



**FMM Urges Immediate Government Measures as Middle East Conflict Drives
Cost Surge and Supply Disruption**

Kuala Lumpur, March 27, 2026 — The Federation of Malaysian Manufacturing (FMM) calls on the Government to act immediately to address the impact of the Middle East conflict on Malaysian manufacturing. Since United States and Israeli military action against Iran began on February 28, 2026, the simultaneous closure of the Strait of Hormuz and disruption of the Red Sea shipping corridor has created a dual shock to energy markets and global trade flows.

The Strait of Hormuz handles about 20 percent of global oil and LNG trade and carried close to 20 million barrels per day in 2025. Its closure, together with continued disruption in the Red Sea, has driven sustained increases in freight related charges, the imposition of war risk surcharges and sharp increases in marine insurance premiums of between 200 and 400 percent. Vessel rerouting via the Cape of Good Hope has extended transit times by up to 14 days. This is affecting delivery schedules and working capital cycles across Malaysian manufacturing.

Energy costs have risen sharply. Brent crude is trading at about USD 106 per barrel as of March 27, 2026, up about 28 percent from its January 2026 opening price of USD 82.80 and about 47 percent above pre-conflict levels. This has a direct impact on industrial fuel costs and upstream petrochemical pricing.

Manufacturers are also facing tightening supply of critical petroleum based raw materials. Key inputs including naphtha, LPG, resins, synthetic rubber inputs, sulphur and packaging materials are becoming more expensive and less available. Most manufacturers operate on 2 to 6 weeks of inventory. Continued disruption will affect production continuity across plastics, chemicals, electronics, rubber products and food processing sectors.

These pressures are immediate and cumulative. Cost increases, supply delays and operational uncertainty are already affecting manufacturing output and export fulfilment. The current framework does not provide adequate relief for these externally driven disruptions. Targeted intervention is required to stabilise costs, sustain production and protect export competitiveness.

In response to these direct and ongoing cost pressures, FMM calls for the Government to implement the following priority measures without delay:

1. Sales Tax and Import Duty Relief for Reimported Export Cargo

Malaysian manufacturers whose exported goods have been turned back due to port inaccessibility, carrier diversion or buyer suspension are being charged sales tax and

import duty on reimportation. These are not commercial imports. The goods were manufactured in Malaysia, exported, and are being returned to the same production facility through no fault of the manufacturer. Furthermore, these goods which are meant for the export market are not sold, not consumed and not entering the domestic supply chain. Treating this as a taxable importation places an additional financial burden on companies already absorbing unplanned logistics costs from the conflict.

FMM requests the Government to exempt registered manufacturers from both sales tax and import duty on the reimportation of their own previously exported goods returned as a direct consequence of the Middle East conflict, subject to the goods not being sold or disposed of domestically upon return. No such exemption currently exists for this situation. The Government has the administrative tools to act on this quickly and FMM urges the Government to do so.

2. Tax Relief for Crisis-Related Logistics Costs

Malaysian manufacturers are absorbing extraordinary and unplanned logistics costs that are entirely attributable to the conflict. These include war risk surcharges, excess freight charges on shipments rerouted via the Cape of Good Hope, elevated marine cargo insurance premiums and demurrage and port storage charges caused by conflict related congestion none of which are within the control of the Malaysian manufacturer or shipper. No tax relief mechanism currently exists for these cost categories.

FMM requests the Government to provide a double tax deduction on these crisis-related logistics expenditures for the current and following year of assessment. As an immediate interim measure pending the formal gazette process, FMM further requests the Inland Revenue Board to issue a public ruling confirming that these costs are deductible in the year they are incurred as companies need that certainty now.

3. Diesel Subsidy Access for Fuel-Intensive Industrial Sectors

The current diesel subsidy framework covers road transport operators. Industrial manufacturers operating kilns, dryers, furnaces, boilers and marine equipment purchase diesel at full market rates with no equivalent relief. With Brent crude oil prices up approximately 28 percent year-to-date and industrial diesel prices having more than doubled for the industrial sector, the cost impact on production is direct and immediate. Sectors including ceramics, quarrying, glass manufacturing, heat-intensive food processing and marine logistics serving domestic routes are most exposed.

FMM requests the Government to extend diesel subsidy coverage to fuel-intensive industrial sectors with no viable alternative energy source. Marine logistics operators serving Sabah and Sarawak should be treated as a priority given the absence of fuel alternatives.

4. Critical Raw Material Supply Disruption Immediate Intervention Required

Supply constraints have now intensified across petroleum derived inputs sourced directly or indirectly from the Gulf region. These include naphtha, LPG, ethylene and propylene derivatives, aromatics, benzene, synthetic rubber inputs, sulphur, and fertiliser feedstock including ammonia and urea. Lead times have extended by up to 14 days due to rerouting, and incoming shipments reflect orders placed prior to the disruption. New orders will arrive at a tightening supply environment, increasing the risk of production gaps. Fertiliser stocks are projected to remain sufficient only until mid-2026, subject to supplier fulfilment, which remains uncertain under current conditions.

FMM requests the Government to direct national energy producers and major domestic refiners to prioritise domestic allocation of key feedstocks for the duration of the crisis, facilitate temporary duty and tax exemptions on critical petrochemical, chemical and food grade packaging inputs sourced from alternative origins and establish a national inventory monitoring mechanism with defined thresholds so that intervention can be activated before shortages become acute.

5. Halt Remaining Port Tariff Increases

Port Klang, Johor Port, Tanjung Pelepas and Penang Port have implemented tariff increases of up to 30 percent in phased structures, with final increases still scheduled through 2027. Port Klang's remaining 5 percent increase is due in January 2027, Johor Port's second 15 percent phase in May 2027 and Penang Port's additional 10 percent increase in October 2026.

Manufacturers are already absorbing elevated freight charges, higher insurance premiums and increased input costs arising from the current disruption. Proceeding with further tariff increases will compound cost pressures and weaken export competitiveness. FMM calls for all remaining phases of port tariff increases to be deferred for the duration of the current disruption.

6. Freight Rate Transparency and Shipping Line Accountability

Shipping lines have imposed multiple layers of surcharges linked to the conflict including emergency freight increases, war risk charges and insurance loadings applied outside contracted rates, with no oversight mechanism to distinguish legitimate cost pass-through from opportunistic surcharging. Malaysian ports have also become low-cost storage locations for empty containers generating chronic yard congestion unrelated to Malaysian export or import cargo. During disruption periods, carriers accelerate equipment repositioning, flooding port yards further and reducing available capacity for productive cargo movement.

The absence of a regulatory framework that holds shipping lines accountable for their cost and operational decisions at Malaysian ports is a structural gap that this crisis has brought into sharp relief. The Ministry of Transport should establish a formal freight rate and surcharge monitoring mechanism, working with industry to track conflict-related charges and provide a structured channel for escalation where charges are not justified. On equipment management, differential storage charges for empty containers held beyond defined turnaround thresholds would shift the cost of congestion back to the party causing it rather than onto Malaysian cargo owners, consistent with the approach already applied at competing regional ports.

The impact of this crisis spans energy costs, logistics, raw material supply, tax treatment and port operations simultaneously. It demands a coordinated whole-of-government response, not individual ministries managing their respective areas in isolation. FMM stands ready to work with the Government as an active partner in that response. Thailand, India and South Korea have each established coordinated government-industry mechanisms to address the same disruption. Malaysia's manufacturing sector, which accounts for 23.4 percent of GDP cannot afford to be left behind.



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FMM Advocates Transparency, Integrity, Accountability and No Corruption

About FMM

The Federation of Malaysian Manufacturing (FMM) (formerly known as Federation of Malaysian Manufacturers) has been the voice of the Malaysian manufacturing sector since 1968, advocating policies and initiatives that drive industrial growth, competitiveness and workforce development. Representing over 13,300 member companies (4,200 direct and 9,100 indirect) from the manufacturing supply chain, FMM is actively engaged with government and its key agencies at Federal, State and local levels. FMM is also well-linked with international organisations, Malaysian businesses and civil society. Apart from benefitting from FMM's advocacy, FMM members enjoy value-added services including training, business networking and trade opportunities as well as regular information updates.

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