

SUN 13 JUN 2001

Dr M: Subsidising domestic oil prices a dangerous policy

KUALA LUMPUR, Tues: Prime Minister Datuk Seri Dr Mahathir Mohamad said today subsidising domestic oil prices is a dangerous policy as it distorts economic performance, and creates social and political problems.

Fixing the prices of products in the domestic market when crude prices fluctuate violently is one of the major problems faced by governments, he said.

"Failure to handle this problem adroitly can cause a government to fall," he said at the Asia Oil and Gas Conference luncheon.

Mahathir said while the world is always made aware of domestic crude oil prices, it is not informed about prices in other countries.

"Yet, product prices at the pumps are more important to the man on the street and to industries than crude oil prices because, in most instance, the price of product at the pump bears no relation to crude oil prices and a country which produces oil is expected by the people to sell petrol at low prices.

"This involves direct and indirect subsidies. The people are happy but

such prices distort the costs of transportation and industrial production.

"If the product of the country are exported, it means the country is subsidising foreign consumers."

Mahathir said there will then come a time when the government cannot afford to subsidise any more or the government is instructed by foreign leaders to stop the subsidies.

"Reaction to such stoppage can be very violent - riots, property destruction are common and occasionally governments are overthrown."

Mahathir said countries that suffer the most from high crude oil prices are the poor developing countries with no oil resources of their own.

"They and their people will have to cut back on using motor vehicles and electricity," he said.

"Oil-producing countries should consider some kind of support for these countries and it is entirely possible although there will be some abuse.

"But this will be a small price to pay and the rich oil producers can well afford this."