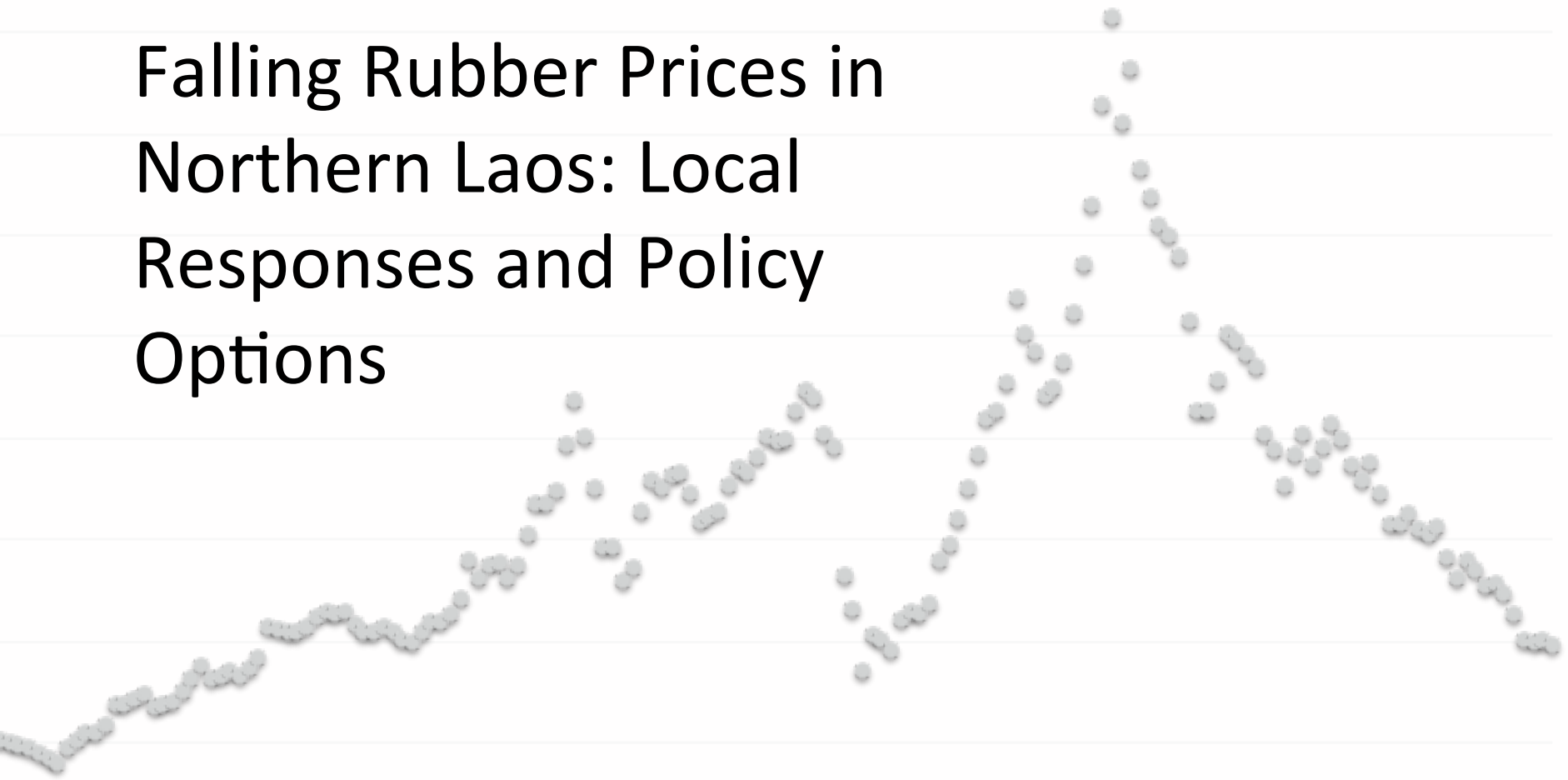


# Falling Rubber Prices in Northern Laos: Local Responses and Policy Options



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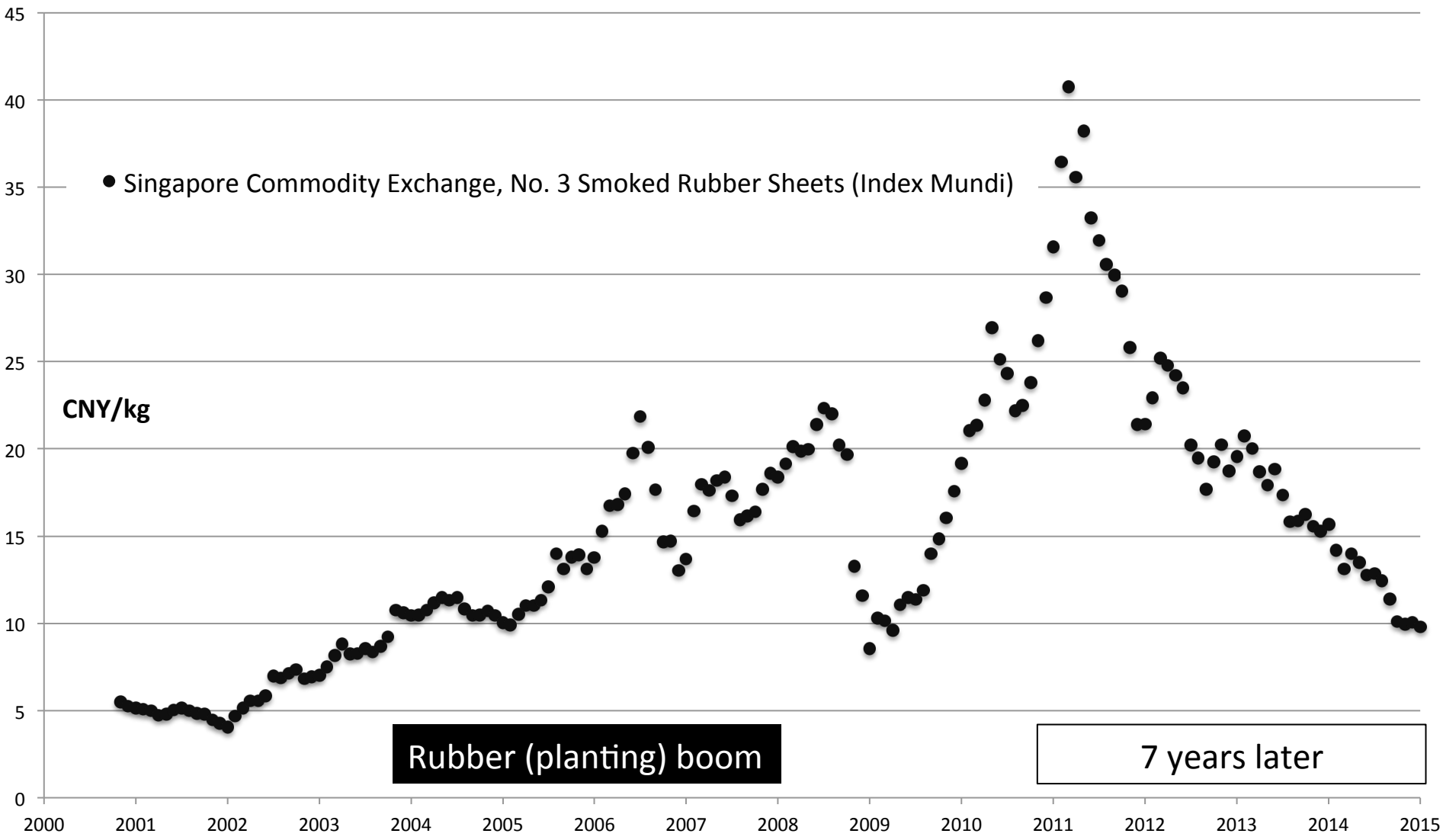
**Michael Dwyer, PhD**

University of Bern, Centre for Development and Environment

**Presentation of results**

**DAEC office**

**15 December, 2015**



# STUDY DESIGN 1 OF 2

## **Research questions:**

1. How are rubber producers and government officials responding to the recent fall in rubber prices?
2. Are producer responses related to production arrangements, and if so, how and why?
3. How are rubber prices in northern Laos actually determined?

# STUDY DESIGN 2 OF 2

## Broad not deep

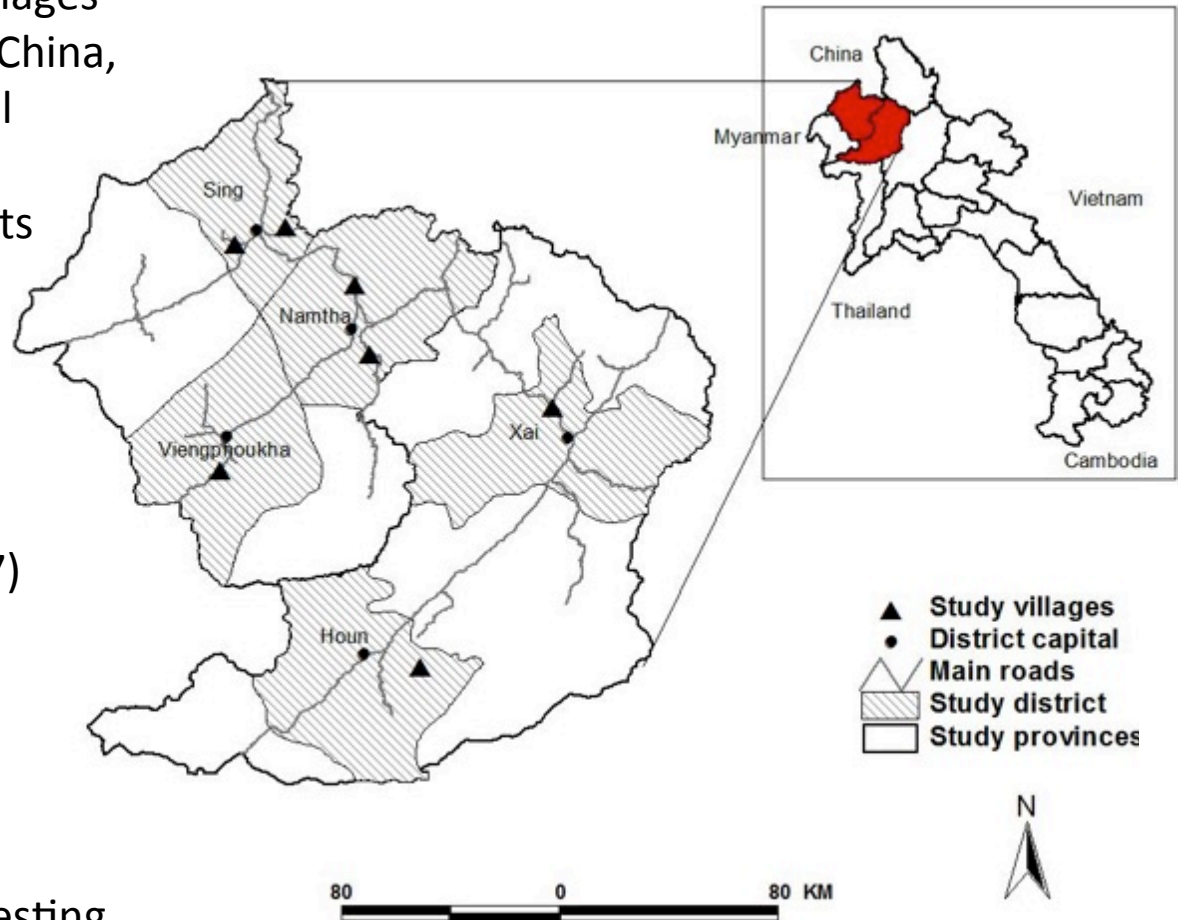
- 2 provinces, 5 districts, 7 villages
- Range of (i) distances from China, (ii) distances from provincial capitals, (iii) planting dates, (iv) production arrangements
- Qualitative > Quantitative

## Interviews with:

- PAFO, PICO et al. (n=8)
- DAFO, DICO et al. (n=15)
- Village representatives (n=7)
- Private sector actors (n=3)
- TOTAL: 33 interviews with 68 participants

## Literature review

- Connect planting with harvesting
- Build on VT (2015) and Shi (2015)



# RESULTS

1. Context: Rubber statistics and challenges
2. Responses by government institutions
3. Responses by rubber producers
4. Where prices come from

# 1. Context: Rubber statistics and challenges

	Concession	Independent ("smallholder") production	Contract farming		Total reported	Total calculated	Source
			2+3	1+4			
LUANG NAMTHA PROVINCE	3,557	16,409	13,298		34,347	33,264	PAFO
	10,841	"Largest proportion of total rubber plantation area in the province"	Size of shift from 2+3 to 1+4 "has not been assessed"				PICO
Sing	472		1,340		9,720		DAFO
Namtha	Not available within time allotted						DAFO
Vieng Phoukha		550	"not tapped yet"		3,069 (550 mature)		DAFO
OUDOMXAI PROVINCE	1,000				"About 30,000"		PAFO
Xai	0	Yes	Yes	No	4,172 (150 mature)		DAFO
Houn	0	342	5,548	390		6,280	DAFO
			4,733				DPIO
	0	20%	80%		6,000		DICO

*All figures in hectares*

# 1. Context: Rubber statistics and challenges

## Movement between and within business models:

“After the [plantation] split [in “1 plus 4” arrangements], it is common for villagers to sell their shares of trees ... [this often] occurred soon after the split due to villagers not being able to care for their shares of trees. Labor input was one of the biggest problems in 2008, and the shortage is even more obvious today.”

(Shi 2015: 1-2, emphasis added).

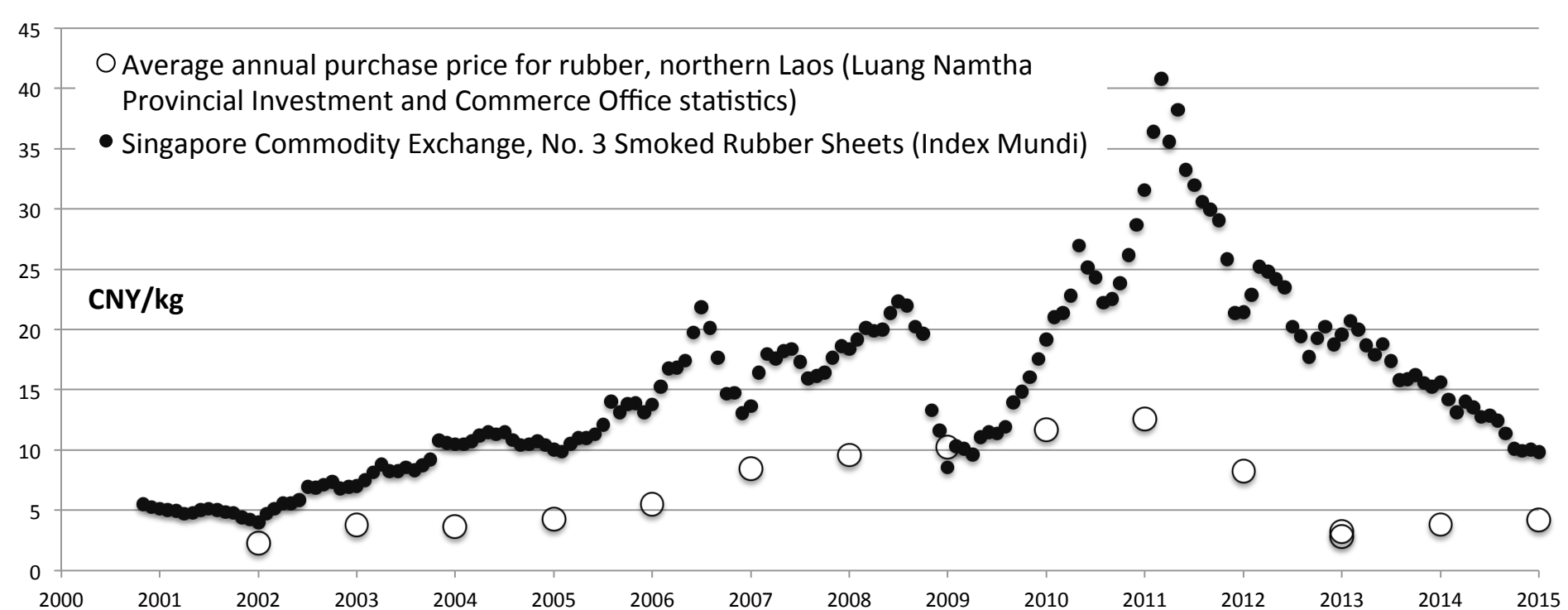
“Selling rubber plantations is normal [here] – it depends on having buyers. The growers [who sell] are mainly poor households in villages. Buyers are mainly businessmen from the province [capital] as well as Chinese investors. ... However, during the falling rubber prices, no one wants to buy rubber plantation.”

(Government interview, Oudomxai)

# 1. Context: Rubber statistics and challenges

## Price data has issues too!

- Yunnan Rubber Co. claims to have no price record
- LNT PICO only has annual average price statistics, but no more detail (“too much volatility – we do not know how to record it”)



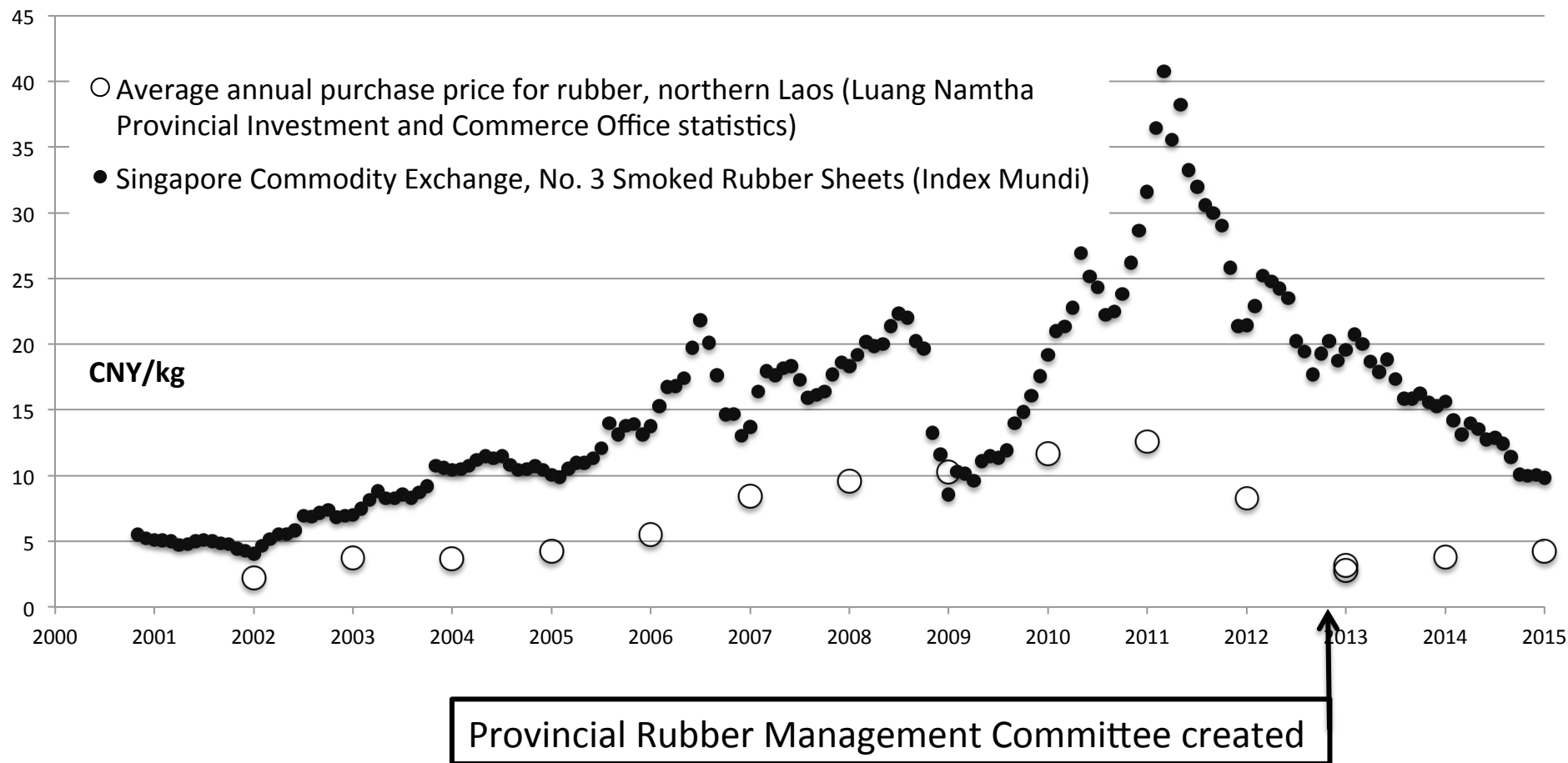


## **2. Responses by government institutions**

1. Official management committee(s) at the province and district level (LNT only)
2. Not enforcing contracted floor prices
3. Banning land conversion (LNT only)
4. Encouraging farmers to stick with rubber

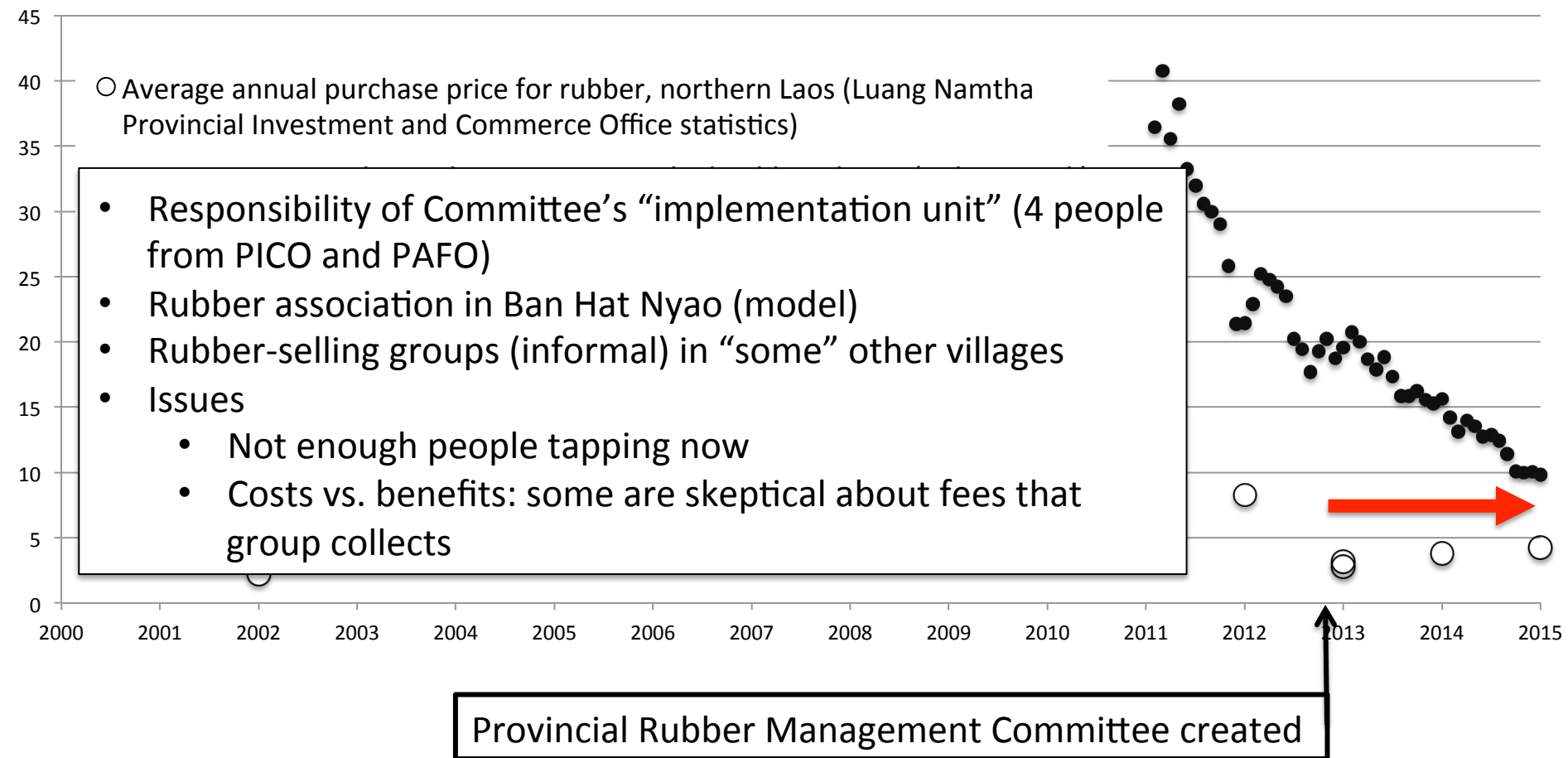
## Official management committee(s) at the province and district level (LNT only, formed Sept. 2012)

- Promoting farmer marketing groups
- Calculating recommended prices
- Brokering (negotiating) rubber purchases



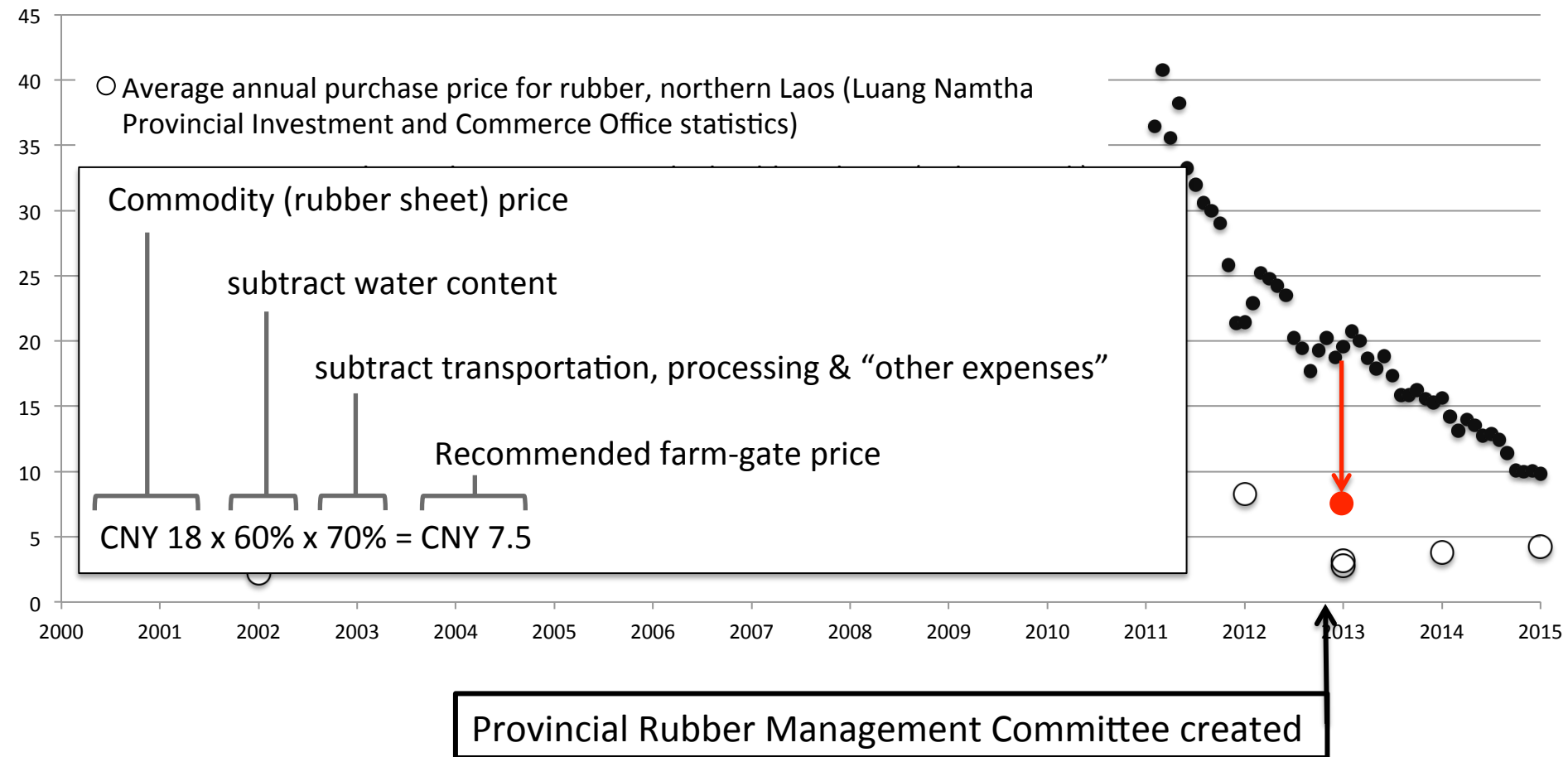
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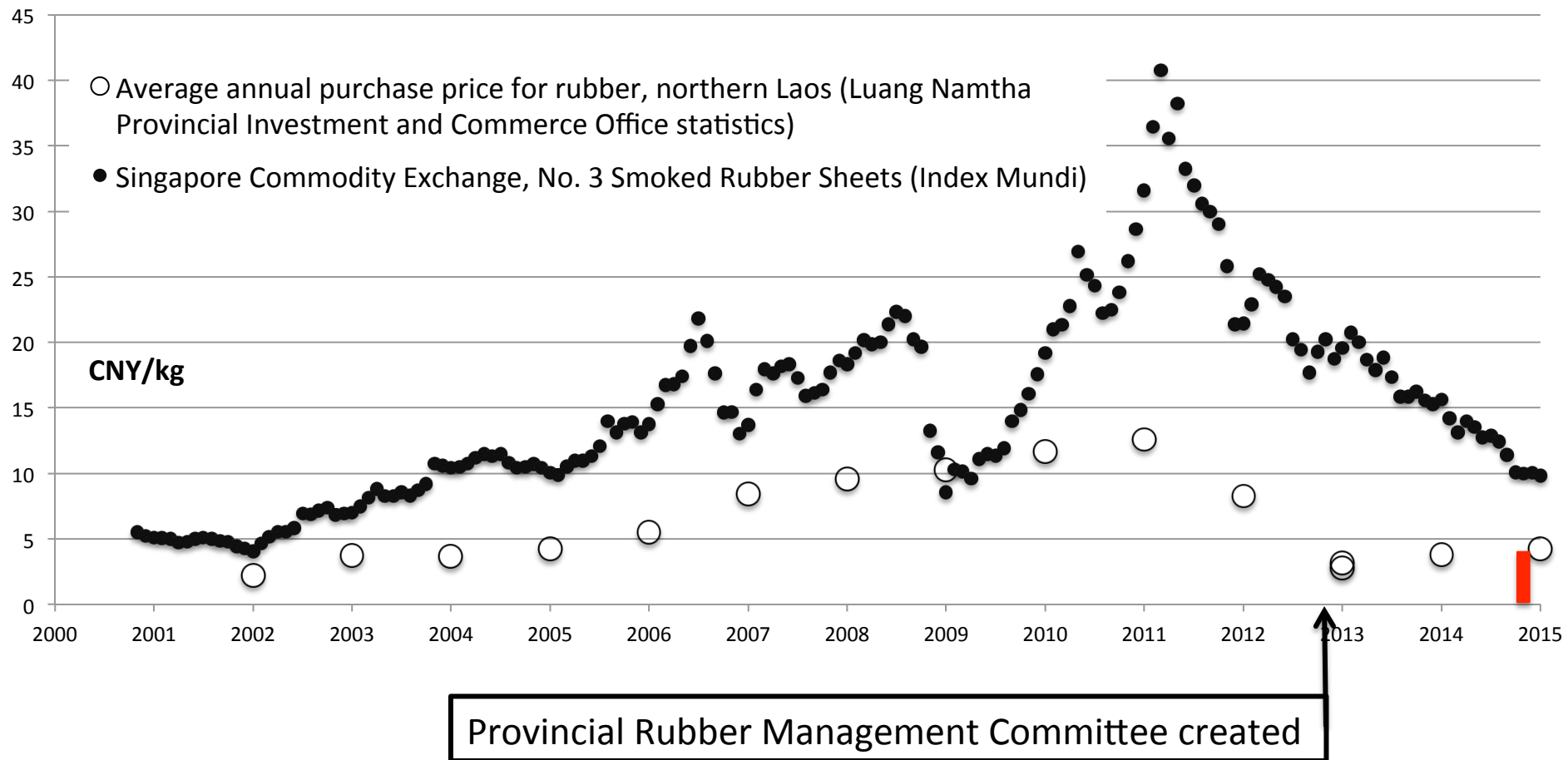
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## Official management committee(s) at the province and district level (LNT only, formed Sept. 2012)

- Calculating recommended prices
- Organizing marketing groups
- **Brokering (negotiating) rubber purchases**



## Answer to low rubber price found

**Vientiane Times, 6 November 2014**

Rubber trading companies have promised to ... purchase the rubber tapped in November this year at around 6,600 kip per kg (**5 Yuan**) up from the previous 4,100 kip (3.2 Yuan) per kg ...

The very low price of rubber sold in October at 4,100 kip (3.2 Yuan) per kg resulted in dissatisfaction among the local people who became discouraged about continuing to harvest the product, Department Director Mr Phonxay Chanthasone said.

He said that some rubber growers decided to sell their plantations, while others simply destroyed their trees and switched to growing other commercial crops such as bananas and sugarcane.

In addition, the fall in the rubber price resulted in many families going into debt because they borrowed money from the banks to plant their rubber trees, Mr Phonxay added. ...

At the consultation meeting, they agreed that all companies that had invested in rubber tree plantations in the province should lend a hand to the people in the districts within their investment. ...

Acting on behalf of the rubber processing association in the province, Yunnan Rubber Company agreed to purchase the last batch of rubber which is being tapped this month at a cost of around 6,600 kip (**5 Yuan**).

## **Not enforcing contracted floor prices (1 of 2)**

Contracted floor prices were the exception, not the rule:

- 4 of 7 companies discussed did not have them. (Total: 3 LNT, 4 OUD)

But in the 3 cases we found, these seem to not be enforced.

- Vieng Phou Kha: there is contracted floor price, but the company “could not afford to pay based on the contract.” (Gov’t interview)
- Xai: “this set price [of LAK 5,000/kg] have not been enforced ... . Rubber prices in our province and district are based on what buyer offers. We used to discuss with the companies to raise prices, but companies often prefer to based on market prices. Thus, the companies could not raise rubber prices for our smallholders.” (Gov’t interview)
- Houn (next slide)

## Not enforcing contracted floor prices (2 of 2)

- Houn: “We have contract [that says] at least 5,000 kip/kg ... We used to discuss about floor price at 5,000 k/kg, but the company cannot pay on this prices due to rubber market prices in China. ... We do not know the prices of rubber in China and buyers do not tell us how much they sell in China. We used to talk to the provincial industry and commerce office, but the office at the provincial level does not have prices information for us. The floor prices set in the contract is 5.000 k/kg, but the company still pay lesser than floor prices. The company is not payment based on the contract. We proposed this the provincial level many time, but we did not receive any responses from the provincial level. At the district, we also proposed the district meeting, but again no responses from the district authorities.” (Gov’t interview)



## Banning land conversion (LNT only)



## **Encouraging farmers to stick with rubber**

“It is not matter rich or poor; whoever have rubber plantation and patient in working in their rubber plantation will get income.”

(LNT-NT DAFO)

“Although rubber prices are falling at LAK 5,000–6,000/kg is OK for local people to tap rubber – they gain from rubber plantation [more] than other agricultural activities.”

(OUD PAFO)

### **3. Responses by rubber producers**

1. Waiting for prices to rise (not tapping)
2. Tapping with household labor
3. Aggregation (including collective action) to attract higher prices
4. Land sales to wealthier buyers in or out of village
5. Land leases to outside investors for conversion to other crops (e.g. bananas)

### **3. Responses by rubber producers**

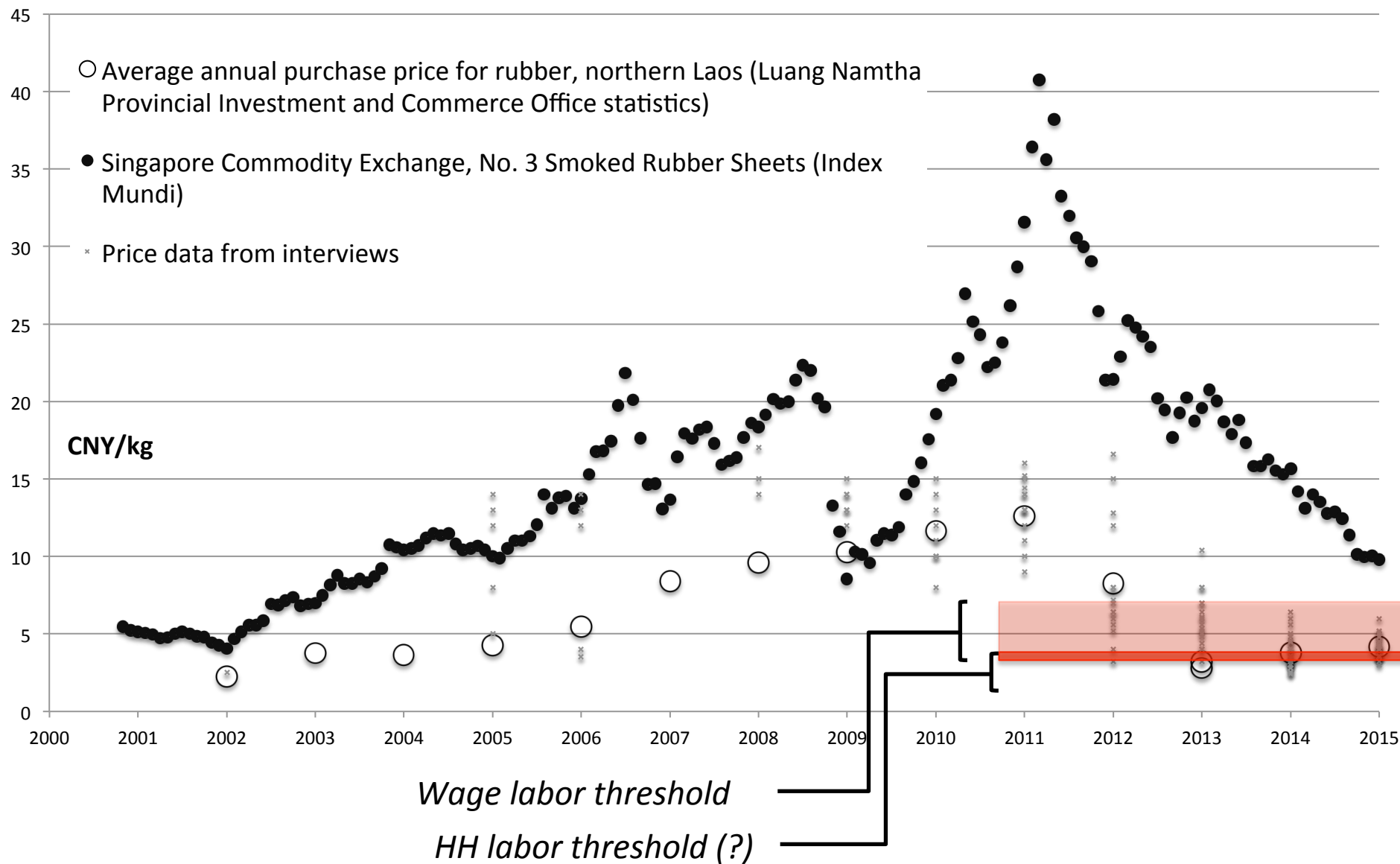
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“In the case of rubber prices at 4 Yuan/kg, local people still gain benefit from the plantation. However, we do not have enough money for hiring labor for tapping our rubber. With 4 Yuan/kg, we have to tap our rubber by ourselves. In the case of households that have large area of rubber plantation, they tap only little part of their rubber plantation based on their household labor forces.” (Village interview, Ban Hat Nyao)

## Household vs. wage labor

- Many rubber plantations are now owned by “large-holders”; these are generally tapped via “**wage/share**” arrangements in which the tapper gets 30-50% of product.
- Current prices are widely seen as **below the threshold** where this is desirable work, due to other wage labor opportunities.
  - This threshold’s existence is well documented in our interviews.
  - Its value is harder to pin down – CNY 4/kg by one estimate.
- Quantitative results that un-tapped share is ...
  - 30% (Namtha DICO)
  - 50% (Namtha DAFO)
  - 70% (Houn DICO, Houn DPIO)
  - 90% (Oudomxai PAFO)... thus need to be interpreted within this context: wealthier growers – and their labor force – are waiting.
- Households (between 10 and 70% of growers?) are continuing to tap, with low (or even negative) profit margins (but it’s hard to know without micro-economic research).

# Household vs. wage labor





# Aggregation

Marketing cooperatives:

- Ban Hat Nyao collective, includes 6+ other neighboring villages
- Ban Mokpalai (Houn, relatives of Hat Nyao) collective, includes 10 other villages
- raises price “about 0.5 to 1 Yuan per kg” (Namtha DICO)

Transporting rubber to Luang Namtha

- Collective action for better prices
- Business model, as illustrated

here →



Rubber sale in Luang Prabang by rubber purchasing company with a contract to sell to Yunnan Rubber Co.

## Plantation sales

Plantation sales *seem to be slowing* with falling prices:

- (from above) “Selling rubber plantations is normal [here] ... However, during the falling rubber prices, no one wants to buy.”
- “Many people would like to sell their rubber plantation, but no one want to buy.” (Xai DPIO)

But there are also reports of strategic purchases for the long term:

- Shi (2015: 6): “Yunnan Rubber is in the process of acquiring and consolidating plantations from struggling Chinese firms. [And] in spite of not being able to tap its plantations [due to lack of labor], Yunnan Rubber is planning to acquire still more plantations.”
- “I unofficially heard that some villagers sold their rubber plantation to rich people in the city, but I do not have detail information about this. They sold in 2014.” (Government interview, Oudomxai)



## Land conversion via lease

- Some available statistics (below); conversion to banana also reported in Xai (conflicting accounts: some yes, some no), Houn and Beng.
- Since land conversion from rubber is now being banned, it is likely to be under-reported by both villagers and government officials.

### Rubber clearance statistics reported

<i>Trees</i>	<i>Ha</i>	<i>HH</i>	<i>Villages</i>	<i>Source</i>
Sing district				
131,400	292	712	15	PICO
	400			PAFO
Long district				
25,650	57	46	1	PICO
	"No good data"			PAFO



Land lease prices: CNY  
15-18,000/ha-yr  
reported for bananas

## 4. Where rubber prices come from



“Rubber prices here in Namtha district are based on two sources: the announcement from Provincial Industry and Commerce and the prices stated by companies. In fact, the prices are posted in the board in each rubber processing factory in Namtha district. Thus, when people access to the factory, they will see the prices posted in the board.” (LNT-NT DAFO)

Posted rubber price, Yunnan Rubber Co. factory, Luang Namtha

## 4. Where rubber prices come from



Recall from above:

1. Floor prices not enforced: 3 examples
2. Recommended > actual prices

2015 17:14



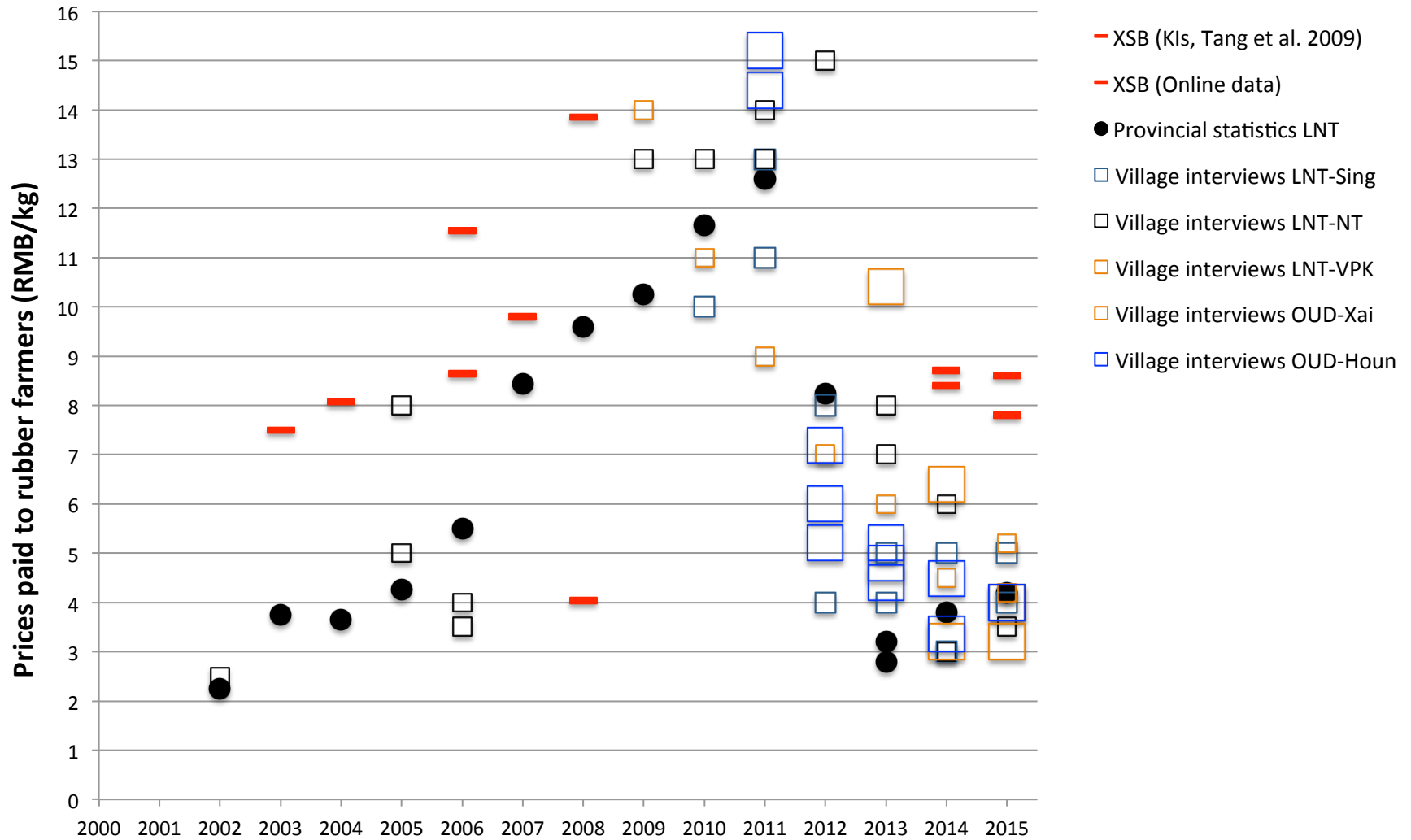
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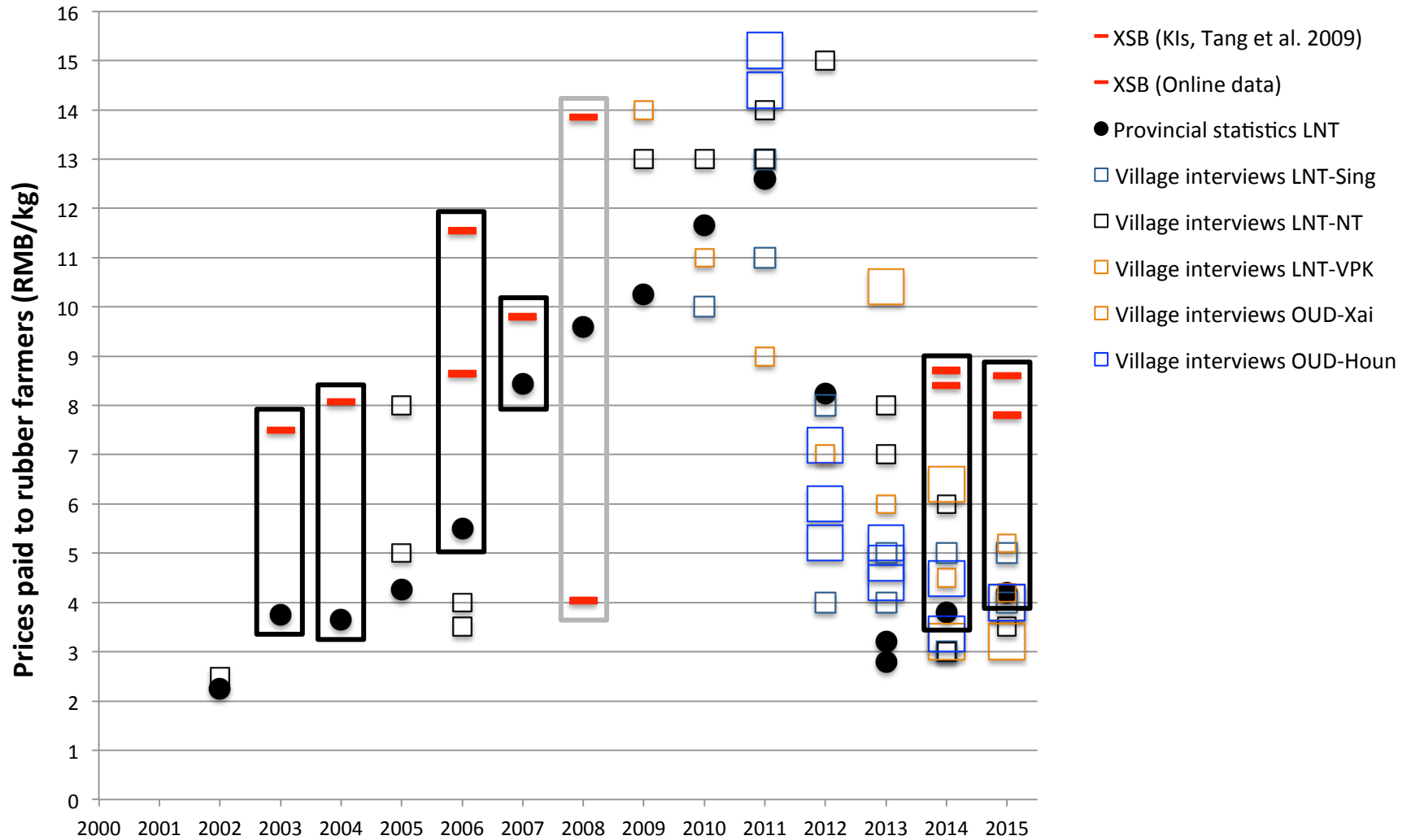
“The [Oudomxai] Provincial Industry and Commerce Office has not talked/negotiated with buyers. ... Prices are mainly based on what buyers propose.” (OUD PAFO)

“We only hear the prices of rubber from investment companies.” (Houn DPIO)

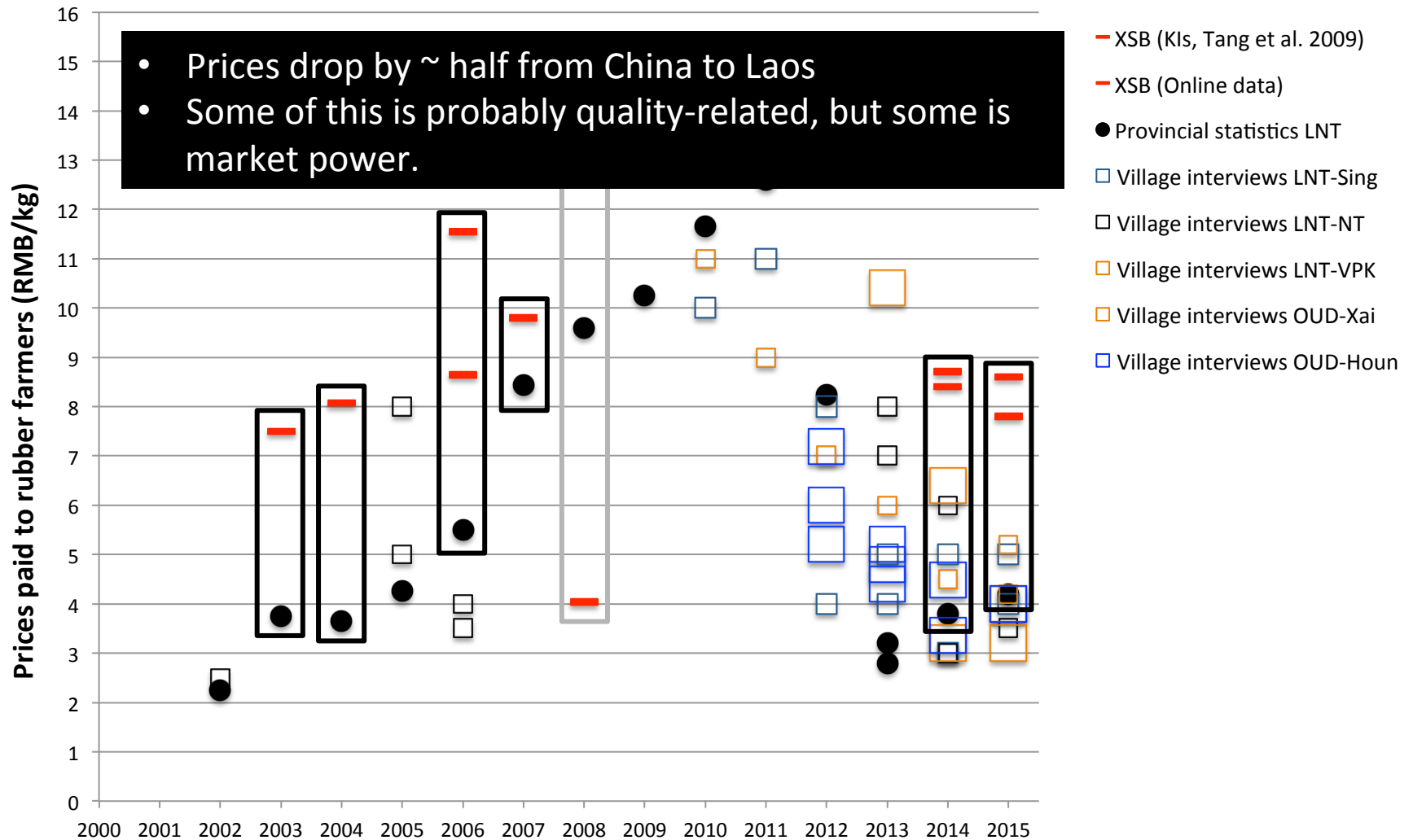
## 4. Where rubber prices come from



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## 4. Where rubber prices come from



# **DISCUSSION**



## **Unregulated (boom crop) model**

- Prices fluctuate
- Periodic speculation (during planting; when prices are low)
- Concentration of productive assets by wealthier “large-holders” who can tolerate risk
- Dissatisfaction, discouragement among poorer producers
- Weaker linkages with other sectors
- Lower regulatory costs

## **Regulated (strategic crop) model**

- Managed prices
- Selects against speculation
- Lower risk to poorer producers: less concentration
- Happier smallholders?
- Stronger linkages with other sectors
- Higher regulatory costs

# Regulatory options

1. Floor prices: enforce, require, renegotiate?
2. Price supports (cross-sectoral subsidy)
3. Subsidize small growers by area
4. Incentivize domestic value-adding
5. Diplomatic efforts to decrease market power (AEC?)

China:

- Subsidizes producers (both domestic and in Laos) AND traders

Thailand:

- Price supports AND area-based subsidies announced late 2014

# Conclusions 1 of 2

1. Lao growers are currently seeing the downside of both the free (global) market and the regulated (Chinese) market – policies are needed to counterbalance current conditions if rubber is going to be a successful smallholder crop.
  - Need more options than marketing groups and conversion bans: these are inexpensive, but effectiveness is limited – regulation costs money, but it pays for itself.
  - Ban Hat Nyao lessons need to be fully understood: public vs. private financing of plantation establishment AND timing of price changes BOTH suggest need for more regulated model.

# Conclusions 2 of 2

2. Additional research is needed on:
  - Chinese agribusiness, starting with better price data so that the cross-border value shift can be properly measured
  - Household economics of smallholder rubber: what are the social costs of tapping at low prices with household labor?
  - Indebtedness: is widespread land conversion/leasing a result of debt loads rather than laziness? (cf. sugar in Savannakhet: Phoumanivong et al. 2015)

# Acknowledgments

MAF DAEC, LURAS Project, Helvetas, Andrew Bartlett

Representatives of:

- Hat Nyao, Sop Sim, Oudomsin, Phiyer, Nam Ngeun, Kor Noi and Mokpalai villages
- Luang Namtha PAFO, PICO, PDPI
- Namtha DAFO, DICO
- Sing DAFO, DICO, DDPI, DFO
- Vieng Phou Kha DAFO, DICO, DFO
- Oudomxai PAFO, PICO, PDPI, PFO
- Xai DAFO, DICO, DDPI
- Houn DAFO, DICO, DDPI
- Sino-Lao Rubber Company
- Yunnan Rubber Company

NUoL Faculty of Forestry, Mr. Chimmy Bounlom

Melanie Canet, Weiyi Shi, Dietrich Schmidt-Vogt