# NEW FOREIGN WORKER LEVY RULE WEIGHS ON MANUFACTURERS

**04 January 2017 / 12:01**

**PETALING JAYA:** Rubber gloves and manufacturing players are expecting a hit to their earnings following a ruling that they are now fully accountable for their foreign workers' levy.

CIMB Research said in a report it was expecting a net negative impact of between 1% and 3% for glove companies, due to the high dependency on foreign labour within the glove industry.

"We estimate that the Malaysian glove industry employs up to 42,000 foreign workers and this will lead to a higher cost of RM77.7mil. However, any negative impact will be short-term as glove makers will eventually pass on these costs," it said.

The research house said Top Glove Corp Bhd had the biggest foreign workforce among its peers at about 7,000 workers.

“Hence, Top Glove’s earnings will be the most negatively affected, assuming that no changes are made to the new ruling.

“However, we believe that the recent sharp appreciation in US dollar will be sufficient to offset the impact from companies needing to be responsible for levy payments on its foreign labour.”

Effective this year, employers are to be fully accountable for their foreign workers’ levy and can no longer deduct their salaries to pay the levy.

The enforcement comes under the Employer Mandatory Commitment, which aims to ensure that employers take full responsibility for their foreign workers, from the application stage right up till they return to their country of origin.

IJM Corp Bhd chief executive officer and managing director Datuk Soam Heng Choon said the new measure would increase the cost of business.

“Construction cost is bound to increase as well since there is going to be additional labour cost. It is not just the industry players who are at a disadvantage.

“The public stands to be affected as these additional costs will eventually be transferred to them.”

He said construction players would call for a meeting sometime this week and decide on the next course of action.

“For IJM’s construction arm, we do not hire foreign workers directly. These foreign workers are hired by the sub-contracters, but we will still be affected anyway. As for our plantation division, we employ about 3,000 foreign workers,” he said.

Kossan Rubber Industries Bhd senior manager of corporate affairs Edward Yip said the new policy would add pressure to margins.

“Production cost will rise and we will pass on the cost to our customers,” he said, adding that the new policy came as a bit of a shock to the industry as there was no dialogue involved.

In light of the impact to earnings, Yip said the company would engage in more automation to bring down the headcount.

TA Securities in its report yesterday said although the rubber sector has a practice of passing through cost increases to customers, it nevertheless be a challenging feat in the interim period.

This, the research house said, is because manufacturers are riding through a competitive operating environment, and lately had to deal with issues such as the strengthening of the dollar and rising natural rubber and nitrile prices.

“Hence, raising average selling prices to offset the levy could undermine their manufacturing competitiveness versus foreign counterparts in Thailand, Indonesia, and China.

“In our opinion, alongside prevailing efforts to increase automation and reduce reliance on manual labour, manufacturers could perhaps find alternatives to partially offset the levy such as reducing benefits like allowances.”

The Malaysian Iron and Steel Industry Federation (MISIF) said in a statement yesterday that the new policy would contribute to an increase in the operating costs, pose additional financial pressure on employers as well as the overall competitiveness of industry players.

“We hope the government will rescind the hasty implementation of the policy requiring employers to pay for foreign workers’ levy and that it will conduct a stakeholders’ consultation process on this very significant matter," it said.

The prevailing levy for foreign workers in the manufacturing sector is around RM154 per month, or around RM1,850 per annum.

TA Securities said this implied that manufacturers that did not bear the levy previously would face an incremental hike of 15.4% over the minimum wage of RM1,000 per month.

"For glove manufacturers, with labour accounting for around 10% of operating costs and foreign labour accounting for 70% to 90% of total workforce, our analysis suggests potential earnings dilution of 8% to 11%."

The research house added that average selling prices would have to be revised upwards by 1.2% to 1.5% to offset the levy.

On the flipside, CIMB Research said the new policy would alleviate foreign labour issues faced last year as it would help attract foreign labour to Malaysia.

TA Securities concurred that the new foreign levy policy would help to curb foreign worker shortage.

Bernama meanwhile reported that The Malaysian Employers Federation (MEF) has urged Prime Minister Datuk Seri Najib Tun Razak to intervene in the foreign worker levy issue, which requires employers to pay a new quantum effective Jan 1.

Its Executive Director, Datuk Shamsuddin Bardan, said nearly all industries were unhappy over the decision forcing employers to pay the annual levy for foreign workers as the government did not discussed it with them before enforcing it.

"This policy is a surprise and we do not see it benefitting the economy. It is not business-friendly and the announcement was made within a day, without any engagement with industry players and (a) grace period (given).

"We do not agree to this policy because the cost will not only impact us, the employers, but the consumers as well, he told reporters after a joint meeting with 159 industry players here today.

He said the industries' need for foreign workers was crucial as it was a human resource need which could not be filled by the locals.

"The industries which usually employ foreign workers are the ones that our local people avoid.

"That is why employers have no choice but to resort to foreign workers to meet orders by clients," Shamsuddin said, adding that the documents and letters on the issue would be submitted to the prime minister Tuesday.

Meanwhile, the SME Association of Malaysia National President, Datuk Michael Kang Hua Keong, said the association opposed the decision because employers would face more risk of losing legal foreign workers.

"As this will incur additional cost to businesses to employ the legal foreign workers, more illegal ones will start to come in.

"Thus, the aim to manage foreign workers better through the move taken will not achieve its objective," said Kang.

He said the industry players wanted the prime minister to look into the matter urgently and maintain the previous system, where levies were paid by the foreign workers from deduction of their wages.

In a separate statement, the Malaysian Iron and Steel Industry Federation said while it appreciated the government's effort to reduce the number of cases of workers fleeing, working illegally in other sectors and overstaying, the alternative adoption of labour-saving processes through automation sytems were not feasible this time due to the uncertain market conditions and weak ringgit against the US dollar.

Its President, Datuk Soh Thian Lai, said the industry has been going through a challenging business environment over the last couple of years.

"Passing on incremental cost to consumers would create an inflationary pressure on the consumer or further reduce the volume of business," he said.

He added the unwelcome surprise like the Employer Mandatory Commitment (EMC) would erode the competitiveness and present a setback to the industry.

On Dec 31, 2016, Deputy Prime Minister, Datuk Seri Dr Ahmad Zahid Hamidi, made the announcement that employers would be responsible for paying the levy of their foreign workers.

He said the decision, enforced under the EMC, was to ensure employers were fully responsible for their workers from the time of their appointment to the time they returned to their countries.