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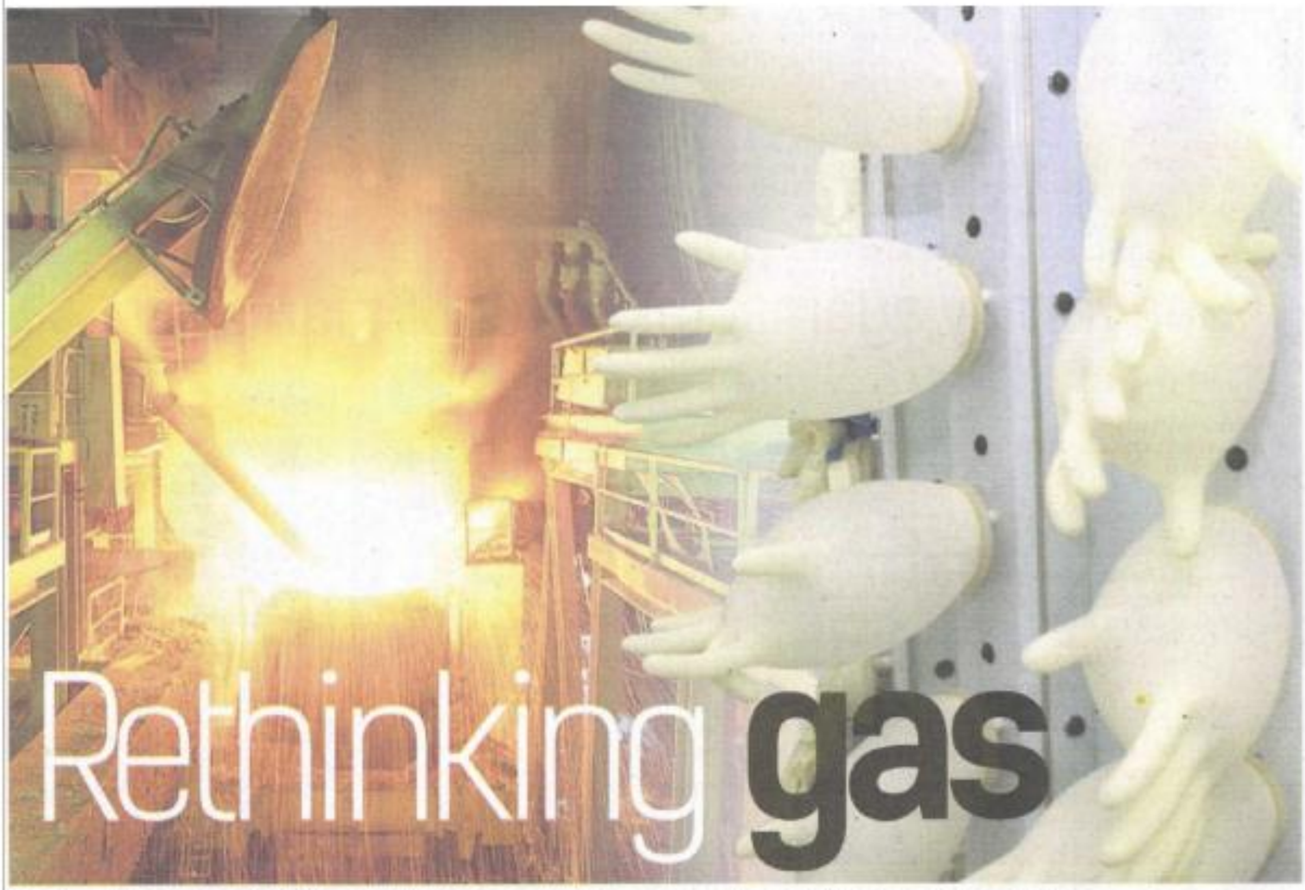

Rethinking gas

Industries seek different sources of energy to mitigate price hike

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PETALING JAYA: The upcoming increase in the price of natural gas to the non-power sector that is expected to exacerbate the operational cost of companies such as the steel producers and glove manufacturers has prompted some of them to review their fuel requirement strategy.

At least one major glove manufacturer has declared that it would be investing more in alternative fuel sources such as biomass and renewable energy to mitigate further rises in gas prices.

According to Supermax Corp Bhd executive chairman and group managing director Datuk Seri Stanley Thai, glove manufacturers in Malaysia will likely increase their investments to further enable the switch to alternative renewable energy sources.

"Glove manufacturers, including Supermax, have been using alternative energy sources such as biomass and other renewable sources to counter the anticipated gas price increases," Thai told *StarBiz* in an email.

However it is not easy for steel producers to switch to alternative sources of energy because of cost factors.

"There are alternative fuel sources that are more cost-effective which some players are looking at. But it is not so easy for steel manufacturers to switch in the immediate or medium term

Misif: Gas price hike to erode thin profit margin

because it would require substantial investments in equipment and machinery and will take time," an executive in a steel company said.

Energy currently makes up between 8% and 12% of a glove manufacturer's total operating cost. Of that, 50% to 60% comes from natural gas, with the rest coming from electricity and biomass.

For a steel manufacturer, electricity generally accounts for 8% to 10% of its total production cost. Natural gas alone constitutes 1% to 3% of a steel manufacturer's total production cost.

However steel producers are already operating on a thin margin due to competition.

The Malaysian Iron and Steel Industry Federation (Misif) said the natural gas price hike would eat away steel producers' already-marginal earnings.

"The gas price hike will further erode the domestic steel players' marginal earnings, as it is not easy for us to pass the higher cost to the end-consumer, given the already tough competitive environment," Misif president Datuk Soh Thian Lai said via email.

According to Alliance Research, while natural gas constitutes only 1% to 3% of the total production cost of steel producers, the impact of the gas price hike on their bottom lines would still be significant, given their already-thin margins and inability to pass on cost increases to their customers.

Gas Malaysia Bhd had on last Friday announced that the Government had approved the revision of natural gas tariffs to the non-power sector by an average of 20%, or RM3.25, from RM16.07 per million metric British thermal unit (mmbtu) to RM19.32/mmbtu. The new rates will take effect from May 1.

This tariff revision will not affect the residential and commercial segments that use below 600 mmbtu and does not apply to liquefied natural gas (LNG) and natural gas for vehicles (NGV).

The price of natural gas to the non-power sector was last raised in June 2011 from an average of RM15/mmbtu to RM16.07/mmbtu as part of the Government's subsidy rationalisation programme to gradually liberalise the country's gas industry and promote a more sustainable market.

When subsidy reforms were announced in July 2010, the original schedule was to increase natural gas prices by around RM3 per mmbtu every six months until the prices reached market parity. However, that did not happen as scheduled.

Gas subsidies cost the Government an estimated RM42.4bil in 2012. Natural gas supplied to the non-power sector – including industrial, commercial and residential users – account for 40% to 42% of total gas subsidies.

Gas currently accounts for around 50% of Malaysia's total energy needs.

According to an official from Petronas, with the country increasingly turning to LNG importation since last year, the need to rationalise the domestic gas subsidy has become more pressing.

This, the official said, was because LNG imported at international market-price from the Malacca import and regassification terminal was increasing used for domestic pipes in Peninsular Malaysia.

LNG from the Sungai Udang Regassification Terminal is currently priced at an open market rate of RM41.68/mmbtu while even with the impending rate hike, the gas supplied by Petronas through Gas Malaysia to the non-power industries is RM19.32/mmbtu.