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Rethink fuel subsidy policy

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A QUOTATION billed 'thought of the week' at my Sri Hartamas teh tarik shop reads: 'Being on the right track without taking action just means you will be hit by a train.'

Generally, that is very true. The right path is not always the safest path, more so the railway track.

In some countries, trains are the fastest objects on the ground. France's Train A Grand Vitesse (TGV) travels at 300km per hour and Japan's famous Shinkansen bullet train operates at almost the same speed.

But the chances of someone being hit by a Keretapi Tanah Melayu Bhd train are somewhat less. KTMB trains run at about 90kph and derail regularly.

Fortunately for passengers, the low speed saves lives and limbs in accidents. Deaths are far apart and injuries often minor.

So, there is a benefit in having slow-moving trains. Of course the KTMB trains travel slowly not by choice. That is the only way they can travel with some measure of safety on the century-old lines.

The first trains ran for 13.6km between Taiping and Port Weld (now Kuala Sepetang) from 1885.

But when the more modern and faster commuter trains derail, questions are bound to be asked concerning the alertness of the drivers, and track maintenance.

If we hope to encourage people to go back to using public transport, we must make sure that public transportation is not only competitively priced but efficient and safe at the same time.

Long before private cars became affordable, trains, buses and taxis were the popular means of transportation. Today, thanks to economic progress and the national car, the ownership of cars has become so widespread that it is largely taken for granted.

BACK to the slow and generally unreliable KTMB trains, we can say that the partially privatised corporation is caught in a catch-22 situation.

It cannot expect the railway to be back in popular use at the speed and regularity of departures that it is now operating.

To increase speed, new and better lines are needed. The existing narrow gauge lines cannot accommodate fast trains.

Fast and regular trains will attract more passengers as is the case in Japan and Europe.

In fact, if the KTMB can operate reasonably fast trains at regular intervals, we may not need scheduled domestic airlines for much of the peninsula.

In that manner, we will be able to overcome the huge losses the national carrier has to suffer due to heavy subsidy on domestic fares.

It makes no sense for MAS to subsidise the billionaires, tycoons and CEOs on domestic routes when most of them do not travel with MAS on international routes.

The other way is to totally liberalise the domestic airline industry by allowing private operators regardless of their origins to participate. It is pointless for a carrier to be given a monopoly of the domestic market if it is unable to determine fares.

It makes sense to liberalise so that the industry can operate on a market-oriented basis. Fares may not be cheaper but passengers can demand better services. Or someone may want to introduce a cheap no-frills

service.

THIS brings us to the widening debate on petroleum product prices. While we are still debating the issue, consumers in other countries have for months been paying higher prices.

In Europe, truckers and public transport operators had taken to the streets, literally, to protest the price increase. For days, they blocked highways and cities with their trucks and buses.

Elsewhere, the government took advantage of the rising crude oil prices to increase revenue by imposing higher taxes, purportedly to discourage consumption.

In India, where the public transport system is the lifeline for the masses, taxes account for nearly 52 per cent of the retail price of diesel in Mumbai, and in taxes account for nearly 50 per cent of petrol price.

At 26.10 rupees (RM2.19) per litre, petrol in the Indian capital is twice as expensive as it is here. For a poor country, it is hefty.

According to India Today news magazine, the Indian pricing method resembles the trend in Europe where taxation on petroleum products is high.

In France, taxes accounted for almost 80 per cent of diesel price before the agitation by transport operators brought it down marginally on Sept 13. In much of Europe, taxes account for more than 50 per cent of petrol prices. Elsewhere in the poorer nations, the petrol pumps are running dry.

The crude oil price is approaching US\$40 (RM152) a barrel, the highest in a decade. Unless the Organisation of Petroleum Exporting Countries (Opec) increases production, the chances of price easing soon are slim.

IN Malaysia, subsidy and price control have skewed the price of petroleum products. We can say that prices of these products do not reflect the true situation.

According to Press reports quoting the Finance Ministry, subsidy had risen from RM180 million in 1996 to an estimated RM3,095 billion this year while the amount of revenue forgone rose from RM1,164 billion to RM4,598 billion.

To a degree, the Government can both afford and justify the subsidy. It is able to raise revenue elsewhere. A considerable amount of income flows into its coffer from the petroleum industry which is benefiting from the price boom.

Subsidy and price control have contributed towards price stability and kept inflation in check.

But with world prices rising, their negative effects on the overall economy are worrying. There is a need to look at the issue in detail and, if necessary, to remodel the pricing mechanism.

Subsidy, no matter how well intended, is not an efficient means of resource allocation. It induces inefficiency and distorts the economy.

Industrial users and public transport operators may be entitled to the subsidy to keep the price of goods and services down.

Even here, policy mismatch is causing unhappiness and resentment. Petronas, according to traders, sells piped natural gas to Tenaga Nasional Berhad for power generation at US\$1.60 (RM6.08) per tonne British Thermal Unit (Btu) but charges industrial users as much as US\$7 (RM26.60) per tonne.

Industries are encouraged to use natural gas because it is available domestically and Petronas needs volume to pay for the pipeline.

Now industrial users who converted to gas say they are being treated like anak tiri (stepchild) for supporting Petronas and for heeding the Government's call to use cleaner fuel.

They have since brought their plight to the attention of the Prime Minister, Datuk Seri Dr Mahathir Mohamad, after making the same plea to

the International Trade and Industry Ministry.

EVEN if subsidy and price control are justified, efforts must be made to ensure they are not misapplied and the cheaper fuel is not smuggled out of the country.

It is difficult to justify subsidising the billionaires, tycoons and CEOs who drive the 5,000cc Mercedes Benz and other expensive cars.

Of course, they pay large amounts to the Government by way of taxes and duties to own those cars. But in the coming years, they will pay less as World Trade Organisation-mandated liberalisation takes effect.

By hanging on to the subsidy and rigid price control on fuel, we may be opening up our market to expensive imported motor vehicles at the expense of the locally manufactured motorcars.

As our economy globalises and competes more widely with the rest of the world, subsidy and the distortion it causes can become a major point of dispute.

The current debate should also be expanded to include the national transport policy. Thoughts must be given to stream-lining and fine-tuning the policy.

It is a waste of resources to encourage the development of public transport systems while at the same time making it ever easier for the people to own and operate private motor vehicles.

Cheap subsidised fuel may increase car sales. But it discourages the people from using public transportation or even to car pool. We have raised a whole generation that is not used to public transportation system.

Already the mismatch is causing public transport operators, in particular the light rail transport companies, difficulty in getting enough passengers, hence sufficient return on their investment.

In the meantime, towns and cities are choked with vehicular traffic and the air is polluted by exhaust emission.

IT is the euro's turn to be battered. Since January, the European Union currency had depreciated 28 per cent against the US dollar.

But being the currency of the industrialised world, its problem was greeted with very different reaction.

When we stepped in to support the ringgit against speculative attacks in 1997, we were accused of interfering with the market. We were told the market knows better.

When we fixed the exchange rates of our currency the following year, we were accused of taking our country into isolation.

Having lost a backer in Malaysia, the International Monetary Fund wrote us off. It said our policy would not work and we would never recover from the financial crisis.

But when the euro last week fell to 84.5 US cents a unit, the IMF chief economist Michael Mussa, according to the Newsweek magazine, led a chorus of calls for intervention by central banks to rescue the European currency.

And they did. The European Central Bank, the Bank of Japan and the US Federal Reserve Bank stepped in to buy the euro and push its value to more than 90 US cents.

It is another example of Western hypocrisy.

OUR ports are very much in the news these days. While Westport took in Hong Kong's Hutchison Port Holdings as a 30-per cent partner, the newly-commissioned Port of Tanjung Pelepas in Johor won an international award.

Westport, the country's largest container terminal, sold the stake for RM400 million.

PTP on Thursday won the Best Emerging Container Terminal Award at the annual Lloyd's List Maritime Asia Awards in Singapore.

Other nominees for the category were China's Dalian Container Terminal and Westport. This is the first time ever that a Malaysian port has won any award at the ceremony.

Maersk Sealand, PTP's partner, also shared the honours by winning the Best Main Line award.

The Lloyd's List Maritime Asia Awards is organised by Lloyd's List Maritime Asia, a trade journal published by world-renowned shipping daily, Lloyd's List.

PTP, Southeast Asia's newest deep-draft container terminal, was officially opened on March 13 by the Prime Minister.

Last August, it changed the tides of transshipment when Maersk Sealand, the world's largest shipping company, agreed to shift its entire transshipment hub from Singapore to PTP.

PTP is now the largest hub in Maersk Sealand's global network. The shift guarantees PTP an annual volume of two million TEUs from next year.

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