

## **MBAM's Proposal To Cope With Skyrocketing Building Material Prices**

The rising material and energy costs caused by the pandemic are negatively impacting building contractors handling both government and private projects in Malaysia. The price index from the **Department of Statistics Malaysia (DOSM)** aims to protect contractors who handle government projects from fluctuations of volatile markets. However, it is unable to capture the full and true prices of raw materials, which has created the surge in costs. The rising prices are also threatening the viability of construction from infrastructure to residential projects. The problem is even more acute for contractors of private projects as many of them do not include provisions to account for rocketing prices of raw materials in terms of variation of price (VOP).

One of the key difficulties the DOSM building materials cost index faces is to keep pace with rapidly shifting global prices, which vary with the availability of key commodities. Without changes to contracts or adjustments to the price index, major public projects may face difficulties in finding bidders or overcome delays in project completion.

Many contractors are at risk of being forced out of business due to the pressure of the soaring prices. Some are even considering halting bidding for projects by local authorities because the contracts often shift too much risk to them. The disparity between tender prices and current prices should be adjusted.

On that account, the Master Builders Association Malaysia (MBAM) has proposed a number of solutions to the Government: –

### **1. Lock the price for existing projects**

Manufacturers and suppliers should lock the prices for all orders placed. For new orders or supplies, price negotiation should be conducted.

### **2. Review of the VOP rate in Government contract projects**

VOP should be extended to 31 December 2022 and beyond if necessary. The prices currently used for VOP could not reflect the actual market prices and the Government may consider adopting the material prices published by the Construction Industry Development Board Malaysia (CIDB), which is the custodian of the construction industry. Furthermore, the list of VOP should include mechanical and electrical items of which the prices have increased apparently.

### **3. Staggered price increase**

The price increase should be staggered over a period, say three to six months, instead of a sudden surge at a time. This will not only prevent extreme price fluctuation but also help contractors mitigate their losses.

### **4. Seek Government assistance in the form of subsidies/grants**

To alleviate the increase in production cost, the Government could temporarily exempt import duties of raw materials as well as to provide subsidies/grants to manufacturers. Government assistance could also help stabilise the prices.

5. Peg the prices with international markets

Manufacturers of building materials could provide detailed breakdown of raw material cost, energy cost and so on as references to peg the material prices with international prices.

6. Levy exemption for 12 months to support contractors and defer Human Resources Development Fund (HRDF) Contribution

The Government should consider an exemption of levy charged by the CIDB for 12 months to support contractors, particularly the small-scaled ones in the G1 to G3 categories. A deferment of contribution from the construction industry to the HRDF for at least a year could also assist contractors to stand against the price rise.

It is common for contractors to take price volatility and risks into considerations when preparing price quotes. However, the market turmoil over the last several years has made it significantly more difficult to estimate. The risks of low bidding and failing to anticipate the extent of price increases are higher than ever as skyrocketing raw material costs could force builders to absorb major portions of their profits, which in turn lowers the viability of projects.

The MBAM believes that it is vital for the Government to take immediate intervention to assist the Malaysian construction industry to survive the present price rise crisis. Its assistance will help contractors complete projects timely and avoid terminating or abandoning projects. – Construction+ Online

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