

# Removing subsidies is no easy fix

Sideways  
By Anita Gabriel

“Religion is the opiate of the masses.” Karl Marx.

“Subsidies as a whole are like opium (to the masses).” [Prime Minister Datuk Seri Najib Tun Razak](#).

Indeed, the infusion of poetry in political rhetoric is refreshing, more so when it involves a topic as secularly mundane, no doubt crucial, as subsidies.

But before we get caught up in the poetry of this subsidy debate, we must reflect on the prose for the clear picture.

Over the week, Najib likened subsidy to opium it's a habit that's hard to kick and one that is “hard to take away”... “without some political cost”. But in keeping with the mantra of the establishment in recent months, these subsidies will need to be cut to tackle the country's fiscal deficit. Naturally, the translation from idea to action is not an easy path.

Unsurprisingly, Najib's remarks unleashed a counter rhetoric from the opposition: while staying on the subsidy-opium analogy, the opposition party leaders tossed in another addict and one that has long been a public pet peeve Malaysia's near-equivalent of Wall Street's fat cats and an absolute favourite where punching bags go the independent power producers (IPPs), who thanks to concession pacts signed some two decades ago, have been pocketing plump margins from their business of power generation.

Talk about an overdose.

National oil company [Petroleum Nasional Bhd](#) supplies gas to the power sector at a fixed rate for a fixed amount. As the rate is fixed (it has been this way since the Asian Financial Crisis in 1997/1998 to cushion consumers from the impact of rising gas prices then) and is lower than international market prices, Petronas has been subsidising some RM19bil annually for cost of gas supplied to the power sector.

Gas fires up about half of the country's power needs and it fired up about 70% of the power generated by IPPs last year.

Under the iron-clad, water-tight power purchase agreements between [Tenaga Nasional Bhd \(TNB\)](#) and IPPs, any higher fuel cost, in this instance, gas, will be fully passed through to national utility TNB.

In other words, IPPs will be unscathed by the removal or cutbacks in gas subsidies. On the other hand, in the absence of a pass-through formula (a mechanism for TNB to pass the extra cost to end-users), it would have a debilitating effect on TNB which is already feeling the heat from another fuel source rising coal prices.

If market wags are to be believed, all these chatter about subsidy cuts may actually precede an upward revision in gas prices to be announced very soon and, here's the biggie an ensuing rise in electricity tariffs.

Chances are and based on [Pemandu](#)'s roadmap on gas subsidy rationalisation for the power sector, over half or 56% of consumers will not be impacted from this hike.

For the utility though, if the increase in gas prices is much steeper than the rate of increase in power tariffs as per Pemandu's subsidy rollback agenda, it could be worse off.

As for the IPPs whose rite of passage has been near impossible to throttle despite years of haggling, coercion and deafening public pressure, it may be time to find other ways to take a little "back" from them. For starters, perhaps they could play a bigger role in the country's push towards renewable energy.

Renewable energy fund

A Renewable Energy Fund will be set up which will largely derive its income from parliament (?????) as well as from a potential electricity tariff increase of 1%.

As TNB is currently the sole offtaker, it will recover from this fund, the difference between the feed-in-tariff it pays to renewable energy sources and the normal cost it incurs to purchase electricity from traditional sources.

In short, consumers' contribution to renewable energy will be two-pronged through our taxes and partly through our electricity bills. Why can't IPPs contribute to this fund, the same way telcos in the country contribute a portion of their annual income to develop Internet connectivity in rural areas?

There is no good reason why consumers ought to be the only ones "paying" for this clean energy agenda which ultimate aim is to reduce the reliance on traditional fossil fuels and tackle climate change woes. For if there's one agenda that's big and compelling enough to draw the deep pockets in the sector onto one common page, surely it's this.

The Prime Minister had meant to drive home the point over the week that the public are fixated on subsidies. In truth, the masses get their fix on affordable cost of living.

But if subsidies are to be cut, it would be a whole lot easier to swallow if everyone is paying for it one way or the other.