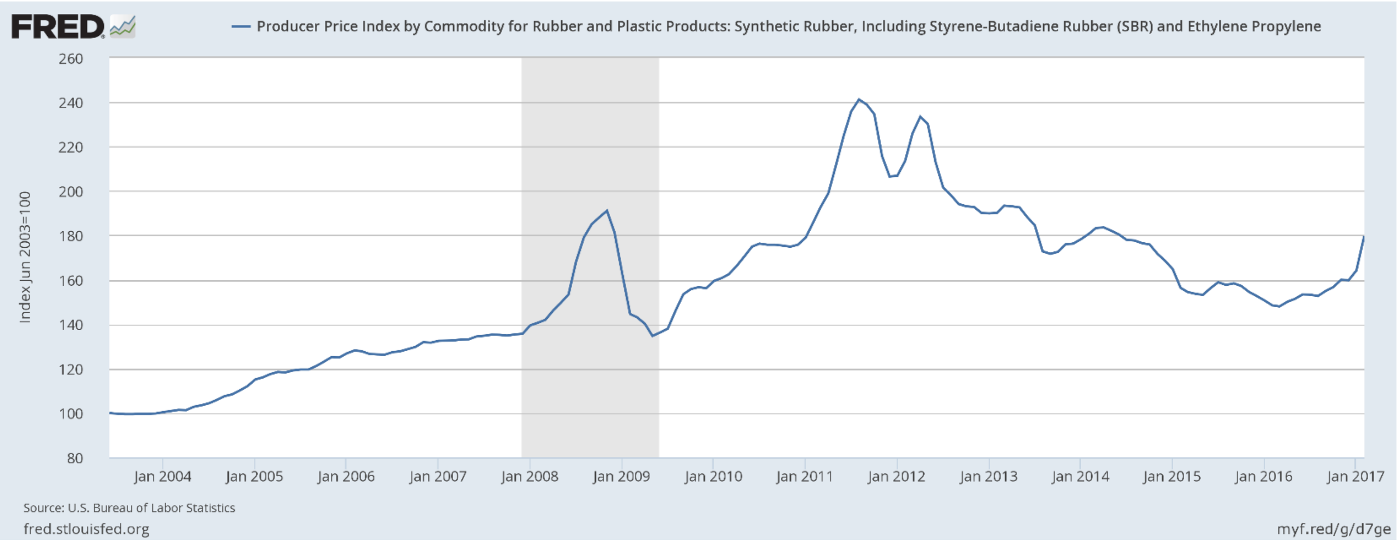
Tyre Rubber Price Increase May Have a Silver Lining

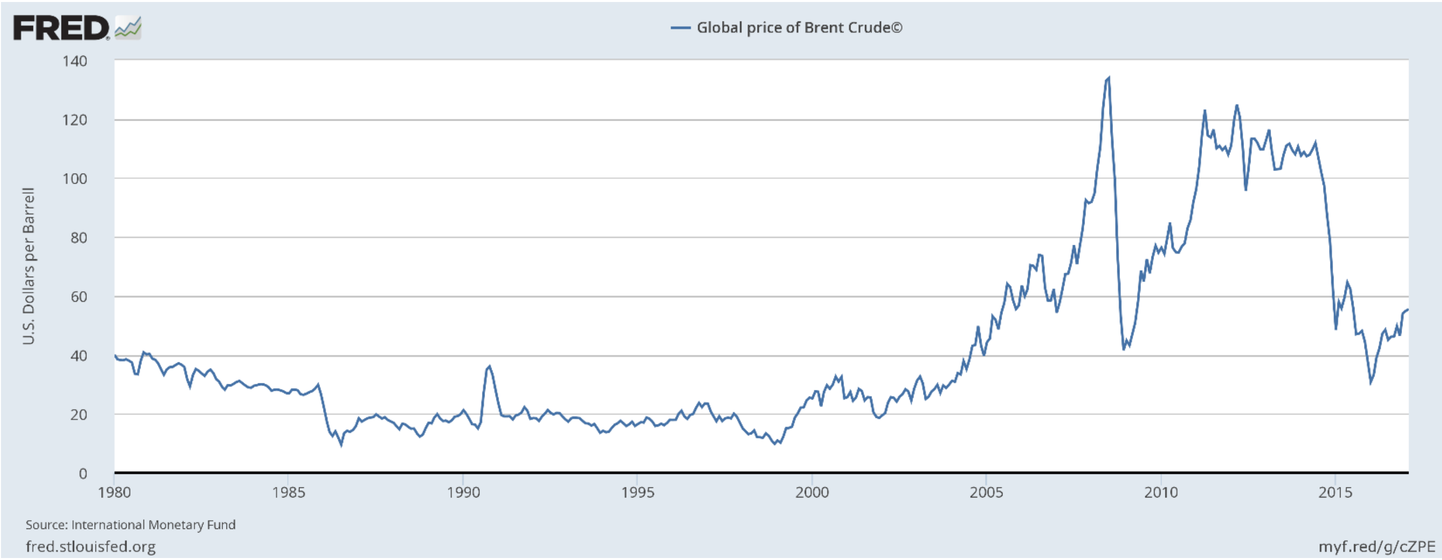


If you have had to buy a new tyre recently, you may, if you were price aware, have been surprised by the increase in the price. One retailer told Retreading Business, "Tyre prices have rocketed recently, even the Chinese tyres are seeing price increases. Premium brands are as much as 40 per cent higher than they were last year – and the suppliers tell me that there are more price increases to come."

Rubber production is a finite resource, in that there is only so much acreage of rubber plantation and only so much natural rubber that can be produced. The volume produced is climate dependent, and in a bad monsoon year production falls, impacting upon supply, pushing prices up.

The other impact on rubber prices is market demand. So, when the market calls for more rubber, the prices go up – simple economics. The market does get confused though by larger players buying stock and even buying futures in rubber, and then dumping stock on the market, or using that stock bought cheaply to maintain cheap production, which in turn impacts upon the market for natural rubber and, of course, for tyres.

So, the current rounds of rubber price increases have changed the dynamics of the marketplace in Europe. RB was present with three retreaders when they were advised of the coming price increases. The response was initially that they would have to look for cheaper materials, but then they realised that it might not all be a bad thing. If the rubber price was heading upwards then so too was the price differential between a retread and a new tyre. There may be



opportunities to be had in this round of price increases.

Rubber prices are volatile and, as with everything, there is a long-term increase that cannot be avoided, but even as manufacturers were upping prices, natural rubber experts were predicting a price collapse by the third quarter. The reality is that by the end of the first quarter of 2017 prices had dropped back dramatically.

Oil prices, of course, also impact upon compounded rubber and therefore tyre prices and tyre materials prices. Oil prices are also volatile, and at the end of March 2017 Brent Crude was at $52.97 per barrel and rising, whilst production had just come off a peak in both the USA and Saudi Arabia.

Oil prices are, in part, managed by the producing countries in OPEC, although non-OPEC producers have, in the past, tried to stabilise production and prices favourable to their own economies. Oil prices have been slowly climbing back but it is unlikely that they will reach the heady heights of 2008 any time soon. OPEC is losing its ability to push prices up as North America accesses Oil Tar Sands and deep resources released by fracking, and Europe finds new deep sea oilfields and also adopts fracking opportunities.

Additional pressure on the oil sector may also come with the coming of age of the electric car, reducing demand for petroleum products in the longer term.

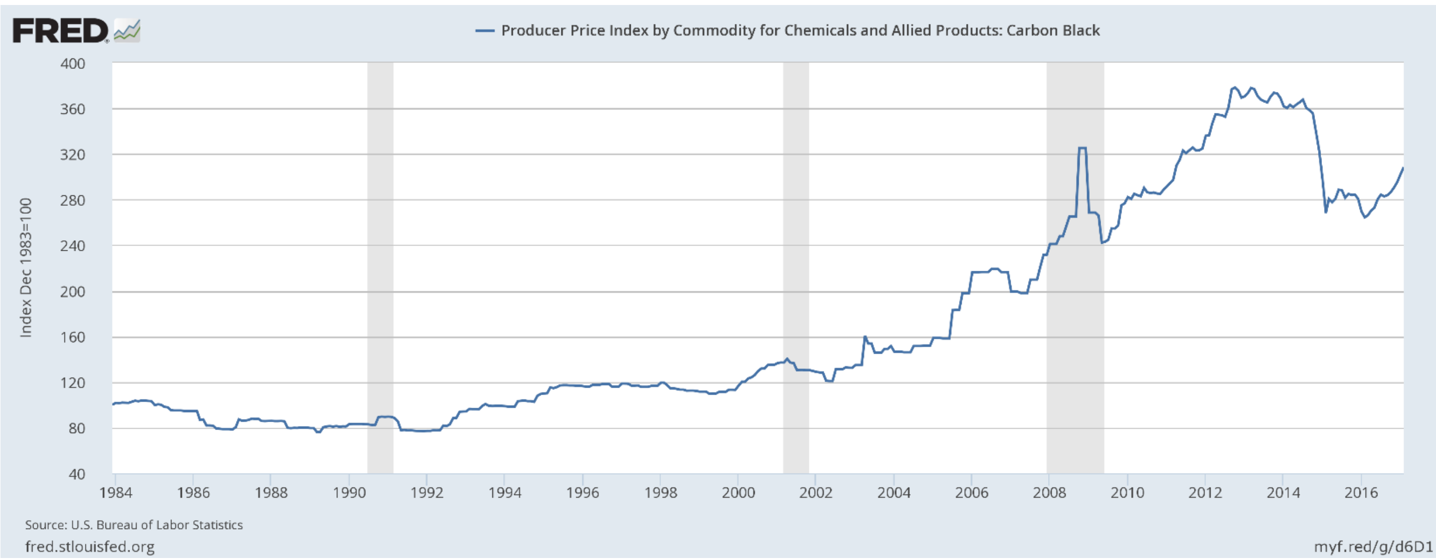
It may be that the tyre and rubber manufacturers will do as they have done in the past and hike prices, which they have been forced to hold down due to the competition from Chinese tyre and rubber manufacturers, but as the raw materials prices fall and the market votes with its feet for lower cost products, prices may well fall to somewhere a little above their past price. That is a trend that all in the tyre industry will recognise.

So, what have the retreaders had to say on this. Do they see an opportunity? Or is this just another blip on the radar of trade?

There has been a mixed reaction. Detlev Biermann at RuLa in Germany offered this thought. “Of course, price increases in materials are normally not good, but in our situation, they can be good. For example, when our material suppliers increase their prices by 5-8 per cent this means a price increase per retread tyre of between 5-10 €. When the new tyre industry makes the same 8 per cent hike then the new tyre price increase is much more. I think between 20-50 € per tyre. So, the price differential between the retread and the new tyre is bigger and this is, of course, better for us.

“But more important for us is the reaction of the Chinese tyre producers and how they will react on increasing material prices. At the moment, we see only a small increase, but this is not enough. The Chinese government must stop subsidy of the tyre industry or Chinese tyre prices must increase much more, or at least we need anti-dumping-duties and tariffs to survive.”

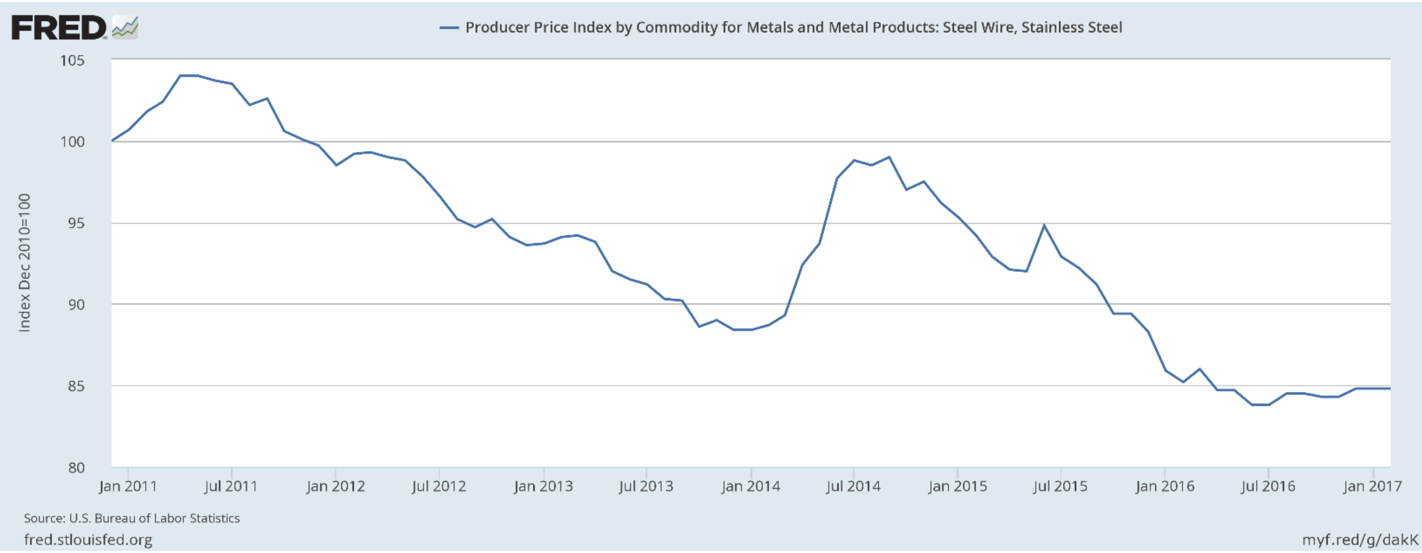
Jörg Kerstholt, at Reifen Goering, also in Germany, and a Bandag franchisee, had a slightly different view. “I think the rubber price increase is going to put retreading under more pressure because the rubber material for retreading is also increasing. If the price were fixed for retreading materials it would be good for the business, but all our partners have sent us new higher price lists, and at the end the retreads have to be more expensive and the price differential will be the same at the end of the day.”



Henryk Neilson from Vulkan Daek in Denmark has a generally positive view. “We welcome the price increases on the raw materials, I hope and believe the market for retreads will increase because the gap between retreads and new tyres will be bigger. We have unfortunately seen retreaders use bad quality products to compete with tyres from China, and if the end user has had some bad experiences it has some negative effect for all retreaders. So, a price differential would benefit the retreaders.”

Marcin Lenarciak is a relatively new retreader based in the East of Poland and whilst still fresh to retreading he has considerable experience in the new tyre sector and runs two successful tyre and wheel operations, so understands prices and markets. Lenarciak says succinctly, “In my opinion, the difference which may arise between the tyres from the Far East and retreaded tyres will help us to increase production and sales of our products. Everything depends on whether the providers of materials (like Marangoni, Vipal, Galgo, Bandamatic etc.) do not raise prices again. I hope that shortly there will be better times for our industry.”

Still in Czechia, Jiri Binko at Tasy, is a little reserved in his view “It is too early to say what the impact might be, there is a lot of old stock still to be moved, so it may be some time before we see the real impact.”



One of the largest independent tyre dealers and retreaders in Czechia, Pneu Vranick, sees the market from all levels. Petr Vanča, works manager at Vranick comments. “I actually believe that the recent/ongoing material price increases will widen the gap between retreads and budget tyres. As a matter of fact, the production of a new tyre consumes significantly more rubber that just retreading it. We are not even speaking about other materials such as carbon black or steel wires which are on the increase too. My guess is however, we can see the real effect only in few months due to the existing stock of cheap tyres in European warehouses, or *en route* from China. The question to me remains the Chinese government subsidy policy and the eventual European antidumping attitude and action.

Plants like this from Hankook and Apollo may be a bigger threat to European retreading than price increase and Chinese tyres according to some commentators

“And there is another perspective (this might be a more Central European point of view): Manufacturers in Europe still need to worry as newcomers establish their strong foothold in the market. I am not speaking about Chinese budget producers, but for example Nexen - who are building a new factory here, or Hankook. These create new threats to the existing industries.”

Carlos Marques in Portugal has spent his working life in the retreading sector and he has seen the price increase issue many times. “The rubber price increase issue is not new in our sector and it has occurred in cycles over the past years influencing not only our specific retread market but also the new tyre market.

“Nowadays, it is of course a matter of concern, but not really the most important. We’ve fought with the Far East product invasion for several years, and this is killing our sector and holding us back from making the necessary investment to modernise and develop as competitive industrial companies.

“We’ve been struggling with a serious dumping problem for too long, and we’re not expecting any fast resolution from EU on taxing these products that are gradually destroying jobs, companies and industries all over Europe.

“I don’t think we will notice big differences on what we’re seeing today, the price differential is becoming lower and lower between the new tyre and retreads because of dumping.

“Not only are the retreaders fighting with Far East low prices and its over production and offers in Europe, but major manufacturers of new tyres are facing this problem too.

“So, prices may increase a little, for everybody, but the biggest influence remains dumping and the lack of tax for Far Eastern imports.”

There appears to be a mix of hope for a price differential and a sense of *déjà vu* amongst retreaders, which reflects the response that we originally saw: A combination of hope and reality. Of course, this does not just impact upon retreaders. So, stepping up the ladder we spoke to Tiago Coutinho at EIB, who, as a rubber compounder, offered his slant on things, seeing the impact both as an importer of rubber and a producer of compounds and tread materials.

“As everyone else we (EIB) will need to increase prices and nobody likes that. If all the producers of materials for the retreading industry increase at the same time at more or less the same percentage, the question will always be the capacity of the retreaders to pass these increases on to the end user.

“The level of increase on prices of our raw materials is too big and too fast in my opinion, we are going from a period where the prices were probably too low to a period were the prices are too high. In my opinion it will be very difficult for the retreaders to pass these increases to the end user. Although for the information that I have, the prices of Chinese new tyres are also increasing. We will need to wait and see if there will be, in the medium term, some advantages for the retreading industry or if the advantage will still be for the Chinese tyres.

If China keeps producing and subsidising exports, then the prices of retreading materials may be irrelevant in the long term.

Asked if he thought that this will assist retreaders compete against low price imports from the Far East? Coutinho responded. “If the increases that the Far East new tyre producers are announcing go through, maybe there is a possibility of helping, but on the other end if the embargo in the USA goes through there will be a huge quantity of tyres that will have to be sold here *in* Europe, despite the price. So, for the time being is difficult to say.*” (The US embargo has not happened, so there is some relief in Europe for that small mercy*).

The reality is probably going to be down to approach and attitude. In the price increase period, there may be a small opportunity to use the increased differential between new premium tyres and retreads of those tyres to the advantage of the retreader. This is only really an option where the retreader is producing a quality product and operating as part of the whole life cost of the new tyre, or where they sell the premium retread on a premium casing, as an option, into that premium market. Where the retreader focusses on the cheap Chinese tyres as a direct competitor then that differential may not be the issue. It may not even exist. In this market price at the point of sale is all that matters and the real danger here is that, as others have said, by competing through using low quality materials and by cutting corners, retreaders may not only damage their own business, but the reputation and the business of others.

Much of the coming dynamics in the market will depend upon how the Chinese respond. If the Chinese government changes tack on export subsidies. If the Chinese government clamps down on sub-standard production, then that will clearly have an impact upon the demand for rubber and may depress rubber prices, or provide some respite on process and supply in the short term.
For the Europeans, the ITC judgement refusing to impose duties on Chinese tyres imported into the USA offers a slight relief, as the spectre of the dumping of the excess volume from the US market in Europe has receded.

There is a certain irony in the idea that the European Union will not impose trade tariffs on cheap Chinese tyres because it claims it cannot legally do so. Yet, in the same breath, EU representatives are talking to the UK about trade barriers on goods traded between the UK and Europe (and *vice versa*).

Footnote: We set out to discuss the impact of the recent round of retread and tyre price increases, and ended up discussing Chinese tyres. Largely because the two are intrinsically linked. Also, as we write this article, the USA has launched missile strikes on Syria and oil prices have started to rise in response to concerns over the stability of the region and the increased risk of conflict. If this is sustained, rubber prices will be the least of the industry’s concerns.