

12 November 2007

KUALA LUMPUR: The Government is re-looking the principle behind the fuel subsidy to ensure the rich pay their share while the poor are not affected.

Deputy Finance Minister Datuk Dr Awang Adek Hussein said a task force had been set up under the Finance Ministry to study the proposed new system and would focus on the subsidy allotment


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A Government source said that under the present system the rich paid the same as the poor and this was unfair and regressive.

It is learnt that the task force is looking into the mechanisms that are needed to make the system more progressive.

This may mean that the present subsidy level is maintained but the rich could be taxed in other ways, said the source.

Among the mechanisms being looked into is increasing road tax the owner of a luxury high-powered vehicle could be made to pay a much higher road tax, thus off-setting the subsidy they receive.

Taxation is progressive because you pay according to how much you earn. Even the electricity tariffs are progressive because the more you use, the more you pay.

The principle behind the fuel subsidy should also be the same the poor should enjoy the most and not the rich, said the source.

On Friday, Prime Minister Datuk Seri Abdullah Ahmad Badawi announced that the Government was reviewing the subsidy because it was costing the Government too much, especially with the rising crude oil prices internationally (*see chart*).


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We cannot afford to go on this way. What we are doing is like being suicide bombers. Killing ourselves like this is stupid, Abdullah said in his winding-up speech at the close of the Umno general assembly on Friday.

Umno deputy youth chief Khairy Jamaluddin, who first broached the subject when debating the economic resolution, said the subsidy must reach only the people who most needed it and to do it the present way was a misallocation of funds.

M&A Securities head of research Wee Kim Hong said it would be a balancing act for the Government to come up with a mechanism that works.

If the Government wants to tax the rich through other means like road tax and not do away with the subsidy, then one must find a level where the rich are willing to pay and not resort to smuggled products.

If the Government wants to create a two-tier subsidy system, then there will be an implementation problem, he said, adding that fuel price increase was inflationary as it affects the cost of most other consumer products.

Wee said that whatever mechanism the Government chooses, it should have the consumer in mind.

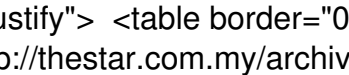
Mydin Mohamed Holdings Sdn Bhd managing director Datuk Ameer Ali Mydin went a step further and

The Star : Ministry looking into cross-subsidy to keep fuel prices down

Written by Administrator

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suggested getting rid of all subsidies. There is no doubt that we have to subsidise certain sectors, but how it is done has to be thought out carefully. Right now there is a lot of wastage, especially in the form of diesel subsidies, he added.



Ameer believes that petrol subsidies could and should be removed but done so gradually over two years. Frankly, there should not be a subsidy for petrol, because there is already an automatic mechanism (of apportioning costs). If you use more of it, you can afford more it's already there, he said. He lauded the announcement made by the prime minister, which shows that the Government is not fearful of doing this with elections just around the corner. It is better to act sooner rather than later. This shows they are serious and are thinking over the long term, Ameer said. Federation of Malaysian Consumers Association secretary-general Muhammad Shaani Abdullah, who supports the move to do away with the subsidy, said the money spent on subsidy should be used to beef up the public transportation system, as people would naturally resort to it when fuel price rises. Instead of giving the subsidy, the Government should use the subsidy to provide better healthcare, education and increase the wages of the poor people by setting a minimum wage standard, he said. The Petroleum Dealers Association of Malaysia president Datuk Zulkifli Mokti warned that whatever mechanism implemented should close loopholes to prevent cheats. How do you stop the lower-tier beneficiaries selling to those in the higher tier? Because of the subsidised prices, people living along the borders are coming to Malaysia to buy the fuel here, Zulkifli added.