

Challenges faced by the Downstream Rubber Industry Sectors in Malaysia

Dato Dr Ong Eng Long
Kossan Rubber Industries Berhad



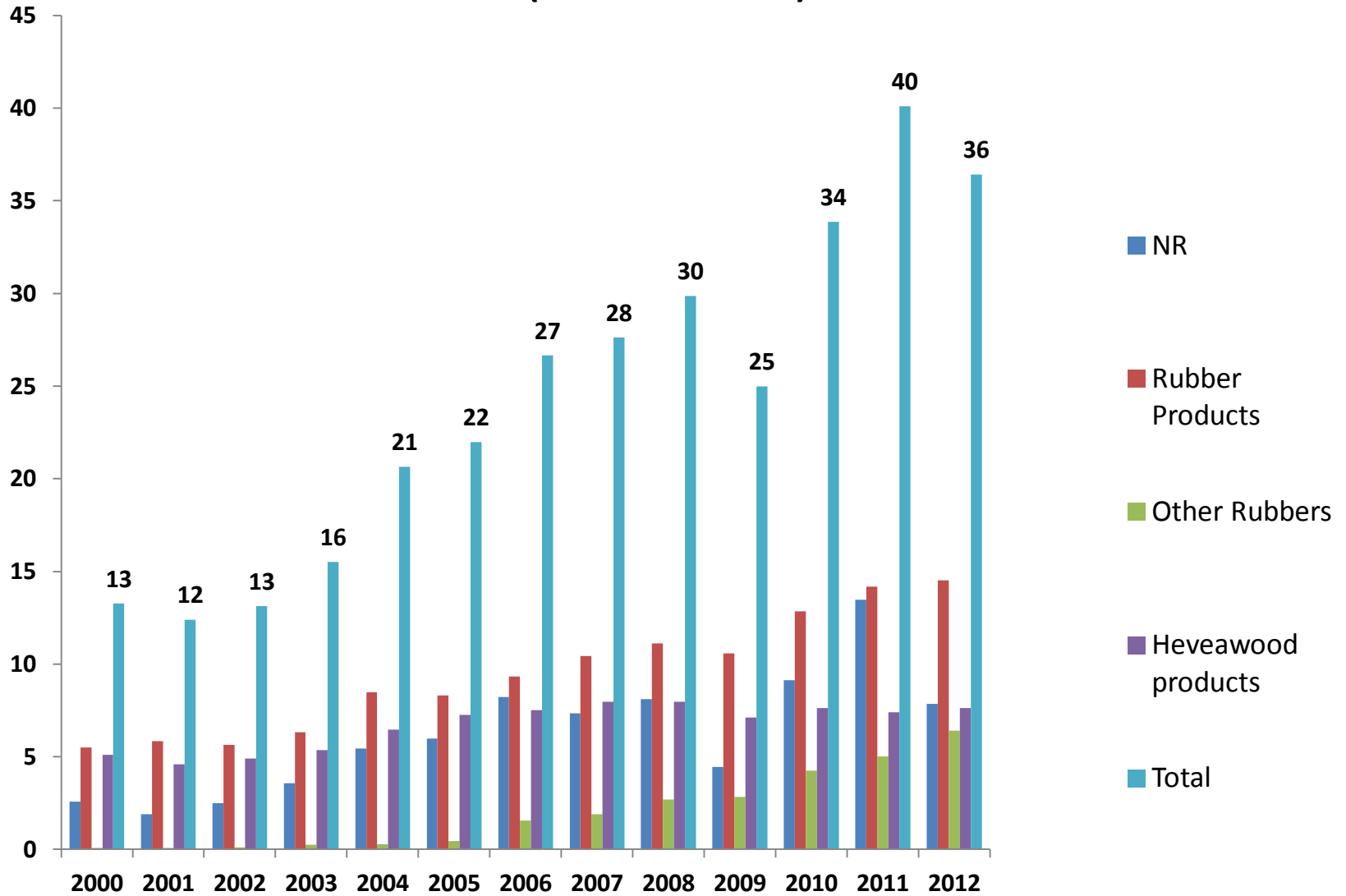
Plan of Presentation

- Status of rubber industry
- Impact of Government Policy
- Impact of Private sector
- Issues and challenges
- Conclusion

Changes in Rubber Downstream Industry in Asia

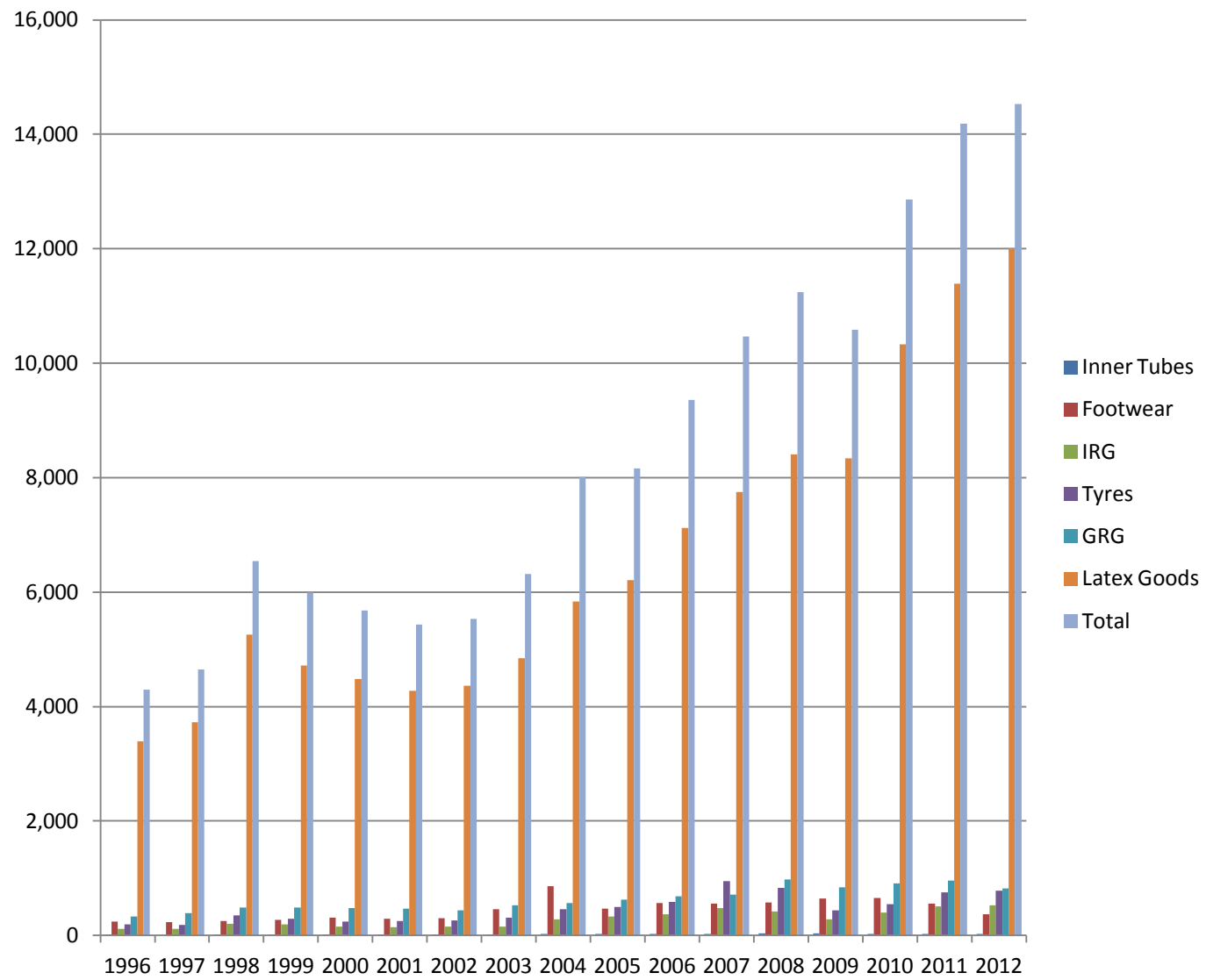
- China is world's largest consumer of natural rubber and synthetic rubber
- Malaysia is world's largest consumer of latex concentrate
- Malaysia is world's largest producer and exporter of medical gloves and condoms

Export Revenue Contribution by Rubber Industry (RM billion)



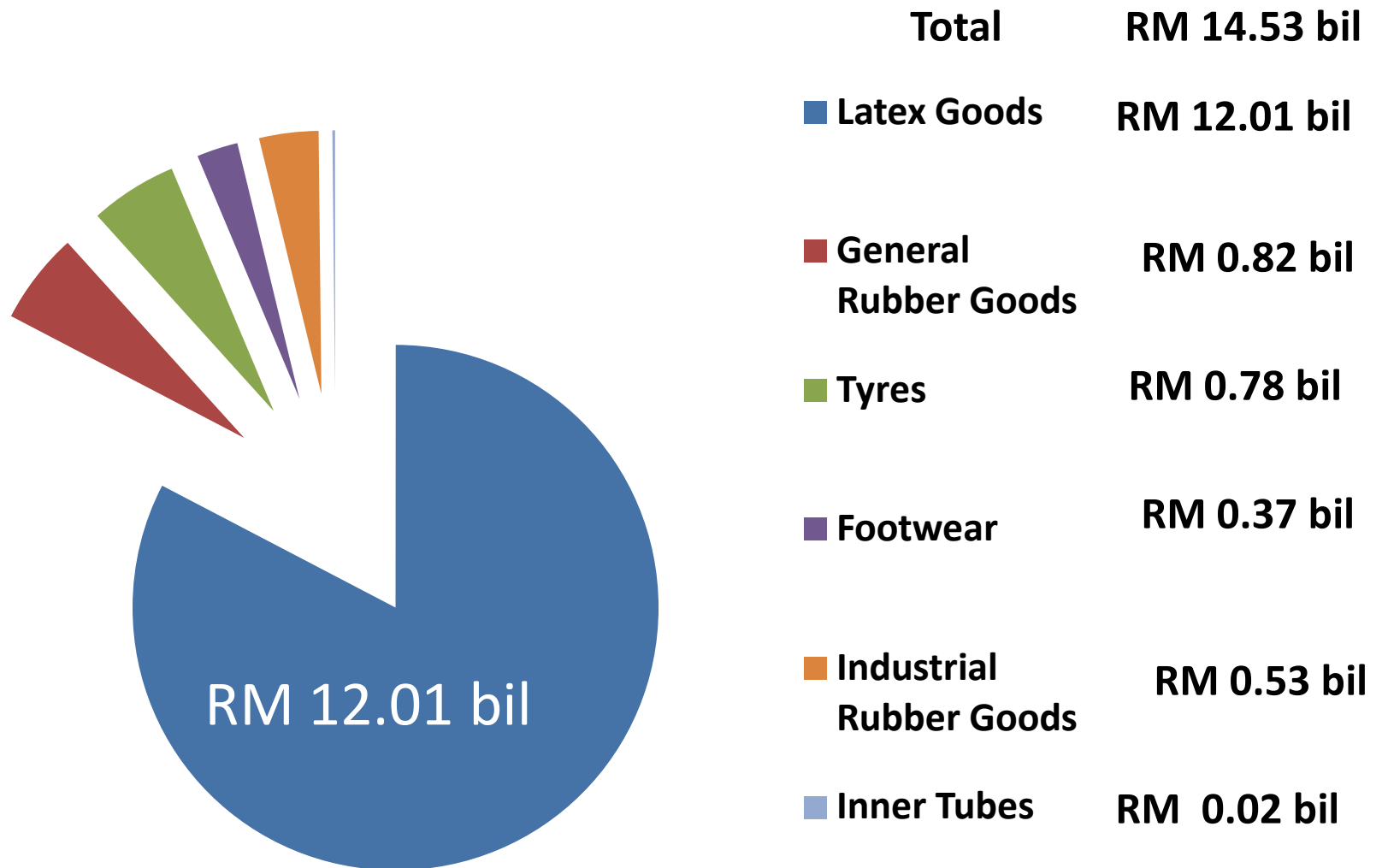
Source: MRB, Dept of Statistics

Malaysia Export of Rubber Products (RM million)



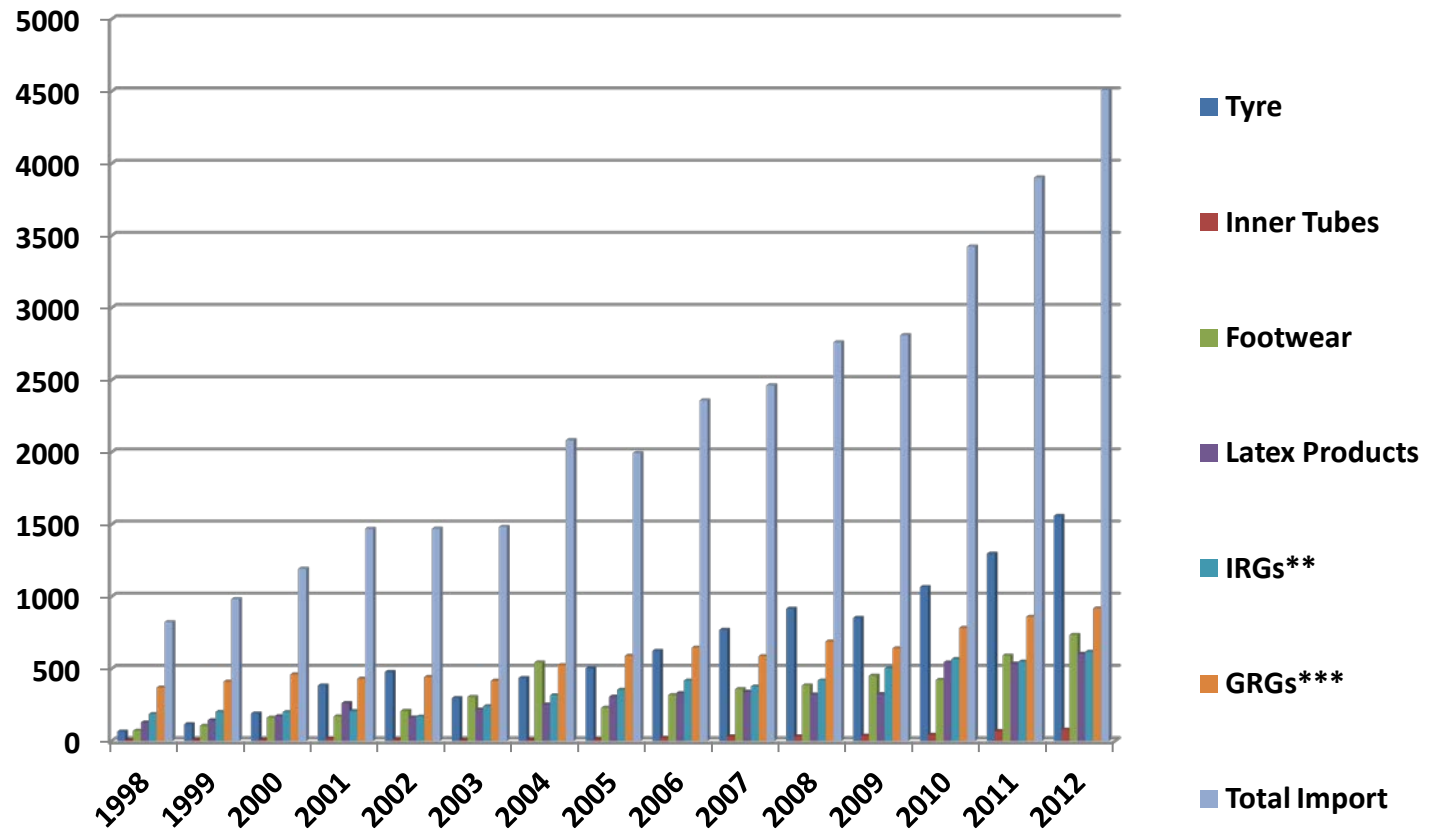
Source: MRB, Dept of Statistics

Malaysia's Exports of Rubber Products by Product Sector 2012



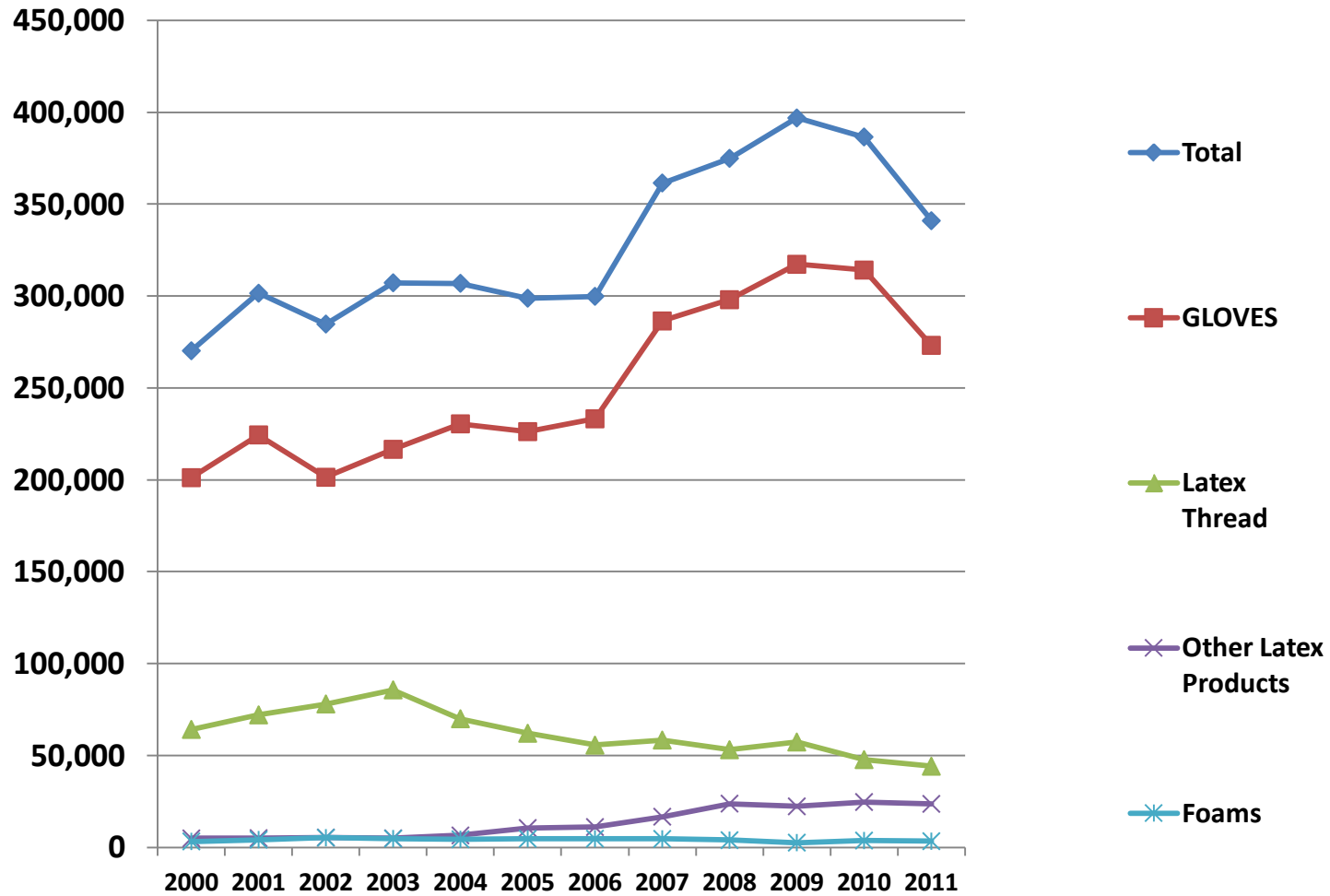
Source: MRB

Malaysia Import of Rubber Products (RM million)



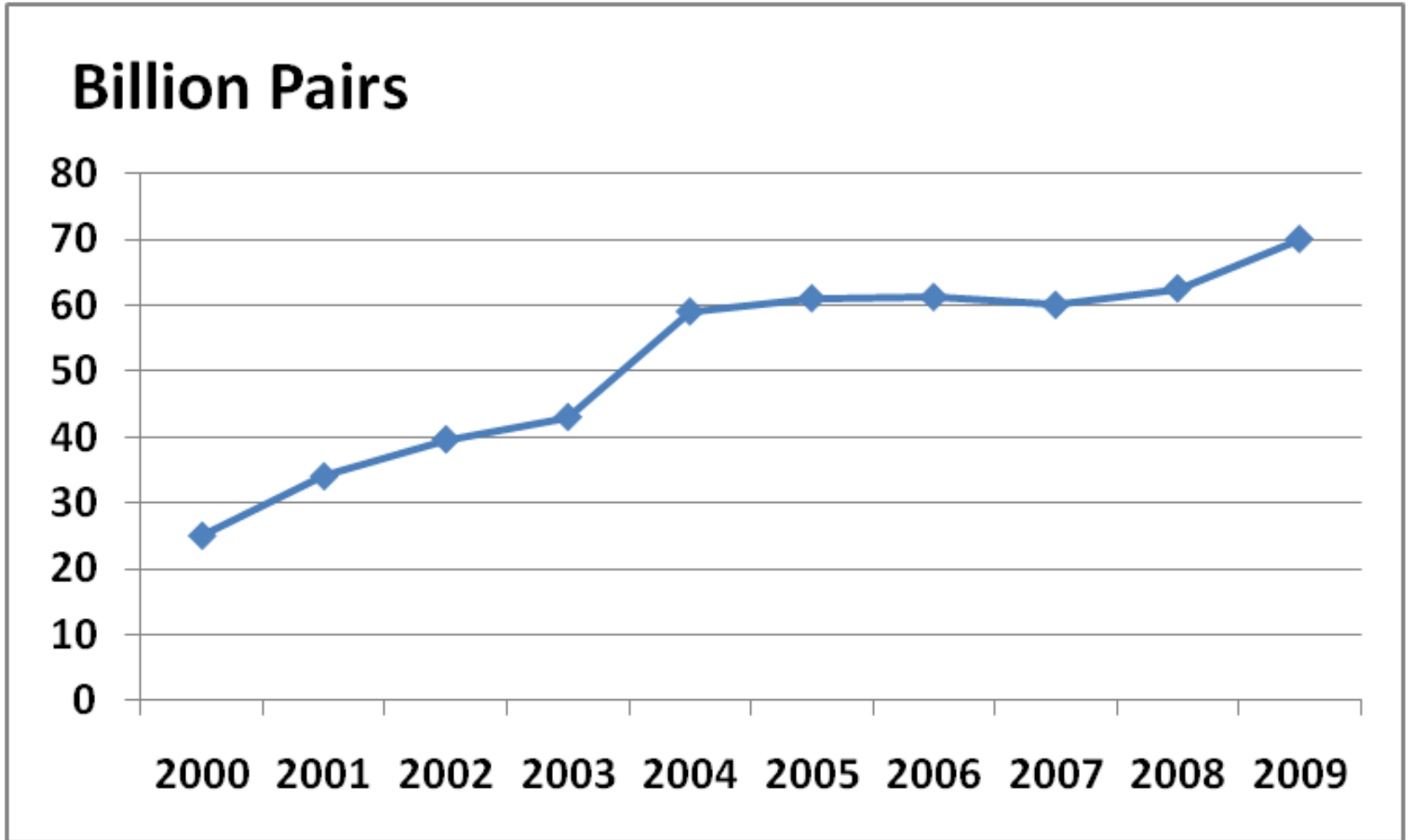
Source: MRB, Dept of Statistics

Malaysian consumption of NR latex by latex product sectors (tonnes)



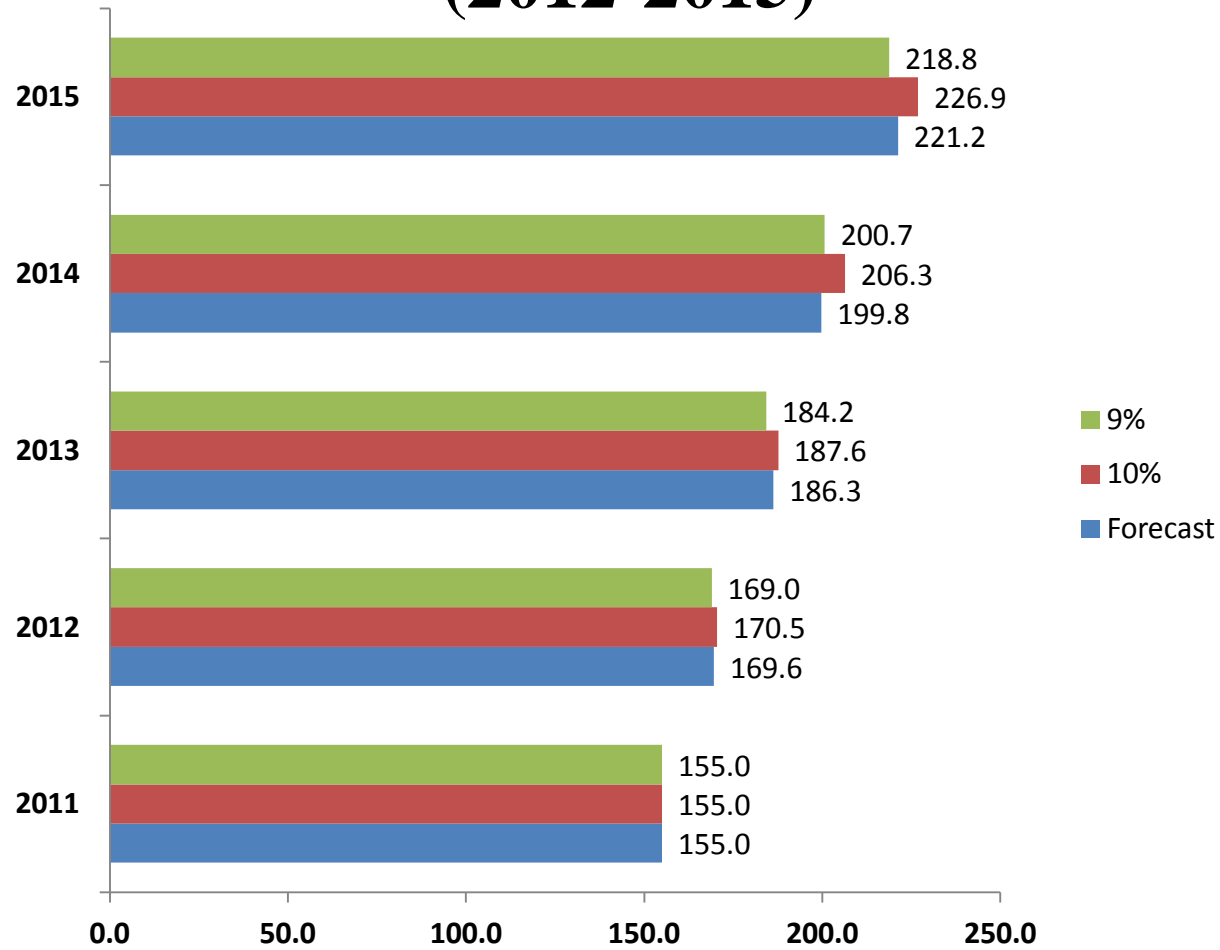
Source: MRB, Dept of Statistics

Global Glove Exports in Billion Pairs (2000-2009)



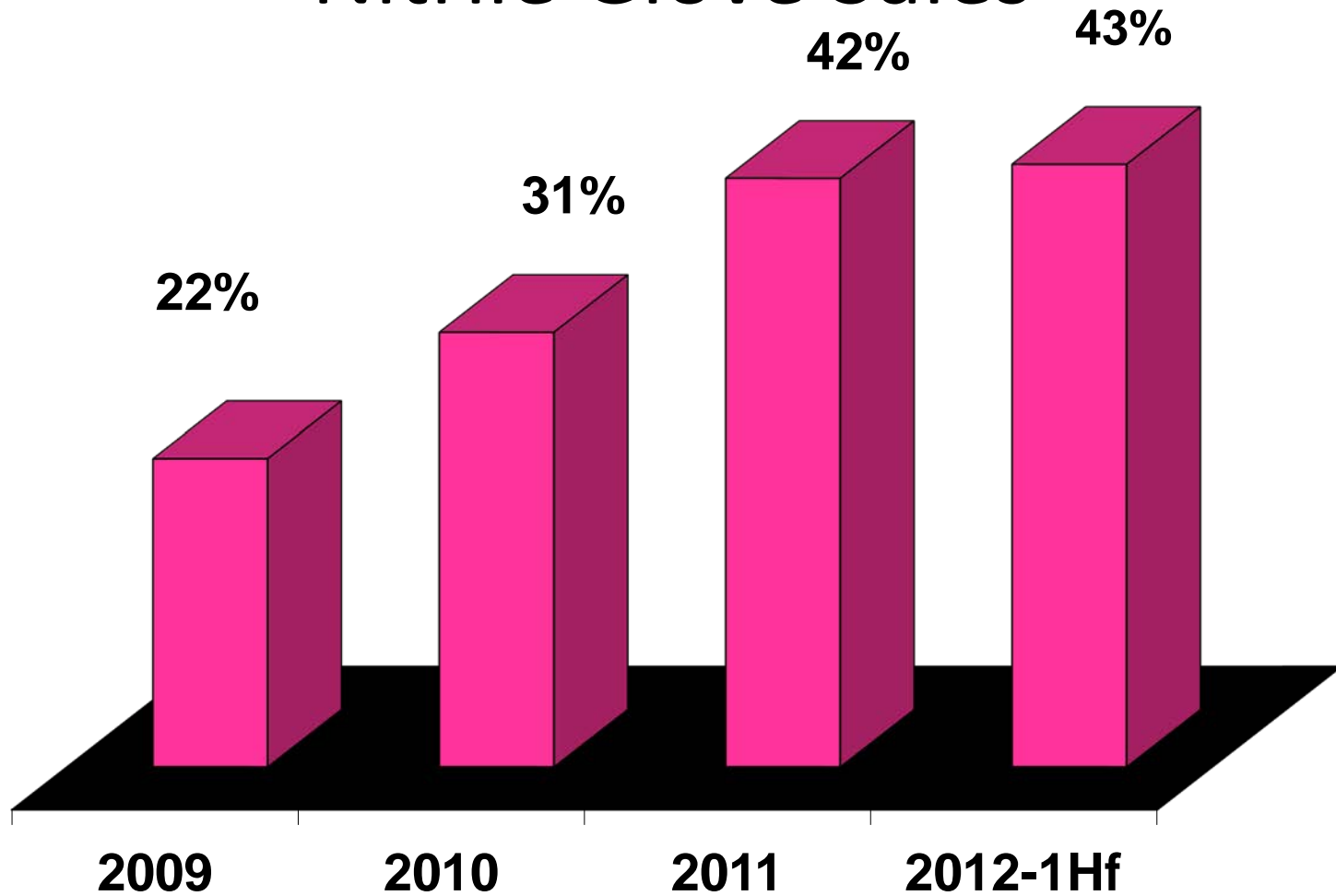
Source GTA/ITC, MREPC

Global Glove Export Forecast in Billion Pieces (2012-2015)



Source: MARGMA

Malaysian Synthetic Nitrile Glove Sales



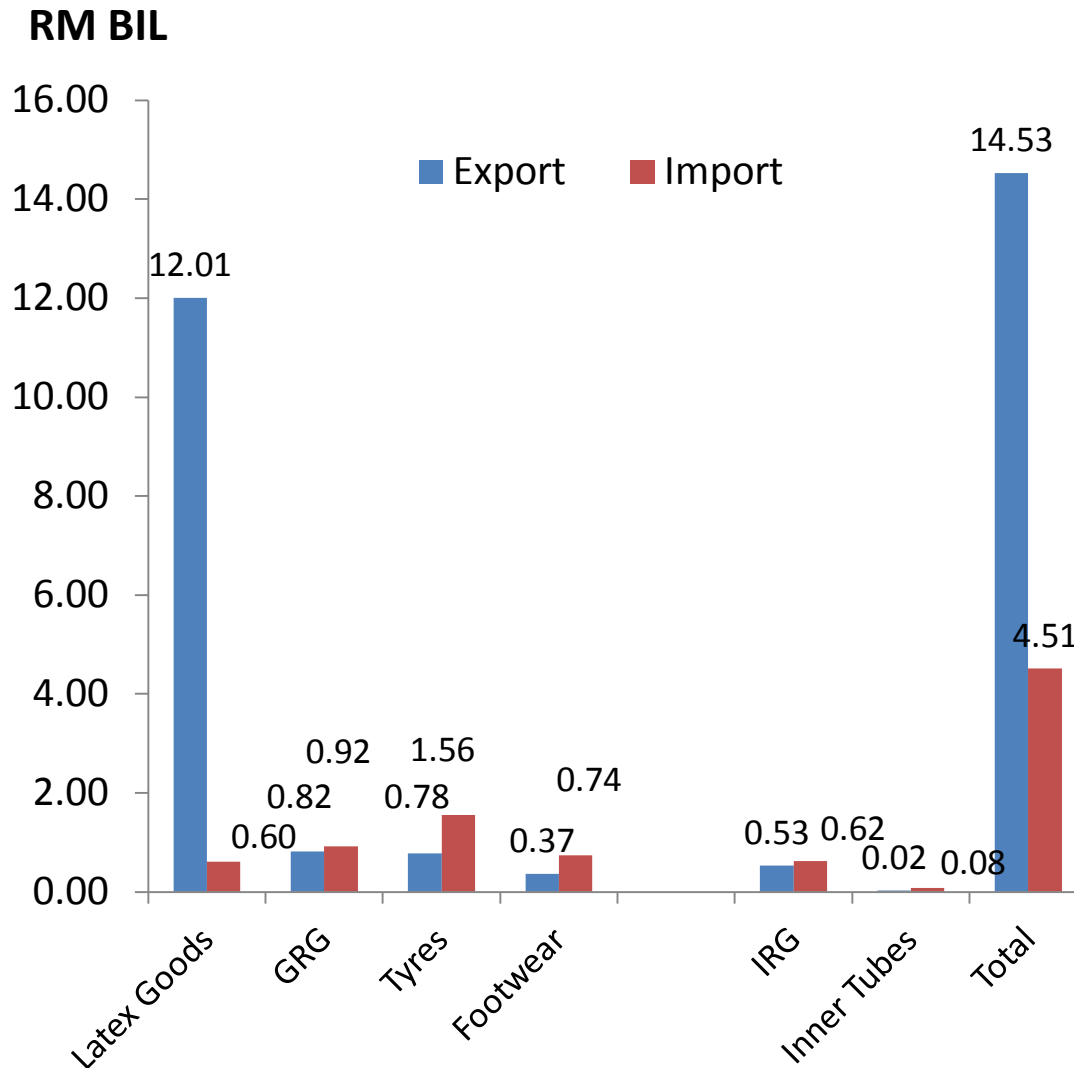
Economics of glove industry structure

- 62%-65% of global glove market share
- Demand will increase by 8 to 10 % annually
- Key manufacturers are expanding outputs
- Percentage of nitrile gloves increasing
- Government support of natural rubber price
- Government's policy on foreign workers
- Increase in cost of raw materials, skilled and semi-skilled workers, energy and utility

Does Malaysia has a competitive advantage in the glove industry and can it be sustainable?

What about the other rubber product sectors?

Malaysia import and export of rubber products in 2012



Source: MRB, Dept of Statistics

Number of companies in latex products

Latex Products	2005	2006	2007	2008	2009	2010	2011	2012
Glove	107	63	60	56	57	57	58	59
Condom	14	14	13	12	13	13	13	13
Catheters	7	7	7	7	7	7	7	7
Latex thread	4	6	5	3	3	3	2	2
Others	12	44	51	42	45	47	45	44
<i>Sector Total</i>	<i>144</i>	<i>134</i>	<i>136</i>	<i>120</i>	<i>125</i>	<i>127</i>	<i>125</i>	<i>125</i>

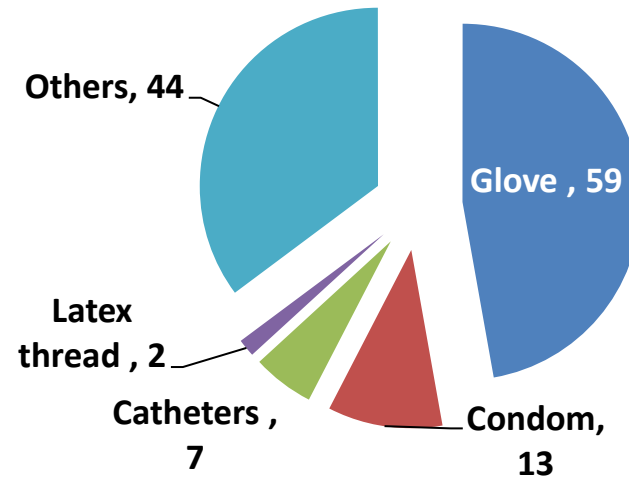
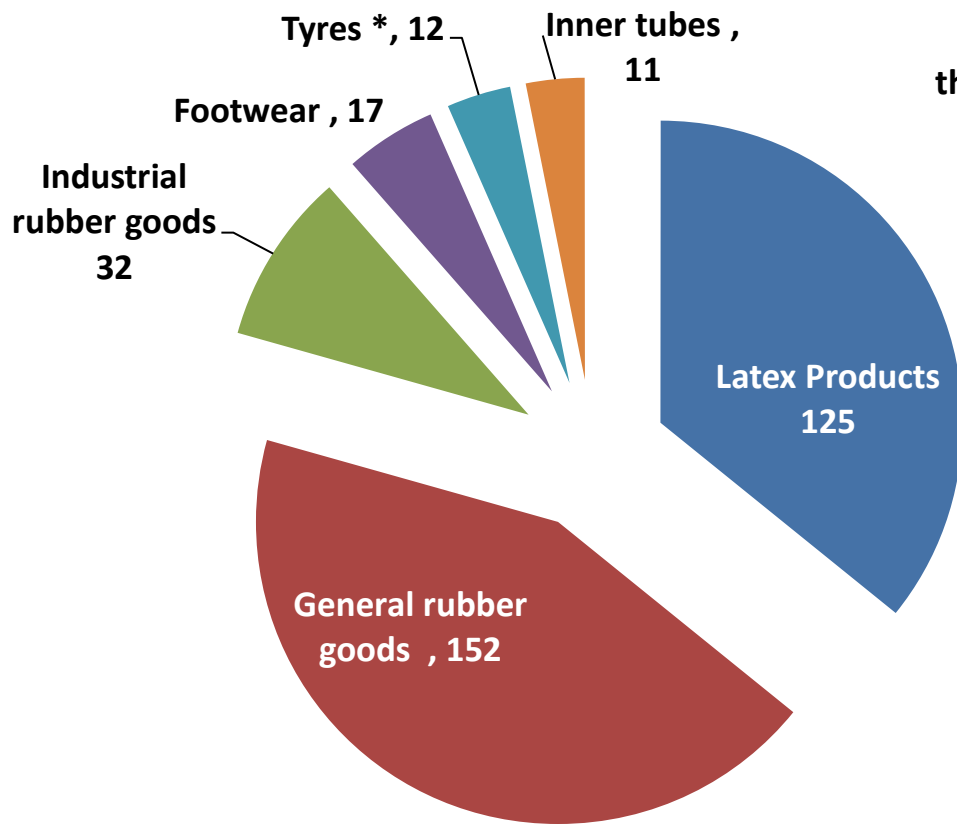
Source: MRB

Malaysian Rubber Product Companies by Product Sector

	2005	2006	2007	2008	2009	2010	2011	2012
Latex Products	144	134	136	120	125	127	125	125
General rubber goods	136	152	155	151	154	153	152	152
Industrial rubber goods	60	33	30	28	31	34	33	32
Footwear	14	29	20	18	17	17	17	17
Tyres	3	10	10	11	11	12	11	12
Inner tubes		11	11	11	10	11	12	11
Industry Total	357	369	362	339	348	354	350	349

** Started from 2006, figures represent all types of pneumatic tyres and solid tyres excluding retreaded tyres*

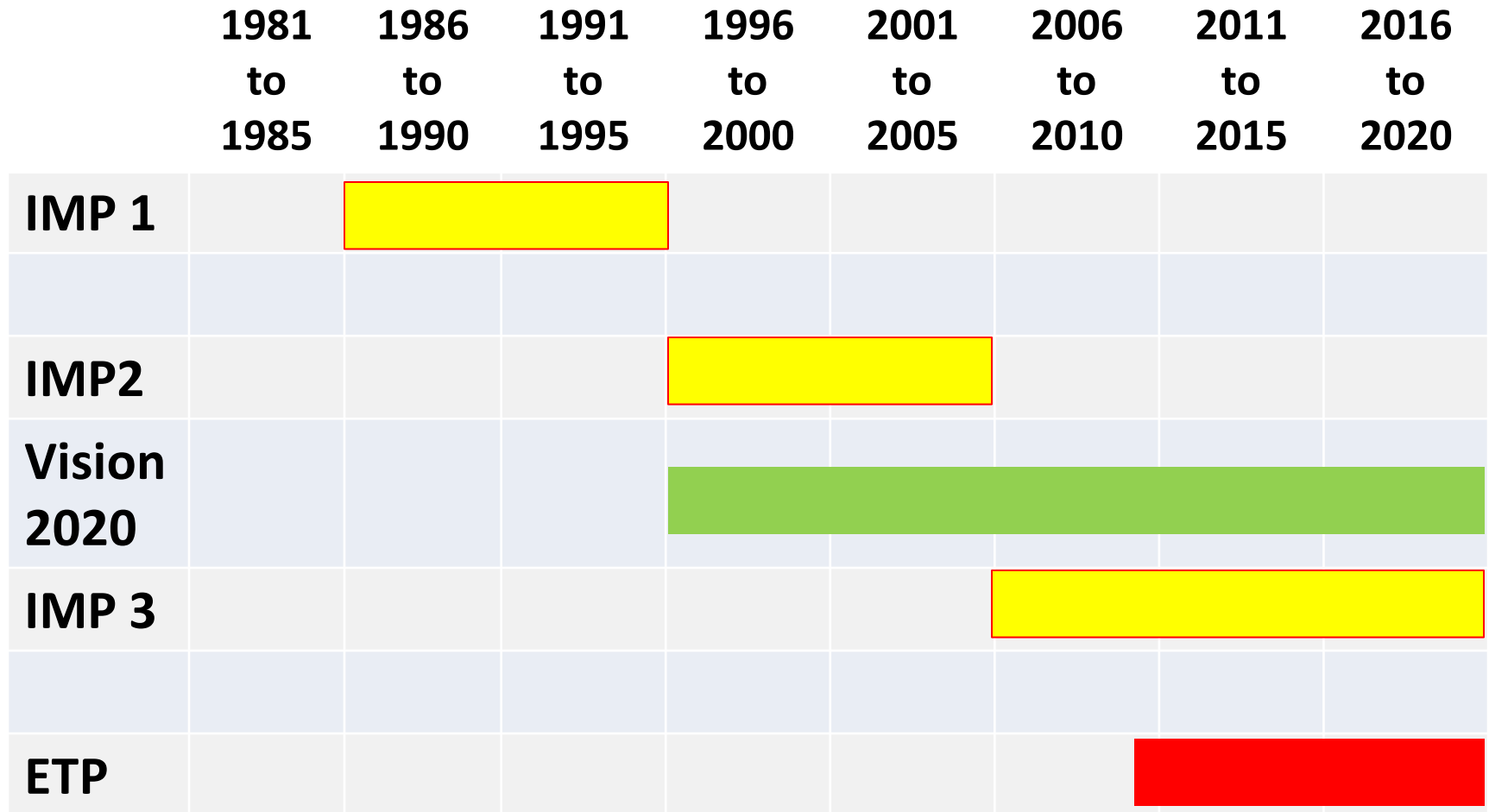
Source: MRB



Source: MRB, Dept of Statistics

Government Policy on Rubber-based Industry

Industrial Master Plan (IMP); Economy Transformation Program (ETP)



Revised Rubber Strategy

Revised Malaysian Rubber Industry Strategy
2010-2020



- Setting up RTC
- TAS
- Testing support

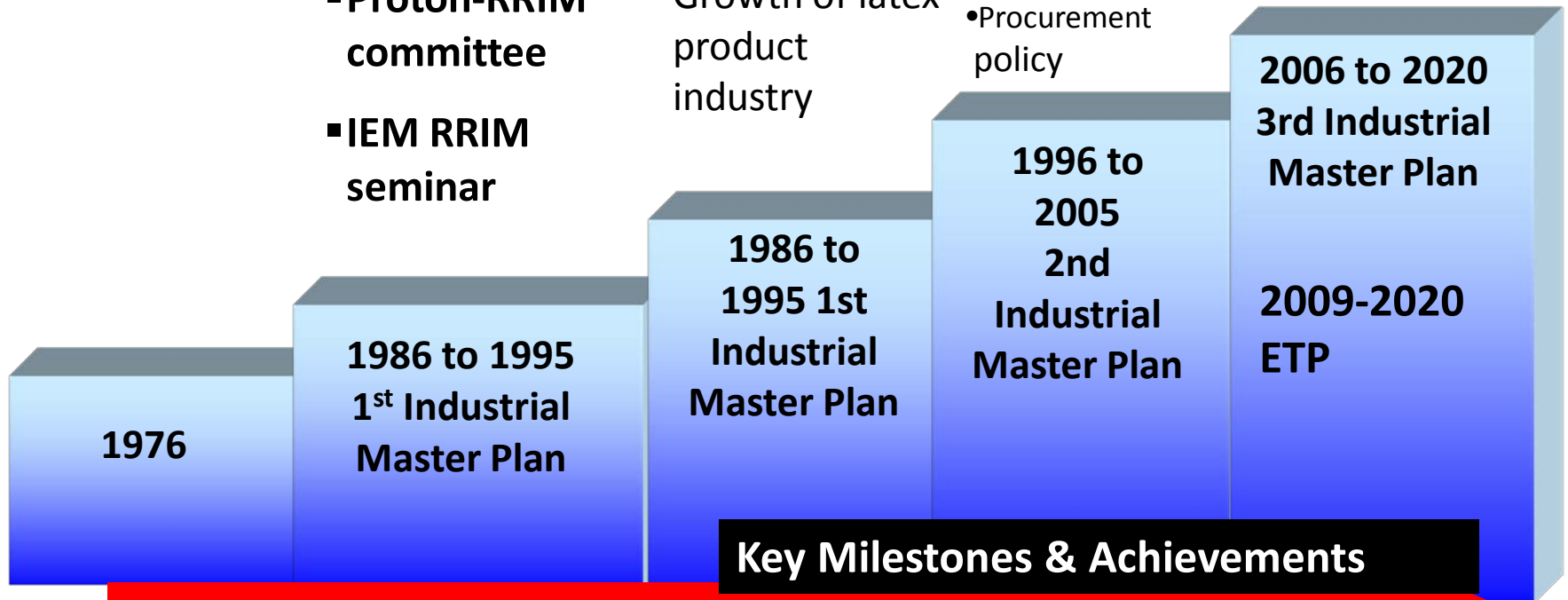
- **More than 8000 pieces of bridge bearings used in Penang bridge**
- **Proton-RRIM committee**
- **IEM RRIM seminar**

- Domestic Production of seismic bearings 1991.
- Consuming 350,000 tonnes of NR in 1995.
- Growth of latex product industry

- Cluster concept
- Revised Rubber Strategy
- Malaysian Rubber Export Promotion Council (MREPC).
- Overcoming health related issues
- Consortium
- Procurement policy

MALAYSIA – Towards global competitiveness

MALAYSIA – Towards High Income Economy



Malaysia Export of NR and Rubber Products in RM

1985

NR RM 2.59 bil

Rubber products RM 0.31 bil

1990

NR RM 2.70 bil

Rubber products RM 1.67 bil

1995

NR RM 4.04 bil

Rubber products RM 3.89 bil

2000

NR RM 2.57 bil

Rubber products RM 5.51 bil

2005

NR RM 5.97 bil

Rubber products RM 8.32 bil

2010

NR RM 9.13 bil

Rubber products RM 12.96 bil

2012

NR RM 7.86 bil

Rubber products RM 14.53 bil



Issues faced by manufacturers.

**SMI
dominated**

**Narrow
product
base**

**No
recognized
brand name**

**Lack of
R&D**

**Lack of
market
intelligence**

**Labour
shortage**

**Competition
from Thailand,
Indonesia and
China**

**Effluent and
pollution**

**Negative
publicity**

MRB's Revised Rubber Strategy 1999

Issues of the downstream sector

- SMI domination
- Narrow product base
- Health related problems
- Raw material supply and support industries
- High import of rubber products
- Quality of manufacturing technology and products

MRB's Revised Rubber Strategy 1999

Key Areas For Action

- Promoting the Standard Malaysian Glove SMG scheme
- Promoting import substitution and export
- Establishment of synthetic rubber plants
- Quality assurance of manufacturing process and products

Challenges and Issues faced in Malaysia.

Poor uptake of technologies due to high capital investments

No recognised brand name for IRG & GRG

Not consumer-friendly in terms of responding to enquiries and complaints

Rising material and fuel costs

SMEs are unable to compete or to diversify into new products due to high cost of tools

Delays in loan & tax exemption applications

Facing stiff competition from FDI and imported products

Most SMEs have constraints on: funding, R&D, capacity, product range, market intelligence.

Inconsistent quality: Not able to meet some international standards

Challenges faced by the Rubber-based manufacturing industry (2005)

- Widening of rubber product range
- Enhancing technological and production capability of rubber product manufacturers
- Marketing strategy

Challenges faced by the Rubber-based manufacturing industry (2005)

Widening of rubber product range

- Medical gloves to gloves for PPE e.g. electrician gloves, chemical resistant gloves etc.
- From urology catheters to coronary catheters
- High-end foam mattresses
- Industrial Rubber Products for automotive and infrastructure usage

Challenges faced by the Rubber-based manufacturing industry (2005)

Enhancing technological and production capability of rubber product manufacturers

- Usage of new materials
- R & D and Innovation
- Human resource development
- Automation

Challenges faced by the Rubber-based manufacturing industry (2005)

Marketing strategy

- Import substitution
- Trade fair and Exhibition
- QMS and Quality assurance of products
- ICT and e-bidding and e-marketing
- New market ASEAN market after AFTA
- Forming strategic partner with Thailand and China to move into the Asean and China market

Strategy of MREPC

- To facilitate promotion of products through market missions, exhibitions and trade fairs
- To develop and exploit information from research to enhance marketability and usage
- To engage experts to conduct market research and identify new markets
- To disseminate market information to Malaysian rubber product manufacturers
- To assist in enhancing market competitiveness

Approaches of MREPC

- Assist participation in market missions, trade fairs and exhibitions
- Assist in improving quality control and quality assurance of rubber products
- Provide market information to access market opportunities
- Assist in improving cost competitiveness
- Assist manufacturers in pooling resources together

MREPC's survey of SME rubber product manufacturers (2006)

- Difficult to obtain government tax and non-tax incentives
- Difficult to find and identify potential buyers in a target country
- Difficult to obtain information about overseas markets
- Difficult to obtain grants from the government and export financing facilities from the local financial institutions
- Difficult to meet the required product standards of customers

Issues, Challenges and Future Direction (Downstream sector)

- Narrow product base
- Insufficient supply of domestic latex
- Dominated by SMEs
- Rising cost of production
- Dependence on foreign labour
- Inefficient technologies
- Low utilization of local rubber products in public projects
- Human resource development
- Automation

Issues, Challenges and Future Direction (Downstream sector)

- Low R & D commercialization
- Lacking standards for rubber products
- Declining foreign direct investment
- E-marketing
- International quality standards
- Lack of knowledge on new material requirements

Future Direction (Downstream sector)

- Development of advanced materials and high value-added products
- Improvements in processing technology in tandem with greater utilization of advanced materials
- Addressing environmental issues and regulatory requirements in rubber processing and manufacturing sector
- Development of new applications for ENR and DPNR

Future Direction (Downstream sector)

- Development of new IRGs and GRGs
- Enhancement of CAD and CAM capabilities in mould design
- R & D activities on latex products will be further intensified to address the health and safety issues
- R & D efforts to be geared towards more automation and the adoption of ICT in manufacturing processes

THEME OF IMP3 (2006 to 2020)

MALAYSIA – TOWARDS GLOBAL COMPETITIVENESS

- **Malaysia to strive towards developed nation status**
- **Drive industries towards higher level of performance in competitiveness**
- **To achieve long-term global competitiveness through transformation and innovation of manufacturing and services sectors**

STRATEGIC THRUSTS

Enhancing Malaysia's position as the leading producer and exporter of latex products.

Efforts to intensify the promotion of Malaysian brand names and expand the market for latex products.

Greater promotion of SMG, to make it recognized and accepted internationally

STRATEGIC THRUSTS

EXPANDING THE EXPORT MARKETS

Greater participation in international exhibitions and trade mission organised by MATRADE, KPPK, MRB and MREPC.

Exploring new markets, such as Latin America, Africa, and West and Central Asia.

Identify end-use potential of rubber products for the automotive, petroleum, construction, marine transportation and power supply industries.

STRATEGIC THRUSTS

DIVERSIFYING THE PRODUCT RANGE.

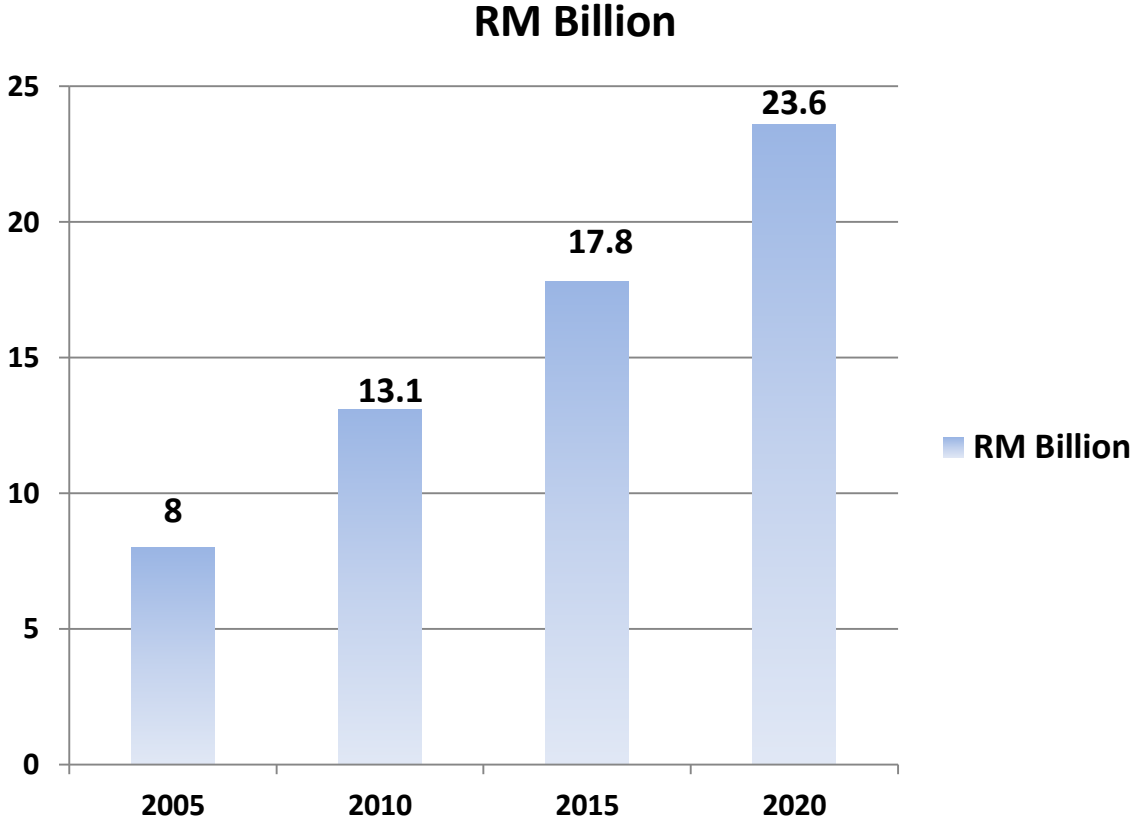
Greater focus on R&D in advanced manufacturing technologies and higher value-added products, such as:

- bridge and seismic bearings;**
- engine mountings and marine fenders;**
- advanced, nano and smart materials;**
- environment friendly rubber products;**

Further develop support industries, such as rubber chemicals, tools and dies, and packaging;

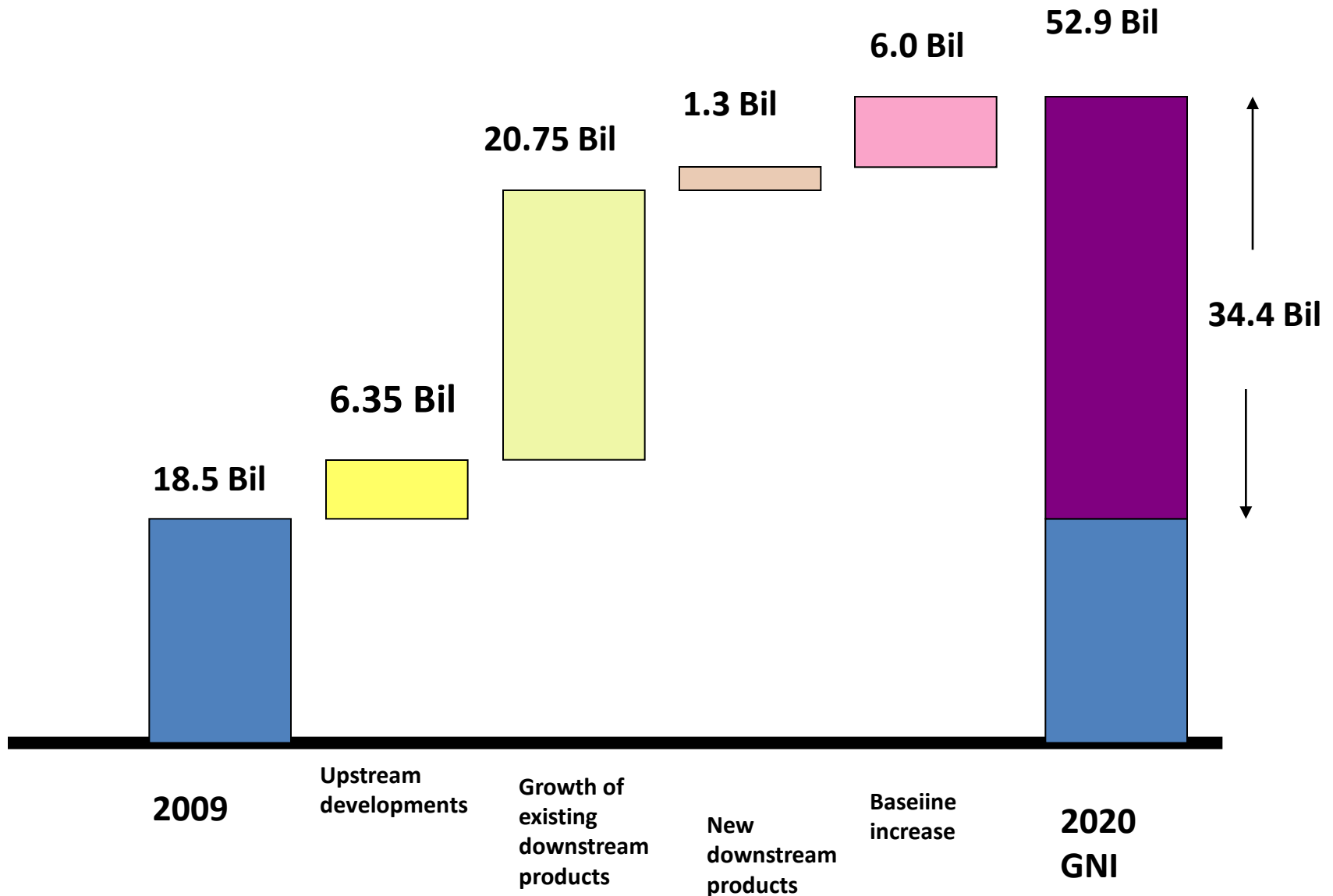
Promote the production facility for ethylene propylene rubber and EPDM

Export of Rubber Products under IMP 3



ETP for the Rubber Sector

Original Target
49.7 Bil



Project 1: Stabilising the Rubber Area and Improving Yield

Project 2: Accelerating Growth of Downstream Products

- Grow Standard Malaysian Rubber (SMR) and latex product revenues by 7 percent over the next 10 years by increasing latex concentrate production to reach 300,000 tonnes per year by 2020.
- Grow tyre revenues by 10 percent over the next 10 years

Project 2: Accelerating Growth of Downstream Products

- Grow other product revenues by 6 percent over the next 10 years through:
- Increasing production of specialty rubber and value-added products to 300,000 tonnes;
- Reducing processing cost by 30 percent
- Increasing global market share of all types of rubber gloves by 10 percent annually; and
- Increasing local worker participation by 5 percent per year.

Project 3: Introducing New Rubber Products

- Generate new revenues at a growth rate of 7 percent per year through the introduction of new products,
- i.e. diversify and expand dry rubber products to increase export revenue to RM5 billion by 2020.

Challenges of the Whole Rubber Industry-

MRB Rubber Strategy 2010-2020

Declining
plantation area
&
production

Unattractive
latex farm gate
price

Low
smallholders
yield

Unavailability of
high quality
planting
materials

Long supply chain
Poor price
determination
mechanism

Domination of
smallholder sector
95%,
Estates 5%

High labour
requirement

Old age
and
Ergonomic risk

Diminishing SMR
competitiveness

Increasing
importation of
latex

Domination of
latex based
products

Low capacity
utilization of
processors

Low adoption
of latest
technologies

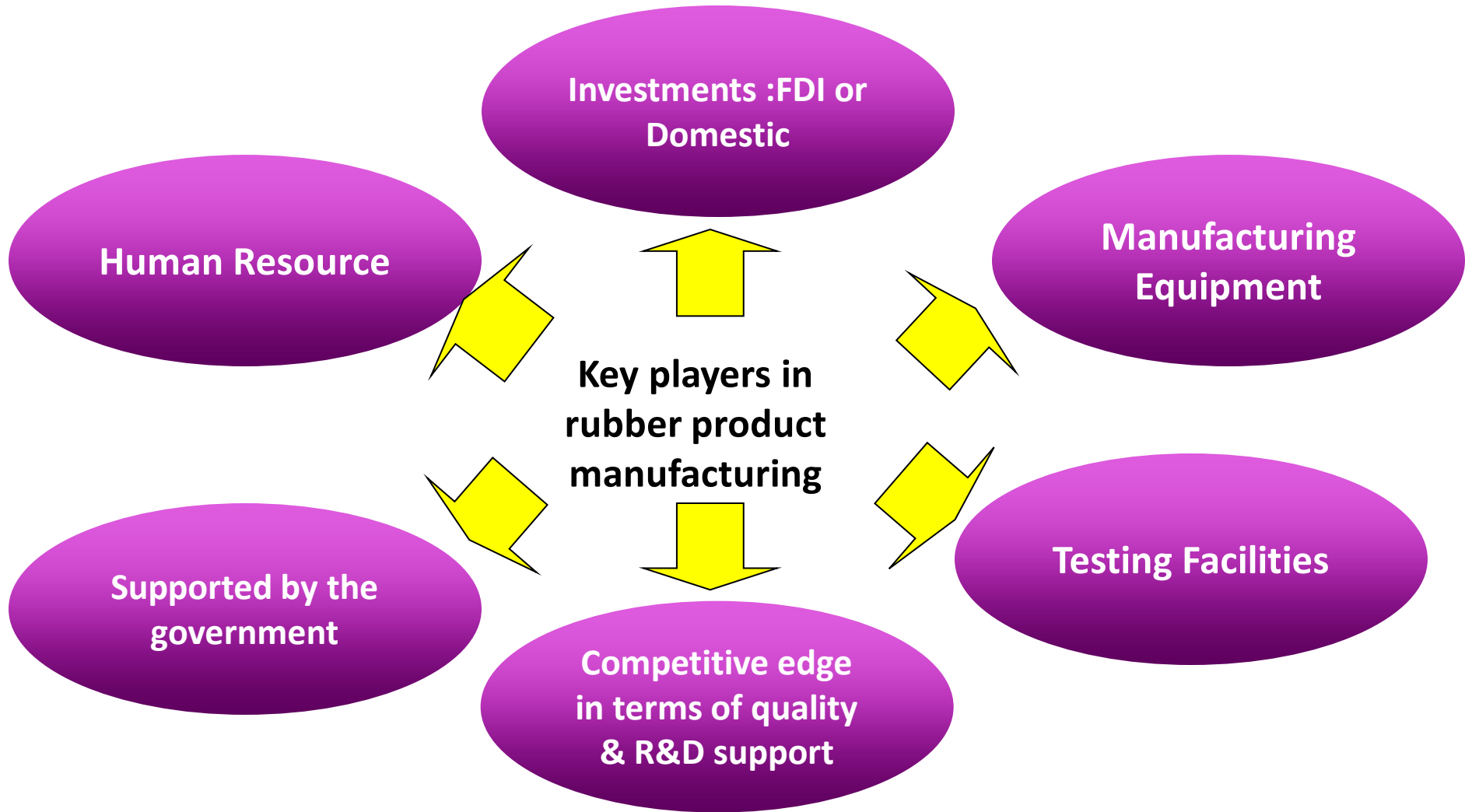
Poor adoption of
automated and
mechanised
technologies

High dependence
on foreign
workers

High volatility of
NR prices

	Vision	Mission
MREPC	Malaysia as a Leading Exporter of Quality Rubber Products	<ul style="list-style-type: none"> •To facilitate and promote the export of quality rubber products •To identify market opportunities and •To enhance market access
MRB	World Rubber Hub	<ul style="list-style-type: none"> •Raw materials •Transparent market •Traders/dealers/office/logistic providers •High income nation •Manufacturers/processors •Consumers •Quality assurance

Critical Success Factors



Conclusion

- The policy of developing and promoting rubber based manufacturing industry by the government has seen different levels of achievement by different rubber product sectors.
- Although there are challenges and issues to be overcome, Malaysia glove product sector can continue to expand its world market share.
- Most of the issues and challenges faced by the dry rubber product sectors are still unresolved.
- Better emphasis and proper push under the ETP should provide rewarding success for the downstream rubber sectors thus contributing to the aspiration of Malaysia to enjoy a high income economy in 2020.

Thank you for your attention.

KOSSAN

Your Trusted Business Partner

www.kossan.com.my