

Can the govt not raise toll rates?

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Less than two months after the shocking news of toll rate hikes for 17 highways, PLUS – the biggest highway concessionaire – is now due to revise their toll rates too. An unpopular move amidst the challenge of escalating cost of living, Tiger wonders if the government can opt not to raise toll fares.

Just when Tiger thought that she, not being a driver will be exempted from paying tolls, she too, was slapped with a RM2.50 fare at the Kerinchi Link toll while Ubering back to the office from the brand new Menara Miti along Jalan Sultan Haji Ahmad Shah on Tuesday afternoon.

Year after year, it inevitably comes to a point where the government has to decide – to raise toll rates or not to? To extend the highway concessionaires or to keep them as it is? These riddles clearly have no clear-cut answers and whatever decisions made come with long-lasting implications and often times much public discontent.

Just when motorists and road users think that the situation could not possibly get worse from less than two months back, where the toll rates of 17 intracity highways were raised concurrently, here we are slapped with the news of another potential toll hike by PLUS, the country's biggest highway concessionaire – this time possibly affecting the whole of Peninsular Malaysia.

A clearly politically unpopular move at a point where the imposition of the goods and services tax (GST) already heightened inflationary pressures and when the weaker ringgit hurt consumer sentiments, raising toll hikes at this point is almost “suicidal”, to put it in the words of PKR secretary-general Rafizi Ramli, who said that in response to the previous round of toll hikes.

Hence Tiger wonders, can the government actually choose not to raise toll rates and what are the resulting implications?

Recall that in the run-up to the 13th general election, the BN government promised the gradual reduction of intercity expressway tolls by 2018 in its election manifesto. The last we heard, the government still intends to honour the promise, at least according to Works Minister Fadillah Yusof, but at what cost is a question that we need to ask.

His ministry in a written reply to a parliamentary question earlier this week said that PLUS is entitled to increase toll rates on all highways under its concession except for the Penang Bridge, by 5% every three years from next year.

Failing to do so the government would have to compensate PLUS to make up for its lost profits, as it has done so for the past 10 years for keeping rates unchanged since 2005.

PLUS is the concessionaire for the North-South Expressway (NSE), New Klang Valley Expressway, Federal Highway Route 2, Seremban-Port Dickson Highway, North-South Expressway Central Link, Malaysia-Singapore Second Crossing, Butterworth-Kulim Expressway and Penang Bridge.

To put things into perspective, under the original concession agreement (CA), PLUS' concession period would have been close to expiring in 2018. But because of several government-sanctioned deferment in toll rate hikes over the years, the concession period now extends to Dec 31, 2038, a further 20 years from the initial timeline.

The initial CA was signed in 1988 but was subsequently renegotiated in 1999. This allowed PLUS to raise toll rates by 10% every three years as opposed to 26% every three to five years under the original agreement.

In return, the government agreed to extend the concession period to 42 years, until 2030.

Subsequently, the CA was again renegotiated to extend the concession period for a further eight years, until 2038, to compensate for PLUS shutting down the Senai Toll Plaza and the costs for widening certain stretches of the NSE.

When PLUS was completely acquired by UEM Bhd and the Employees Provident Fund (EPF) in 2011, the agreement was again renegotiated and reduced to a 5% increase every three years instead. Currently, PLUS is 51% owned by UEM Bhd – a 100% Khazanah Malaysia company under the Finance Ministry – and 49% owned by the EPF.

If the hike is not carried out, the government will have to pay the highway concessions compensation to make up for its lost profits. A move that is clearly challenging given squeezed government budgets due to a substantial slash in oil

revenue. The total compensation paid by the government to highway concessionaires from 2008 to 2013 was RM1.11 billion, while in 2014 it was RM403 million.

But the fact that PLUS, and most highway concessions for the matter, is owned by government-linked companies (GLCs) makes it absurd that the government has to continually compensate these companies in order to guarantee them exorbitant profits.

In addition, argued Rafizi, most of the toll concessionaires had already received financial assistance from the government during the construction of the highways, and as such, the highway system must not be treated as private enterprises but rather as public entities with greater public interest at stake.

Among the many ways the companies were helped by the government, he said, were through financial subsidies in land acquisition, flexible and easy financing or financial grants.

For example, the NSE – the longest expressway in Malaysia with a total length of 772km running from Bukit Kayu Hitam in Kedah to Johor Bahru and to Singapore – was originally conceived as a public sector project and over 300km were built by the government before the mid-1980s.

Then the Federal Roads (Private Management) Act was passed in 1984 to make it possible for the existing sections to be converted into a concessionaire, with the right to develop and to toll the complete road. The remaining sections were built between 1988 and 1994, with the support of the revenue from the existing sections.

According to a World Bank report, the project has been very profitable for the concession company and the profits from it have been used to secure loans for other concessions, including development of light rail projects in the city centre. The report noted that without the initial government sections and the revenue provided, it is unlikely that the road would have been profitable on its own.

More shockingly is that the cost to build the NSE was RM6 billion. As of December 2010, PLUS had already collected more than RM24 billion in revenue. It certainly does not make sense that it needs slightly more than half a century to break even, when other highway companies reportedly take 10 to 15 years to break even.

According to news reports, PLUS spent RM397 million on maintenance in 2010, which constituted only 6% of its nett profit. Its nett profit before tax was RM2.52 billion in 2011, a margin of 61%, showing that even without fare hikes the company was making sizeable profits.

Also note that the country has to date yet to see the failure of a toll road project due to failure in increasing toll rates.

Another example is the Maju Expressway – the highway linking KL and the administrative capital of Putrajaya – which was completely built using a government financial grant of RM976.7 million, enabling its concession holder Maju Holdings Bhd to only take a small loan to complete the highway in 2012.

With a growing population, it only seems that the traffic volume is going to increase. Data indicate that the highway usage also appears to have exceeded forecasts. In 2010, 417 million vehicles used the NSE. This was 8% more than what was projected in the concession agreement.

In 2013, the volume of traffic recorded on the tolled highways of Malaysia was 1.64 billion, showing an increase of close to 5% compared with 1.56 billion recorded in 2012, according to statistics from the Malaysian Highway Authority.

These are the factors that should be taken into consideration while renegotiating. Also not to forget that roads are basic amenities and the onus lies on the government to provide roads in good condition. As soon as these concessionaires recover their costs of construction, it should be up to government to maintain the roads instead of extending highway concessions year after year and allow the concessionaires to reap humongous profits.

So here's Tiger's fairly simple proposition: yes, government can choose to not raise toll rates, providing that they stop renegotiating highway projects for their own political expediency every now and then, and even if they do, to renegotiate them in a smart way with the people's interest at heart. Restructuring of the concessions are also overdue given that PLUS and many other concessionaires are essentially owned by the government via GLCs.

The terms of renegotiation, together with all the necessary information should also be made public so that no parties are profiting exorbitantly at the expense of the

common folks. For now, we urban dwelling folks know for sure there are three things in life we cannot avoid – and those are that of death, taxes, and toll hikes.

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