



# Persatuan Pengguna Pulau Pinang Consumers Association of Penang

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Letter to the Editor

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## Ensuring Fair Access: Moving from Blanket to Targeted Fuel Subsidies in Malaysia

Malaysia's blanket fuel subsidy system, though designed to provide universal benefits, has inefficiencies and unintended consequences. This system, exemplified by subsidies for RON95 petrol and diesel, extends benefits indiscriminately, including to foreign entities and higher-income households, while facilitating activities like smuggling. These issues underscore the urgent need for a targeted subsidy approach to ensure resources are directed to those who truly need them.

Under a blanket subsidy scheme, every recipient, regardless of income or background, receives the same amount of subsidy. This approach, as seen with RON95 petrol and diesel, grants universal access, including to foreign vehicles and smuggling operations. Despite efforts to curb foreign purchases of subsidised fuel, enforcement remains weak, with the government primarily relying on reminders to petrol stations to restrict such sales. This lack of effective oversight results in significant resource mismanagement, with millions of Ringgit lost annually to fuel smuggling.

Higher-income households, particularly the Top 15% (T15) income group, also disproportionately benefit from these subsidies due to their ownership of larger vehicles with greater fuel consumption. It seems reasonable that households capable of affording a more luxurious lifestyle should pay the full, unsubsidised price for fuel, leaving subsidies to support those in genuine need. Importantly, this would not involve imposing additional taxes on the T15 group but merely ceasing subsidies for their fuel consumption.

According to a recent announcement, the government's diesel reform in June 2024 is expected to save approximately RM7.5 billion annually. Such savings could be redirected to support the B40 income group, enhance public infrastructure, and improve public transport system. Targeted subsidies could also reduce leakages and ensure that Malaysian taxpayers' money is not sacrificed to benefit others in neighbouring countries through smuggling or foreign vehicle usage.

The transportation sector in Malaysia is a significant contributor to greenhouse gas (GHG) emissions, accounting for approximately 25% to 30% of the nation's total emissions, posing a significant problem. It was reported that the heavy usage of private transport has led to a disproportionately high per capita carbon dioxide emission of 7.27 tonnes, double that of Thailand and higher than China's 6.59 tonnes. Therefore, the government should seriously consider improving public transport system nationwide with the savings from targeted subsidy implementation.

Implementing a targeted subsidy system comes with complexities. Key considerations include how to fairly assess eligibility for subsidies, particularly for households with varied needs, such as those with multiple vehicles or work-related travel requirements. It also involves addressing scenarios like households with several motorcycles

but no cars or those with both a car and a motorcycle. Another challenge is determining whether subsidies should be distributed as cash transfers or through contactless payment modes. Furthermore, linking databases across various government departments and agencies is essential to create a comprehensive and centralised system for effective administration.

According to economist Professor Emeritus Dr Barjoyai Bardai, only about 3% of the population, or approximately one million Malaysians, fall into the T15 category. A targeted subsidy system could require this group to pay unsubsidised prices, reflecting their higher fuel consumption and ability to afford market rates. This approach would ensure subsidies are reserved for lower-income groups without imposing undue burdens on wealthier households.

A targeted subsidy system for RON95 petrol and diesel is essential to reduce misuse and ensure resources benefit those in genuine need. By addressing the challenges of eligibility determination, household needs, and database integration, the government can develop a fairer and more efficient framework. Such a system would not only curb resource wastage but also enable significant savings to be redirected towards public services and infrastructure, maximising social impact and fostering greater equity in subsidy distribution.

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