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**Tapped out**

**By: Miles Moore**  
**July 11, 2005**

Rubber processors weighed down by an endless stream of price increases for oil-based materials have something else to worry about—a shortage of natural rubber.

It's still several years away, but it's coming, according to industry participants and various forecasts.

By 2010, global NR consumption should reach 9.6 million metric tons, according to figures provided by the International Rubber Study Group, an organization of government entities that focuses on NR. That's 300,000 tons more than the expected production that year, according to ISRG Senior Statistician Darren E. Cooper.

Do the math: It takes about seven years for a **Hevea** rubber sapling to mature into a tree that can be tapped. "The projections show that without additional substitution, a shortage still prevails by 2020," Cooper said.

That's 10 years before the supply and demand balance is restored, and only if everything works out—that NR-producing nations aren't subject to drought or too much rain, civil unrest or market speculation, events that have occurred in the past.

As usual, China is a major culprit in the spike in consumption.

In 2004, the Asian nation used 1.66 million metric tons of NR, and its demand is expected to surge nearly 12 percent a year through 2008 to 2.45 million tons, according to a forecast from the International Institute of Synthetic Rubber Producers.

"There's a huge demand from China right now," said Jim McGraw, managing director of the Houston-based IISRP.

"As long as demand continues in China, I don't see the supply situation becoming much different," he said.

Nor is there much room for SR producers to take up much of the void left by NR.

"The demand for synthetic rubber was already there when the boom started in natural rubber," McGraw said. "It just happens to be coincidental. It's a very unusual situation."

The future of NR supply is disturbing, according to two Goodyear executives.

"We are truly at a crossroads in the production and consumption of natural rubber," said Gary Miller, Goodyear vice president of purchasing, speaking at a recent IRSG meeting. "Today's situation is unlike any that I have seen in the past 20 years."

Sounding the alarm a few months earlier was Joseph Gingo, Goodyear's chief technical officer and executive vice president of quality systems. At the IISRP annual general meeting in San Diego, he said his firm expects the NR shortfall to occur in five years, and



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is taking steps now to address it.

The IRSG and others are floating ideas to shore up production and supply, but the question is how quickly they can be implemented.

#### Factors and fallout

Even leaving out the spiraling costs of petrochemical feedstocks for SR, there's only so much leeway for tire and rubber product manufacturers to substitute SR for NR, according to Gingo.

"Right now we can substitute about 8 percent, either way," Gingo said. "Eight percent is about as far as we can go without it being detrimental to performance."

Goodyear isn't waiting for the ax to fall. In March 2004, Gingo said the company planned to reduce its NR use by 15 percent via advances it has made in SR chemistry and blending. Without quantifying, Gingo said Goodyear has gotten much closer to that goal in a year's time.

Miller said NR and SR can't be compared on price differentials, but only on the total cost to manufacturers of using one raw material vs. the other.

"Each has its own unique impact on the cost of manufacturing that must be considered," he said. "Inaccurate or misperceived information, such as a belief that natural rubber prices are based on oil prices, can be used by speculators to fuel their desires for short-term gains, which could be detrimental to industry stakeholders in the supply chain."

To demonstrate the harmful effect of speculators, Miller discussed speculation in NR stocks on the Shanghai Futures Exchange between July 2002 and October 2004.

"At its peak, the daily trade was more than 2 million tons," he said. "In just four days, Shanghai trading exceeded the total world production for a year."

"As it became clear toward the end of 2004 that there were more than 200,000 tons of rubber in Shanghai that were not immediately needed by Chinese tire manufacturers, the Futures Exchange went quiet," he said.

Despite the interference of speculators, however, the potential of the Far East market is very real, according to Miller. "It is quite obvious that there is huge potential for demand growth in areas such as China and India," he said. "This growth can be far above anything anticipated for the developed areas of North America and Western Europe."

#### Higher prices, alternative sources

Whatever the causes of the turmoil in the natural rubber market, everyone agrees on the result: higher prices. A small preview already is happening.

Today the line between NR output and demand is fairly narrow, according to the ISRG. NR demand in 2005 is expected to rise 5.5 percent to 8.72 million metric tons, and production 1.7 percent to 8.78 million tons. There also are stockpiles of NR available for use.

"I think supplies are very tight right now," said Dan Adomitis, president of Firestone Natural Rubber Co., a subsidiary of Bridgestone/Firestone. One of the factors for that is a drought in Thailand.

"We should be coming off the wintering season now, but we're getting a lot of information that this drought is real and that Thailand has to go to Indonesia for the rubber to fulfill its existing contracts," he said.

Tire makers generally use Technically Specified Rubbers, and BFS commonly uses TSR 10, according to Adomitis. That grade recently ranged a little over 60 cents per pound delivered to the East Coast. "I can't project where prices will go by the end of this year, but the pressure is upward," he said. "I can only speak for Bridgestone/Firestone, but we will have rubber available."

Standard Indonesian Rubber 20, the grade most often used by U.S. tire makers, traded at 57¼ cents per pound at the port of origin for July contracts as of June 24, and at 58 cents per pounds for August contracts, said Whitney Lockett, vice president of sales and marketing for RCMA Americas Inc. The real increase, she said, has been in Rubber Smoked Sheets 3 from Thailand, which are in very short supply. RSS 3 now is ranging around 20 cents per kilogram above technically specified rubbers, which is almost unheard of.

Nevertheless, Lockett doesn't see NR prices spiraling out of control. "I always hark back to something (IRSG Secretary-General) Hidde Smit said years ago," she said. "He predicted that rubber would hit a dollar a pound, and it never seems to do that."

Tire and rubber companies with in-house sources of NR-such as Bridgestone/Firestone-also are feeling lucky right now, although BFS's 240-square-mile plantation in Liberia produces only a small percentage of the tire maker's NR needs.

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