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A clear plan will settle fears

BY SHAHANAAZ HABIB



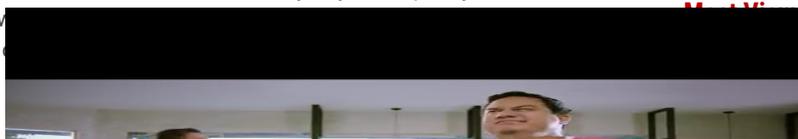
Calm before the change: Many motorists are worried about the impending three-tiered fuel subsidy.

NORMALA thought she would have a comfortable life once she started earning RM10,000 a month.

It had taken her 16 years of hard slog to get there but to her dismay, the RM10,000 did not go as far as she thought it would, especially now that she is a single mother living in Kuala Lumpur with four young children.

After her RM500 monthly contribution to her elderly parents, housing and car loans, electricity and phone bills, household groceries (which keeps rising as prices keep going up), maid's salary, school expenses, tuition fees and pocket money for the kids, there really isn't much left.

And this does not include allocations for a rainy day and "quality time" with her children – she always spends time with her children



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She says she envies her colleague Farouk who also earns RM10,000 but is single.

Now there is a new thing that is making Normala see red – the government’s proposal to remove fuel subsidy for those who earn RM10,000 and more.

“Does this mean that Farouk and I have to pay more to fill up petrol?”

“It might be okay for him but I have four young children to feed, clothe and support and drive here and there, so I use more petrol.

“Is it fair for me to pay more for petrol based on my income when I have so many mouths to feed compared to Farouk who only has to take care of himself?” she asks, flustered.

Last week, Second Finance Minister Datuk Seri Ahmad Husni Hanadzlah announced the government’s plans to rationalise its fuel subsidy to a three-tiered scheme: those earning below RM5,000 would continue to enjoy the full subsidy while those getting RM5,000 to RM10,000 would only get a partial subsidy. Those earning more than RM10,000 a month would not get any subsidy and need to pay the full price at the petrol pump.

Currently, Malaysians have the choice of filling their car either with the unsubsidised RON 97 or the cheaper, subsidised RON 95, regardless of their income.

The worry over the new subsidy scheme is expected, even if the proposed cut is not new. Over the past few years, the government has been saying that it would need to reduce its fuel subsidy bill with the growing number of cars on the road, costing it about RM2bil a month or a whopping RM24bil a year.



Universiti Malaya’s Assoc Prof of Development Studies Dr VGR Chandran(pic) is all for it.

He points out that overall subsidies are estimated to be RM40.6bil in 2014, which is 18.3% of the country’s operational expenditure, of which fuel subsidies and cash assistance make up a substantial RM23.3bil.

Cutting back on subsidies is important, he says, because it will help reduce the country’s fiscal deficit and the money saved can be used instead for development expenditure, which provides “a higher multiplier effect” to the economy compared to operational expenditure.

For him, targeted subsidy rationalisation “makes sense”.

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Despite the “short-term shocks” on the economy especially for those earning more than RM10,000, “the effect will be small” given that the rationalisation may only affect 30% of the population.

The other 70%, he notes, are of the lower income group and therefore will not be subjected to it.

As for the 30% who will no longer enjoy fuel subsidies, Dr Chandran thinks their concern is not about paying the difference, but really on “how the savings will be used by the government”.

“What is important is for the government to convince people that those savings will be translated into a more productive use such as on improving the quality of public transport, public schools, government-run hospitals, public amenities, parks, safety and many other things that would improve the trust of society.

“For this, transparency is required. This will reassure society on the benefits of such subsidy reduction,” he says.

Dr Chandran believes that perhaps the main reason for the “societal grumble” is because in the past, leakages have been rampant, so people now want to know how that money saved from the rationalisation is going to be used.

He says protocols to improve transparency in the subsidy policies would help reform efforts by increasing accountability in public expenditure as well as allowing for a better monitoring of the subsidy over time.

This, he says, would also enable society to do a better comparison and assess the cost and benefit of such a policy, including the distribution of the benefits across society.

What the government can do to cushion the impact is to provide some alternatives, such as making fuel-efficient cars (hybrid cars) more affordable by exempting taxes on them.

For the longer term, he says, the government should look into lowering fuel demand by promoting more energy-efficient technology and sustainable fuel consumption.

As for timing of the fuel subsidy rationalisation, Dr Chandran reckons that “politically it may be the right time to implement it, given that global fuel price is the lowest” (in many years).

(Brent Crude Oil has gone down to a low of US\$85 or RM281 a barrel.)

As the new fuel subsidy scheme will only come into effect mid-2015, details of how it will be implemented remain unclear for now.

For Petroleum Dealers Association of Malaysia (PDAM) deputy president Datuk Zulkifli Mokti (pic), a concern is how the government is going to get the income data of all the people in the country and “how much truth there will be in the data”, especially with those who are self-employed, run a business and those who don’t declare their income.

While agreeing that there is a need to rein in the high fuel subsidy, he is concerned that breaking them into three separate income groups with each getting a different price for petrol, is going to be messy.

“I have always learnt from experience that when you want to do things that involves a lot of people, you need to make it as simple as possible.

[Type in your image caption here]

“The simpler it is, the easier it is to implement. And what is being proposed (by the government) is not the simplest way. While the government has very good intentions, this may backfire,” he says.

Zulkifli does not think it is a good idea if the MyKad is used for the fuel subsidy rationalisation and at petrol stations.

For him, the MyKad is first and foremost a security system and it “should not be allowed to communicate with a commercial system” where people are able to change the data in it, and input data on someone’s salary into it. He fears that this could make the MyKad vulnerable to hackers who might tamper with the data, including the person’s identity.

“We cannot sell out on our (MyKad) system now.”

He points out that people’s salaries change every year or they may change jobs, and the price of petrol too changes weekly, sometimes even day-to-day, so somebody has to keep adjusting the price and data.

Zulfikli says there should also be a fixed quota on how much fuel a person who is eligible for the full or partial subsidy can buy.

“If there is no quota, then all bosses will buy fuel in the name of their drivers (who earn less than RM10,000, thus qualifying them for fuel subsidies).

“And if a driver (or someone eligible for the subsidised fuel) can buy 100,000 litres of subsidised petrol ... he can be a ‘businessman’ selling the fuel to others!”

But he concedes that a fixed quota will cause problems for those in the lower income group who have to drive all over the country in their line of work because they would have used up their fuel quota fairly quickly.

Zulkifli notes that there should also be a distinction between those earning over RM10,000 a month who have families and those who earn that much but are single.

“I think that in such cases, the kids too should be considered as an adult citizen and be entitled to buy (subsidised) fuel. They are citizens of the country even if they have no income. That is my opinion.”

And what about tourists driving rented cars or expatriates who have made Malaysia their second home or diplomats? Do they pay full price or are they eligible for subsidised fuel?

Zulkifli says the government did speak to PDAM on rationalising the fuel subsidy.

“We told them how difficult it would be to implement this. At the moment, we are still in the dark over what they want to do.”

He fears that if it is not looked into as a whole package, there might be a breakdown of the whole system.

“If you have a car and the engine is good and the gear and transmission system is perfect, but you have a flat tyre, no matter how good your whole car and transmission system and engine is, your car won’t move.

“It is the same with the subsidy rationalisation. It involves the government machinery, oil companies and station dealers and you need to connect it all.

“What happens if for example the main computer where the data is kept goes *kaput* (bonkers) for some reason?

“If one part fails, the whole thing doesn’t work and people are going to get upset and appointments are lost.”

So he says a simpler thing to implement is to reduce the fuel subsidy across the board.

“There should be no tiers. If you want to reduce the petrol subsidy by 100%, then no one gets subsidies. But if you want to cut it by 50%, then the government has to reduce the quantum of subsidies to 50% and price the petrol accordingly. It should be one tier. That would be the easiest to implement.

“The government will still be managing the float, which means there will be a certain amount of subsidy and government control.”

And if the price of oil shoots up, he says, the government can then relook the mechanism, adjust and find a solution.

For Zulkifli, it is “not the best arrangement to introduce strict measures to reduce subsidies” while the country still does not have a good public transport system in place yet.

He says the government has already started investing on improving public transport and building the MRT lines and notes that “they can hold back reducing the subsidies” until all this is completed first.

“I am surprised that they have fixed a date to do it (middle of next year) when they are saying they are still studying it,” he says.

He believes there is a lot of things the government still needs to look at to get the system up and running.

“Whatever they do, there will be some loud and dissatisfied voices. Not everyone will be happy. But like any system, after you implement it (if there are weaknesses), then you can adjust it as you go along.”

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