

BN London

Kopitiam Session I: Minyak

Date: 17 August 2008 Time: 10.00 - 15.30 hours

Venue: Malaysian Hall, 30-34 Queensborough Terrace, Bayswater London, W2 3ST

Attendance: 10 participants

REPORT

On 17th August 2008, BN London organised a bi-partisan forum focusing on the reduction of fuel subsidies in Malaysia. The session was opened by the President of BN London, Marina Che Mokhtar with a speech on the purpose of BN London as well as the objectives of the Kopitiam forum regarding fuel subsidies in Malaysia.

Warren Leow started the main program by providing an overview of the international oil markets. With increase in global demand and tight global supply (from industrial underinvestment, cartel agreements, speculations & cost inflation), oil prices have risen steeply over the past 10 years. Other key factors affecting the increase in price include speculative funds flows into the commodities markets & the decline in USD strength which resulted in commodities quoted in USD being more expensive nominally.

The inelasticity of both supply and demand of oil exacerbates any supply or demand shock prices due to the market's sensitivity to sentiments & perception.

All participants were actively involved in the discussion following Warren's presentation with the points being summarised in the 'PEST' table below.

<p>Political</p> <ul style="list-style-type: none"> • BN is not in position to push more drastically because the effect would not be fully seen by the next election • More Public Private Partnership (PPP) contracts should be encouraged to augment the commitment of the public sector with the efficiency of the private sector. This has to be supported by greater emphasis on quality of delivery which has to be policed via a systematic framework. 	<p>Economical</p> <ul style="list-style-type: none"> • Savings from subsidy reduction should be transparently tracked & constantly publicised along with improved breakdown of government expenditure. • Construction of more hydro dams can substitute usage of hydrocarbons for electricity production – more oil and gas can then be exported. • Focus on bio-mass, with the economics being augmented by emissions trading of spare pollution credits.
<p>Social</p> <ul style="list-style-type: none"> • Being 'environmentally friendly' is difficult when affordability for alternative energy (solar, wind) remains off limits for majority of Malaysians. • Malaysian mentality of car ownership as a social status has to be shifted through education & social tuning. 	<p>Technological</p> <ul style="list-style-type: none"> • Public transport running on electricity using live grids/ fuel cells vs fossil fuel • Total electrification of the Malaysian economy (built on renewable sources) could be considered- This will require a strategic decision to deliberately foster next generation 'electrification' of the Malaysian infrastructure. • There is scope to transform Malaysia into a global renewables R&D & manufacturing hub through selective subsidies & tax breaks.

Table 1: Summary of the PEST analysis

The second session provided participants the opportunity to voice out opinions on the petrol price hike from RM 1.92 to RM2.70 on 1st of June 2008.

For subsidies	Against subsidies
<ul style="list-style-type: none"> • The rakyat pay substantial amount of car tax, road tax, toll – fuel subsidies are transfer payments back to tax payers • Subsidies suppress inflation • The public transportation system is not efficient enough. E.g. lack of integrated coverage regarding feeder services to LRT/rail systems 	<ul style="list-style-type: none"> • Budget can be used for other purposes i.e. developing the country, improving public transportation systems • Retained subsidies should be more selective • As cheap oil diminishes, Malaysia needs to swallow the bitter medicine & adopt systematically • Illegal smuggling, cross country export subsidies (e.g. cheap Singaporean imports from Malaysia) will be reduced.

Table 2: Argument for and against subsidies

The forum participants agreed that the Federal Government could have improved on communicating reasons for the price hike and provide more buffer time for lifestyle adjustments. The key point is benefits of the fuel subsidy reduction should have been systematically and transparently broken down into brief & simple laymen terms, with FAQs & pre-emptive explanations prepared to argue the case for sound economic decision making.

For example, a Government website dedicated to objective dissection of the issue regarding fuel subsidies via point for point rebuttal on differences in opinion with Pakatan Rakyat would have been an excellent first step. Only purely rational arguments backed by black & white figures should be applied instead of personal attacks on Opposition politicians which only exacerbate the public distrust of the Government.

The debates between DSAI & Dato' Ahmad Shabery Chik, Dato' Shahrir Samad & Salahuddin Ayub and the live interview of Tan Sri Hassan Merican on live telecast are much lauded as symbols of unprecedented transparency- however, the usage of mass media in a more intelligent fashion to clearly outline the rational of prudent decision making would have made the argument the more compelling.

The session ended with a lively WTI crude derivatives trading game led by Warren Leow. Four teams of two each participated in buying & selling of crude oil futures via a broker with prices changing across 12 rounds according to market conditions, supply/demand factors as well as speculation.

This first Kopitiam session brought participants together from various backgrounds who are keen to push for more open discussion in London on Malaysian issues. Suggestions of topics for the next Kopitiam Session include objective evaluation of ISA, education in Malaysia and the issue of religion.

It was recommended that BN London should be reformed & restructured into a more bi-partisan organisation in order to function as a fully independent lobbying group straddling both sides of the Parliament.

Report prepared by:

Sohasini Lingam

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