

# Fine-tuning fuel subsidy mechanism

WE refer to the letter "Eligibility for fuel subsidy" (*The Star*, Dec 6). We are very pleased with the comments made therein and would like to engage more with the rakyat on issues close to the Domestic Trade and Consumer Affairs Ministry and them.

Subsidies, cost of living and consumerism are some of the issues we would like the rakyat to be aware of and be on the same page as the government in a win-win situation towards the sustainable development of Malaysia.

The issue of subsidy is a sensitive one, and fuel subsidy is even more complex to comprehend and implement. It has been the subject of discussion for many years by many governments, but not many wanted to be unpopular by implementing a fuel subsidy programme. However, it is a subject that must be addressed and managed due to many reasons, including the leakage involved in the blanket subsidy implementation, the manner in which subsidised items are being used/abused, recipients who benefit from the blanket subsidy who are not from the target group, and the cost borne by the government.

While number, type and tenure of vehicles are the main factors in the fuel subsidy, the government also has to decide on the income factor, in particular for the M40 recipients. However, it will ensure that the criteria used will not be arbitrary but based on data gathered from various official sources.

In addition, we will provide an opt-in mechanism where those who feel they are qualified but not selected can still apply for consideration. We will announce the opt-in drive once we decide on the multiple channels for the opt-in exercise.

Based on data from the Department of Statistics Malaysia (DOSM), consumption of RON95 constitutes 89.9% of total petrol usage in Malaysia while 7.2% is RON97 and 2.9% is diesel. RON95 users are further divided into B40 (24.9%), M40 (43.4%) and T20 (31.7%). And when we go to where it is used, we will find that 83.5% of petrol is used in urban locations while the rest (16.5%) is in rural areas.

It is expected that around 7.5 to 8.0 million people will enjoy this fuel subsidy when it is implemented in 2020. We believe this will cover all B40 and most of the M40

who own vehicles that meet the criteria. This subsidy is expected to help reduce their petrol cost and thus their cost of living. Based on data from DOSM, most Malaysian households spend about 7.4% of their income on petrol and diesel.

We would like to rectify the amount of government subsidies for RON95 as calculated by the writer. Based on Finance Ministry data, the total subsidy paid for RON95 in 2018 was approximately RM2.7billion, which is far higher than the rough calculation of RM49.2mil.

Thus, subsidy for RON95 is considered high if we compare to the total budget for Malaysia. If we consider all the leakages, non-Malaysian users and RON95 being smuggled out, the subsidy is not money well spent. This is where the targeted subsidy rightly comes in and the savings can be channelled to other programmes that benefit Malaysians at large.

We take into account all aspects and not just cost alone.

Cost of living allowance or *bantuan sara hidup* (BSH) is another target-based subsidy, and this targeted fuel subsidy will ensure that the subsidy reaches the right target

group among Malaysians, reduce leakages and hopefully educate Malaysians to optimise the use of petrol.

We haven't finalised the mechanism of payment. While cash transfer is the easiest, it doesn't guarantee that the subsidy will be used solely for petrol. A card system would allow us to track the use of the subsidy and with the data collected, government could improve or roll out similar programmes, like toll subsidy, that would be beneficial to the people.

However, we will never under-estimate the complexity of rolling out the card system. For now, we will maintain cash transfer since this is the best mechanism, as stated in *The Politics of Fossil Subsidies And Their Reform* (Cambridge University Press; 2018; edited by Jacob Skovgaard and Harro Van Asselt).

We started with a number sufficient for the recipient to spend on petrol. Of course, data is important, and from the data we can improve the programme as we go along in the future.

The government is also fully aware of the effect of floating the price of petrol on the prices of

goods and services based on simulations done by the DOSM. Hence, the government will definitely ensure that the increase in petrol price is done gradually with minimum effects on the final price of goods and services together with enforcement under the Price Control and Anti-Profiteering Act 2011.

The government believes we are not able to address all issues at one time. However, we believe that we must have the guts to implement what we promised. Since the implementation of the cost of living allowance and later the fuel subsidy, we have re-affirmed that data-driven programmes are a major policy for the government.

And every people-centric programme that we do must be done for the purpose of equitable redistribution of the subsidy. This is very important for us to ensure that Malaysia is on the right track towards sustainable growth in the long term.

**YUNUS TASIM**  
Head of Corporate  
Communication  
Domestic Trade and Consumer  
Affairs Ministry