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Productive Chain of Brazilian Natural Rubber at Risk

The international and national circumstances of the Natural Rubber Production Chain inspire concern. A combination of factors affected the performance of the main consumer regions of the commodity and the progressive dismantling of the chain could generate a disruption, especially in Brazil, where the repercussions have already reached the base of the Productive Chain with prices, in the field, 65% below the Minimum Price stipulated by CONAB (equivalent to the Operating Cost value).

The prices received in the field are around US\$0.52 (R\$2.70) for this month of February 2022 against US\$0.86 (R\$4.46) valid for this crop year as the Minimum Price calculated by CONAB for the culture.

In the international context, the possibility of low growth, or even an economic recession, in the main natural rubber consuming regions of the world, in particular the Euro Zone and the United States (2nd and 3rd largest consumers in the world), are affecting growth the demand for natural rubber.

In numbers projected by the IMF, the European Union should drop from 3.1% GDP growth in 2022 to 0.5% in 2023 and the United States from 1.6% this year to 1% next year.

The drop in the prospect of consumption in these regions, combined with a slow recovery of the Chinese economy, are generating an imbalance in the market between supply and demand. Corroborating this hypothesis, the drop in PMI (Purchasing manager Indexes) that measure manufacturing activity already indicates that in December 2022 China (49.0), European Union (47.3) and United States (47.6) are in retraction.

Meanwhile, in Brazil, the drop in the cost of imports combined with greater availability of imports of raw materials and industrialized products disadvantaged the local market. In 2022, this year we reached the highest natural rubber import peak of the last 25 years with 218 thousand tons of dry rubber.

Worsening the national situation, with stocks filled with imported raw materials, the national pneumatic industries are still in a context of a reduction on sales.

In 2022, we had a decrease of -0.2% compared to 2021 in terms of total Tire Units sold in the country. In particular, the Cargo Tires sector, the main consumer of natural rubber in the country, the fall was -6.5%.

This downturn in the national tire market was largely due to a Federal Government policy that, at the height of the pandemic, zeroed the import tax on various products, including cargo tires. This measure should have been temporary, acting only to combat the inflationary surge at the time. Arguably an assertive policy for the time being, yet the measure remained in effect not just for the proposed six months, but for the last two years. As a result, there was a surge in tire imports, which went from 150,000 tires/month (before the measure) to currently 475,000 tires/month – and that number continues to rise.

The recent drop in sea freight, which has returned to pre-pandemic levels, is aggravating the scenario, further stimulating the entry of imported products, especially from regions that do not have the same standards of labor and environmental legislation as ours and which, therefore, have a production cost much lower than the national one.

International maritime freight, which reached USD11,100 in September 2021, already recorded an average of USD1,900 in January of this year, and continues to fall towards the level of USD1,5, then considered an average value (pre-pandemic) in January 2020.

Finally, with a high percentage of natural rubber in the composition of cargo tires, this scenario is taking away a large share of consumption from the Brazilian domestic market.

According to information from APABOR's Processing Plants Council, this situation has already had an impact on the reduction of volume and prices practiced by the pneumatic industries in these first months of the season (from Oct.2122 to Feb.2023) creating a disruption of liquidity in the Chain and harming the prices received by producers in the field.

In time, we remind that in addition to the important Financial Movement of the Chain, around R\$30 billion per year, are at risk especially the 130,000 jobs in the Production Chain. Be it the 25,000 rubber tappers in the field, 1,600 workers in the processing plants, 28,600 in the Tire Industries, 16,600 in the Tire Retreading Industries and 47,300 in the rubber goods market.

Considering these factors, we believe that it is urgent to activate all available countercyclical measures to mitigate the risk of dismantling the Production Chain.

01. The review of import rates for all products in the Rubber production chain, whether they are raw materials or industrialized products, is urgent and extremely important for us to stop this bleeding.

02. Activation of the CONAB Minimum Price Guarantee Program is also urgent.

Both actions have already been the subject of letters presented to our National entity, ABRABOR, and have already been presented to the Ministry of Agriculture, however, due to the recent ministerial reforms put into practice by the new federal government, both are paralyzed because, according to the representatives of the positions executives of the competent ministries, there are still no conditions to implement such policies as they depend on structural adjustments that are currently underway in the ministries.

It is with regret that we record the facts above, as we know that this situation mainly affects the livelihood of workers and their families who depend on this market to survive. We continue to seek solutions to reorganize our Productive Chain meeting the demands of all those who are part of it.