

# Food for Thought

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## **RELUCTANCE TO REDUCE PRICES OF GOODS AND SERVICES AFTER DROP IN FUEL PRICES MAY HAMPER MALAYSIA FROM REACHING MARKET PRICING FOR ENERGY RECOURCES**

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LETTER TO EDITOR - 05 February 2015 (Thursday)

### **RELUCTANCE TO REDUCE PRICES OF GOODS AND SERVICES AFTER DROP IN FUEL PRICES MAY HAMPER MALAYSIA FROM REACHING MARKET PRICING FOR ENERGY RECOURCES**

Association of Water and Energy Research Malaysia (AWER) has been closely monitoring development of energy prices and its impact to Malaysian economy. Profiteering has been the biggest culprit that can be observed in the latest fuel price revision. Let's dig deeper.

When the government reduced subsidy for petrol and diesel in October 2014, many businesses cry foul. Some say that they will close shop if they don't pass on the cost to their products and services and some said they will "die" due to steep increase in prices. Between October 2014 and December 2014, highest RON 95 (petrol) price was RM 2.30 per litre and diesel was RM 2.23 per litre. Now, after three times price revision in December 2014, January 2015 and February 2015, the latest price of RON 95 and diesel is RM 1.70 per litre. This is equivalent to a reduction of 26.09% in RON 95 price and 23.77% in diesel price.

Ironically, those who said they could not bare the increase and would "die" eventually came out now and say that fuel price is a "very small" component in their operational expenditure. Some point fingers to other and the list goes on. Well, drop in operational expenditure means higher profit margin, that's a simple mathematics. Money has its own way of seducing many businesses not to drop prices!

Let us take a flat fuel price component in operational cost of businesses as 5%, 10%, 15%, 20%, 25%, 30%, 35%, and 40%. If we prorate a 20% reduction in the overall fuel cost impact, the fuel cost component compared to overall operational expenditure will eventually drop to become 4%, 8%, 12%, 16%, 20%, 24%, 28% and 32% respectively. For example, the taxi and bus operators association mentioned that their fuel component is between 30% and 40% when government increased fuel price in October 2014. Now, it should be between 24% and 32% or lower. According to them, it seems other cost has gone up, so they are keeping the services charges as it is. Can they list out what cost actually has gone up and what is the percentage of increase for each cost?

AWER would like to share our own experience in studying energy efficient electrical and electronic products. We found that there is cartel and price fixing element in the electrical and electronic products during our consultation with stakeholders. Retailers (including hypermarkets) are not allowed to sell these products below a fixed price. If any retailer drops the price below a fixed price, they will not be supplied with the particular product model as a punishment. The retailers are only allowed to sell the products above the fixed price as much as they like. Unfortunately, Malaysian Competition Commission (MyCC) which was supplied copies of the report failed to take any action till date. (MyCC is an agency under Ministry of Domestic Trade, Cooperatives and Consumerism).

As a consumer, if we check the prices of goods sold in hypermarkets and retailers, we will notice that the discounted price actually does not drop below certain level. Recently, 8 packet instant noodles stood at RM 4.88 as lowest price in few hypermarkets. The list goes on for laundry detergent, household items, food and beverage, etc. If government is serious in tackling these issues, get hold of the retailers whom are forced to sell at a fixed price and move all the way up to catch the "sharks". There are plenty of those "sharks" to be caught on a variety of products. Can MyCC do this?

In one of our study related to Compact Fluorescent Lights (CFL), we carried out market study and used the "name and shame" method. There were group of companies promised the government agency (during the meeting) that when the non-energy efficient incandescent bulb (filament bulb) are phased-out, they will be ready to supply CFL at a lower price tag. But, after the phase-out announcement was made, the prices of CFL shot up and never came down until they were basically named and shamed in our report published in year 2012. So, we urge consumers to utilise the social media to name and shame the goods and services that does not offer fair pricing. Similarly, recognise the good ones and promote to your friends.

Please do not forget the franchise restaurants including fast food restaurants that are in a better position to keep costs low due to bulk purchases. They have been increasing the price and reducing the size of food offered significantly over the years. These businesses needs stinging lesson from Malaysians as well. At the same time, consumers must not forget the hawker stalls!

Generally, Malaysians are forgiving lot and do not demand for goods and services to be on par with the rate they pay. If we continue to not demand and punish errant businesses, they will find their ways to squeeze more from us. Use the social media to create waves of name and shame. Use their greed to against them. Don't forget, YOU are the boss. If you (collectively) do not buy, they have to close shop eventually. Keep the momentum sustained!

The point to ponder, did the paid consultants that were hired to advise government on subsidy rationalisation predicted or even mentioned the current condition (businesses only increase price and refuse to drop) occurring and type of mitigations that should be deployed. I'm sure they would have given the conclusion that "let the market decide". We hear this nonsensical reason very frequently. But, market plays with cartel and price fixing which means these consultants have failed the government miserably. That's what you get when you hire consultants whom do not know how Malaysia operates. What will happen when energy resources that are used for transportation, power sector and industrial sector eventually reach market pricing? Will the businesses trend with the market pricing or they will only increase and refuse to drop when market price is actually low? Do not do another "lab" or "seminar" or "hire new consultants"; carry out enforcement under available law. Profiteering and cartel is not allowed under Malaysian law. It's plain and simple.

I would like to add to what Professor Albert Einstein have said, "Only two things are infinite, the universe and human stupidity". But, he has forgotten that human greed has no limitation as well!

Piarapakaran S.

President

Association of Water and Energy Research Malaysia (AWER)

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### Comments (0 Posted)



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