

3.0 THE LATEX GLOVES INDUSTRY

Malaysia, Thailand and Indonesia are the largest rubber gloves producing countries in the world, producing more than 90% of the world's latex gloves (*Dow Jones Newswires, Singapore, 24 October 2001*).

The USA and Europe are the two major markets for the gloves. Frost & Sullivan estimated that in 1999, the glove sales for the US and Europe amounted to US\$2.4 billion representing 65% of the world's market. The third largest market, i.e. Japan accounted for 2.1% of the world market. According to Frost & Sullivan, the US market for disposable latex examination gloves will grow from USD1 billion in 1999 to USD1.2 billion in 2006. Natural rubber examination gloves accounted for 84% of the medical examination glove market in 1999 while synthetic gloves accounted for about 16%. By 2006, the synthetic gloves share is predicted to grow to 21%.

The largest growth areas for medical gloves are mainly developing countries that do not have a "culture of protection". Liberation of trade under WTO and AFTA will have little effect on glove manufacturers in the top three gloves producing countries (Malaysia, Thailand and Indonesia), as more than 95% of the production is geared for exports.

Some major developments and trends in the industry were seen during the last 2 to 3 years. Glove manufacturers worldwide have in general, been adopting a strategy of aggressive expansion to lower their unit cost of production and to maintain competitiveness. However, this expansion strategy, compounded with the numerous number of players and relatively low barriers to expansion, have led to present serious oversupply situation (*NST, 22 October 2001*). The oversupply situation in the market place has led to fierce price undercutting among manufactures. Issue regarding the latex protein allergy of natural rubber gloves has caused some end users shifting to high-end glove products such as powder free and synthetic gloves.

There are an increasing number of OEMs that are becoming OBMs to have their own brand names in the market place. Together with this, new markets such as Africa and South America are emerging to be more important other than the traditionally huge US and European markets.

The continuous US FDA's reclassification of medical gloves requiring higher standards on manufacturing procedures and protocols, has put pressure onto the producers to improve their product quality and manufacturing processes in order to be able to enter the US market.

Recent years has also witnessed the relocations of some giant MNC glove manufacturers to South East Asia region. Giant glove company such as Ansell has moved their gloves production to Malaysia from plants in US and Mexico. However, Thailand seems to be benefiting the most from this with even relocation of the gloves production from Malaysia to their country by other glove MNC companies such as Safeskin and Allegiance.

The recent worldwide anthrax scare, which prompted a demand surge in late year 2001, had mellowed down with some increase in surgical gloves demand. It has however opened new market sectors for the medical gloves as a whole with new markets in the postal services, the courier service industry and other service industries.

Surgical gloves are a thinner form of gloves used in surgery, while the thicker examination gloves are usually used in the manufacturing sector and clinical laboratories.

The medical disposable glove market is controlled by five main manufacturing countries in Asia. Disposable medical gloves market covers examination and surgical gloves both from natural rubber latex and synthetic. In 2000, Malaysia

held 52% of the medical disposable gloves market, followed by Thailand 26%, China 11%, while Indonesia and Taiwan control 6 and 5 percent respectively.

3.1 Malaysia Rubber Gloves Industry

Malaysia has an established rubber industry, which stems from its rich supply of natural resources. With its high quality latex, it has become the leading supplier of various types of rubber product worldwide. In late 1980s, the Aids scare had prompted the medical gloves industry to expand tremendously. Malaysia with its natural rubber resources has benefited from this, with numerous rubber gloves factories expanding or being set up. Since then, Malaysia rubber gloves industry has developed to be the largest producer and exporter of rubber gloves in the world, supplying about 60% of the world market (*Bangkok Post*, 14/12/2001). Today, rubber gloves industry forms the major components of rubber products in the country, consuming more than 55% of the total Malaysia natural rubber consumption (*Malaysia Rubber Digest*, November 2001). Rubber gloves contributed 70.5% of the 2000 total Malaysia rubber products export valued at about RM4.72 billion (*Malaysia Rubber Board*, 25/7/2001).

Malaysia exports more than 98% of the medical gloves produced locally. United States is the main importer of Malaysia gloves absorbing about 50% of the total Malaysia gloves export. The other major importing countries are United Kingdom, Germany, Italy, France, Belgium, Japan and Brazil.

In the last few years, Malaysian gloves industry is facing tumultuous times, with emergence of manufacturers and fierce competition from neighbouring countries especially Thailand, price undercutting among the local manufacturers and rising production cost. In 1999, the industry faced a major shake-up with exports falling by 11.4 per cent in revenues as compared to 1998. About 10 smaller size manufacturers have exited the industry, either by folding up their operations or sold out to larger companies. The scenario just has changed for the better

recently with the gloves prices recovering. The industry is currently slowly recovering from its recent slumps, which until the recent months, the industry was at the bottom of the economic cycle, with prices at historical lows. The slowdown of the global economy especially in United States and Japan has worsened the situation.

Almost all of the 80 medical gloves manufacturers in Malaysia produce examination gloves, which is the main contributor to the exports of gloves. The examination gloves market is mature and quite saturated, prompting manufacturers to look into diversification into more value-added glove sector such as surgical, industrial, clean room and anti-static gloves to stay competitive. Currently, there are only a small number of gloves manufacturers that produce surgical gloves. However, this number is expected to increase, as this market sector is growing strong in terms of revenue with higher demand for surgical gloves. With the surgical glove users readily identified, more local glove manufacturers are venturing into the surgical gloves sector with their increased expertise.

Lower labour cost in Thailand and aggressive tax breaks offered by the Thailand authority have prompted some MNCs to relocate their facilities to Thailand. Glove giant, Safeskin (part of Kimberly Clarks) has expanded and relocated from Malaysia to southern Thailand with 8 years tax breaks status from Thailand Board of Investment and 20% labour cost savings. Allegiance has also targeted Thailand and has moved their surgical gloves production to Rayong, Thailand with tax breaks and estimated 40% lower labour cost. Allegiance was the leader in Malaysia's surgical gloves prior to the move, with about 30% market share for natural rubber surgical gloves and about 28% of the synthetic surgical gloves. Some of the larger local companies have also expanded to Thailand such as Latexx Partners and Top Glove.

The examination gloves market is rather mature and saturated. It is becoming more of a commodity, however efforts are being done to provide more emphasis into branding and quality. Surgical gloves market is on the growth trend and marketing efforts such as branding and quality played important role.

While there have been some negative reports on natural rubber latex surgical gloves in US and Europe, Malaysia government has taken measures to control the content of protein in natural rubber latex gloves with the introduction of Standard Malaysia Gloves (SMG) scheme and has helped to assist in stalling drop in natural rubber latex surgical gloves. And many users still prefer the lower priced natural rubber latex surgical gloves due to the sensitivity it provides and its excellent barrier properties, which are reported to be better than synthetic gloves.

With the Malaysian government looking closely into ways to maintain Malaysia's position as the market leader for production and export for disposable gloves, Frost & Sullivan forecasts in 2000 that the market revenues should double by 2007 with Compound Annual Growth Rate (CAGR) of 11 percent from 2000 to 2007.

3.1.1 Malaysia Surgical Gloves Market Sector

Malaysia surgical gloves export was growing steadily throughout the years, peaking in year 1999 with 3.904 billion pairs exported. This upward trend however was not sustainable and in year 2000, the total export volume recorded was only at 1.502 billion pairs. This reduction is also contributed by the expansion or relocation of Allegiance's surgical gloves production to Thailand.

Refer to Appendix 3 for the Malaysia surgical gloves export chart (1996-2001)

The large expansion of London Rubber Company (LRC, now part of the SSL group) in Kulim has reduced the impact caused by the exit by Safeskin and Allegiance. There are few new local players such like Supermax and SSN.

Table 3.1: Total Disposable Surgical Gloves Market (Natural Rubber Latex); Market Share of Major Market Participants (Malaysia) 1999-2000

Companies	Market Share (%)
Allegiance	30
Ansell	23
WRP	15
Top Glove	5
Guthrie	5
Terang Nusa	4
Others (Brightway, Healthcare, LRC, Sanchem, Wearsafe)	20
Total	100

Source: Frost & Sullivan (2000)

Malaysia disposable surgical gloves market is expected to grow steadily with Compound Annual Growth Rate (CAGR) of 14 percent from 2000 to 2007, according to Frost & Sullivan 2000 forecast report. The percentage of surgical gloves of the total disposable medical gloves is also forecasted to increase to 43.6% by 2007 from 30.9% in 1999.

3.2 Thailand Rubber Gloves Industry

Similar to Malaysia, Thailand has a rich supply of rubber, being the number 1 producer of natural rubber in the world (Malaysia is 3rd after Indonesia). Thailand is the world's second largest exporter of rubber gloves after Malaysia supplying close to 35% of the global rubber gloves market, with annual turnover of 14 billion Baht in year 2000. Thailand-owned exporters account for about 40% of their total rubber gloves shipments, with the rest 60% being exported by foreign manufacturers and joint ventures.

The major importer is United States, which takes about between 70% and 80% of Thai rubber glove exports. According to the Thai Rubber Glove Manufacturers Association (TRGMA), exports of rubber gloves are expected to rise by about 5% for year 2001 and continue to grow in year 2002.

3.2.1 Thailand Surgical Gloves Market Sector

Thailand surgical gloves export has received a boost in recent years with the relocation of two major surgical gloves manufacturers from Malaysia to Thailand. The export in year 2001 is expected to be at about 1 billion pairs. This market is dominated by 5 major manufacturer comprises of 3 MNCs and 2 OEMs.

Table 3.2: Total Disposable Surgical Gloves Market (Natural Rubber Latex); Market Share of Major Market Participants (Thailand) 1999-2000

Companies	Market Share (%)
Omnigrace	39.5
Safeskin	17.3
Allegiance	15.1

Mediglove	12.4
MRI	11.0
Others	4.7
Total	100

Source: Frost & Sullivan (2000)