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31 July 1956

STAFF MEMORANDUM # 56-56

SUBJECT: Trends in the International Rubber Situation

1. The rubber economies of Southeast Asia. The importance of rubber exports in the economies of several nations in Southeast Asia is indicated by the following data:

TABLE 1

Rubber Exports as a Percentage of Country's Total Exports

Country	1952	1953	1954	1955
Malaya	43	55	54	64*/
Indonesia	45	32	31	46
Thailand	15	12	15	25*/
Ceylon	25	22	16	18*/

*/ Preliminary figure based on first six months.

TABLE 2

US Natural Rubber Imports in 1955 as a Percentage*/ of Total US Imports from Selected Countries

Vietnam, Laos, and Cambodia	97%
Thailand	85%
Indonesia	70%
Malaya	58%
Ceylon	26%

*/ Based on value for the first nine months of 1955.

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This memorandum has been discussed informally with O/RR

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TABLE 3
Selected Data on World Rubber Production

	Thousand long tons					% of World's natural rubber in 1955
	1951	1952	1953	1954	1955	
Natural Rubber	1,822	1,715	1,640	1,723	1,333	
Malaya	608	572	570	570	632	34.4
Indonesia	794	749	673	729	722	39.3
Thailand	109	98	96	117	130	7.1
Ceylon	104	89	97	90	97	5.3
Vietnam	52	60	71	54	61	4.7
Cambodia				24	26	
Subtotal	1,667	1,568	1,507	1,584	1,668	90.8
Synthetic Rubber*/	708	878	936	716	1,085	--
United States	845	799	848	623	970	--

*/ production in non-Bloc countries.

2. Post-World War II trends in the world rubber market. The adjustment of world rubber supply to demand in the postwar period has been highly unsatisfactory to both consumers and producers: natural rubber prices have fluctuated widely between a low of 17¢/lb in 1949 and a high of 59¢/lb in 1951 with highly disrupting effects on the

TABLE 4

Average New York Natural Rubber Prices
(Cents/pound)

1946 - 22.50	1950 - 41.10	1954 - 23.64
1947 - 20.27	1951 - 59.07	1955 - 39.14
1948 - 22.01	1952 - 33.57	Dec 1955 - 49.30*/
1949 - 17.56	1953 - 24.23	June 1956 -(30.00)

*/ The USSR returned to the world natural rubber market in the latter half of 1955.

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economies of the natural rubber producing nations. The underlying conditions are: (a) the total world demand for rubber is increasing at a moderate rate, (b) the natural rubber supply is remaining stable or increasing at a very slow rate, and, (c) the synthetic rubber production and supply is increasing at a rapid rate, especially in the United States. As the dynamic factor on the supply side, the rate of increase in synthetic rubber production (vis-a-vis the rate of increase in total demand) is a crucial factor in price determination and hence has obvious broad economic and political implications: the 17¢/lb low in 1949 resulted from an especially rapid increase in synthetic rubber production and the 52¢/lb high resulted from a slow supply adjustment to a rapidly increased demand derived from the Korean war. The sharp downward trend in prices in 1956 is primarily the result of a another rapid expansion of US synthetic rubber production in 1955 and early 1956.

3. The current problem for the natural rubber producing areas. In spite of the outlook for growing total demand for rubber, the natural rubber producing nations of southeast Asia are now seriously concerned over their future prospects. The principal cause for concern is the planned rapid rate of increase in world, and particularly US, production of synthetic rubber. This trend was outlined in rather sharp detail by the President in a message to the Congress on 30 April 1956. */ In brief the ODM data supporting the President's message indicate prospects for a substantial surplus**/ of rubber production -- synthetic and crude -- over the next few years with further strong pressure to drive natural rubber prices down toward the price of synthetics (now about 25¢/lb) and perhaps even to reduce the price of synthetics. The situation is further complicated by the possible commercial production in the US of polyisoprane, a synthetic duplication of the natural rubber molecule. This could remove completely the requirement for natural rubber, which is now used in heavy duty rubber products and which currently comprises about 40 percent of total US rubber consumption.

*/ 84th Congress, 2d session, House of Representatives, Document No. 391.

**/ See Appendix A, especially paras. 2 and 3.

4. In either of these situations, countries now highly dependent on rubber exports would be caught in a particularly difficult squeeze by a prolonged period of lower rubber prices and significantly reduced foreign exchange earnings. They therefore, face the prospect of becoming increasingly less able to finance the economic development necessary to modernize and diversify their economies at the same time that the need for such development is becoming even more urgent. An external scapegoat is a practical necessity for local political leaders.

5. Southeast Asian reaction. The short run effects have appeared in the form of sharply reduced rubber prices and reduced foreign exchange earnings. This followed the rapid increase in synthetic rubber production and aggressive export policies by US companies in combination with the 30 April message of the President on rubber. Malaya, Singapore, and Indonesia reacted by announcing their intention to seek export markets for rubber in Communist China. Moreover, the President's message has been interpreted in Indonesia as an "attempt to depress prices still further" and the conclusion has been drawn that the US is looking toward self sufficiency in rubber. Prime Minister Ali of Indonesia expressed the hope on 20 May that agreement would be reached to regulate the production of synthetic and natural rubber and that the US would adjust synthetic production to actual needs. These reactions are likely to become more sharp and US relations with Southeast Asia further complicated in the event that natural rubber prices continue to decline due to increased production of synthetics. Governments in this area particularly that of Indonesia, are not likely to make any distinction between the policy of US private enterprise and the US government and they will tend to feel that the US has been insensitive and unsympathetic to their economic problems.

6. If this situation continues there is no assurance that the USSR will not significantly increase its spot rubber purchases, either directly or through Communist China or the European Satellites. Although there are no firm data on the Soviet rubber position, it is believed that part of the Soviet current rubber needs have been met since 1953 by reducing the natural rubber stockpiles. Because of this and the growing USSR needs for various kinds of rubber, there is a better than even chance that the USSR will further increase its natural rubber

acquisitions in the near future. After returning to the rubber market in 1955, the Soviet Union purchased at the rate of about 5,000 tons per month and subsequently in 1956 increased this rate to the present 7,000 to 9,000 tons per month.

7. It is probable that future Bloc purchases will be made in a combination of timing, form, and placement that will maximize political advantage. Purchases might be deferred until the situation has deteriorated further in order to attempt to dramatize the Bloc rescue, or might be hastened to buttress the argument that trade with the Bloc is advantageous. Bartering economic development goods for rubber might have considerable appeal under some circumstances. Although data are as yet inconclusive, the fact that some 40 percent of Chinese rubber imports are transshipped to the Soviet Union might indicate more general Bloc efforts to undermine Chincom controls on a general front or to establish Communist China as the hub of trading relationships in Asia.

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APPENDIX A

1. Brief Background on US Synthetic Rubber Production. The United States, which consumes about 35% of the world's natural rubber and produces over 90% of the non-Bloc synthetic rubber production, has an obvious and powerful impact on the world rubber market. After the sale of 24 of the 27 government-owned synthetic rubber plants to private industry (in early 1955), the (US) output of synthetics was pushed to alltime records, and US exports of S-type and butyl rubbers for the first time in peace began to influence the demand for natural rubber in other countries. Synthetic rubber production in the US increased from 820 thousand long tons in 1954 to 910 thousand in 1955, and accounted for about 60 percent of US rubber needs in 1955. US synthetic rubber exports increased from 30 thousand long tons in 1954 to 93 thousand in 1955, and in early 1956 were moving at an even higher rate. The remaining three government-owned plants were sold to private industry in early 1956, and the Special Commission for Rubber Research, a subsidiary of the National Science Foundation, has recommended the transfer or sale or related government research laboratories to universities or other agencies "after June 1956." The role of the US government henceforth will be confined to the maintenance of "a stockpile of natural rubber adequate to supply military and essential civilian requirements during emergency notwithstanding interruptions of supply."

2. US Industry Plans. The production plans for synthetic rubber by US private industry are of two types: expansion of production of existing synthetics, and the development of polyisoprene -- the duplication of the natural rubber molecule. On 30 April 1956, the President in a message to Congress, summarized the former plans as follows:

> According to the estimates prepared by the ODM Ad Hoc Rubber Committee,* total US requirements for new rubber (natural and synthetic) may by 1960 reach a level of about 1,700,000 long tons annually. As of December 31, 1955, the US productive capacity for synthetic rubber was already more than 1,250,000 tons. By January 1, 1958 reported planned expansions would bring synthetic capacity to about 1,700,000 long tons -- or equal to total new rubber requirements for both synthetic and natural, as estimated for 1960. (Underlining added.)

3. Some Implications of the Plans. Although the full dynamics of the developing situation cannot be predicted at this time, the broad outlines of the market forces can be inferred from the data presented in the 30 April 1956 Presidential Message to the Congress.

a. Total US consumption of rubber (synthetic and natural), according to the (US) Rubber Manufacturers Association estimate cited by the President, has reached a plateau, and consumption will be "lower in 1956 and 1957 and (will) thereafter increase above the 1955 level."

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* This committee comprised staff members from Commerce, Defense, Interior, Treasury, the Rubber Producing Facilities Disposal Commission, and the National Science Foundation.)

b. However, US synthetic rubber production capacity is to be increased from about 1,250,000 long tons on 31 December 1955 to a planned total of 1,700,000 long tons by 1 January 1960. As a limiting condition, if this planned capacity is attained and utilized, and if US domestic demand using 40 percent natural rubber increases by no more than is anticipated by the ODM, the US in 1958 will have a synthetic rubber surplus of some 763 thousand long tons. The combination of (a) and (b) has almost halved prices since January 1956, and in the absence of restraining influences will continue to depress natural rubber prices in the New York market toward the price of synthetic rubber (now 25¢/lb).

c. Provided the US consumption of natural rubber remains 40 percent of the total as assumed by the ODM data, the export surplus of 763 thousand long tons will be more than double the 375 thousand ton estimate by ODM for "potential foreign use of synthetics." (See Table A-1.) Moreover, this US synthetic rubber surplus will be augmented by some 60,000 tons of exports from Canada, by German synthetic production of at least 10,000 tons, by 40,000 to 50,000 ton planned capacity in the UK by 1958, and by possible synthetic production elsewhere in Europe. On the other hand, if the 40-percent natural-rubber proportion is not maintained, natural rubber imports by the US will obviously decline so long as total consumption remains stable.

TABLE A-1

Potential world rubber position, 1956-60
(Thousands of long tons)

Year	World production natural rubber	United States consumption		Natural for foreign consumption 2/	1/ New rubber foreign consumption	1/ Potential foreign use of synthet
		Synthetic and natural	40 percent natural 2/			
1956	1,830	1,458	583	1,247	1,424	177
1957	1,840	1,509	604	1,236	1,510	274
1958	1,850	1,562	625	1,225	1,600	375
1959	1,860	1,616	646	1,214	1,696	482
1960	1,870	1,673	669	1,201	1,798	597

1/ Excluding consumption of synthetic rubber in Iron Curtain countries.

2/ These projections assume that volume production of polyisoprene will not develop during this period.

4. The second major threat seen by the natural rubber producers is that polyisoprene, the new synthetic reproduction of the natural rubber molecule, will in a few years emerge from its present pilot plant stage and largely displace natural rubber in the US markets and perhaps other markets. Although the initial price of polyisoprene will probably be about 85¢/lb in contrast to the present 30¢/lb price of natural rubber, it is anticipated that the price will fall significantly when developmental costs are written off and when large scale production is attained. President Eisenhower on 30 April 1956 outlined the US position as follows:

> Inasmuch as the US already has an adequate stockpile of natural rubber, there is, in this connection, no immediate security problem. In the long run, however, maintenance of security would be vastly simplified if we could -- if need be -- produce types of rubber domestically which could take the place of natural rubber in large trucks, bus, and airplane tires. The newly synthesized rubbers hold this promise.
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> It is believed that we can rely on the private synthetic rubber industry to move from laboratory synthesis to commercial production of synthetic "natural" rubber. Pilot plants are already being constructed on private initiative. The nature of the problems which may arise when quantity production is contemplated is as yet undefined.