Chapter 3

Transcation with Rubber Processor

October 2016

This chapter should be cited as
Chapter 3
Transactions with Rubber Processers

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).
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.

Source: Field Survey in Hatyai (Feb 2016).
Table 3-2: Comparison of distribution structures in Thailand, Indonesia and Malaysia

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

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.
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.

Source: Rubber Thai Information Center
Table 3-3: Auction prices: Unsmoked Sheet / RSS (25 February 2016)

<table>
<thead>
<tr>
<th>Rubber Market</th>
<th>Price (Baht/Kg.)</th>
<th>Price (Baht/Kg.)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unsmoked</td>
<td>Unsmoked</td>
</tr>
<tr>
<td></td>
<td>3.5% Moisture</td>
<td>5.7% Moisture</td>
</tr>
<tr>
<td>Songkhla</td>
<td>41.25</td>
<td>40.85</td>
</tr>
<tr>
<td>Suratthani</td>
<td>40.39</td>
<td>40.06</td>
</tr>
<tr>
<td>Nakhon Srithamarat</td>
<td>40.29</td>
<td>39.80</td>
</tr>
<tr>
<td>Yala</td>
<td>39.92</td>
<td>39.92</td>
</tr>
<tr>
<td>Buriram</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Nongkhai</td>
<td>38.79</td>
<td>37.79</td>
</tr>
</tbody>
</table>

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**

**Role of Central Market**
- Increase Bargaining power
  - As most of Thai rubber farmers (more than 90%) are smallholders, they have no bargaining power
- Set Common Quality Standard
  - For rubber sheet or rubber scrap trading, do not have machine for quality check (just look the product)
  - Perception of buyer’s and seller’s about quality do not match
  - Buyers force the price down by claiming that the rubber quality is low
- Reduce Collector Margin
  - There are many levels of collectors and the expense/margin will be deducted from the price, so farmers get lower price than actual
  - Price setting is not certain.
- Decrease Price Information
  - In the past, farmers did not get the information such as price
  - When farmers go to sell rubber to collector, they need to accept the offered price
  - They cannot bring the product back because the product cannot be kept (it will be rotten or quality will be down)

**Constraining Factor**
- Market only in the city and Farmers too far from market — difficult to expand trade
- Participation of sellers/buyers limited (lot size of auction is large and so gives advantages to large sellers/buyers)

**Future direction**
- Increase role in Price Information
- Decimation
- Start new type of auction: (Forward Trading)
- Start new type of auction: (Forward Trading) Connection with Overseas market (RMM, etc.)

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

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

Source: Interview to RAOT and Central Market

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

Source: ORRAF