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Be more objective on ICPT, industry representatives told

KUALA LUMPUR: Manufacturers should be more objective when asking the government to be transparent and clear about the implementation of the Imbalance Cost Pass-Through (ICPT) mechanism as they should practise what they preach with their consumers.

This is not only limited to the energy sector but all sorts of investment, training, and business activities under the Madani government.

The Federation of Malaysian Manufacturers (FMM) recently said it was disappointed with the government's decision to maintain the ICPT mechanism surcharge for the first half of 2024 at 17 sen per kilowatt hour (kWh).

The manufacturers also called for more clarity on the mechanism while hoping for more details to be made available on why it made such a decision as industry players were aiming for a reduction in the ICPT surcharge following the overall declining trend in global fuel prices in 2023 and the six-month lag.

On a complaint made by FMM, Malaysia University of Science and Technology economics professor Geoffrey Williams said that since the surcharge has not changed, it would not disadvantaged businesses.

"The bills for high users are determined in the same way as before and will adjust in the same way so there should be nothing to complain about. Provided cheaper global fuel prices eventually feed into lower prices, there is no particular issue here," he told Bernama.

Implemented in 2015, the ICPT mechanism helps protect the industry against fluctuating fuel costs by reviewing fuel prices and generation costs every six months.

The mechanism also allows the utility company, Tenaga Nasional Bhd, to reflect changes in fuel and other generation-related costs in the electricity tariff as these costs are set based on benchmarked prices in the base tariff.

Williams said the ICPT surcharge was cut to 17 sen/kWh from 20 sen/kWh in July last year, therefore industry players have already benefited.

They are also enjoying a subsidised rate based on US$79 per tonne of coal to generate electricity when the actual price is US$110 per tonne.

"Global gas prices are similarly higher than those used to calculate the costs to industry, therefore they are benefiting quite a lot but we do not see them passing on lower costs to consumers when that happens," he said, urging the manufacturers to be more objective on the matter.

Changes are part of subsidy rationalisation

He stressed that these changes are part of the subsidy rationalisation programme that industry players have been calling for.

They will save money, reduce the subsidy to richer people, and reduce market distortions and this is what is expected and what stakeholders want, he said, adding that the government is delivering on its promises.

"As the subsidy bill is reduced, the government has more fiscal space to help industry players more directly with tax cuts for example, or indirectly by putting more money into the hands of their customers.

"This is a win-win and industry players should support the subsidy rationalisation that they have been calling for. They can also work proactively to reduce energy consumption and switch to renewable energy or more efficient business models," Williams said.

He also called on manufacturers to work with the government on many green economy schemes and the Green Investment Tax Allowance on green assets for example.

From July to December 2022, the government allocated RM5.4 billion for electricity subsidy. This amount rose to RM10.8 billion from January to June 2023 and RM5.2 billion from July to December 2023.

The government, on implementing its subsidy reforms, planned to give subsidy to targeted consumers only as it moves away from the inflating allocation for all subsidies which reached RM80 billion in 2022 – the highest in history.

Pro-business government

Bank Muamalat Malaysia Bhd chief economist Mohd Afzanizam Abdul Rashid said the government has always been pro-business when it comes to economic policies.

This is proven via the various incentives to promote investment namely the pioneer status, investment and reinvestment tax allowance which would essentially help companies to upgrade their production capacities.

Besides, there is also a financing programme administered by various agencies namely the SME Bank, Bank Pembangunan, BSN, et cetera, that can assist the financing needs among the micro, small and medium enterprises.

Not to mention matching grants provided by government agencies to promote certain activities such as automation.

"While the government has been forthcoming to help businesses in managing their cost and investment, prices are still high.

"This would mean businesses have not really passed the benefits that they have procured from the government incentives and instead continue to charge prices as per normal to gain better profit margins," Mohd Afzanizam said.

Sharing an economics term, he said this is called prices sticky downward whereby prices tend to remain high even though the businesses may have been experiencing a decline in their input cost.

Citing an example on a menu cost, he said business operators are likely to keep their prices unchanged on the menu even though their input prices have gone down (subsidies and price control).

"This is given the fact that it is a costly affair for businesses to reprint a new set of menus despite market prices having gone down. More importantly, it is profitable for business to maintain their prices," he concluded. — Bernama