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FMM: Production cost to double on tariff hike

Malaysian consumers expected to be hit by energy price increase

by FARAH ADILLA & SATHISH GOVIND

THE government's announcement on the expected rise in electricity tariff will have an impact on manufacturers, resulting in a double-digit increase in production cost, according to the Federation of Malaysian Manufacturers (FMM) yesterday.

Its president Tan Sri Yong Poh Kon said the recent FMM-Malaysian Institute of Economic Research (MIER) Business Conditions Survey indicated that local manufacturers expect the cost of production to increase on the back of the tariff hike.

These concerns come at a time when the government is on the verge of rationalising its subsidy and implementing the Goods and Services Tax (GST).

"Manufacturers are already expecting some form of energy price increase due to the subsidy rationalisation, so this will impact not only the gas users, but also the electricity costs," Yong told reporters at the presentation of the survey findings in Kuala Lumpur yesterday.

Yong added that different industries will be impacted differently by the adjustments, depending on their electricity usage, but there is no doubt that the double-digit increase is quite significant.

"The government has been saying that they need to reduce the subsidy and also to fund the price of imported liquefied natural gas, as such we anticipate electricity tariffs to move up. We do not know the actual amount of the increase yet, so we have to wait for the official announcement.

"We hope it (tariff hike) will move up gradually rather than be implemented at once. We are looking forward to greater details on how this is

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Energy intensive industries likely to bear the brunt

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going to be implemented," he added.

On Wednesday, Energy Green Technology and Water Minister Datuk Seri Dr Maximus Ongkili said Malaysians can expect an increase in electricity tariff of between six and seven sen per kilowatt next year.

A *Bernama* report quoted Ongkili as saying that the government will ensure that the tariff hike will not affect the low-income group.

"The government is still studying the rate. It will likely be between 10% and 20%," said the minister, adding that anything below 20% is reasonable.

"The rate will be reasonable. It is a minimal revision for Tenaga Nasional Bhd so as to make sure it reflects the cost of capital, management and salaries," the report quoted the minister as saying.

The last power tariff hike was in June 2011 when the subsidised gas price was raised to RM13.70 per million metric British thermal unit (mmbtu) from RM10.70 per mmbtu previously.

RAM Holdings Bhd's chief economist Dr Yeah Kim Leng said while energy intensive industries such as iron, steel and heavy industries are likely to bear the brunt of the increase in prices, it will also be felt by other manufacturers albeit with less intensity.

However, Yeah said price increases will be within the normal range and the economy will be able to cope with the increases as they come at a time of low inflation and weak economic growth in the world.

He said the challenge for the government will be to help the low-income group to face the challenges of increasing prices through the rendering of some form of assistance to them so that the real wages can offset these price increases.

On the overall impact to the Malaysian economy, Yeah said the improved economic performance and sentiments of the Malaysian economy, as evidenced by its third-quarter (3Q) gross domestic product (GDP), will more than likely offset the increase in prices. The economy regis-

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tered a 5% GDP growth in the 3Q.

He said while it might be argued that the proposed tariff hikes might dampen the domestic consumption and demand, which is responsible for bolstering the economic growth in the past, the improved world economic sentiments will translate into better cashflows and better credit flows that will be a positive for the Malaysian economy.

Inter-Pacific Securities Sdn Bhd research head Pong Teng Siew said the ability of these industries to pass on the increase to the consumers will depend on the number of competitors in the industry and whether there are import substitutions for these products.

Pong said in the case of the cement industry, the low value and high transport costs will deter the import of cement and this will likely allow the producers of cement to pass down their increasing costs to the consumers.

In the case of steel, which is also energy intensive, the rate in which the cost increase could be passed down is limited as steel can be imported into the country although there is restriction on imports.

He said the extent to which the costs will be passed down will greatly depend on the number of players in the industry, with companies that are in industries that have fewer competitors likely to pass down more of the increase in costs.

SIGNIFICANT INCREASE IN COST: *(From left)* **Yong, FMM VP Datuk Saw Choo Boon and VP Datuk OK Lee at the presentation of the survey findings in Kuala Lumpur yesterday**

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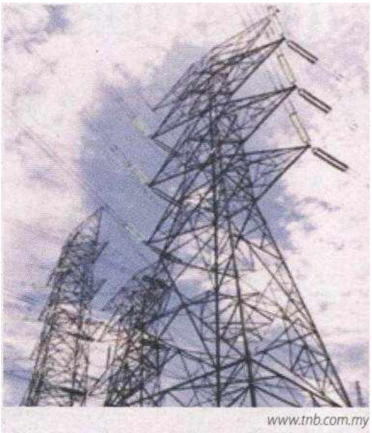

Local manufacturers expect the cost of production to increase on the back of the electricity tariff hike

Yeah says improved world economic sentiments will translate into better cashflows and better credit flows