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Ceasefire came, but cost reliefs didn't

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IN Muar, Malaysia's largest furniture manufacturing hub, more than 100 small factories have shut down in recent months. The owners did not leave because demand disappeared. They left because the margins - already squeezed by US tariffs - finally broke under the weight of rising energy and input costs set off by the Iran war.

Those still standing describe watching neighbouring factories go dark one by one, as older, more established names chose to liquidate rather than bleed cash, and smaller operators simply ran out of road.

Muar is not an outlier. It is a preview.

When US and Israeli forces struck Iranian energy infrastructure beginning Feb 28, global attention focused on geopolitics, oil prices, and the partial closure of the Strait of Hormuz – through which roughly 20% of the world's oil and liquefied natural gas (LNG) flow daily. A ceasefire between the US and Iran was declared on April 8. Many Malaysian business owners exhaled and waited for things to return to normal.

They are still waiting.

The cease-fire has not restored the strait. Even after repeated announcements that Hormuz was open, actual maritime traffic remained at near-collapse levels - sometimes as low as three vessels per day, compared to well over 120 under normal conditions.

The International Energy Agency's May 2006 Oil Market Report puts benchmark crude at around US\$110 per barrel, with output from Gulf producers running 14.4 million barrels per day below pre-war levels and global oil inventories drawing down at a record pace. What a peace agreement paused was the fighting. What it did not pause was the structural damage to global energy supply chains – and that damage is now arriving, with compounding force, on Malaysian electricity bills.

A May 2026 survey by the Federation of Malaysian Manufacturers (FMM) found that 72% of respondents said their situation had worsened since the conflict began, while 28% had already made or were planning workforce adjustments as a direct result. For Malaysian companies, the war did not arrive as a



sudden crisis. It arrived as a line item. And for the first time since the new electricity pricing mechanism came into force, that line item has turned from a discount into a charge.

To understand why, it helps to understand what changed in July 2025 – months before the first missile was fired.

That month, the old Imbalance Cost Pass-Through (ICPT), which reviewed fuel cost adjustments every six months, was replaced by the Automatic Fuel Adjustment (AFA) – a monthly reset that tracks global fuel prices and foreign exchange rates in near real time. Under ICPT, businesses had a built-in lag between a global price event and its arrival on a Malaysian electricity bill. That lag functioned as a cushion. Under AFA, that cushion is gone. Global shocks now reach Malaysian operating margins within 30 days.

For most of late 2025 and into early 2026, the AFA worked in businesses' favour. Rebates climbed steadily, peaking at nearly 9 sen per kilowatt hour (kWh) in November 2025. Through February and March 2026, rebates were still in place – softening, but still offering some relief. By April, the rebate had collapsed to just 0.47 sen/kWh.

Then in May, it turned.

For the first time since the AFA mechanism came into effect, the rate flipped into positive territory – meaning a surcharge, not a rebate, on every unit of electricity consumed

above the residential threshold. The May 2026 rate was set at +1.38 sen/kWh, after a RM91 million drawdown from the Kumpulan Wang Industri Elektrik fund softened what would otherwise have been a sharper jump. The actual fuel cost pressure, before that subsidy, stood at +2.24 sen/kWh. Tenaga Nasional Bhd (TNB) has since forecast that Q3'26 will see surcharges across all three months rising to as high as +3.93 sen/kWh in August.

"What has functioned as a buffer keeping electricity bills lower has turned into a surcharge," said Darren Tan, CEO of EFS Group, one of the nation's renewable energy solutions providers working with commercial and industrial clients across Malaysia. "That exposure is becoming increasingly difficult to absorb passively."

For commercial and industrial users, there is no residential-style threshold protection. The full weight of AFA adjustments lands directly on operating margins, every month, without exception.

What separates the current disruption from previous cycles is not the magnitude of the price move – it is the nature of the underlying cause. Previous surges were demand-driven and cyclical. The current one is infrastructural.

A ceasefire ends the bombing. It does not rebuild refineries, restore shipping confidence, or refill inventory reserves that drew down by

129 million barrels in March and a further 117 million barrels in April alone, according to IEA preliminary data. The loss of more than 14 million barrels per day in Gulf output does not reverse on a peace announcement. Analysts at ING, revising their oil price forecasts upward even as diplomatic talks were underway, noted that low inventories and the global need to restock mean prices will remain well-supported for the foreseeable future – with Brent expected to average around US\$92 per barrel even in Q4'26.

"This is not a short-term geopolitical event," Tan said. "What we are seeing is driven by three converging forces: persistent geopolitical instability, the complexity of the global energy transition, and surging demand from digital infrastructure. Together, they fundamentally reshape the planning environment. Assuming continued volatility is not pessimistic - it is pragmatic. Companies still planning for a return to price stability may be underestimating the risks they carry."

Across the Asia-Pacific, the conflict has functioned as an accelerant for energy transition decisions already underway. Solar panel imports from China surged across Southeast Asia ahead of anticipated price increases. Malaysian solar stocks rebounded 40% to 50% from their March lows as corporate attention shifted back firmly to renewables.

The logic driving this is less about sustainability than it is about control.

Where boardrooms once opened the solar conversation with carbon targets and environmental reporting, they now open it with margin protection and forecasting confidence. The answer, increasingly, is to approach energy the way a procurement director approaches raw material exposure — something to be sourced strategically, locked in where possible, and never left entirely to market forces.

"The broader shift must be from efficiency to resilience," Tan said. "Solar, in particular, delivers more than cost savings - it provides visibility. When a portion of energy expenditure is stabilised, forecasting becomes more reliable, decision-making more confident, and the

business less exposed to forces beyond its control."

The case for acting in 2026 specifically is sharpened by deadlines approaching faster than many businesses realise. The Green Investment Tax Allowance, which permits businesses to offset up to 100% of qualifying solar project costs against taxable income, expires on Dec 31. Businesses that delay past this year forfeit a government-subsidised entry point into long-term cost certainty.

Under the Solar Accelerated Transition Action Programme, businesses can install solar capacity up to 100% of their maximum demand with no quota ceiling, locking in 10-year export contracts. For larger users, the Corporate Renewable Energy Supply Scheme offers a complementary route - purchasing solar energy directly from independent developers via TNB's grid without the physical constraints of on-site installation. And for businesses wary of upfront capital commitment, power purchase agreements have changed the entry calculus entirely.

"Businesses no longer require substantial upfront capital," Tan said. "Instead, they contract for energy output, often realising immediate savings with minimal balance sheet impact. Viable structures already exist to make solar financially attractive for most businesses today."

The companies acting earliest are not doing so out of anxiety. They are doing so out of calculation – locking in a cost structure that becomes more advantageous with every month that global volatility persists. The guns in the Gulf may have fallen quiet. The costs they unleashed have not.

This article is contributed by
EFS Group CEO Darren Tan (pix)

(Note: This article was written before the latest flare-up in military attacks as the conflict extended into its sixth month. US forces struck two launchers on Iran's Larak Island in the Strait of Hormuz on Sunday, the first known American strikes on the country since late July. In response, Iran attacked two US air bases in Jordan, Iranian media reported on Monday, citing Iran's Revolutionary Guards, Reuters reported.)