

Future Roles of the International Tripartite Rubber Cooperation (Thailand, Indonesia and Malaysia)

At

ASEAN Plus 2013 Rubber Conference and Exhibition

10 April 2013

Phuket, Thailand

By

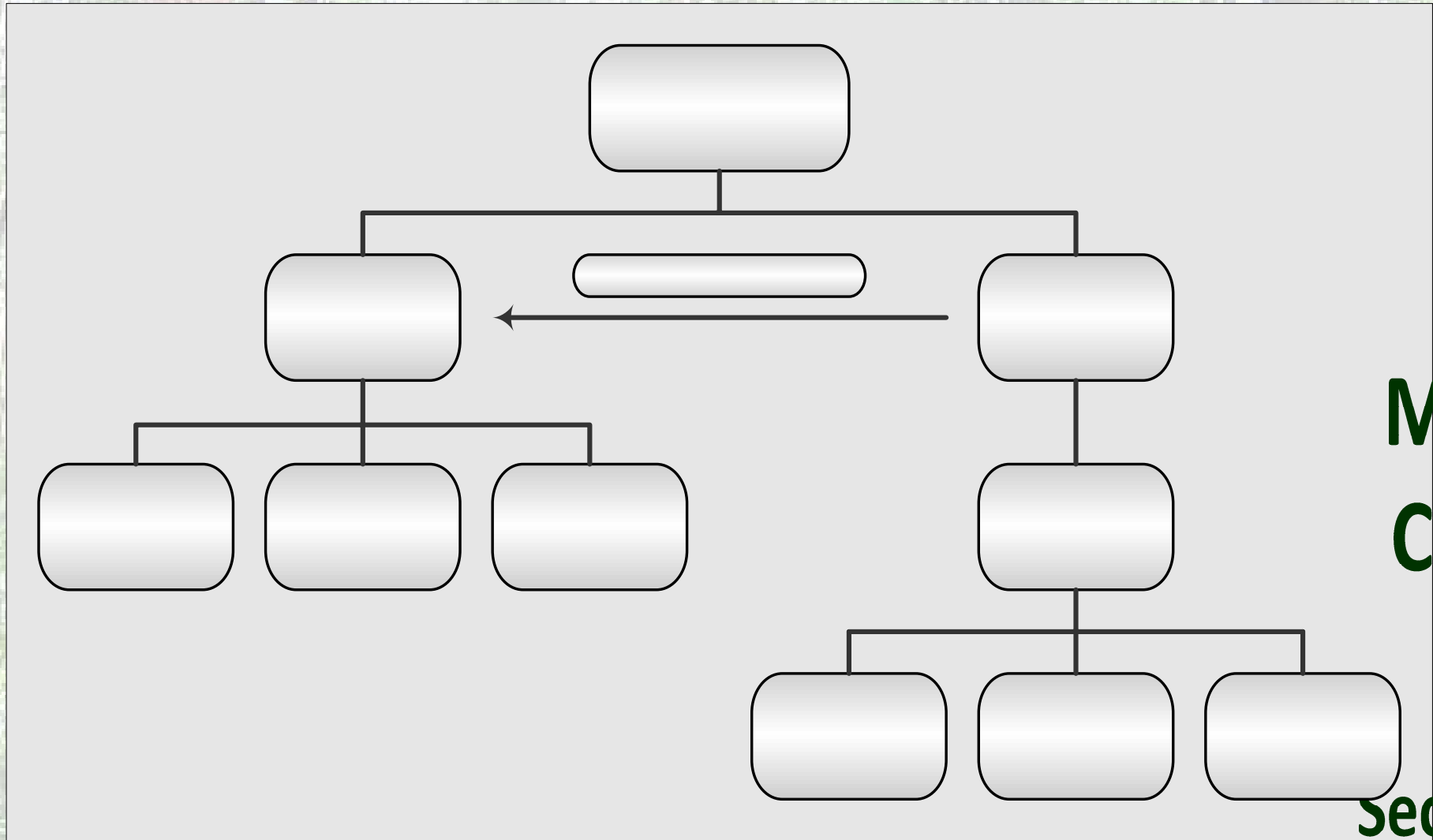
Yium Tavarolit

Chief Secretary and Economist

International Rubber Consortium Limited (IRCo)

I. The Background
of
International Tripartite Rubber Council
(ITRC)
and
International Rubber Consortium Limited
(IRCo)

The Organization Structures of ITRC and IRCO

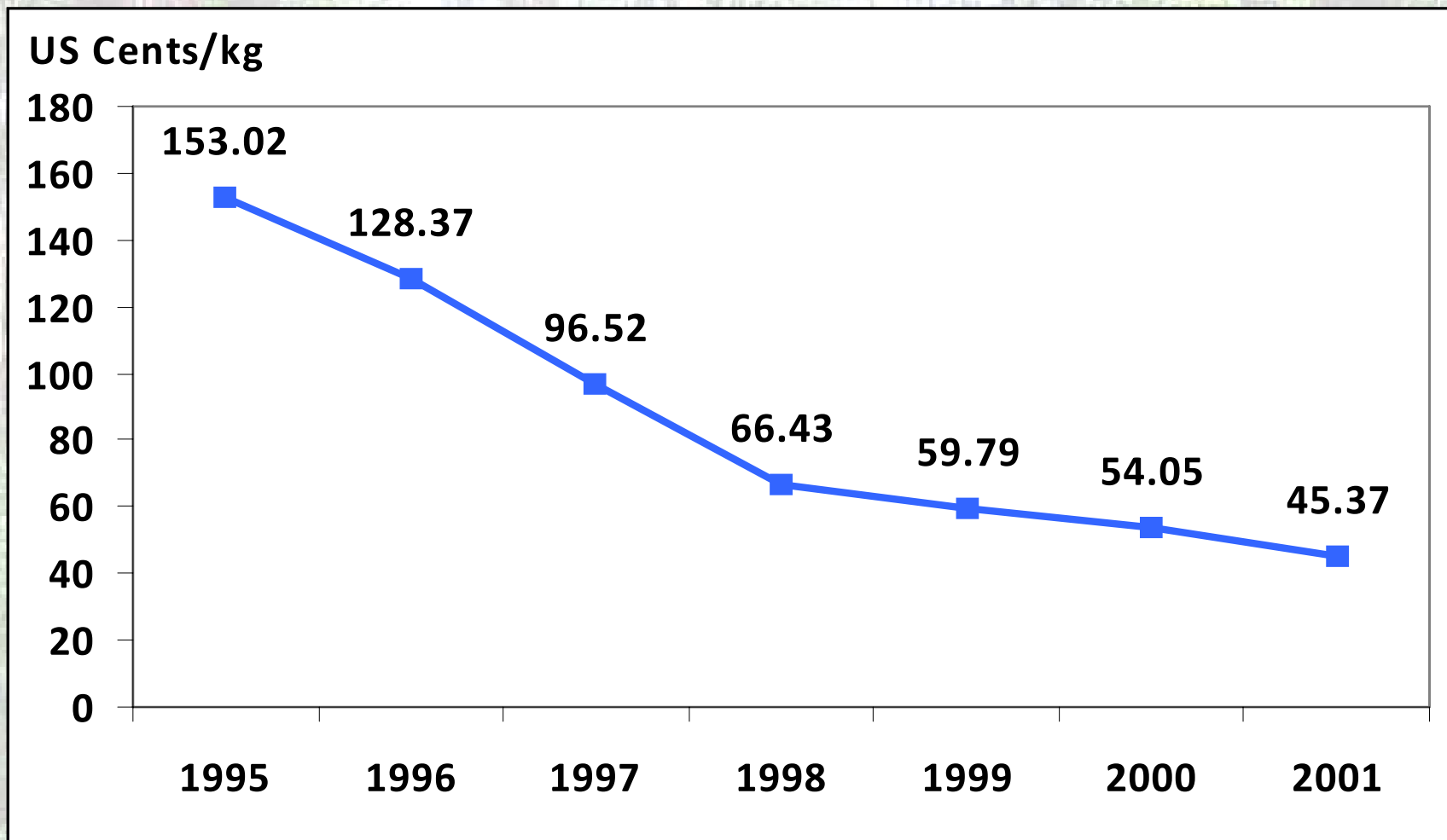


MI
CO

Secret

ITRC

Figure 1. The Annual Average TSR20 Price before the International Tripartite Rubber Cooperation



Source: IRCo, 2013

The Causes of Falling Natural Rubber (NR) Prices

- The lingering weak global economy
- NR oversupply
- High NR stock
- Weak NR demand
- The consecutive fall of NR prices in TOCOM
- INRO was dissolved in 1999
- Lack of NR supply and marketing management by NR producing countries
- No bargaining power of NR producing countries in the world rubber market

II. The Strategies Agreed by the Former Three Leaders

The Signing Ceremony of the Bali Declaration on 12 December 2001, Bali, Indonesia

JOINT MINISTERIAL DECLARATION (Bali Declaration) 2001

The Minister of Industry and Trade of the Republic of Indonesia, the Minister of Primary Industries Malaysia and the Deputy Minister of Agriculture and Cooperatives of the Kingdom of Thailand,

RECOGNIZING the need to ensure adequate and orderly supply of rubber on a continuing and long-term basis to ensure fair and remunerative income for rubber smallholders,

RECOGNIZING FURTHER the need to address the current low rubber prices which are adversely affecting the livelihood of rubber smallholders and the socio-economic advancement of the countries to the detriment of long-term assurance of supply,

DESIROUS of strengthening the existing ties and cooperation among the three countries,

DO HEREBY AGREE AS FOLLOWS:

FIRST, this Joint Ministerial Declaration is to establish the International Tripartite Rubber Organization (ITRO) which shall be the framework through which the three major rubber-producing countries will cooperate and work together to address the problem of oversupply and low rubber prices with the aim of restoring the rubber industry to an economically viable and stable position in the interests of producers and consumers;

SECOND, that the objectives of the ITRO will be:

1. To seek to revive rubber prices to levels which are remunerative to producers on the basis of targeted prices;
2. To seek to manage the imbalance in supply over demand, which has largely resulted in the current depressed prices;

THIRD, at the initial stage, to carry out these objectives, the following measures shall be implemented among others:

1. To effect a 4% cut back in production for the year 2002 and 2003 through the implementation of supply management measures;
2. To abide by the agreed export tonnages for the year 2002 through a 10% cut back in the exports of the three countries;

FOURTH, the mechanism for implementation and coordination shall be as follows:

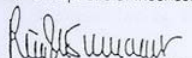
1. Each country will set up a National Tripartite Rubber Corporation (NTRC) or designate an agency, as a subsidiary organ of the ITRO to implement and/or monitor the agreed export tonnage and the supply management measures;

2. The three countries will jointly establish an International Tripartite Rubber Council (ITRC) as the highest governing body of the ITRO to oversee and coordinate implementation of the agreed measures to ensure that the targets and objectives are attained;
3. The ITRC will be serviced by a secretariat, to be based in a member country. The staff for the secretariat, as agreed to by the ITRC, shall be appointed to enable the secretariat to begin functioning as soon as possible. Pending this, the host country shall provide an "interim secretariat" for the ITRC;
4. An administrative budget to meet the cost of staffing and administration of the secretariat will be financed by contributions from the three participating countries;
5. The participating countries shall ensure that their NTRCs or designated agencies responsible for implementing and/or monitoring the agreed export tonnage and supply management measures shall cooperate, report and work closely with the ITRC and its secretariat to enable the necessary coordination and monitoring to be carried out on a timely and effective basis;

FIFTH, while the initiative has been taken by the three major rubber-producing countries, the Ministers welcome support and collaboration from other members of the ANRPC in the interest of all rubber producers. The Ministers will consult members of ANRPC on their participation in this cooperation after it is operational.


Done at Bali in triplicate on the 12 Day of December in the Year 2001.

For the Republic of Indonesia:


(Mdm. Rini M.S. Soewandj)
Minister of Industry and Trade

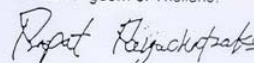


For Malaysia:


(Dato' Seri Dr. Lim Keng Yaik)
Minister of Primary Industries



For the Kingdom of Thailand:


(Mr. Prapat Panyachatraksa)
Deputy Minister of Agriculture and Cooperatives.



International Tripartite Rubber Council (ITRC)

On 12 December 2001, Thailand, Indonesia, and Malaysia signed a Joint Ministerial Declaration (the Bali Declaration 2001) in Bali, Indonesia and formed International Tripartite Rubber Council (ITRC) to work collectively to ensure fair and remunerative income for rubber smallholders of the three countries.

The Objectives of ITRC

- seek to revive rubber prices to levels which are remunerative to producers on basis of targeted prices:
- seek to manage the imbalance in supply over demand, which has largely resulted in the current depressed prices;

The Mechanisms of ITRC

❖ **Supply Management Scheme (SMS)**

: to address the long – term supply/demand equation

❖ **Agreed Export Tonnage Scheme (AETS)**

: for export cuts during transient imbalances

The Signing Ceremony of the Memorandum of Understanding (MoU) of IRCo on 8 August 2002 in Bali, Indonesia



Thailand Minister of Agriculture and Cooperatives, the Hon. Mr. Shucheeep Hansaward (*seated right*), Indonesian Minister of Industry and Trade, the Hon. Mdm. Rini M Sumarno Soewandi (*seated centre*) and Malaysian Minister of Primary Industries, the Hon. Dato' Seri Dr. Lim Keng Yaik (*seated left*) signed a Memorandum of Understanding at the Presidential Palace, Tampaksiring, Bali, Indonesia on Thursday 8 August 2002 for the establishment of the International Rubber Consortium Limited. The signing was witnessed by Thailand Prime Minister, H.E. Mr. Thaksin Shinawatra (*standing right*), Indonesian President, H.E. Mdm. Megawati Sukarnoputri (*standing centre*) and Malaysian Prime Minister, H.E. Dato' Seri Dr. Mahathir Mohamad (*standing left*).

International Rubber Consortium Limited

(IRCo)

- As the ITRC is responsible for NR production management, the three countries therefore agreed to set up International Rubber Consortium Limited (IRCo) on 28 April 2004 under the MoU 2002 signed on 8 August 2002 as a NR marketing arm.
- The three countries agreed on the authorized capital to US\$225 million for IRCo. Contribution to any capital call-up shall follow a ratio of 2:1.5:1 (Thailand:Indonesia:Malaysia).

The Objectives of IRCo

- To achieve a long term price trend that is stabilized, sustainable and remunerative to rubber farmers.
- To maintain a supply-demand balance to ensure adequate supply of Natural Rubber in the market at fair prices.

The Mechanism of IRCo

❖ **The Strategic Market Operation (SMO)**

IRCo shall undertake SMO encompassing buying, selling and managing excess rubber, if required, to strengthen rubber prices in complementing the SMS and the AETS.

III. Performance (2001 – 2012)

■ **Managed SMS**

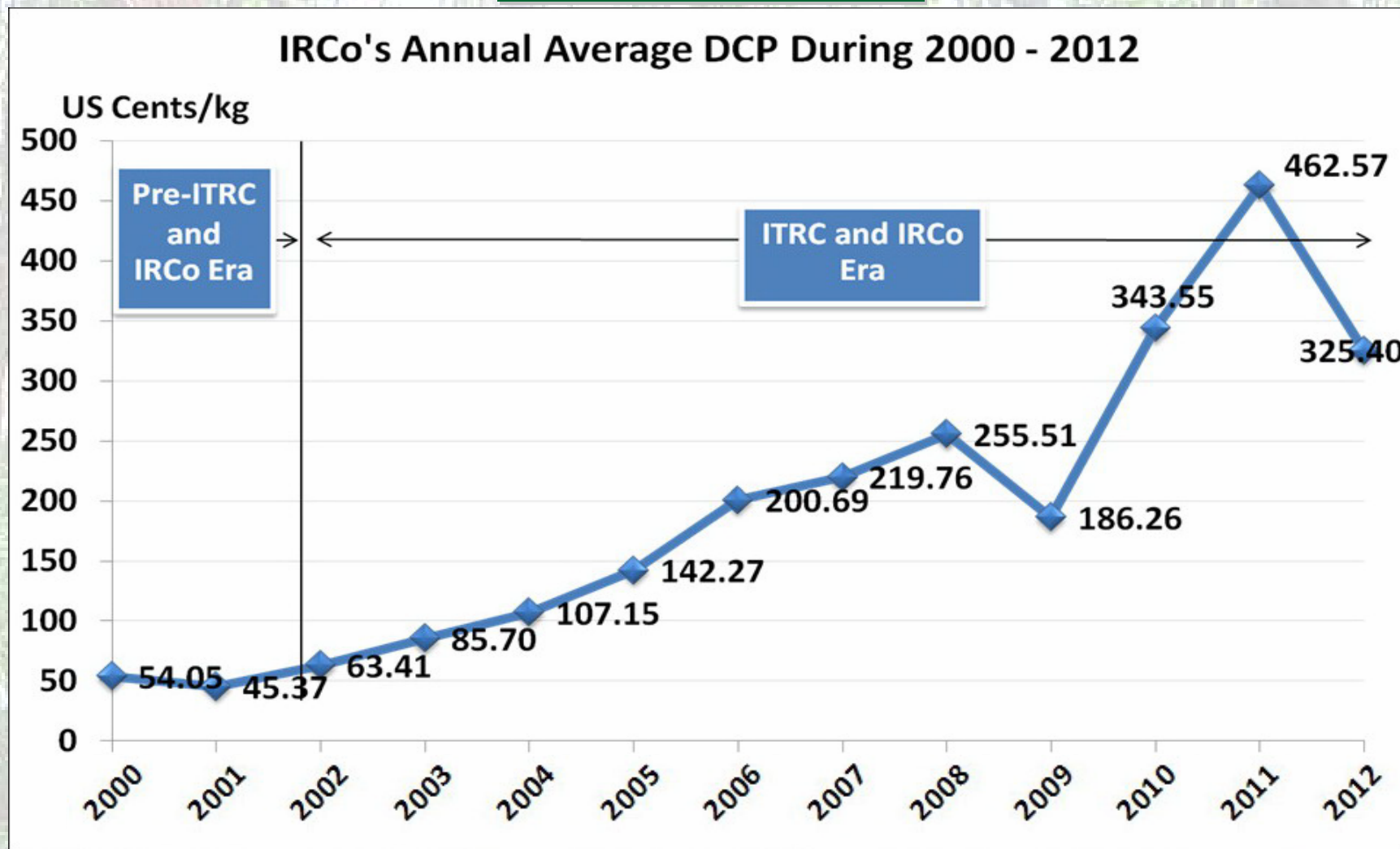
- ❑ 2002-2003 : production cut-back by 4% by each member country
- ❑ 2009 : accelerated NR replanting from 122,000 to 169,000 hectares to reduce 215,000 tons of NR
- ❑ 2012-2013 : targeted at the production cut-back totaling 150,000 tons

■ **Managed AETS**

- ❑ 2002-2003 : exported cut-back by 10% for each member country
- ❑ 2009 : targeted at the exported cut-back totaling 700,000 tons
- ❑ 2012-2013 : targeted at the exported cut-back totaling 300,000 tons

IV. Benefits (2001 – 2012)

Figure 2. IRCo's Annual Average DCP (2000 – 2012)



Source: IRCo, March 2013

Economic Benefits

No.	Description	2001	2012	+/-	+/- (%)
1	<u>NR Production (1,000 tons)</u>				
	- Thailand	2,320	3,722	1,402	60.43%
	- Indonesia	1,607	2,917	1,310	81.52%
	- Malaysia	882	894	12	1.34%
	- Row	2,519	3,543	1,024	40.64%
	- World	7,328	11,076	3,748	51.14%
2	<u>Price (US\$/ton)</u>	534	3,200	2,666	6-fold
3	<u>Returns (US\$ billion)</u>	2.06	21.88	19.82	11-fold
	- Thailand	1.10	8.98	7.88	8-fold
	- Indonesia	0.77	8.65	7.87	11-fold
	- Malaysia	0.19	4.26	4.07	22-fold

Notable Signs of NR Prices during 2001 – 2012

- NR prices rose significantly during 2001 – 2012, and the three countries have earned a lot of foreign income from exported NR due mainly to the firm rubber Cooperation among Thailand, Indonesia, and Malaysia.
- However, the fragile global economy since 2009 has dampened investors' confidence and has caused NR price volatility until the present day.
- And it is expected that NR price volatility will continue at least over the next few years.

V. Future Roles of International Tripartite Rubber Cooperation

Mission

Encourage the global society to consume more natural rubber so as to stop “Global Warming” because rubber trees can absorb a lot of carbon dioxide in the atmosphere in the long run

“NASA's Goddard Institute for Space Studies (GISS) reported that the average temperature in 2012 was about 58.3 °Fahrenheit (14.6 °Celsius), which is 1.0 °F (0.6 °C) warmer than the mid-20th century baseline. The average global temperature has risen about 1.4 °F (0.8 °C) since 1880.”

ITRC Ministerial Committee Meeting on 12 December 2012 in Phuket, Thailand



From left to right :- H.E. Gita Wirjawan, Minister of Trade of the Republic of Indonesia; H.E. Yuttapong Charasathien, Deputy Minister for Agriculture and Cooperatives of the Kingdom of Thailand; and H.E. Tan Sri Bernard Dompok, Minister of Plantation Industries and Commodities of Malaysia.

The ITRC Ministerial Committee Meeting on 12 December 2012 in Phuket, Thailand agreed on the future roles in the next ten years (2012 - 2021) as follows :-

- Invite Non-ITRC Countries to Join ITRC/IRCo
- Establishment of an ASEAN Rubber Council (ARC)
- Set up a Regional Rubber Market
- Set up National Rubber Funds in TIM

The ITRC Ministerial Committee Meeting on 12 December 2012 in Phuket, Thailand agreed on the future roles in the next ten years (2012 - 2021) as follows :- (cont')

- Pricing NR as an Industrial Raw Material
- Encourage Domestic Rubber Consumption (existing and new applications)
- Encourage Major Tires and Other Rubber Manufacturers to Use More NR
- Promote NR Consumption

Expected Achievement in the Next Ten Years (2012 – 2021)

Closer cooperation between NR producers and NR consumers will sustain growth of the global rubber industry and friendly environment

ITRC and IRCo hope to work with other NR producing countries in the AEC



Thank you for your attention