



MASTER BUILDERS ASSOCIATION MALAYSIA (MBAM)

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PRESS STATEMENT *FOR IMMEDIATE RELEASE*

GOVERNMENT INTERVENTION NEEDED ON HIGH BUILDING MATERIAL PRICES

The rising material prices sent skyward by the pandemic and rise of material and energy costs are negatively impacting contractors handling both Government and private projects. Contractors handling Government projects are being forced out of business as price index from the Department of Statistics Malaysia (DOSM) meant to protect contractors handling Government projects from volatile markets is unable to capture the full and true prices of raw materials skyrocketing costs. Rising prices are threatening the viability of construction projects from infrastructure to residential projects. The problem is even more acute in private sector projects, many of which do not include provisions to account for hiked prices of raw materials in terms of a Variation of Price (VOP) term.

One of the key difficulties for the DOSM building materials index is keeping pace with rapidly shifting global prices, which is linked to the availability of key commodities. However, public projects contractors rely on the price indexes to protect them from the changing cost of inputs throughout the lifetime of a project. Without changes to contracts, or a way to correct for the lag in the price index, major public projects could struggle to find bidders or face challenges in being completed.

Many contractors are at risk of going out of business due to the pressures of the price crunch. Some are also considering halting bidding for projects by local authorities because the way in which contracts are often structured shifts too much risk onto contractors already stretched by the lag in the price tendered and actual current prices. This disparity between actual prices tendered and actual current prices need to be corrected. They are inaccurate and do not reliably reflect market volatility. For example, price of steel bar in February 2021 was around RM2,680/MT but in April 2022 the price is now about RM3,500/MT an increase of 30.6%. Bulk cement was RM210/bulk in February 2021 but in April 2022 it is at RM350/bulk an increase of 40%. Diesel was RM1.90 per litre in February 2021 but in April 2022 it is roughly RM4.34 an increase of a whopping 128.4%.

MBAM would like to propose the following solutions to the Government: -

(1) Proposed to lock in price for existing current projects

MBAM propose that manufacturers and suppliers to lock in price for all orders placed, otherwise it defeats the purpose of lock in price for projects. For additional new orders or new supplies proposed to negotiate on the price.

(2) Review of the VOP rate in Government contracts projects.

The VOP should be extended to 31 December 2022 and beyond if necessary. The prices currently used for VOP is not reflective of the actual market prices as such contractors lose out. Proposed the Government to adopt the materials prices published by Construction Industry Development Board Malaysia (CIDB) who is the custodian of the construction industry. Furthermore, the scope of the building materials should be extended to include Mechanical and Electrical items that have seen price increase but is not included in the list for VOP.

MBAM had written and voiced this issue to the relevant agencies but with no positive outcome. Furthermore, we propose the VOP be adopted in private projects and be included in Pertubuhan Akitek Malaysia (PAM) contract form and the Institution of Engineers, Malaysia (IEM) contract form.

(3) Staggered price increase

Suggested price increase to be staggered say over a period of 3- 6 months instead of a sudden big increase of price in one go. This will not only prevent extreme price fluctuation but also help contractors to mitigate their cash flow and losses.

(4) To seek Government assistance in the form of subsidy /grants

MBAM appeal to the Government to temporarily exempt import duties of raw materials and also to provide subsidy / grants to manufacturers to mitigate the increase of production cost. In addition, MBAM seeks for the Government to subsidise the rising cost of raw materials in order for prices to stabilise.

(5) Proposed pegging of prices vs international market price

We hope manufacturers of building materials could provide detailed breakdown of raw materials cost, energy cost e.g. to peg the price of building materials with International prices and allow it for up and down accordingly.

(6) Levy Exemption For 12 Months to Support Contractors and Defer Human Resources Development Fund (HRDF) Contribution

We urge the Government to seriously consider an exemption for Construction Industry Development Board Malaysia (CIDB) payment of levy for 12 months to support contractors especially the smaller ones in the G1 to G3 category. We also hope the Government can defer the contribution from the construction industry to the HRDF for at least a year.

It's standard for contractors to attempt to factor price volatility and risk into price quotes, but intense market turmoil over the last several years has made it significantly more difficult to estimate how to account for those rapid changes. But the risks of bidding too low and failing to anticipate the extent of price increases are riskier than ever, as skyrocketing raw material costs could force builders to eat major portions of their profits, threatening the viability of projects.

Compounding the problem, delays due to shortages of materials and manpower are stretching out the time it takes to complete a project, exposing builders to more risk and for a longer period. **We urgently seek the Government's immediate intervention to help the Malaysian construction industry through the present price increase. The much-needed assistance by the Government will help contractors' complete projects in a timely manner and avoid termination or abandoned projects.**

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Other information:

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