September 2003, widened substantially from October 2003. During April to June 2003 Indian price of RSS 4 was higher than the international price of RSS 3 and from July 2003 onwards the Indian price has been moving below the international price. Indian price of RSS 4 averaged at Rs.5040 during 2003-04 with the minimum at Rs.4400 in July 2003 and the maximum at Rs.5625 in March 2004. As the international prices continued to stay high, Indian prices scaled new heights during the first quarter of 2004-05. The average price of RSS 4 grade at Kottayam was Rs.5785 per 100 kg during April 2004, Rs.5855 per 100 kg during May 2004 and Rs.6045 per 100 kg during the first half of June 2004. Though the uptrend in the domestic market is mainly contributed by the international trend, the domestic market has also been influenced by the seasonal supply shortage on account of continued heavy monsoon since mid of May.

VII. Possibility for Substitution of NR by SR

For any commodity, if its price increases beyond a certain level, the consumers will naturally go for its substitutes, available at a lower price. In the context of the abnormal heights reached by the NR

prices, both in the domestic market as well as the world market since October 2003, the possibility of its substitution by SR is increasingly becoming an issue of concern to the NR production sector.

Among the various forms of SR, the three types, which could be used as substitutes for NR, are styrene butadiene rubber (SBR), polybutadiene rubber (BR) and Isoprene rubber (IR). Though SR prices were significantly higher than NR prices till September 2003, from October 2003 onwards the price gap between the two elastomers has narrowed down and SR prices ruled even below the NR prices. For instance, the average price of SMR-20 grade of NR at Kuala Lumpur market during February 2004 was US$ 125.5 per 100 kg whereas SBR was available in Japan for US$ 124.7 per 100 kg. Therefore, if the decisive factor of NR usage is cost, rubber sector has reached the threshhold of another substitution war. In this context, it merits attention that the plant of Goodyear in USA is reportedly in the process of reducing usage of NR by 15 percent because of the advancement made in SR chemistry and blending. Further, price-sensitive Chinese buyers are increasingly turning to locally produced SR, which is available at levels below NR prices. This is supported by the fact that NR imports into China during January-March 2004 were four per cent lower as compared to the same period in the previous year. It is worth pointing out that isoprene rubber which is a better substitute for NR is priced much higher and its availability is very limited at present.

However, NR has certain technical properties that cannot be perfectly substituted by SR. As technical issues override cost issues, the substitution on a wide scale is unlikely to take place in the short run.

VIII. The Outlook

As the domestic NR market is integrated to the world market, any attempt to examine the outlook for the Indian rubber sector could be done only through a global framework.

The state of the world economy is the key factor that determines the prospects of NR demand in the global arena. IMF projects a stronger world economy during 2004 with 4.6 per cent growth, which is the fastest since the last four years. For 2005, economic growth is projected at 4.4 per cent. Economic growth anticipated in China, the largest NR consuming country is 8.5 per cent during 2004 and 8.0 per cent during 2005. For USA, the second largest NR consuming country, the economy is anticipated to grow by 4.6 per cent during 2004, which is the fastest growth since 1984. For 2005, the US economy is forecast to grow by 3.9 per cent.

In the light of the forecasts of global economic growth, the International Rubber Study Group has projected the world consumption of NR to grow by 4.0 per cent during 2004 and 5.4 per cent during 2005. As against this, global production of NR is forecast to grow by 4.4 per cent during 2004 and 6.2 per cent during 2005. On

this basis, the world supply is expected to be in excess of the demand by 123,000 tonnes during 2004 and the surplus is likely to increase to 195,000 tonnes during 2005. This is likely to have some impact on the prices. However, a sudden fall in price is unlikely because appreciation of local currencies of the major three exporting countries against US dollar would cushion the market to a certain extent.

In response to high prices, there has been rapid growth in production in all major producing countries during 2003. This high rate of output growth is unlikely to sustain because there are well-defined limits for NR production to increase. The scope for expanding cultivation of rubber in Malaysia, Indonesia, Thailand and China is limited. Thailand and Malaysia are among the world's fastest growing economies and are likely to be the next generation of New Industrialised Countries. Because of the increasing process of industrialization in these countries, NR is increasingly consumed domestically and the surplus available for export to the world market is on the decline. The percentage of world exports of NR relative to the world production has come down to 71 percent in 2003 as compared to 95 per cent during 1960. In the long term, when shortages occur, there will be pressure on prices to rise.

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