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The Review of Subsidies Removal for Fuel, Implementation of New Taxation System, and Drawbacks of Green Investment as the Impacts of Falling Oil Price in Malaysia

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The Review of Subsidies Removal for Fuel, Implementation of New Taxation System, and Drawbacks of Green Investment as the Impacts of Falling Oil Price in Malaysia

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I. INTRODUCTION

By the June of 2014, price of the crude oil has kept falling due to a few factors and this incident brought negative and positive impacts on Malaysia consumers. The falling oil prices were predicted in the middle of 2013, there are the numbers of factors were clearly visible and one of the main factors is oversupply (Austin, 2014). Falling of oil price has also changed the consumer behavior and purchasing pattern. At the same time, Malaysia's government has implemented managed float system to replace subsidies on retail fuel product such as RON95, RON97 and diesel and there is no timeline is set for full deregulation of the fuel retail market (Business Circle, 2015). Also, the falling of crude oil's price might be a drawback for green investment. Therefore, this research is conducted to identify the impact of oil price falls on different aspects and how oil price fall affects consumer behavior and current purchasing pattern.

II. FACTORS OF OIL PRICE

The crude oil price has dropped more than 40 percent since June 2014. It was \$115 a barrel of crude oil (Rasmus, 2014). Now the price per barrel is below \$70. By the end of 2014, United States of America has

produced more than 9 million barrel of petroleum per day and become the largest oil producer in the world. US have significantly increased 80 percent of petroleum production from 2007 and helped to create a huge drop in petroleum price (Cunningham, 2015). US government has import less petroleum product into the country and has significantly created a lot of spare of supplies. On the other hand, the oil pricing is partly determined by the demand and supply. Demand for crude oil is currently low because of a growing switch away from oil to another source of energy (The Economist, 2014). There are few car manufacturer companies introduced a few types of hybrid cars to reduce the fuel cost of consumers spent and created an alternative renewable energy that benefits the environment (Living Green Magazine, 2013). There are a few examples of hybrid cars, which are Toyota Prius, Honda Jazz, Honda CRZ and etc.

III. MANAGED FLOAT SYSTEM OF OIL PRICING IN MALAYSIA

Malaysia government decided to launch a managed float system to determine the retail price of RON 95 petrol and diesel (Sukumaran & Azam Ahmad, 2014). Managed float system is a full deregulation of the fuel retail market. In other word, consumers are in a free market for retail fuels product, fluctuation could be reflected in retail price during the day (Business Circle, 2015). Managed float system is implemented because Malaysia government wanted to reduce the expenditure and remove the subsidies on retail fuel product. According to New Strait Time online (2014), Malaysia government is able to save RM12 billion from implement managed float system for retail fuel product such as diesel and RON 95 petrol. Pricing of retail fuel product would be reviewed monthly. According to Cooperatives and Consumerism Minister Datuk Seri Hasan Malek, public is able to benefit from implementation of managed float system for retail fuel products when price of crude oil drops in the free market (The Malaysianinsider, 2015).

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IV. IMPACTS OF OIL PRICES FALL ON CONSUMER BEHAVIOR

Consumers are able to gain benefits from the managed float system for retail fuel product when the price of crude oils drop in the world trading market. Traveller, drivers and household are getting the benefits now. The most obvious benefit of oil price fall is reducing the family financial expenses; all the drivers in the country are able to enjoy cheap and low petroleum. In the last few years, cost of petrol rose like a rocket and all those poor income families almost could not afford to drive (Peachey, 2015). Prices of domestic gas and electricity should cut their price down because the oil price falls. Prices of domestic gas and electricity are partially determined by the price of crude oil. Since the price of crude oil is falling and significantly reduce their operational cost, all prices of domestic gas and electricity should have a decrease in 2015 (Peachey, 2015).

Because of the fuel price falls, some of the airline companies have decided to abolish their fuel surcharge. This removal should lead to a lower cost of the flight to travellers. Fuel surcharge is imposed on travellers to help airlines to pay their fuel cost when the oil prices were rising. Removal of fuel surcharges is benefiting the traveller and also will be a huge boost for the tourism industry (Cheah, Sidhu, Sivanandam & Zainal, 2015). Fuel expense is a key cost for most of the businesses. Falling of oil price significantly helps to reduce the operational cost of a firm. Crude oil price falls is able to help the Malaysia's economy. It can help increase the gross domestic product of a country slightly if prices remain low, it can also help the industry rely heavily on transportation costs, for example, bus Travel Company, Airlines Company, Courier Company and etcetera. (Carlson, 2015). Therefore, the falling of crude oil price can directly help to reduce the cost of a living in a country.

V. IMPACTS OF FALLING OIL PRICE ON GOVERNMENT

a) Positive Impact

Petroleum retail price of Malaysia was determined through the automatic price mechanism (APM) since 1983, which means the government sets the price at a level if there are any changes to the crude oil price in the trade market; it will not change the retail fuel products' price (Anwar & Idris, 2014). In other word, Malaysia government has implemented a heavy subsidy on fuel product to control its price (Chambliss, 2015). Last year alone, Malaysia government had spent RM29 billion to subsidies on the retail fuel product such as RON95, diesel and liquefied petroleum gas. Implement of managed float system is a brilliant decision for the government. Government is able to save up a very big

amount of money and consumers are able to benefit from the fall in crude oil price. Economists have hailed the move as very laudable in addressing Malaysia's fiscal deficit position as well as upgrading its sovereign ratings (Ujang, 2014).

b) Negative Impact

Oil price falling is a very bad news for a country like Malaysia. The reason is many oil exporter countries are heavily relying on tax revenue from oil production to support government funding; for example, Norway and Russia are heavily relying on fuel production country (Michel, 2014). Falling oil prices will lead to government budget deficits and asked to either raise taxes or cut government spending. For the oil price, falls could lead to a significant budget deficit and numbers of social issues to a country (Pettinger, 2014). When the national revenue has decreased, a country will force to raise a higher taxation on people and lower the spending; it will have the effect of reducing a country economic growth and could even damage any economic recovery (Pettinger, 2009).

In 2014, Malaysia Government has made an announcement that it will implement the Government Services tax of six percent on most the common goods (ASEAN Business News, 2014). It significantly increases the tax burden of low-income family and may result in inflation as most of the common goods' prices go up; there are 76 percent of the Malaysians are disagreed with the implement of GST (Nbc.com.my, 2010).

VI. NEGATIVE IMPACT ON GREEN TECHNOLOGY

Oil price hike used to be a very key driver to for green technology; on 2007 to 2010, the renewable green investment increased from 7 billion to 157 billion. The main drivers are including global economic growth, increasing prices of petroleum, advance technology and demand increases for a cleaner environment (Eyraud, Zhang, Wane & Clements, 2011). However, falling oil prices now could be a drawback for investment into alternative renewable energy. Cheap oil might delay some green power project like electricity car, solar power car and etc. (Landberg, 2014). Oil price falls could counter the recent decline in car use and consistently increase the traffic congestion and environmental cost of fuel used (Shaffer, 2014).

VII. FUTURE OF CRUDE OIL PRICE

According to Mr. Lawler, although the crude oil price may have reach the floor by the late of 2014, but it may move higher very soon (Lawler, 2015). However, International Energy agency warned on the 13 march, although oil price has rebound on the February of 2015, another sharp fall in oil price might occur in this few months (The Week UK, 2015). Due to the problem of

oversupply of crude oil, downward price pressures could build further in the first half of 2015; that have been report that Saudi Arabia, member of OPEC, is not willing to cut down the supply because most of the OPEC members heavily rely on oil revenue to support the economic growth; crude oil explorer country will become increasingly worried that falling prices will make exploration uneconomical; United energy department has stated that the expected low fuel prices will last until 2016 (BBC News, 2014).

VIII. DISCUSSION

Falling crude oil price and the implementation of managed float have brought some benefits to consumers, but some people might not benefit in this current situation. Before the price of retail fuel product dropped, hybrid car is one of the most popular green energy that able to reduce fuel consumption and cost of living (Schaal, 2014). According to Miss Nelson (2010), hybrid technology has a lower fuel consumption which translates into reduced emissions of carbon dioxide; which is one of the factors that caused global warming. Also, hybrid technology helps to improve fuel economy, reduce fuel consumption and provide better gas mileage than gasoline-powered cars (Gorzelay, 2014). However, people do not have to worry about the problem of fuel consumption because the oil is so cheap now. Most of the middle or low-income consumers will not consider buying a hybrid car now because hybrid cars are so luxury and cost so much of money to maintain. The reasons is not all of the mechanics are trained or equipped to work in a hybrid vehicle and repair bills will cost more compared to the standard vehicle. Also, because the hybrid vehicle has heavy weight and drivers is expected to replace their tires and brakes more often ('The Pros and Cons of Hybrid Cars', 2013). Oil price hike used to be a key driver for green energy but now oil price is delaying the investment of green technology. On the other hand, people will start drive more often because the oil is more affordable. Economist is predicting if the oil price continuously staying low, it will dramatically change the driving habit of a country and increases the greenhouse-gas emission around the world (Plumer, 2014).

IX. CONCLUSION

By conducting this research, result showed that consumer behavior is affected by falling crude oil price. Consumers are able to enjoy the benefit from cheap retail fuel product such as RON 95, RON 97 and diesel. Also, fees of electricity and domestic liquid gas should have cut their prices since the cost of operation has been reduced. It significantly reduces the living cost of most the family in the country. Also, traveller can benefit from the removal of fuel surcharges by airlines companies and enjoy the low fare of flight now.

However, it does bring some disadvantages to the society. Crude oil price falls is a drawback for investment green energy source. Investors might delay their investment in alternative renewable energy projects such as an electric car, hydrogen car and etc. In addition, crude oil price falls is a bad news for every oil exporter who heavily relying on fuel taxation. These oil exporter countries might need to cut down government spending or put heavy taxes on people who live in the country.

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