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KUALA LUMPUR -- Given the rising expectations of a looming cut in fuel subsidies, Malaysians generally have come to terms with the fact that they have to pay higher prices for petrol and gas next year.

With skyrocketing crude oil prices threatening to breach US\$100 per barrel, the government has indicated that it can no longer bear the huge burden of dishing out fuel subsidies estimated to balloon to over RM35 billion this year.

Malaysians realise they need to alter their household spending and lifestyle to make adjustments to a new gas and fuel price regime soon as the current price levels will likely stay only until year-end.

However, some are asking for fairness and transparency in the energy pricing mechanism to set the new fuel prices.

"I will have to either cut or forego non-essential stuff like dining out and expensive Astro packages," said Shahrul Izzan, a father of four who will have to incur a higher fuel bill next year due to his oil-guzzling multipurpose vehicle.

"I am prepared to pay more for petrol but I don't see the rationale of a two-tier pricing system for petroleum products as proposed."

A two-tier pricing system for petroleum products for the rich & poor is one of the many proposals being considered by the government.

"There is no effective way of implementing it. How can anyone differentiate a person's income level at the pump?" asked Shahrul.

Dr Yeah Kim Leng, chief economist at RAM Holdings, concurred. "From the welfare perspective, those who can bear the higher cost should be asked to pay more, but a two-tier or three-tier pricing could lead to abuse and leakage. It's better to give rebates to motorcyclists."

He felt that fuel subsidies should be reduced to the extent that domestic petrol and gas prices resemble that of international prices and individuals should then be given the freedom to consume the amount they can afford.

"Allow fuel prices go to world market levels and let the level of consumption be dictated by individual selection," he said.

Yeah also said it is timely for the government to bring down subsidies as prices of domestic fuel have long been shielded from price fluctuations in the real world.

Subsidised fuel will keep the domestic price of premium petrol RON97 until end 2007 at RM1.92 per litre, which was a 20 percent jump announced in the last hike in February last year.

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Similarly, until the end of this year, the current gas price arrangement remains unchanged since Oct 1, 2002, although it was supposed to expire by 2005.

Power producers Tenaga and independent power producers (IPPs) pay RM6.40 per million British thermal units (MMBtu), industrial users RM12.87 and residential users RM19.72.

 "This has shielded us from reality. Having been accustomed to a stable fuel price environment, consumers took it for granted that retail prices won't change when world crude oil prices continue to climb higher," said Yeah.

 A source in the oil and gas industry said there is a need for a gradual cut in gas subsidies through a holistic energy policy that also ensures more efficient allocation of gas.

 Claiming that only 10 percent of the gas for local consumption is for the non-power sector, he said many more manufacturers could gain access to subsidised gas if the fuel for the power sector is diverted to the non-power sector.

 According to the Federation of Malaysian Manufacturers (FMM), as at March 2007, only 637 manufacturers were customers of Gas Malaysia Sdn Bhd, which is responsible for supplying gas to businesses, industries and homes.

 "If the government can reduce the gas subsidy to power producers, especially Tenaga, by making it costlier than coal, there will be incentives for the conversion of electricity generation from gas to alternative fuels. Thus, more gas can be made available for industries," he said.

 The limited gas available to the non-power sector has restricted Gas Malaysia's ability to channel the commodity to industrial zones in remote areas although demand is high, he said.

 The source added that once the gas subsidy is reduced, the government should put in place a mechanism that ensures manufacturers don't pass unnecessarily their rising costs to consumers.

 "Don't overlook the manufacturers who use gas as they are already enjoying huge savings," he said, pointing to the fact that gas is 56 percent cheaper than medium fuel oil (MFO), 72 percent cheaper than diesel and also half the international market price for gas," he said.

 Recalling the surprise hike in petrol prices early last year, an analyst said the public will appreciate the availability of a system that gives ample notice of an impending price increase.

 This could be in the form of a publicly available schedule that shows the level of world crude oil prices which triggers increase in prices of local petroleum products.

 "It will be good if the government could issue some sort of a schedule that provides trigger points for petrol price

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hike," she added.

"It's the timing. We already know rates for tolled highways and utilities are also going up next year. The public needs sufficient time to brace for the impact of further increases so that they can plan their expenses.

"In this way, the public can quickly adapt to new market and economic conditions by altering their spending habit should crude oil prices continue to go up," the analyst said.

On the same note, Dr Yeah felt that the increased awareness through such a schedule will ensure that subsequent increase in fuel prices will not be easily politicised.

Turning to the effect of higher fuel prices on the economy next year, he said a creeping price and cost pressure could be reduced by continued strengthening of the ringgit, raising efficiency among producers and opting for cheaper alternatives.

As for the effect of rising fuel prices on foreign direct investment (FDI), Dr Yeah pointed out that rising prices of the commodity is not a local phenomenon and investment is not based on just one factor.

Echoing that view, Joseph Alhadeff, chairman of the U.S. Malaysia Business Council, said there are many other factors that influence FDI inflows apart from fuel.

"No decision is made on one factor. It is always multi-factor such as infrastructure, education and skill levels of the workforce and how a country deals with the issues of competitive advantages and purchasing power," he pointed out.

On the same note, International Trade and Industry Minister Datuk Seri Rafidah Aziz has said that the private and industrial sectors in Malaysia were given notice six months ago of a potential increase in fuel prices.

She said the companies have reported to her ministry that they have accepted the reality of the situation and hope the impact will not be serious.

"They accept the fact. They are pragmatic, and only hope the increase won't be too steep," she added.

If there is any silver lining in store next year, it's in the numeral eight in 2008.

Eight or Fatt in Cantonese means prosperity. While 2008 may see higher fuel prices, it may it also usher in prosperity for all.

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