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'Higher petroleum product prices inevitable'

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AN INCREASE in petroleum product prices appears inevitable given the costlier crude oil and the Government looking into the possibility of reducing its subsidy, analysts and industry observers say.

Some expect the price increase at the petrol pump to be 5-10 sen per litre, but others say any rise would be minimal, maybe only 1-2 sen.

They were commenting on market talk that the Government may reduce its subsidy for petroleum products which include petrol, diesel, kerosene and liquified petroleum gas. No one is expecting the subsidy to be abolished altogether.

Prime Minister Datuk Seri Dr Mahathir Mohamad had said last week that the Treasury would conduct a study on the impact of a reduction in the subsidy.

He said the study is necessary in view of the rise in crude oil prices, now hovering at US\$30 (US\$1 = RM3.80) a barrel compared with US\$10 in December 1998.

Subsidy for the products takes the form of partial exemption from duties and is aimed at stabilising fuel prices, hence putting a lid on inflationary pressures.

This tax exemption works out at 58.62 sen per litre, or a total of RM503.32 million in 1996, RM867.29 million in 1997; and RM1.33 billion in 1998.

Prices at the pump are currently determined by the Automatic Pricing Mechanism (APM) which takes into account factors such as costs of production and crude oil, as well margins for dealers.

The prices were last raised in 1990.

A survey by London-based Economist Intelligence Unit shows that petroleum prices in Malaysia are among the cheapest in the world, at RM1.10 per litre, the same as in Cairo and Moscow.

The highest is in Hong Kong at RM4.97. Elsewhere, it costs RM4.87 in London, RM4.71 in Vienna, RM2.92 in Singapore, RM1.59 in Bangkok, RM1.40 in Manila and RM1.25 in Ho Chi Minh City.

Shell's launch of its V-Power petrol two months ago at RM1.25 a litre seems to suggest that higher prices across the board are on the cards.

"Shell's pricing diverts from the APM model...it is a test case. If consumers can accept RM1.25, there should not be a problem with a small price raise at other pumps," an analyst said.

The actual extent of price rise would now appear to depend on the world crude oil market, whether there is a slump in prices this year due to oversupply.

There are 2,500 service stations nationwide operated by Shell, Petronas, Esso, BP, Caltex and Mobil and Petmal. Another chain belonging to American oil company Conoco is expected to begin operations soon.

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