EUROPEAN TYRE & RUBBER manufacturers' association

Position paper:

An effective and delivering raw materials policy: A cornerstone for industry competitiveness and the EU resource-efficiency targets

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Resource efficiency and in particular, security in access to raw materials and resources supply has become an increasing priority for the European industry. The Members of European Tyre & Rubber Manufacturers' Association (ETRMA) use natural and synthetic rubber, different oils and chemicals, steel and other raw materials to produce high quality tyres for different vehicle and road applications and for varied general rubber goods products used in transport, medicine, healthcare and construction industries.
By transforming these raw materials into modern and state-of-the art products, the around 4200 Member companies of ETRMA yield to a yearly turnover close to € 50 billion and employ directly 360 000 people and indirectly close to one million people.

Access to raw materials under fair conditions and at predictable and affordable prices is a vital issue for the competitiveness and future of European industry. The EU must therefore pursue a resolute multi-faceted strategy as defined in the Raw Materials Initiative[1]:

- Forge an international consensus in support of **undistorted trade in raw materials**;
- Stimulate **innovation** in **substitution and resource efficiency**;
- Develop **secondary materials markets in Europe and globally**.

ETRMA wishes to contribute to the *ongoing* political discussion on access to raw materials and resource efficiency in a constructive manner. The Commission Communication[2] rightly recognises that other **critical raw materials such as natural rubber** are to be considered in this regard.

ETRMA also welcomes that EU policy makers have identified the **safe and sustainable access to raw materials** as a central economic issue. This will be of increasing importance as the global demand of our industry for raw materials is likely to continue or even grow given the expected increase in demand for transportation. At the occasion of the next revision of the **list of the critical raw materials, the challenges raised by fair supply of natural rubber should be properly assessed**. Supply shortage in some sectors may have consequences which will have effect on societal strategically important sectors, such as healthcare, medical science and transport.

[1] COM (2008)699
[2] COM (2011) 25 on tackling the challenges in commodity markets and on raw materials

ETRMA will address the following issues in particular:

1. Price volatility is to be reduced

Predictability and continuity in raw material supply has become a major element in the global competitiveness of the European industry. The EU is **import dependent** on natural rubber, due to geographical and climatologic reasons there is no domestic production of natural rubber. Moreover, natural rubber production is concentrated in SE Asia (93%).

Natural rubber production and consumption
in 000 tonnes

	2009	2010
World NR production	9702	10291
EU NR consumption	829	1120
EU share in %	9	11

Source: IRSG

Since 2008, natural rubber market evolutions have been huge, quick and apparently not always related to the traditional supply-demand scheme. Prices evolved from 1,2$/kg in February 2009 to 6,4$/kg in February 2011. Natural rubber among a number of other commodity products has experienced recent price increases and volatility and that financialization of NR and other commodity markets has had a real impact on the market. **Price volatility is a significant factor undermining long term planning and thus affects negatively on industry competitiveness.**

ETRMA therefore **invites** the **Commission**, together with the **EU Member States**, to take necessary actions – as part of tackling the challenges in commodity markets – **to support** the European industry by contributing to:

- ⇨ Analysing and understanding the reasons for the significant volatility concerning natural rubber prices from 2008 to present
- ⇨ Assessing the nature and the depth of any linkage between the natural rubber price and derivative financial instruments or speculation

with a view to contributing to the G-20 next steps on commodities, as well as to serving as a basis for EU financial services as the planned review of commodities markets by DG Internal Market.

2. Significant source diversification from South-East Asian natural rubber is needed.

Currently, natural rubber production is located in SE Asia and sourced from three countries Thailand, Indonesia & Malaysia, operating a Tri-partite Consortium on NR, since 2004 – the so-called International Rubber Consortium (IRCO). Furthermore, the biggest consumers of natural rubber are also situated in Asia and their cumulated consumption is estimated to double in the coming decade.

ETRMA remains concerned about the large power exercised by these producers. IRCO has primarily expressed the position that it will shore up natural rubber prices by regulating

supply and implementing export control if necessary. This is a real threat for the EU industry which relies so heavily on natural rubber imports from South East Asia.

To guarantee fair access to and sustainable supply of natural rubber, the EU must look for alternative sources to South East Asia while ensuring that no monopolistic/ oligopolistic structures exist on natural rubber.

There is unused potential in both Latin-American and African Countries.
NR exploitation:

- ⇨ Provides **employment and stabilizes rural populations**,
- ⇨ Enables **reforestation of barren land** with positive impact on climate and **sequesters carbon dioxide** from the atmosphere.
- ⇨ **Accelerates** cash circulation and **economic activities** thanks to cash payment system of natural rubber

We are conscious of the fact that all the above positives that NR exploitation could bring are not easy "wins" in countries with instable regimes where human rights and the rule of democracy are not respected.

Therefore **ETRMA would ask for the support of the European Commission and Member States the following action areas**:

- ⇨ **Set the relevant tools to ensure the producing countries of natural rubber are able to implement sustainable raw material policies contributing to securing the expansion of rubber production in new areas**
- ⇨ **Such policies could include partnerships for direct foreign investments (private and public), through the setting up of mechanisms allowing achieving productivity increases and inciting to pursuing natural rubber production, also in view of new areas**
- ⇨ **Introduce binding disciplines against export restrictions in FTA and other trade agreement negotiations, especially with natural rubber producers such as Malaysia, Thailand, Indonesia, and Vietnam and address access to raw materials in bilateral discussions and other measures based on a fair level playing field**
- ⇨ **Encourage dialogue between producer and consumer countries in for a which can deal with topics of interest for all parties, such as International Rubber Study Group with an enlarged mandate.**

These better governance issues could be raised in G20 summit

3. Resource-efficiency measures through solutions suitable for large scale production must be encouraged

The availability of natural and synthetic rubbers may become problematic in the coming years. Shortage affecting natural rubber will in turn reach the synthetic rubber. Synthetic rubber is made from fossil fuels and therefore a non-renewable resource!
It is therefore appropriate to enhance the work on the recycling of vulcanized products in crude mixtures to reduce this dependence on raw materials, in particular on general rubber products which uses a wide variability in polymer matrices.

ETRMA invites the **European Commission** to:

- ⇨ Promote the development of new valuable downstream applications
- ⇨ Contribute to identifying all possible sustainable (economically viable) ways for rubber recovery (as a secondary raw material) from end-of-life tyres in order to speed up its integration into rubber products

Significant **improvements in resource efficiency** can be met by **removing bureaucratic policies regarding recycling and re-utilisation of** materials and articles. At present, **end of life tyre derived products have to be managed as waste**, even if they are going to be recycled or remanufactured. This is a huge burden which adds significant cost over disposal and in many cases act as a barrier to improved resource efficiency. This can be addressed in the short term via **pragmatic end-of-waste criteria measures** as foreseen in the revised EU Waste Framework Directive[3].

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Key Facts & Figures on Natural Rubber:

- **Europe is import dependent, more than 90% of production in SE Asia (70% captive), namely Thailand, Indonesia and Malaysia.**
- **The Tyre industry is almost the sole user: 70% of NR produced worldwide is used by tyre industry; the remaining 30% is mainly destined to the producers of general rubber goods made for the automobile, construction, and pharmaceutical industries in particular**
- **Necessary raw material in strategic sectors, such as transport, medical treatment, childcare.**
- **Global demand on it is significantly increasing: emerging countries in SE Asia (namely China, India and Indonesia) becoming the major consumers, also!**
- **Long gestation period for NR: it takes 7 years to see returns for each crop**
- **Can natural rubber be substituted?**
  There is today no substitute to natural rubber that could be used in replacement in all its current applications. The determining factors driving the share of NR in total rubber consumption are
  (1) *Technology and*
  (2) Composition of the end uses: commercial vehicles tyres use more NR than passenger car tyres.
- **EU natural rubber consumption in 2010 was 1.1 mio tonnes**
- **China natural rubber consumption in 2010 was 3,6 mio tonnes; estimated to double to reach 6,4 mio tonnes by 2020**
- **EU, Japan, U.S. cumulated consumption in 2010 was 3,1 mio tonnes; less than China alone; estimated to remain largely the same 3,4 mio tonnes by 2020**

All figures source: IRSG

[3] EU Directive 2008/98/EC