

## High prices affect plastic industry

Local plastics industry players have been adversely affected by the high prices of crude oil and natural gas, which are used to produce resin, one of the main raw materials for their products. **>B6**

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LOCAL plastics industry players have been adversely affected by the high prices of crude oil and natural gas, which are used to produce resin, one of the main raw materials for their products.

Furthermore, the electricity tariff increase effective Tuesday will lower their profit margins.

According to the Malaysian Plastics Manufacturers Association (MPMA), the high-density polyethylene resin price as at June had risen 32% to US\$1,800 a tonne compared with US\$1,360 at end-2007.

This had resulted in a 25% increase in prices of finished plastic products since early June.

President Lim Kok Boon said resin, one of the most widely used raw materials in the plastics industry, was responsible for about 80% of the products' selling price.

"Plastics converters can pass on a portion of the cost to consumers but manufacturers would still need to bear the other costs," he told *StarBiz*.

The other costs include higher electricity tariff and transportation fee as well as more expensive chemicals, additives, printing ink and packing materials like carton boxes.

He said the continued surge in input costs would affect the demand for plastics products, as local consumption in general was weakening.

"Now, the main challenge for local manufacturers is to manage the multiple cost increases in a competitive environment," he said.

Several local plastic products manufacturers, who said they were facing a challenging time, planned to reduce the usage of some raw materials to ease costs. They said they would also widen their product ranges to higher profit margin items while maintaining quality.

They hoped the MPMA would approach the Government for better tax incentives and lower electricity tariff to offset rising operation costs.

**SLP Resources Bhd** group managing director Khaw Khooon Tee hoped the Government would consider increasing the capital expenditure tax allowance to 100% deductible on statutory income from 60% currently.

"Only with greater tax incentives or allowances can Malaysia be competitive in attracting companies to reinvest and expand," he said.

Khaw said the company and the flexible plastic packaging industry had been facing the challenge of escalating resin prices since last year.

"We plan to mitigate this risk by capitalising on our strength in research and development (R&D) to produce higher profit margin products such as printed polybags, baran, vertical-form-fill-seal and plastic

# Plastic makers act to mitigate surging costs

## They are reducing resin usage and making higher margin products



A salesman arranging plastic containers. The price of high-density polyethylene resin, one of the main raw materials to make plastic products, has risen to US\$1,800 a tonne as at June

packaging films for medical items." Coupled with its recent investment in high technology extrusion line, Khaw said SLP was optimistic of achieving some cost savings in the consumption of raw materials.

However, he expected the resin prices to ease when the world supply increased significantly from the plants in the Middle East next year, if crude oil prices were to maintain at current levels.

**BP Plastics Holding Bhd** chairman and managing director Lim Chun Yow said the current resin

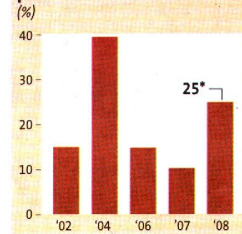
prices were already beyond the producers' capability to absorb.

"With the gasoline and diesel price hike and higher electricity tariff, manufacturers have to pass on the costs to end-users," he said.

The company hoped the Government would re-look at the electricity tariff structure and ask Tenaga Nasional Bhd to provide greater discounts for night production.

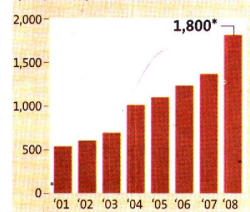
It also sought lower corporate income tax and higher investment incentives to stimulate further

Price increase of plastic products since 2002 (%)



\* As of June  
Source: MPMA

Price increase of high-density polyethylene resin (US\$/tonne)



\* As of June  
Source: MPMA



Lim Kok Boon

investments in the plastic industry.

Besides, Lim said, MPMA should approach the Government to speed up trade negotiations with the US, European Union, Australia and the Gulf Cooperation Council to reduce tariff and open free trade opportunities.

"Going forward, we will continue to focus on improving our efficiency and productivity, build employee competency, improve customer services and export more products," he said.

**Scanwolf Corp Bhd** executive director Teoh Teik Kean said the impact of the fuel price hike would

continue for the next few months and prices of other goods would remain uncertain.

"If raw material prices increase too high and squeeze our bottom line, it will affect our ability to invest in capital equipment to grow our business," he said.

Therefore, controlling operational costs is the biggest challenge for Scanwolf, which recently increased its selling price by 10%.

As consumers are pressured by high prices, Teoh expected lower purchase volume in the short term and that would take at least three to six months to recover.

"It is important for us now to focus on R&D for more new products that will increase our profit margins," he said.

Meanwhile, MPMA president Lim, who is also **Great Wall Plastic Industries Bhd** chief executive officer, said there had been a drop in domestic demand owing to price increases and weaker consumption, no thanks to the hike in petrol, electricity and food prices.

"We will continue to invest in high-tech machinery to produce higher-quality products, raise output and increase value-added goods," he said.

The company, which produces high-quality packaging films for export to Europe, Japan, Australia and New Zealand, plans to further expand its overseas markets, going forward.

## MPMA: Resin price may ease next year

MALAYSIAN Plastics Manufacturers Association (MPMA) expects resin price to ease next year when several giant resin plants, which are under construction now, commence production soon.

President Lim Kok Boon said resin price was expected to stabilise by year-end and soften in the next few years.

"These new plants, based mainly in the Middle East, would use ethane, which is cheaper than feedstock derived from expensive crude oil, as input material," he said, adding that they would also be using the latest technology.

Lim said with the envisaged easing of the resin price, plastic products manufacturers would be able to over-

»The industry has much room for development«

LIM KOK BOON

come the current tough situation.

Otherwise, many will be struggling to survive should oil and raw material prices continue to surge.

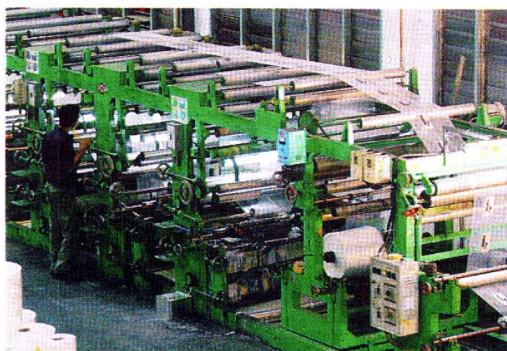
"Nevertheless, plastic products manufacturers have taken steps to mitigate the impact of high input costs.

"This include improving product quality, investing in high output and energy-saving machines, product diversification, phasing out low value-added products and exploring more export markets," he said.

Lim believes that demand for plastics will continue to grow in sectors like auto, food packaging, electrical and electronics as well as construction of pipes and profiles.

And plastics will remain in high demand in view of its lightweight, versatility in processing and abundant supply.

"The consumption of plastics will grow in line with the growing population and industrial development. The industry in Malaysia has much room for development," he said.



A worker manning a production line of industrial packaging polyethylene films and bags. Local plastic products manufacturers have taken steps to mitigate the impact of high input costs.