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ZAINAL-PETROL SUBSIDY

HARD-CORE POOR STAND TO GAIN IF PETROLEUM SUBSIDY IS REDUCED

KUALA LUMPUR, Aug 7 (Bernama) -- Hard-core poverty could be eradicated in Malaysia if savings from a cut in petroleum subsidy could be channelled towards development projects that will raise the income of the very poor, said Datuk Dr Zainal Aznam Yusof, deputy director general of the Institute of Strategic and International Studies (ISIS) Malaysia.

Hard-core poor in Malaysia is defined as those households with half of the absolute poverty line income. Absolute poverty in Malaysia has dropped from about half in 1970 to around seven percent in 1998.

Aznam said some 67,300 households were estimated to be hard-core poor in 1997, or 1.4 percent of total poor households in 1997.

"Use a poverty line income of RM467 per month for a household of five. With the subsidy of petroleum products for 1998 reaching almost RM500 million, this is about a million times the poverty line income," he said in a statement.

Assuming that around RM15 million of the subsidy is passed on to all the hard-core households, Aznam said their household income would be lifted above the poverty line.

"So spending slightly more than RM15 million of the subsidy in 1997 would have eradicated hard-core poverty in the country," stressed Aznam.

Some changes to the petroleum subsidy is in the air since the Ministry of Finance is studying a review on the subsidy.

The revision is imperative because of the sharp increase in crude oil prices. Since 1999, oil prices have increased to US\$30 (RM114) per barrel.

Aznam noted that the bill for the subsidy on petroleum products has been ballooning over the years.

The subsidy amounted to RM228 million in 1997, rose to RM499.6 million the following year and was seven times more than the subsidy given for text books loan scheme (RM70.9 million) in 1999.

"In 2000, the anticipated bill for subsidy for petroleum products will probably exceed RM1 billion, even larger than the subsidy for padi," he said.

He said the amount of petroleum subsidy is substantial when compared with the allocation for development expenditures of some of the social programmes.

Aznam pointed out that in 1998, development expenditure for health amounted to RM716 million compared with about RM500 million subsidy on petroleum prices which is approximately 70 percent of the health expenditure. It was also 48 percent of the allocation for housing.

He also said that subsidising petroleum products could lead to distortion in the market and run counter to some other developmental objectives.

Cheap petrol could induce excessive use of personal cars, causing greater traffic flows especially in congested traffic areas in the city. It also encourages greater reluctance to use public transport, said Aznam.

Smuggling of petrol would become lucrative activity due to the sizeable differences in the prices between Malaysia, Thailand and Singapore, he said, adding: "Smuggling infact is a fact of life in the border areas and indirectly leads to subsidising our neighbours."

Malaysia's price of petrol, diesel and liquified petroleum gas (LPG), with the exception of Indonesia is the lowest among Asean member countries, said Aznam.

Its petrol price is 160 percent and 35 percent cheaper than in Singapore and Thailand respectively.

Diesel in Malaysia is 77 percent and 69 percent lower than in Singapore and Thailand respectively while its LPG is 205 percent cheaper compared with Singapore but 10 percent higher against Thailand.

The issue of petroleum subsidy has attracted the attention of Prime Minister Datuk Seri Dr Mahathir Mohamad who had said that it would not be possible to continue subsidising petrol, partly because of the jump in crude oil prices.

He also said that the government would not do away with the subsidy but would only reduce it. -- BERNAMA

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