

Manufacturing Sector is NOT Highly Subsidised by Government

The Federation of Malaysian Manufacturers (FMM) is correcting the misinformation by supposed “experts”, who had obviously not given the full “picture” of the country’s energy pricing issues and instead, levelled unfair criticisms on the manufacturing sector for purposes best known to them.

2. While it is true that natural gas pricing to the Malaysian manufacturing sector is not at market price, it is inaccurate to state that a big chunk of the sector’s production and operating costs is being subsidised by the Government. Energy costs account for 5 to 20% of production cost, depending on the industry. The manufacturing sector is not the only beneficiary of energy subsidy. The entire power sector is receiving energy subsidy. Even households are receiving subsidy in electricity tariffs that the manufacturing sector is cross-subsidising.

3. The manufacturing sector is a price taker in energy consumption, receiving “passed through” costs from Tenaga Nasional Berhad (TNB); as well as paying fixed margins and infrastructural costs to Gas Malaysia for every mmBtu of gas used. The manufacturing sector is hit at least TWO times – directly from Gas Malaysia and indirectly through electricity tariffs.

4. It is inaccurate to state that the bulk of industries using natural gas are inefficient. Efficiency in using resources, including energy is critical to manufacturers, especially exporters who have to be competitive in global and domestic markets. Efficiency ensures greater cost savings and helps to avoid penalties imposed by TNB through the power factor and maximum demand. The manufacturing sector is in fact seeking greater support for its co-generation activities, which are being hampered by exorbitant TNB standby charges and maximum demand penalties.

5. On the subject of efficient use of resources, the manufacturing sector is also unhappy that the cost of electricity does not commensurate with the price of natural gas received by the power sector. Despite the higher subsidies to the power sector on natural gas pricing, the average electricity tariff for the industrial sector in Malaysia is 28.6 sen per kWh. The average tariff rate for industry Thailand, where energy is sold at market price, is 29 sen per kWh.

6. Based on FMM's research on electricity tariff rates in 2009, natural gas pricing in Malaysia to the power sector was RM10.70 per mmBtu, which is one-third of Singapore's RM33.65 and half of Thailand's RM20. Yet, despite the far lower gas price, our electricity tariff for high tension supply is 29.45 sen per kWh, compared to Singapore's 33.03 sen and Thailand's 34.4 sen per kWh.

7. FMM recognises that energy pricing should be at market rate. However, as with all changes to policies that have an impact on operating costs, FMM had requested the Government to ensure that the move to market price should:

- Be **gradual and pre-announced** to give sufficient time for adjustment;
- Have a **transparent and consistent pricing formula** for both natural gas and electricity tariffs to allow the industry to estimate future price increases;
- Be **fair** i.e. to benchmark against an appropriate alternative fuel and to ensure that supply chain inefficiencies are not passed through to users.

FMM's view is that an appropriate benchmark should be the free-on-board price of liquefied natural gas that Malaysia itself exports to other countries from Bintulu, which is lower than the current domestic market price after deducting transportation and gasification/degasification costs!

FMM is also strongly of the view that the power sector should ONLY be allowed to pass through increase in fuel prices to consumers – not their other operating inefficiencies.

- Practise **domestic market obligation** i.e. to ensure sufficient supply of the country's natural fuel resources for use by industries in Malaysia to increase value-add and higher economic returns. In this respect, FMM has also been calling on the Government to review the export quantum to address the shortfall of fuel resources in Peninsula Malaysia as well as to conserve the national stockpile.