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Petrol price likely to go up due to mounting cost of subsidy

KUALA LUMPUR, Wed. - The price of petrol is likely to go up as the Government can no longer bear the cost of the mounting oil subsidy, Domestic Trade and Consumer Affairs Minister Tan Sri Muhyiddin Yassin said today.

He said the Government had absorbed the increase in the price of petrol totalling RM5 billion for the past eight to 10 years to help control prices for the people's benefit.

The price was last raised in 1990.

However, he said, due to the higher cost of international crude prices, the cost to the Government in terms of tax foregone and direct subsidy on petroleum products was expected to reach RM500 million annually if the price of petrol was not raised.

"An increase in petrol prices appears inevitable given the fact that the subsidy will be a huge burden to the Government. However, the exact quantum of increase has not been decided yet."

Muhyiddin said this when asked by reporters whether the government has made any decision on whether to increase the price of petrol with the price rise of world crude petroleum.

He said in determining the quantum of the increase, the government would take into consideration the impact of the increase on various sectors like the Consumer Price Index, inflation rate and transportation costs.

Muhyiddin said the Government would ensure that consumers would not feel the pinch due to the increase and the price would "still be among the cheapest" in the region.

"As the nation is still trying to recover from the economic crisis, we will ensure that the increase will not burden consumers," he told reporters after a visit by Cabinet members to the Petronas Twin Towers, led by Prime Minister Datuk Seri Dr Mahathir Mohamad here today.

They were briefed on the development of the Kuala Lumpur City Centre by KLCC Urusharta Sdn Bhd managing director Arlida Ariff and earlier entertained to lunch by Suria KLCC chairman Tan Sri Azizan Zainul Abidin.

Deputy Prime Minister Datuk Seri Abdullah Ahmad Badawi was also present.

Muhyiddin said a study was being conducted by the Finance Ministry on the impact of a reduction in the subsidy.

A subsidy for the products, which takes the form of partial exemption from duties, is to stabilise fuel prices, hence putting a lid on inflationary pressures.

Dr Mahathir had said that a study on the increase in petrol prices was necessary in view of the rise in crude oil prices, now hovering at US\$30 (RM114) a barrel compared with US\$10 in December 1998.

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

The Automatic Pricing Mechanism had successfully regulated supply and ensured petrol was marketed at reasonable and affordable prices at retail outlets.

Currently, the price of unleaded petrol (RON 97) in Peninsular Malaysia is RM1.10 per litre and RM1.06 per litre for unleaded petrol (RON 92). Diesel is priced at RM0.651 per litre and LPG at RM118.0 per litre.

Institute of Strategic and International Studies deputy director-general Datuk Dr Zainal Aznam Yusof said recently that Malaysia's prices of

petrol, diesel and liquefied petroleum gas (LPG), with the exception of Indonesia, are the lowest among Asean member countries.

The subsidy for petrol (RON 92), amounts to 41.63 per cent, diesel 63.41 per cent and LPG 55.78 per cent. Petrol prices in Singapore are 160 per cent higher and in Thailand 35 per cent higher than in Malaysia.

On whether the Government has set any time frame for the study, he said: "That will be up to the Finance Ministry after they get all the feedback and input from all parties."

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