

# Demand supply and fuel subsidy on petrol



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Petroleum is crude oil in its natural state which contains a variety of hydrocarbons, liquid organic and other inorganic compounds (Petroleum. co. uk, 2013). Malaysia is known for being an important producer of petroleum. It has the 23rd largest crude oil reserves in the globe. Among many oil companies found in Malaysia such as Caltex and Shell, Petronas is the only major oil company that is owned by the government. In year 2008, Petronas contributed RM67. 6 billion to the government, which was also 44% of the government's revenue (Kok, 2009). This shows that the petroleum industry is a significant contributor to Malaysia's income.

The demand and supply of petroleum in Malaysia is influenced by various factors. In the case of demand of petroleum, one of the factors is number of cars sold in the country. According to data shown in Malaysian Automotive Association, the total number of cars sold in year 2000 was 343, 173; while in year 2011, the number of sales rose to 600, 123 (Malaysian Automotive Association, 2008). According to the International Energy Statistics, the consumption of petroleum (thousand barrels/day) in year 2000 is 141. 677, whereas the consumption in year 2010 rose to 208 (U. S. Energy Information Administration, 2013). This shows a direct relationship between the number of cars sold and the demand for petroleum. The increase in public transportation affects the demand for petrol. When more people use public transport, total number of vehicles used for transport decreases, petrol consumption also decreases. Moreover, the sales of hybrid cars can influence the demand for petroleum. In 2012, sales of hybrid cars have risen from 8, 334 units to 15, 355 units (Star Motoring, 2013). As hybrid cars are less demanding in petrol consumption, the demand for petrol will decrease

slightly. Lastly, consumer's income affect the demand of petrol because the higher the income, the greater the petrol consumption because they can afford to spend.

Cost of crude oil affects the supply for petroleum (Caltex, 2013). When cost of crude oil increases, production cost increases, profit earned by the producers reduces, price becomes expensive and this will decrease the demand for petroleum slightly. The government policy affects the petroleum supply. For example, the government entrusted the country's petroleum to a government owned company called Petronas through the Petroleum Development Act 1995 (KeTTHA, 2010). With the establishment of Petronas, exploration and extraction of petroleum increases. Finally, the depletion of resources affects the supply of petroleum. Since year 2000, crude oil reserves have been depleting gradually (Othman and Jafari, 2011, pg12). When there's a shortage of resources, supply of petroleum decreases. Price of petrol will spike.

A subsidy is the sum of money given intended to help a particular industry or a product reduce its price and to spawn the industry. A fuel subsidy is the amount of money, which is the difference between the selling price of fuel and its cost price, paid by the government. By doing so, the government could ensure that fuel is sold at a decreased price and this will reduce the burden bared by the people (Sam, 2012). There are many advantages to fuel subsidy. One of them is that fuel subsidy can reduce the monetary burden inflicted upon the poor. The poorer citizens who are also consumers can get petrol at a lower price. Another benefit is that the citizens could enjoy low

price of petrol even though the international market price for petrol has risen.

However, fuel subsidy has its disadvantages as well. Fuel subsidy can in turn become a liability on the government budgets. If fuel subsidy occupies the major section of the budget pie, this means that the government would have fewer budgets to spend on other projects that will benefit the country.

Examples of such projects include education and health. It also promotes over-consumption (Hickey, 2012). When price of petrol becomes low for a long period of time, the people will have no incentive to practice moderation in consuming petrol because they can get it cheaply. Furthermore, all people from various financial standing receive the benefits of fuel subsidy. The problem is that this strategy is not economically efficient because the rich who could afford to use more petrol would benefit more from the subsidy as compared to the poor who could only consume limited amount of petrol (Aris, 2012). Finally, long term fuel subsidy will only encourage the people to become overly dependent on artificially cheap petrol (Kok, 2012).

In conclusion, number of cars, sales in hybrid cars, public transportation and consumers' income affects the demand of petroleum, whereas cost of crude oil, government policy and depleting resources affects the supply of petroleum. Fuel subsidy has pros and cons as explained in the essay. As petroleum is an essential commodity to Malaysia, we must implement strategies to conserve and save this natural resource.

(799 words)