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Consumers told to brace for price hikes

> Industry groups say power tariff increase 'shocking', may have to pass on higher costs

BY PRESENNA NAMBIAR AND LIEW JIA TENG

PETALING JAYA: Retailers and small and medium industry players have warned that they could be forced to pass on some of the extra costs of electricity to consumers once the new electricity tariff is imposed on Jan 1, saying the average commercial and industrial rate hike of 16.85% is "too big".

"The announcement made by the (Energy, Green Technology and Water) Minister yesterday was shocking and caught us unaware. Electricity is an important component of our operating cost structure, ranging from as little as 6% to as much as 16% of total manufacturing costs," SMI Association of Malaysia national president Teh Kee Sin told *SunBiz* yesterday.

He said small and medium industries (SMIs) would have no choice but to pass the increase in electricity prices on to consumers as their profit margins of between 3% and 8% come under pressure.

"The average hike of 16.85% for commercial users would reduce businesses' earnings by 2%-4%, leaving us with as little as 1% (in profit margins if we do not pass on the extra costs to consumers)," Teh said, warning that SMIs who are unable to pass on the costs to their clients are likely to fold up their business.

Minister Datuk Seri Maximus Ongkili yesterday announced that electricity users will from Jan 1, 2014, pay more for electricity, which averages 10.6% or 3.03 sen/kWh for domestic users, 16.85% or 6.91 sen/kWh for

commercial users and 16.85% or 5.21 sen/kWh for industrial users.

Malaysian Retailer-Chains Association (MRCA) president Datuk Nelson Kwok foresees a gloomy Christmas this year from yesterday's depressing news, as retailers already grappling with lower margins, now have to contend with the impending increase in electricity costs.

Kwok said the retail market for 2013 has mostly been propped up by discount offers, and profit margins for retailers hover between 5% and 15% "if they are lucky".

As the owner of a manufacturing facility and retail outlets for his corn-in-a-cup franchise, the electricity hike tariff hike poses a double whammy for Kwok.

"A 5% hike we would have been able to handle, but a 16% hike is too steep and I don't see how we can absorb it... most likely retail prices will be increased," Kwok told *SunBiz*.

He expects food and beverage outlets, which consume the most electricity, to be the worst affected as typically electricity costs make up about 10%-15% of their total operating costs.

"Fashion outlets, of which electricity only makes up less than 5% of cost, should not be so badly affected," he said.

MRCA comprises more than 200 leading retail chain stores operators as well as franchisors, covering more than 10,000 outlets throughout Malaysia.

Asian Strategy & Leadership Institute Centre for Public Policy Studies chairman Tan Sri Ramon

Navaratnam echoes the sentiment, saying the power tariff hike is too high.

He said the quantum of increase gives a "sudden shock" to the public, as there has been a lack of accountability and transparency by the government on this issue.

"People don't always go against tariff hikes. The government should have consulted the people before increasing the rates, else the decision would seem to be arbitrary," Ramon told *SunBiz*.

"It is easy to collect more revenue by increasing rates, but at the same time, the government should save more on their expenditure," he added.

In a statement, the Federation of Malaysian Manufacturers (FMM) said the manufacturing sector is disappointed with the huge 16.85% increase in electricity rates for the industrial category and the effective date, which is only a month's notice.

"FMM hopes that the government could reconsider lowering the quantum of increase as well as extending the effective date to give users time to mitigate the higher cost of doing business.

"While the manufacturing sector appreciates the need to rationalise subsidies and increase energy tariff rates, this large increase in electricity rates will impose further difficulties when the industry is already facing rising costs from the full implementation of minimum wages and minimum retirement age," the federation added.