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Planters' minimum wage headache (/node/20001)

BY OOI TEE CHING (/TAXONOMY/TERM/893) - 4 AUGUST 2014 @ 6:25 PM

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KUALA LUMPUR: The minimum wage policy is meant to pave the way for a higher income nation but such good intention has caused an increase in the outflow of funds.

Feedback from rubber and oil palm

estates showed that the higher salary payouts under the minimum wage policy have resulted in a substantial increase in remittance by foreign workers.

The amount is estimated to almost double this year from 2012, before the policy was implemented.

The Minimum Wages Order 2012 took effect in January last year and requires employers with six employees and above to pay a minimum wage of RM900 a month in the peninsula or RM800 a month in Sabah, Sarawak and Labuan.

While lawmakers seek to propel Malaysia towards becoming a high-income nation by introducing minimum wages, the blanket implementation of the "basic rate" instead of

"take-home pay" across all sectors has given foreign workers more money to send home.

In an interview with Business Times, Malayan Agricultural Producers Association (Mapa) executive director Mohamad Audong said the blanket implementation of the minimum wage policy, rising bank borrowing costs and falling palm oil and rubber prices have resulted in planters being hit from all sides.

"While there was a 20 per cent increase in basic wages, there was almost 40 per cent more money outflow from Malaysia last year.

In theory, this law is supposed to help the oil palm industry become more productive. In reality, planters are badly hurt."

He pointed out that in 2012, foreign workers in the agriculture sector remitted around RM8 billion.

"After the minimum wage policy was implemented, foreign workers sent back around RM11 billion. This year, Mapa estimates the figure to surpass RM15 billion."

Mohamad said planters are facing higher production costs due to costlier fertiliser, higher foreign worker recruitment fees and higher fuel and utility



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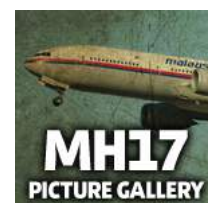
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costs. There are also various fees and tax hikes.

Oil palm planters are already paying corporate tax, service tax, sales tax, windfall profit levy, crude palm oil export duty and import duties on agricultural tools and machinery.

They also have to pay cess of RM13 per tonne to the Malaysian Palm Oil Board.

Mohamad said the bleak outlook is compounded by Bank Negara Malaysia's recent rate hike, which means costlier bank loans.

Oil palm planters are also at the mercy of the world commodity markets. If palm oil prices were to drop below RM2,000 per tonne, some planters will lose money.

"Many of our planters borrow money from the banks and issue bonds, of which bankers and insurance companies are subscribers."

Depending on the year of planting, Mapa calculated that palm oil production cost of these heavily-gearred planters ranges between RM1,300 and RM3,000 a tonne.

"If palm oil prices were to fall below RM2,000 a tonne, some planters may face difficulty in repaying the loans. They will then have to hire fewer workers and there will be less harvest.

"The minimum wage policy works best if commodity prices are on the uptrend, not when prices are falling," he said.

As the government seeks to review the minimum wage policy at the end of this year, planters are appealing for a more judicious implementation.

"We are not opposing the minimum wage law. It will be more practical if the government amends the RM800 and RM900 per month minimum figure to that of take-home pay instead of basic rate. This will streamline the Minimum Wages Order 2012 to the main thrust of existing labour laws."

Mapa represents about 200 plantation companies in Peninsular Malaysia with estates spanning 700,000ha. These planters employ some 125,000 workers in the fields, of which 80 per cent are foreigners.

Meanwhile, Malaysian Palm Oil Association (MPOA) chief executive officer Datuk Makhdzir Mardan concurred that oil palm planters are enduring the financial burden under the spectre of the taxes and new ones to be introduced.

"For every RM1 we earn, we have to pay almost 45 sen in taxes to the federal and state governments."

Planters are not required by law to provide accommodation, schools, clinics and places of worship but many MPOA members do so as part of their corporate social responsibility.

"When you factor in amenities such as housing, water, electricity, medical care, transportation, etc, it amounts to about RM450 per worker per month."

He said the new Property Assessment Tax of between RM5 and RM100 per hectare imposed by local authorities is painful on members.

"If the public think what is happening to oil palm plantations has no bearing on their savings, think again."

Makhdzir said when planters experience severe profit erosion, the man in the street will inevitably feel the impact.

"Pension funds, such as the Employees Provident Fund, are all heavily invested with plantation companies.

He said Permodalan Nasional Bhd, the country's biggest fund manager, and pilgrims fund board Lembaga Tabung Haji derive a big chunk of dividends from palm oil earnings.

What this means is that the average Malaysian's savings is considerably tied to the country's palm oil sales.

If palm oil earnings shrink as a result of a "less thought out" minimum wage law, pension and unit trust funds with big stakes in plantation companies may not be able to generate as much dividend as before.

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