Fachverlag für die Polymerindustrie

INDONESIA: Rubber business set to reach new heights

Source: Daily "The Jakarta Post", Jakarta; 20 Aug 2010

If booming investment in the rubber processing sector amid tight raw material supply is any indication, Indonesia's natural rubber business is set to reach new heights in the coming year.

The Indonesian Rubber Association (Gapkindo) said 10 new rubber processing plants came into operation by local and foreign firms last year, with the largest being a unit in Jambi owned by Japan's giant trading company Itochu Corporation.

"Last year was marked by ... big corporations with integrated supply chains setting up new processing plants here. The trend is expected to continue this year," Gapkindo chairman Daud Husni Bastari told The Jakarta Post.

Last year's newcomers, some of them also owned by big rubber players from Thailand and Malaysia, have a combined installed capacity of 360,000 tons annually, with Itochu's unit alone contributing around 100,000 tons.

In total, the industry now has the capacity to process 3.3 million tons of rubber a year.

Raw natural rubber needs to be processed before it can be exported or transferred into another products. Processing companies are thus the middle chain in rubber trading industry, between producers and manufacturers.

Indonesia is the world's second largest rubber exporter after Thailand. In 2006, the country exported 2.28 million tons of rubber valued at $4.32 billion. In the first 10 months of last year, export reached 1.87 million tons, a 4.9 percent increase from the same period in 2006.

Gapkindo forecasted this year export was likely to increase by at least 6 to 7 percent.

Indonesia, Thailand and Malaysia supply around 70 percent of the world's natural rubber.

Since 2001, Indonesia has seen the highest annual export growth, 8.94 percent, as compared to Thailand's 3.02 percent.

"The growth surely will be promising this year. I cannot cite any vital factors likely to undermine the price and output," said Azrul Latif, investment relations officer for the publicly listed plantation company PT Bakrie Sumatera Plantation.

Azrul cited higher oil prices and demand for automotive products as key factors in maintaining the rubber boom.

Gapkindo believed this growth was likely to trigger another wave of investments in the processing sector this year, as signaled by a plan from at least nine newcomers to set up plants with a combined capacity of 230,000 tons per year.

Investment for setting up a processing plant with a capacity of 48,000 tons a year is estimated at a minimum of Rp 60 billion (US$6.38 million).

For the country's rubber farmers, who are mostly operating in fairly remote villages scattered in Sumatra and part of Kalimantan, these new investments will be among the catalysts for a higher rubber price.

"Amid limited supply of natural rubber, processing companies will be racing to buy rubber ... which will increase the commodity's price. This is good for farmers," said Daud, who manages rubber processing firm PT Badja Baru.

Proceeds from planting rubber have far-reaching effects on people living in remote areas due to the fact that 85 percent of the country's 3.3-million-hectare rubber plantations are managed by farmers, with only 15 percent by corporations.

This is not the case for other booming commodities, such as oil palm, where 65 percent of the plantations are controlled by big companies, leaving only 35 percent for local farmers.

However, not all looks rosy for the rubber industry. Processing companies can only use a maximum of 70 percent of their installed production capacity due to the lack of rubber.

"I am concerned that there will be leeway for big companies, especially those from overseas, to plunder local small and medium-sized processing firms in a price war to buy rubber from farmers," said Daud.

The limited supply is primarily triggered by the inability of rubber farmers to gain capital access in revitalizing their plantations. Most of the farmers have no land certificates, which is a key requirement for applying for bank loans.

Another factor is the lack of access to high quality seeds at affordable prices.

Due to these problems, Gapkindo said productivity in the country's rubber plantations remained low compared to those of Thailand and even Vietnam, a newcomer to the rubber business.

With 3.3 million hectares, Indonesian farmers can only produce 967 kilograms per hectare per year, while Thailand, with only 2.3 million hectares, can produce 1,775 kilograms per hectare per year.

Farmers and companies in Indonesia are also reluctant to expand rubber plantations due to the fact that the oil palm business is considered more lucrative, and also because of an existing deal between major rubber producing countries not to aggressively open up new plantations in order to prevent oversupply.

(Syed Rashid Ali, Karachi, Pakistan)

Adresse:
http://www.gupta-verlag.com/general/news/industry/8377/indonesia-rubber-business-set-to-reach-new-heights