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Mahathir-Oil
SUBSIDISING OIL PRICES DANGEROUS POLICY, SAYS PM

KUALA LUMPUR, June 12 (Bernama) -- Prime Minister Datuk Seri Dr Mahathir Mohamad said today that subsidising domestic oil prices is a dangerous policy as it distorts economic performance, creates serious social and political problems and can even topple governments.

"For oil producing countries, there is no gain. When oil prices are low, the subsidies are less, but oil income also decreases (and) when oil prices are high, subsidies absorb a big portion of the increased earnings," he said.

"Subsidies create a no win situation," he said at a special luncheon address at the Sixth Annual Asia Oil and Gas Conference 2001 here.

Dr Mahathir said that fixing the prices of petroleum products in the domestic market when crude prices fluctuate violently is one of the major problems faced by governments and failure to handle this problem adroitly could cause governments to fall.

"While the world is always made aware of current crude prices, the world is not informed about product prices in different countries. Yet, product prices at the pumps are more important to the man in the street and to industries than crude oil prices," he said.

He said this was because in most instances, product pump prices bear no relation to crude 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 cost of transport and industrial production. If the products of the country are exported, it means the country is subsidising foreign consumers," the prime minister said.

Dr Mahathir said that at low prices, there would be a lot of wasteful applications, such as the usage of gas guzzlers in transportation, and a lot of smuggling out of the country.

"Then, there will come a time when the government cannot afford to subsidise anymore or that the government is instructed by foreign lenders to stop the subsidies.

"The reaction to such stoppage can be very violent. Riots, property destruction are common. Occasionally, governments are overthrown," he said.

The prime minister said that there were also countries which impose high taxes on petroleum products and most of them were naturally the rich countries and they include all producers too.

"The taxes go up as the crude prices go up, giving the impression that the higher cost of products is due to rising crude prices. This is not true of course. But little is done to explain the causes of higher petroleum products to the consumers," he said.

Dr Mahathir said: "It is much easier to blame Opec (Organization of Oil Exporting Countries)."

Dr Mahathir said the countries which suffer the most from higher crude oil prices were the poor developing countries which have no oil resources of their own.

Consequently, they and their people would have to cut back on using motor vehicles and electricity, he said.

"Perhaps, the oil producing countries should consider some kind of support for these countries. It is entirely possible to do this, although there will be some abuse," he said.

"But this would be a small price to pay and the rich oil producers can

well afford this," he said.

He said that discounts or rebates to these poor countries during periods of high oil prices would go a long way towards alleviating the financial problems of these countries.

"It is most inequitable that some countries should have a per capita income of only US\$300 while others have more than US\$20,000," he said.

The recent oil crisis also amply demonstrated the vulnerabilities of economies around the world to the unstable relationship between supply and demand of oil.

From as low as US\$10 per barrel in 1998 to about US\$37 in the first quarter of 2000, the intensity and magnitude of the impact on economies around the globe was enormous and "as usual, the poor countries with no oil domestic production suffer most," he said.

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