

# Chapter 3

## Transcation with Rubber Processer

October 2016

**This chapter should be cited as**

ERIA (2016), 'Transcation with Rubber Processer', in Yamamoto, H. (ed.), Research for Consideration of a Policy Proposal to Reform the Natural Rubber Industry's Structure and Stabilise Farmers' Dealing Conditions in Thailand. ERIA Research Project Report 2015-12, Jakarta: ERIA, pp.55-62.

## Chapter 3

### Transactions with Rubber Processors

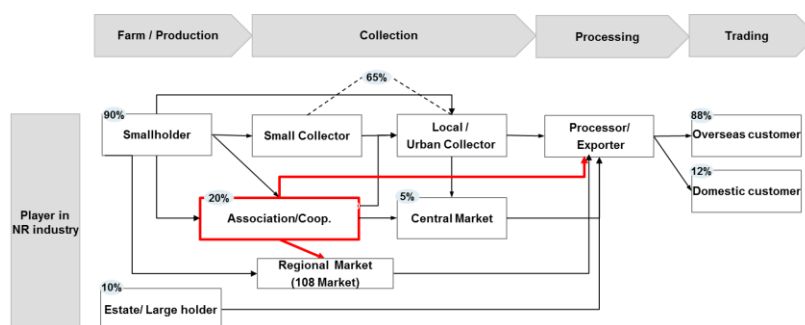
#### 3.1 Pricing, Terms of Payment and Delivery, and the Role of Traders and Dealers

As shown in Figure 3-1, 90 percent of NR is supplied by smallholders, while 10 percent comes from estates/large-scale holders. Most NR rubber transactions are from farmers through collectors, accounting for 65 percent. Transactions from farmers up to processors pass through two or more middlemen, resulting in wider price margins, which can rise to up to 8 percent of the FOB price (around 4 percent per middleman). However, transactions via associations/cooperatives account for around 20 percent of transactions. Associations/cooperatives purchase USS/latex and smoke to RSS, then sell to processors, etc. The central markets comprise only about 5 percent of the total.

Farmers are well informed of the market price, which is basically the price set by the central markets and publicised daily through a website. Farmers then negotiate their own prices with collectors, referring to the central market price.

Each sales route has advantages as well as disadvantages, resulting in competitive relationships between the various routes, especially between collectors and associations/cooperatives. One of the main attractions for farmers of selling through collectors is same-day cash payments. Although the purchase price is slightly lower, easy cash conversion is attractive for smallholders.

Figure 3-1: Terms of rubber transactions



Source: Field Survey in Hatyai (Feb 2016).

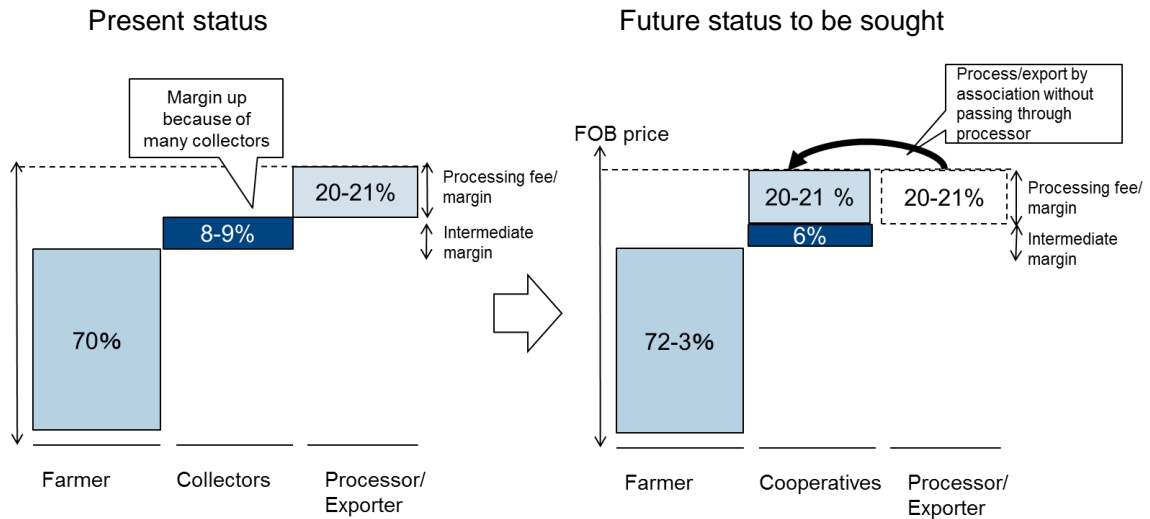
**Table 3-1: Terms of payment and delivery by sales route**

	Collector	Association/Cooperative	Central market
Distance from farmer	Set up the purchase location near farmers, so it can save most transportation cost/traveling time for farmers.	As number of associations/cooperatives is limited, it is inconvenient for farmers who are far from cooperatives.	Located in town that far from farmers.
Term of payment and delivery	Cash payment on the same day	Payment on several days later	Payment on several days later
Trade product	USS/RSS/cup lump/ latex	USS/RSS	USS/RSS
Margin	5-9%	Little cheaper than collector, in addition, stock dividend is paid to members from association's profit.	None

Source: Field Survey in Hatyai (Feb 2016)

In order to reduce collectors' intermediary costs and to increase farmers' revenues, Thai rubber-related authorities such as the Rubber Thai Authority of Thailand (RAOT) are considering promoting cooperatives/associations in order to encourage direct trade from farmers to associations/cooperatives and then from association/cooperatives to foreign buyers. This may help to reduce the margins taken by collectors and processors, and to increase the prices paid to farmers as illustrated in Figure 3-2. As mentioned in Chapter 4, the strengthening of cooperatives/association is one of priority policy areas on the agenda of the Master Plan (2016-2020).

**Figure 3-2: Trade margins for each sales route (present and future)**



Source: Field Survey in Hatyai (Feb 2016).

### 3.2 Comparison of Distribution Structures with Malaysia and Indonesia

When compared with the distribution structures of other countries such as Malaysia and Indonesia, Thailand's distribution structure is relatively complex, as there are several distribution routes (collectors, cooperatives, and local markets) and several chains of distribution (several chains of collectors from local collectors to city collectors). The bargaining power of Thai smallholders is not as strong as smallholders in Malaysia, where they are supported by purchasing made through state agencies. However, it is better than in Indonesia where there is no pricing or market information provided by central markets.

**Table 3-2: Comparison of distribution structures in Thailand, Indonesia and Malaysia**

	Production structure	Distribution structure	Bargaining power of farmers
Thailand	Small holders:90% Government& Private Estate :10%.	Distribution structure is complex as small holders usually sell through several chain of collectors	Though farmers still much depend on collectors for distribution, they can negotiate price by referring to Central Market price
Indonesia	Small holders (<40ha):80% Government and Private Estate (>40ha) :20%.	Small holders largely depend on collectors for distribution due to limited distribution network	Small holders have limited access to market information and thus have weak bargaining power as
Malaysia	Small holders: 94%, Estate: 6%.	Distribution structure is quite simple as small holders directly sell to government agencies/ state companies such as RISDA, FELDA for distribution	Government agency supports income of small holders by processing NR to higher value added product and by shipping abroad.

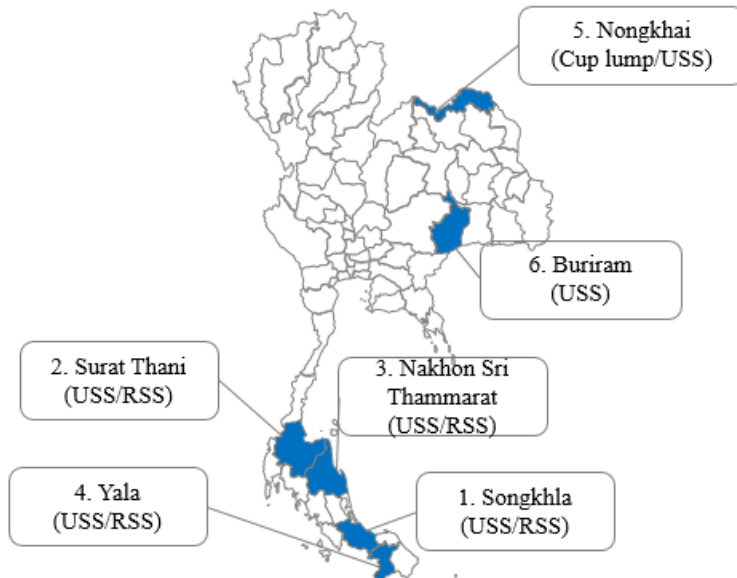
Source: NRI

### 3.3 Utilisation and Transactions of Central Markets

#### 3.3.1 Overview of central markets

In 1991, the first central market was established by the Rubber Research Institution of Thailand (RRIT) in Hatyai in order to offer higher profits for farmers (Delarue, 2011). Today there are six locations across the country with central markets, accounting for about 5 percent of total NR transactions.

**Figure 3-3: Central markets in Thailand**

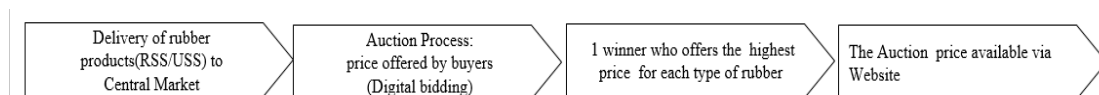


Source: Rubber Thai Information Center

### 3.3.2 Transaction volumes of central markets

Auction information at the six nationwide central markets is released on a website and contributes towards improving farmers' price bargaining power, as it is used as a benchmark price when farmers negotiate with collectors.

**Figure 3-4: Rubber price decision process at a central market**



Source: Central Market

**Table 3-3: Auction prices: Unsmoked Sheet / RSS (25 February 2016)**

Rubber Market	Price (Baht/Kg.)				
	Unsmoked	Unsmoked Sheet 3-5% Moisture	Unsmoked Sheet 5-7% Moisture	Unsmoked Sheet 7-10% Moisture	Unsmoked Sheet 10-15% Moisture
Songkhla	41.25	40.85	40.25	-	-
Suratthani	40.39	40.06	39.10	-	-
Nakorn Srithammarat	40.29	39.80	-	-	-
Yala	39.92	39.92	39.92	34.69	32.00
Buriram	-	-	-	-	-
Nongkhai	38.79	37.79	-	-	-

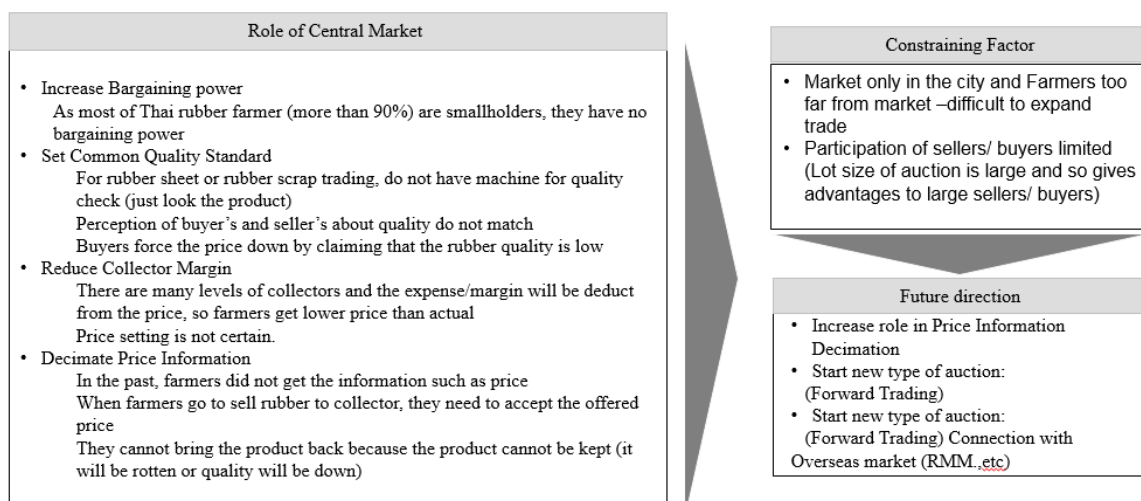
Rubber Market	Price (Baht/Kg.)				
	RSS 1-3	RSS 4	RSS 5	RSS Bubble	RSS Cutting
Songkhla	42.33	41.85	40.95	39.77	35.53
Suratthani	42.37	36.36	35.35	32.32	30.30
Nakorn Srithammarat	42.13	41.49	39.45	39.53	35.77
Yala	-	-	-	-	-
Buriram	-	-	-	-	-
Nongkhai	-	-	-	-	-

Source: Central Market

### 3.3.3 Issues concerning transactions

The role of central markets is focused on the market information transmission function rather than on the expansion of physical transactions. Central markets are now looking into network expansion into overseas markets, such as RMM (see Appendix). It is suggested that central markets connect with local markets such as 108, which is small scale but deals in all types of NR products.

**Figure 3-5: Role/constraints/future of central markets**



Source: Field Survey in Hatyai (Feb 2016)

### 3.3.4 Local markets: 108 market

Thai farmers also have the choice of selling to local markets such as 108. Since RIIT and ORRAF are now under the same organisation, namely RAOT, policymakers should push for a closer connection between central markets and local markets, for example with price information sharing and transaction integration.

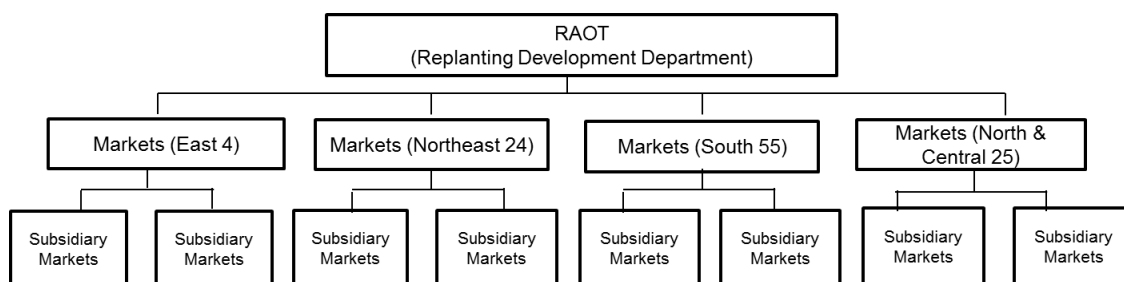
#### 3.3.4.1 Rubber market 108

Rubber market 108, or the rubber ORRAF market, are physical markets in local areas that are supported by ORRAF. The purpose of these markets is to offer locations where farmers, farmer groups, or farmer institutions under the responsibility of ORRAF can come to sell rubber.

The process of trading in rubber market 108 as explained below:

1. General auction: bringing rubber to market place > rubber grade evaluating > weighing > agreeing on a price from the various bids made by buyers.
2. Electronic rubber market: sellers set a minimum price, then bidders have to offer more than the minimum price (not more than THB 0.05 each time).
3. Send rubber to those buyers who win the bidding process (using the reference price from the central markets).

**Figure 3-6: The structure of market 108**



Source: ORRAF

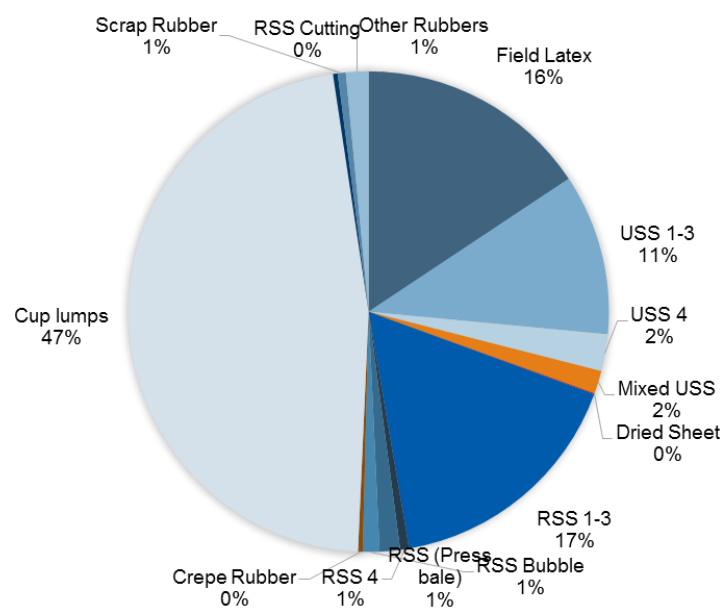


**Table 3-4: Function/characteristics of 108 compared with central markets**

	108 Market	Central market
Function	Organized by ORRAF to promote local trade	Organized by RRIT to establish the standard price of the market and disseminate knowledge about product standards/price among farmers/traders
Geographic locations	108 markets set up near cooperatives and farmers	5 locations in major rubber producer cities
Tradable rubber products	All kinds including field latex and cup lumps	Mainly RSS/USS (no field latex) and Cup lump in only Nongkhai
Major sellers	Small scale farmers near the local market / cooperatives	Farmers near central market/ cooperatives

Source: Interview to RAOT and Central Market

**Figure 3-7: Trading of rubber products in market 108 (2015)**



Source: ORRAF