

## **Be Accustomed To Fluctuations In Fuel Prices, Consumers Told**

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KUALA LUMPUR, (Bernama) -- Consumers have to get used to the fluctuating fuel price environment as market prices are being dictated by the managed float system, introduced by the government last December to determine the monthly retail prices of fuel.

Under the managed float system, the retail prices of fuel are fixed by the government, in line with the global crude oil price and currency exchange rate.

This system is among the government's initiatives to rationalise its fuel subsidy and ensure that its subsidies reached the target groups.

But the public appear to be confused over the workings of the managed float system as many complaints arose when fuel prices were hiked on March 1.

### **BETTER GET USED TO IT**

Islamic Consumers Association of Malaysia Chief Activist Datuk Nadzim Johan said blaming the government for the recent rise in fuel prices reflected the immaturity of the complainants who, he said, failed to realise that fuel prices fluctuated in tandem with the global crude oil prices.

"Fuel prices are now tied to the open market prices and that's how the system works. We can't control oil prices and this shouldn't be made into an issue... it's time consumers grew up and stopped depending on the government for everything.

"As consumers, we should understand and make an effort to get used to such a situation (fluctuating fuel prices). The public have become used to the subsidies handed by the government, and they only know how to complain. They should change their attitude," he told Bernama.

On Feb 28, the Ministry of Domestic Trade, Cooperatives and Consumerism announced that the pump prices of petrol and diesel would rise by 25 sen a litre, starting March 1. The retail prices for RON95 petrol is now RM1.95 a litre; RON97 RM2.25; and diesel RM1.95.

The managed float system to fix the retail prices of RON95 petrol and diesel was implemented on Dec 1, and that of RON97 back in July 2010. Previously, the retail prices of petroleum products were determined through the Automatic Price Mechanism, which had been in place since 1983.

Following the implementation of the managed float system, on Dec 1 last year, the retail price for RON97 dropped nine sen to RM2.46 a litre and RON95 went down four sen to RM2.26, while diesel rose three sen to RM2.23.

On Jan 1, the retail prices for RON95 and RON97 dropped 35 sen to RM1.91 and RM2.11 per litre respectively. The retail price for diesel fell 30 sen to RM1.93 a litre.

The downtrend continued on Feb 1, with RON95 shedding another 21 sen to RM1.70 per litre; RON97 11 sen to RM2; and diesel 23 sen to RM1.70.

### **CHANGING PERCEPTION**

Nadzim called on consumers to change their perceptions and stop blaming the government whenever the prices of oil and goods went up.

Besides adapting themselves to the fluctuating nature of fuel prices, he advised consumers to be enterprising and come up with ideas that could generate extra income for them.

"When oil prices go up, try not to travel and only spend your money on essentials.

"And if you think your income is low, then try to be more productive and enterprising and generate other sources of income. This way, you'll not be affected by the rise in oil prices," he said.

### **NO EFFECT ON PRICES OF GOODS**

Prof Dr Mohamad Hanapi Mohamad, a lecturer in international business management at Universiti Utara Malaysia, said a couple of factors contributed to the sense of uneasiness people felt each time fuel prices changed, although they were aware that fuel prices were subject to the managed float system.

"First, when prices went down, as was the case over the last two months, it didn't have any effect on the prices of goods and services. It must be understood that those in the middle- and low-income groups mainly spend on food, rental, transport and utilities.

"Even when fuel prices dropped, there was no change in their expenditure, maybe because some of the input materials (used by the manufacturers) were imported and their prices were affected by the currency exchange rate. This has caused uneasiness among the consumers," he said.

The second factor, he explained, was closely interlinked with consumer buying power. In a weak buying power scenario, it made little difference if fuel prices dropped, he pointed out.

### **BEING PREPARED FOR PRICE CHANGES**

What are the steps that can be taken to prepare consumers to deal effectively with fluctuating fuel prices?

Mohamad Hanapi responded that there should be more dissemination of information to the

people, who should also be educated on how oil prices were determined and their correlation with household and individual budgeting, as well as the nation's development.

"The government can come up with a dual system, that is a float system and a locked up price system. This means, besides proceeding with the existing managed float system, it could also have a locked up price mechanism for consumers.

"For example, the government can fix the price of RON95 at RM2 a litre when the crude oil price ranges from US\$55 to US\$58 a barrel; and RM2.30 when the price goes up to the US\$58 to US\$60 per barrel levels, and accordingly (when the US dollar depreciates in value, oil prices drop as well)," he said, suggesting that the government could fix oil prices at more competitive rates for manufacturers and transport companies.

Mohamad Hanapi said the locked up price mechanism would give consumers a sense of assurance and add more confidence to the business climate. For RON95, he suggested, the government could fix a price as low as RM1.50 per litre, or go even lower if crude oil prices tipped below the US\$50 per barrel level.

Being the main input for manufacturers, any elasticity in oil or fuel costs - even the slightest increase - could have an effect on their overall costs, which would lead to a hike in the prices of their goods, he explained.

"When prices go up, the government is sure to be blamed," he added.

### **MANAGED FLOAT SYSTEM**

On the impact of the managed float system on manufacturers and petrol dealers, Mohamed Hanapi said it had created an environment of uncertainty for them.

"Small businesses don't have the capacity to buy more stock when fuel prices go down because it involves capital and, furthermore, they need the space to store the oil. Large manufacturers need to come up with an investment strategy to enable them to purchase largest quantities of oil when prices are low.

"All of them need to have new skills and knowledge simply because the fluctuating oil price environment has given rise to uncertainties," he said.

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