[redacted]

04 APR, 2026

A time of carbon reckoning

The Star, Malaysia

StarBiz7

More than just business

Saturday April 4, 2026

Climate push meets tariff risk

As Malaysia moves towards carbon pricing, concerns are growing that cleaner policy ambitions will come with higher electricity costs for all.

This visual is human created, AI aided

04 APR, 2026

A time of carbon reckoning

The Star, Malaysia

A time of carbon reckoning

By DOREENN LEONG
doreenn@thestar.com.my

MALAYSIA'S National Climate Change Bill may be designed as an environmental law, but in economic terms its first visible impact could arrive in the form of electricity tariffs.

The proposed legislation, expected to underpin the country's first formal carbon pricing framework, will pave the way for a carbon tax beginning this year, with the energy and iron-and-steel sectors identified as the first industries in line.

For the government, this marks a major policy step towards meeting climate commitments under the Paris Agreement and the National Energy Transition Roadmap.

For utilities, manufacturers and exporters, it introduces a new cost layer that could affect margins, pricing strategies and long-term capital spending.

This is because Malaysia's electricity generation remains heavily dependent on fossil fuels.

At the centre of the new framework is a mandatory Monitoring, Reporting and Verification (MRV) system, which will standardise greenhouse gas measurement across sectors and create a national carbon registry.

The Natural Resources and Environmental Sustainability Ministry has described the MRV as an essential foundation for carbon pricing because tax and trading systems cannot function without verified emissions data.

The same framework will later support a domestic emissions trading scheme once Malaysia's carbon market matures.

In effect, the Bill turns emissions into an economic variable.

Once carbon output is measured consistently, it becomes taxable.

For Tenaga Nasional Bhd (TNB), whose generation portfolio still includes substantial coal and gas exposure, that could have direct earnings consequences.

A local bank-backed analyst estimates that if Malaysia adopts a carbon tax at RM15 per tonne of carbon dioxide equivalent – the rate commonly built into analyst forecasts – the impact on TNB's earnings could be around 10% based on FY24 Scope 1 emissions.

"However, we do not discount allowing a certain carbon allowance threshold (as seen in Singapore) before TNB needs to pay carbon tax – hence the impact on TNB may be lower than 10%," he tells *StarBiz7*.

That estimate broadly aligns with previous external modelling showing that even a RM10 carbon price could materially reduce utility earnings if there is no pass-through mechanism.

The bigger issue is whether utilities can pass on this cost.

Malaysia's electricity tariff framework already allows fuel cost adjustments through the Incentive-Based Regulation mechanism, creating a ready pathway for carbon pricing to be treated similarly.

"If we look at other markets such as Singapore, the carbon tax is passed on to end-consumers. In fact, we estimate that carbon tax makes up 3% to 4% of the average electricity bill in Singapore.

"Similarly, we believe the current tariff mechanism in Malaysia – which allows pass-through of fuel cost to end-customers via tariff adjustments – would also facilitate the pass-through of carbon tax," he points out.

At RM15 per tonne, analysts estimate the direct electricity impact at roughly one sen per kilowatt-hour – equivalent to around a 2% to 3% increase on current tariffs.

For households, the immediate increase may appear manageable. A typical monthly bill of RM100 to RM200 could rise by RM2 to RM6.

For industrial users, however, electricity costs scale sharply.

For manufacturers operating energy-intensive lines, cold-chain logistics, steel fabrication, semiconductor plants and data centres, that one sen increase can become a burden.

That is why economists believe the larger effect may emerge through business margins rather than headline consumer inflation.

RAM Rating Services Bhd senior economist Woon Khai Jhek says it is too early to estimate exact tariff levels because the final tax design is unknown, but Malaysia's fossil-heavy generation mix makes exposure significant.

"In terms of assessing the pass through to electricity tariffs, the fuel mix is a critical factor. More carbon-intensive fuels, particularly coal, would face greater implicit cost pressures compared with gas or renewable sources.

"With a significant share of power generation currently reliant on fossil fuels – approximately 70% of installed capacity in Peninsular Malaysia – the exposure to carbon-related costs is meaningful," he says.

That fuel composition is important because not all electricity carries equal carbon burden.

■ If Malaysia adopts a carbon tax at RM15 per tonne of carbon dioxide equivalent, the impact on TNB's earnings could be around 10%

■ Economists believe the larger effect may emerge through business margins rather than headline consumer inflation

Jong: Investors should focus less on sector labels and more on management preparedness.

Woon: Pricing power will determine who absorbs the burden.

Coal remains the most emissions-intensive source in the generation mix, followed by gas. The heavier the fossil fuel dependence, the greater the cost pressure once emissions are taxed.

The country's grid emission factor is estimated at about 0.774 tonnes of carbon dioxide per megawatt-hour.

At RM15 per tonne, that produces roughly RM11.61 additional cost per megawatt-hour generated – translating into slightly more than one sen per kilowatt-hour.

The inflation implications may initially remain limited because electricity carries only a small weight in Malaysia's consumer basket.

But at producer level, the effect is more immediate.

"The more pronounced effects are likely to be felt at the producer level, through higher operating costs and margin pressure, particularly for electricity-intensive activities," Woon says.

He adds that pricing power will determine who absorbs the burden.

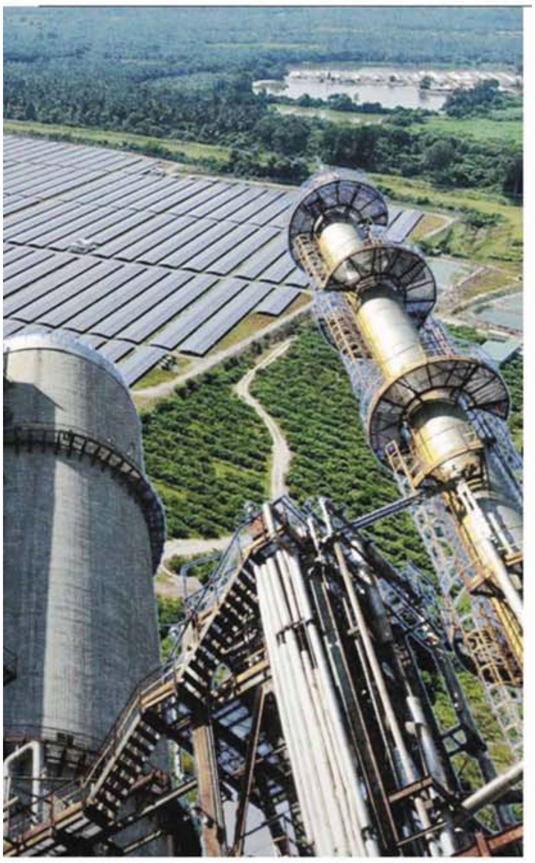
"With competition remaining intense and demand conditions still cautious amid global uncertainties, many firms may have limited scope to fully pass on higher costs without affecting sales."

That means carbon tax may hit margins before it hits consumers.

Uneven burden

MARC Solutions Sdn Bhd head of sustainability Leslie Jong Vui Min says the burden will likely be uneven across sectors.

"The financial impact, coupled with the cost of reducing and/or



managing emissions, when passed through into electricity tariffs will likely have a moderate knock-on impact.

"The magnitude of the impact is expected to be uneven across sectors, with energy-intensive industries facing more margin pressure."

This places sectors such as cement, steel, chemicals, heavy manufacturing and industrial processing under particular focus.

But the policy is not merely about raising costs. It is also about protecting future trade competitiveness.

From 2026, the European Union's (EU) Carbon Border Adjustment Mechanism (CBAM) will impose carbon charges on imported carbon-intensive products unless exporters can prove equivalent carbon pricing at source.

That changes the strategic rationale for domestic carbon tax.

Without local carbon pricing, Malaysian exporters could effectively pay those charges overseas.

Woon says a domestic framework helps retain economic value locally.

"In the absence of a local carbon price, carbon-related levies on exports would effectively be collected overseas through mechanisms such as the EU's CBAM.

"A domestic carbon tax allows Malaysia to retain that revenue locally," he explains.

That revenue, if recycled effectively, could soften the transition.

Although the government has yet to finalise how proceeds will be used, economists expect part of the funds to support low-carbon investments, efficiency upgrades and targeted relief.

"Carbon tax proceeds could, in principle, be channelled toward initiatives that accelerate Malaysia's low-carbon transition," Woon says.

Jong believes revenue recycling will be crucial for public acceptance.

"Revenues can be strategically channelled to offset cost impacts on vulnerable households through targeted rebates or subsidies, support industry transition via grants or tax incentives, and fund green infrastructure," he says.

Gradual implementation

International precedent supports gradual implementation. Singapore introduced carbon tax at a low rate before raising it in stages, giving companies time to adapt.

Malaysia is expected to take a similar phased route.

For TNB, however, the strategic adjustment may matter more than the tax itself.

A local bank-backed analyst says early coal retirement remains financially difficult because existing generation assets still carry liabilities and contractual obligations.

"The MRV – along with carbon tax, should help to put a price on TNB's carbon emission.

"We believe early retirement of coal assets is a challenge for TNB due to potential hefty financial liabilities.

"Hence, we believe the acceleration of renewable energy capacity is a more efficient way to reduce emission."

Essentially, the more expensive fossil generation becomes, the more attractive renewable capacity appears.