



Facts and Fallacies of the Oily Kind

Raising fuel prices by a hefty 30 sen without warning is one thing, but asking the people, especially the poor, to undergo a lifestyle change to cope with increasing inflation is another. Add to this the Government's rather unpersuasive justification and the people's ire is understandable.

NO MATTER how passionately the Government tries to explain the rationale for the hefty Feb 28 fuel price hike, people will be largely unconvinced.

And no matter how hard it tries to stamp the vicious circle of price increases, consumers will end up paying more.

Neither the Prime Minister Datuk Seri Abdullah Ahmad Badawi's 'No Other Way' plea (*The Star*, March 6) nor his deputy Datuk Seri Mohd Najib Abdul Razak's 'Change Lifestyle' call (*The Star*, March 2) has done much to abate the people's anger.

Some have taken to the streets lampooning the Barisan Nasional's 2004 election slogan of *Gemilang, Cemerlang, Terbilang*, while others have resorted to venting their frustration by sending uncomplimentary *pantuns* via SMS.

This is the price of hype. For more than two years now, the people have been fed with hopes and promises. Their expectations have been raised sky-high by the mainstream media's continued spinning of silver threads and promises of golden needles.

By reducing the subsidy, the Government is allowing the market a greater degree of freedom to determine the price of petroleum products.

This is the case that textbook economists, free market proponents and spin doctors find compelling.

Having set the tone for freeing up the petroleum market, the Government has lost its moral authority. It cannot now tell other economic sectors not to raise prices.

The Government cannot, on the one hand, free up the domestic petroleum market while on the other insisting

that other market sectors, some of which are dependent on petroleum products in their business activities, not raise prices.

Maybe Works Minister and 10-term Malaysian Indian Congress President Datuk Seri S Samy Vellu was being practical when he said the Government would consider increasing the value (I think he meant the price) of tenders (I think he meant contracts) awarded to contractors of existing projects 'in view of recent fuel price increases (*The Star*, March 7)'. Or is Samy Vellu being contractor-friendly?

Unfortunately, these contradictory stands are rendering arguments in support of the hefty rise unconvincing. On the one hand, the Government argues that it is allowing the hike in order to divert the fund now used for petroleum subsidies to part finance the 9th Malaysia Plan. On the other, it says the move is to stretch oil reserves.

The latter is based on the assumption that the higher prices will reduce consumption, hence stretching out oil reserves. What the people are not being explicitly told is that we do not consume our own oil and we do not consume every barrel that we produce.

We produce about 750,000 barrels a day and consume about 520,000 barrels. We export our premium light crude and import the cheaper Middle Eastern heavy crude for domestic consumption.

Then there is the hefty 38% petroleum income tax and the 5% royalty that the Government collects from the oil and gas producers, including Petronas.

Coincidentally, while the mainstream media was

harping about the RM4.4 billion savings the subsidy cut is likely to produce, MAS' new Managing Director Idris Jala said the airline needed RM4 billion to stay afloat (*The Star*, Feb 28).

Promises, Promises

THE Government should also explain to what degree domestic consumption influences the production of crude petroleum. If the policy is to balance production and consumption, then we do not need to produce as much crude petroleum as we do today.

After all, for every barrel of low-sulphur crude we export, we can import more than a barrel of heavy Middle Eastern crude.

The Prime Minister said the cut in subsidies was to rationalise the prices of petroleum products in the country. But is it commercially possible to rationalise the price of petroleum products without expecting or allowing prices of products and services, whose production is dependent on petroleum products, to rise accordingly?

Already, the Federation of Public Service Vehicle Operators Association is claiming that the public transport industry is on the verge of collapsing (*The Star*, March 7).

The question is: How much knowledge had the Government gathered and how much preparation had it made at the micro level before the Feb 28 hike was put into effect?

Despite being one of the most rigidly regulated consumer markets, our price control and monitoring mechanisms are, at best, weak and arbitrary. Then, there is the element of corruption that further erodes its effectiveness.

Price control is a catch-22 situation. In times of extreme price volatility, it is beneficial to the consumer, but in an environment of steady prices, it might penalise them. In the latter scenario, they might continue to pay the higher fixed prices when the actual prices could be lower.

Take the situation of such controlled items as rice, sugar and flour for example. While price control has more or less guaranteed their supply, there is always the suspicion that over the longer period, the consumer could be paying more.

In all fairness, the *rakyat* can only be asked to take greater control of their spending if the Government is able to provide a conducive environment for free-market operations.

The temptation to assume that the people are not knowledgeable and, therefore, can be fed with information that favours the price increase is a dangerous proposition.

Not everybody is ignorant and the Government, through its propaganda machine, cannot pull the wool over the people's eyes all the time.

This is becoming even more difficult as the Government preaches transparency and accountability, good governance and Islam *Hadhari*.

Don't Compare Apples with Oranges

NAJIB might have offered the stoutest defence (to borrow the *New Straits Times* description) for the petrol price increase. But he and his advisers should have calculated the suitability of using a sound bite such as a lifestyle change as a campaign platform.

They should have realised that when they put him on

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terrestrial stations, they are putting him before the masses. They should have asked the question what relevance lifestyle has to the average Malaysian.

This is what, in the media language, we call targeting. When he appears on RTM, TV3 and other free TV stations, he is appearing before the people who are most likely to be most severely affected by the price increase.

These are the people who depend most on subsidies and giveaways. And what lifestyle do such people have? Surely, the case of *kais pagi makan pagi, kais petang makan petang* – if we understand what it means – does not count as lifestyle. It looks more like survival to me.

Also, since the Government has been telling the people that it is telling all and is willing to be unpopular, in explaining the price increase, it should avoid making erroneous or false comparisons.

It cannot compare our prices with Singapore. The

price may be twice as high in Singapore. According to a table published by *The Star* to explain the Prime Minister's statement (March 6), the price of premium petrol in Singapore is RM4.15 a litre against Malaysia's RM1.92.

But nothing has been said about the fact that Singapore's per capita income, on the purchasing power parity (PPP) basis, is three times higher than us.

Since a lot of well-heeled Malaysians are more likely to believe American statistics than those of the *Jabatan Perangkaan*, let me quote the figures compiled by the US Central Intelligence Agency (CIA). Based on last year's estimates, the CIA puts our Gross Domestic Product (GDP) per capita on the PPP basis at US\$ 10,400 against Singapore's US\$ 29,700. So, if we were to go by purchasing power and take our petrol price as the base, the Singapore price should be around RM5.76. So, at RM4.15, the Singapore price is cheaper than ours.

The British consumers, according to *The Star's* statistics, are paying RM5.97 and the Germans RM5.71. Their prices are more reflective of their GDP per capita on the PPP basis. So, based on GDP per capita (PPP), our petrol price is not actually cheaper than in Singapore, the UK and Germany.

And if we are to believe the comparisons the officials have been dishing out to the Press and if we accept the GDP per capita (PPP) as the universal measure of purchasing power, this is the last price increase that the government can impose on us.

It should also be noted that this round of price increase took place at the time when global oil prices are softening. The day before the Government allowed the increase, the New York crude benchmark price fell from US\$ 63 a barrel to US\$ 61.

We cannot fairly compare ourselves with Singapore or even our poorer neighbours. Singapore is a small country with a small population and limited road systems. Even during colonial times, it already had a better public transportation system than us.

It's also inaccurate to compare us with our poorer neighbours. These countries either do not have oil reserves of their own or are not dependent on motor vehicles the way we are. In some of them, bullock carts, bicycles and sampans are still the most common modes of transportation.

Leadership by Example Please

IT is easy for newspapers and economists like Baljeet Grewal of Aseambankers Malaysia Bhd to argue in favour of higher fuel prices and against subsidy.

But try telling that to the poor and low-income people who have been benefiting from subsidies since the late Tun Abdul Razak Hussein introduced it in the early 1970s

as part and parcel of his pro-poor policy!

These people do not have a lifestyle. They do not know that subsidies distort the economy. And even if they did, they don't care. For them, it is the case of a hand-to-mouth existence.

I think before we commit ourselves to tearing down subsidies, we must first take a look at the billions of dollars the advanced countries are spending to subsidise their farmers and industries.

So, for our poor, what can they do? Not much. With public sector productivity at a mediocre level, partly due to shorter working weeks and frequent public holidays, the poor could fare worse.

There's a major problem with the delivery system. Despite better salaries and allowances – including the recent reinstatement of the cost of living allowance (Cola) and an improved working environment – the performance of the civil service continues to attract public indignation.

Yet, it is during these difficult times that the need for a clean, efficient and trustworthy civil service becomes more critical. It is here that the Government's electoral promise has been left largely unfulfilled.

Its delivery system has remained largely unimproved. On the contrary, judging from complaints in the newspapers, the delivery system has deteriorated. Yet, the Press told us a few days ago that the tenure of the number one civil servant – the Chief Secretary to the Government – has been extended.

If the Government remains committed to its electoral promises, then its Members of Parliament, State Assemblymen and *pegawai kebajikan masyarakat* (social welfare officers) should already be scouring the council flats and the villages to register those who have fallen through the safety net as a consequence of the recent spate of price increases, rising unemployment, natural disasters and diseases.

Listening to *keluhan rakyat* – the people's complaints – is fine. It's good that the Government is listening to the people and tolerating their criticism. But that's not all. The more important thing is to act to improve their welfare.

And ministers cannot tell people to change their lifestyles and ask them to be thrifty when they are not changing theirs. Ministers should publicly announce that they are discontinuing the million-ringgit renovations of their official residences and offices. And no more *pintu gerbang*, please. Just look at the one that's being constructed at RTM in Kuala Lumpur! **mb**

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