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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
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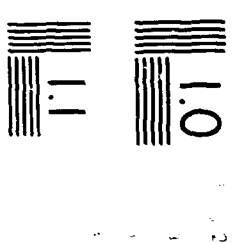

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THE PULP AND PAPER INDUSTRY IN PENINSULAR MALAYSIA*

by

T. B. Peh**

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** Acting Deputy Director, Forest Products Research Division, Forest Research Institute, Kepong, Selangor, Malaysia.

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Peninsular Malaysia, which is considered to be an advanced developing country, is still without a pulp industry. The existing paper industry is rudimentary, comprising a dozen small mills and contributing about ten per cent of the country's annual consumption in fine and industrial papers, the rest of which is dependent on import.

With the expected rise in the demand for paper and paper products, coupled with the forecasted world shortage of pulp and paper, and the accompanying jump in price of these materials in the near future, establishment of a pulp and paper industry in Peninsular Malaysia is a viable proposition. However, the industry in the initial stage should be limited down to two mills, one for fine paper and the other for industrial paper.

1.0 INTRODUCTION

Peninsular Malaysia is, to its credit, now considered an advanced developing country. However, despite the presence of the multitude of industries, a pulp and paper industry is yet to be established. This should not be construed as a shortcoming in development when compared to other advanced countries in the world. It is rather a question of possessing the capacity and the need to set up such an industry in the face of gigantic problems and complex requirements that it entails. There comes a time nevertheless, for reasons of national economy and expediency when every country needs to reassess its dependence on import of each essential commodity, the consumption of which is expected to rise as development advances and population increases. Peninsular Malaysia with regards to pulp and paper has reached this critical point of having to gear itself to reducing the dependence on import by thinking seriously of setting up its own integrated pulp and paper industry. The benefits of an indigeneous pulp and paper industry are manifold in a rapidly changing world of raw material and fuel shortage and price escalation.

Peninsular Malaysia's potential for the development of a pulp and paper industry may be studied by first taking a look at its progress so far, if any, the present status and prevailing conditions. It would be inexact to talk of a pulp and paper industry today in Malaysia as such, since the country does not profess to own a single pulp mill. A more proper approach is to first identify only the paper industry in Peninsular Malaysia in its present standing which can then be taken as a basis for consideration of not only the future of the paper industry but also the possible growth of a pulp and paper industry as a corporate entity. This must be studied in relation to factors like constriction and availability of raw materials, infrastructure, state of the market internally and on a regional and worldwide basis. Above all an important consideration to be borne in mind is the need of the country for the development of such an industry.

It is beyond doubt that the Malaysian Government is in full support of developing an integrated pulp and paper industry, as testified by the numerous feasibility studies sponsored, the provision of various incentives, such as fiscal incentives to entrepreneurs to attract investment, and the establishment of pilot tree plantations throughout the country. The full realization of a viable pulp and paper industry rests, however, on surmounting the constraints to its development, mainly financial and technical.

2.0 PRESENT STATUS OF THE PAPER INDUSTRY

2.1 Existing Mills

In 1964, there was only one paper mill in Peninsular Malaysia. This number increased to four in 1974. Although no additional mill was set up in 1975, 1976 saw a mushroom of more paper mills bringing the total number to seven. Today there are eleven paper mills and one more is in an advanced stage of planning. All the mills are located on the west coast of Peninsular Malaysia from the states of Kedah down to Johore, the two biggest of which are (1) North Malaya Paper Mills Limited in Province Wellesley and (2) Paper Products (Malaya) Ltd. with two units, one in the state of Selangor and the other in Johore.

The majority of these paper units, some of which having a production of three tonnes per day of toilet paper only, would be considered as cottage industry by the developed nations. Half of the mills have one single or double Yankee machine.

2.2 Progress of the industry

With not a single pulp mill in the country, the paper industry is heavily dependent on wastepaper as raw material. Table 1 shows the low production of most of these mills, and the glaring similarity in the products, namely in joss and toilet papers. The combined annual production of all these mills is 44,242 tonnes. Joss and toilet papers account for 45 per cent of the total production.

In early 1975, a tariff rate of M10 ¢ per lb. was imposed on imported joss paper and the import duty of toilet paper in rolls or sheets was 25 per cent or M10 ¢ each roll or packet whichever was the higher. This has undoubtedly resulted in a greater emphasis in the production of joss and toilet papers by the local paper mills. These mills, therefore, are not keen to produce a wide range of products due to lack of tariff protection and high cost of imported pulp.

None of these paper mills are unlikely to put up a pulping unit which requires a capital intensive investment. These mills already require M$2 to $10 million paid-up capital. For these mills to expand and produce their own pulp, a heavy investment or capital is required which is not readily available. The local capital that is available is usually in the hands of a few people who have little expertise and technical know-how in the field of pulp and paper. The establishment of paper mills using waste paper is the "best" business venture that has been attempted so far. This is not a criticism of those who may have the capital to enter the industry; rather it is plain business philosophy, particularly for the Chinese.

Table 1

Name of Mill	Location	Products manufactured	1978 Production (tonnes)
1. North Malaya Paper Mills Sdn.Bhd.	Province Wellesley	Joss, toilet tissue, wrapping, ticket and poster papers, chip-board, folding boxes.	10,197
2. Paper Products (M) Bhd.	Selangor	Joss, toilet tissue, printing, manila, bond, wrapping and ticket papers, kraft liner and corrugating medium.	9,735
3. Paper Products (M) Bhd.	Johore	Joss and toilet tissue papers.	
4. Theen Seng Paper Mfg. Sdn. Bhd.	Selangor	Joss, poster, manila, wrapping and kraft papers.	4,320
5. Selangor Paper Mills Sdn. Bhd.	Selangor	Toilet tissue, chip-board.	5,950
6. Union Paper Industry Sdn. Bhd.	Penang	Joss, toilet tissue, wrapping, poster and ticket papers.	4,000
7. Trio Paper Mills Sdn. Bhd.	Province Wellesley	Joss paper	2,550
8. Taiping Paper Mills Sdn. Bhd.	Perak	Toilet and tissue papers	2,550
9. Nibong Tebal Paper Mills Sdn. Bhd.		Toilet tissue	1,020
10. Perak Paper Products Ltd.	Perak	Toilet tissue	1,200
11. Cita Penchoon Paper Mill Sdn. Bhd.	Kedah	Joss paper	2,720
Total production			44,242

2.3 Role of the industry

Since the country's total production from the eleven mills amounts to only about twenty per cent of the apparent consumption for 1978 in fine and industrial papers, the saving of foreign exchange is minimal. The only area of import substitution is in the production of joss and toilet papers. The situation is therefore far from being satisfactory because there exists a large dependence of the country on import of paper and allied products to meet its requirements.

As far as direct employment is concerned, the paper industry contributes little to the generation of job opportunities in the country. In 1975, the industry had a direct employment of 331 people. Today, not more than a 1000 people are employed.

2.4 Prospects of the Present Industry

It is felt that future mills based on waste paper for the manufacture of joss and toilet papers are undesirable. The local production of these products has already saturated the domestic demand. The management of the older and larger mills has lamented the uncontrolled establishment of new mills without due consideration to the effect on the market and industry. One unhealthy consequence is the drop in price of these two products due to surplus in production, despite the hike in the cost of production and raw materials. This in the long run may have undesirable repercussions on the industry. The small mills will eventually be the losers.

An entrepreneur has the view, shared by a few others in the trade, that a major contributing factor to the dull state of the market is the insufficient diversification of paper products manufactured. The complaint in other words is that there are too many mills in existence producing too narrow a range of paper products, which is glaringly true if one examines Table 1. Practically every mill manufactures joss or toilet paper or both. Therfore, the general situation of the industry today is rather dismal with an overproduction of joss and toilet papers, especially the former, which are limited in their usage by the nature and the structure of the consuming populace.

Joss paper caters to the religious and cultural beliefs of the Chinese - only those ascribing to Taoism and Confucianism. At present it is usually the older generation of Chinese that encourages the use of joss paper. As the younger generation takes over, becoming more westernized with an entirely different outlook on the cultural and religious practices, it is quite likely that they may slowly dispense with joss paper. With toilet paper, the demand on the other hand is certainly expected to increase with the rise in population. However, its domestic consumption is excluded to more than fifty per cent of the population, which professes a majority of Muslims to whom the usage of toilet paper is not a normal practice.

It is clear that paper mills of the future need to have a closer examination of the market situation, so as to manufacture products which can cater to existing as well as expected demands. They must take cognizance of the rising standards of literacy, living and sophistication of the expanding population. Products presently manufactured on a relatively large scale need to be re-examined in terms of their continuous and potential demand, for example, joss paper.

As all the paper mills depend practically on secondary fibres for their operation, the competition for waste paper is keen and fierce amongst the mills. Notwithstanding the enormous rise in the cost of transport, some mills have to resort to importing the raw materials from Singapore and Hong Kong, thus contributing towards the increased cost of production. There is even the practice, out of necessity, to tender for the supply of waste paper up to a year.

The existing dependence of the paper mills on waste paper needs to be reassessed. Although a higher generation of waste is expected with the increase in consumption of paper products in the future, it is unlikely that this source of raw material, relatively cheap as it is, can be relied upon on a continuous basis to feed not only the present mills but also those to be set up. A serious thought is of perforce diverted to the use of pulp, and to a lesser reliance on waste paper. Any future mills should be an integrated industry. It could take the form of one of the following alternatives:

(a) an integrated pulp and paper industry using local short-fibred resources in combination with imported long-fibred pulp; or

(b) an integrated pulp and paper industry using a combination of locally grown short-and long-fibred indigeneous and exotic species.

Based on import and domestic consumption the establishment of a pulp and paper industry manufacturing fine and industrial papers is warranted.

3.0 CONSUMPTION AND DEMAND

3.1 Import of Paper and Allied Products

The bulk of the paper and paperboard requirements of Peninsular Malaysia is dependent on import. Within sixteen years from 1962 to 1978, the increase in imports of paper and paper products was astronomical. During this period Peninsular Malaysia had achieved sizeable increases in literacy, industrialization, standard of living and in population. Table II shows that during the sixteen-year span (1962 - 1978) the imports of these products rose by 585 per cent.

Table II Imports of Paper and Paper Products into Peninsular Malaysia (1962 - 1978)

Year	Quantity (tonnes)	Value M$ (CIF)
1962	32,636	22,263,750
1967	74,415	46,856,490
1972	130,282	87,781,050
1977	182,366	191,629,260
1978	223,408	232,719,150

Source: Anon (1962, 1967, 1972, 1977 & 1978a)

3.2 Apparent Consumption of Different Types of Paper and Paperboard

Over sixty items of the products under the Trade Classification and Customs Tariff, 1978 are imported into Peninsular Malaysia. These are classified into four broad categories of paper and paper products for ease of reference. They are as follows:-

(i) newsprint,

(ii) writing and printing,

(iii) industrial paper and

(iv) other paper and paperboard

The apparent consumption of these categories of paper and paperboard in the years 1962, 1967, 1972, 1977 and 1978 is given in Table III. It is clearly seen that each category registers a considerable jump in consumption from 1962 to 1978. Of the 218,460 tonnes of paper and paper products apparently consumed in 1978, newsprint constitutes 30% of the total, writing and printing 24% industrial paper and paperboard 29% and the other papers 17%.

Table III. Apparent Consumption of Paper and Paper Products

Year	Paper Grade	Imports (tonnes)	Exports/ re-exports (tonnes)	Apparent consumption (tonnes)
1962		9,081	97	8,984
1967		15,105	82	15,023
1972	Newspring	29,265	132	29,133
1977		47,953	195	47,758
1978		65,789	290	65,499
1962		10,544	232	10,312
1967		18,015	143	17,872
1972	Writing & Printing	26,354	601	25,753
1977		41,440	183	41,257
1978		52,385	389	51,996
1962		6,909	1,150	5,759
1967		22,093	289	21,804
1972	Industrial Paper & Paper-board.	36,412	880	35,532
1977		51,473	983	50,490
1978		64,558	1,703	62,855
1962		6,102	136	5,966
1967		19,203	170	19,033
1972	Other Paper & Paperboard	38,251	1,074	37,177
1977		41,500	2,130	39,370
1978		40,675	2,564	38,111

Source: Anon (1962, 1967, 1972, 1977, 1978a)

3.3 Per Capita Consumption in the ASEAN Region

The per capita consumption of paper and paperboard in Malaysia and other countries in the ASEAN region can be compared from Tables IV and V

Table IV. Malaysia: Per Capita Consumption

Year	Population	Per Capita Consumption (Kg)
1962	7,339,000 c	4.2
1967	8,312,000 c	9.6
1972	9,380,000 c	15.6
1977	10,600,000 c	20.6

Table V. ASEAN Countries: Per Capita Consumption (1977)

Country	Population	Per Capita Consumption (Kg)
Indonesia	132,500,000	2.3
Philippines	44,000,000	11.0
Singapore	2,310,000	60.0
Thailand	44,035,000	7.0

Source: Anon (1978 b)

The above two tables show clearly that Peninsular Malaysia, only next to Singapore, is ahead of the others in its per capita consumption of paper and paper products; yet the country is logging behind in its pulp and paper industry.

4.0 PRESENT STATUS OF THE PULP AND PAPER INDUSTRY IN THE ASEAN REGION

Since the late fifties, Malaysia has been gearing itself to the eventual establishment of a viable pulp and paper industry. Several international companies have indicated their interest in establishing integrated pulp and paper mills in the country. A few have carried out pre-feasibility or feasibility studies and have displayed their willingness to establish such industry as joint ventures. For various reasons, nothing has come to fruition.

In contrast, in 1972, there were six, seven and three pulp mills in Indonesia, Philippines and Thailand respectively. More mills have been erected in these countries since then, and Table VI shows the total number of pulp and paper mills in 1977 established in the ASEAN Countries.

Table VI. Pulp and Paper Mills in ASEAN Countries (1977)

Country	Number of Pulp Mills	Number of Paper and Board Mills
Indonesia	7	19
Philippines	9	21
Singapore	0	2
Thailand	4	25
Malaysia	0	11

Source: Anon (1978 b)

Singapore, having the highest per capita consumption of paper and paper products, possesses no pulp mill apart from two paper mills. On account of its limited resources and size, it is not likely to set up a pulp industry. However, Peninsular Malaysia with the second highest per capita consumption, is in a different situation capable of supporting a pulp and paper industry in having the necessary infrastructure, labour force, demand, resources and economic stability. As such it may look ironical that it should lag so behind the others in the pulp and paper industry. It is of interest to note that the Philippines, which is taking the lead, has developed this industry rapidly in recent years.

5.0 CONCLUSION

The present status of the paper industry in Peninsular Malaysia is likely to remain the same as long as there is no viable pulp industry in the country.

The domestic demand of fine and industrial papers does warrant the setting up of an integrated pulp and paper mill. The establishment of the industry should cater primarily for domestic consumption rather than the export market. The industry may export its products to Singapore and meet the demand in East Malaysia.

Peninsular Malaysia would reap manifold benefits from a viable pulp and paper industry. Apart from the huge savings in imports and eventual exports of new products, it would result in a fuller utilization of locally available raw cellulosic materials and a diversification of the country's economy It can produce a commodity so essential to an increased standard of living.

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