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## **Fuel Subsidy Rationalization in Malaysia: The Need for Effective and Equitable Implementation**

**24 May 2024** - On May 21st, Prime Minister Anwar Ibrahim announced that Malaysia will begin rationalizing fuel subsidies, starting with the reduction of diesel subsidies, initially in Peninsula Malaysia. This reduction is expected to rebalance subsidies away from higher income and toward lower income groups. The subsidy will be replaced with cash aid for eligible individuals who own private diesel-powered vehicles, such as small traders and farmers, and a Subsidized Diesel Control System (SKDS) to protect the lower and middle-income groups who use diesel for their businesses. SERI commends this subsidy replacement, viewing it as a balanced approach. This rationalization may also help efforts to reduce fossil fuel dependency and emissions in the long run. However, we emphasize the need for the government to ensure that all entities affected by the diesel subsidy rationalization such as small businesses receive fair compensation and support.

The same should be done for a potential petrol RON95 subsidy rationalization later in the year, although an announcement has yet to be made. Despite public concern toward the petrol prices increase, the government has assured that the savings from subsidy rationalization will be directed towards other public initiatives such as Sumbangan Asas Rahmah (SARA) and Sumbangan Tunai Rahmah (STR). Therefore, ensuring robust and inclusive implementation strategies is crucial to ensure that the intended benefits will reach the target groups. Accordingly, SERI stresses the need for an effective implementation of the Central Database Hub (PADU), with better strategies to increase registration rate.

Nevertheless, SERI would like to bring to attention that a fuel subsidy rationalization is not just a significant economic shift but also a significant social change. Malaysia has been a fossil fuel-dependent society since independence, hence, the removal of blanket fuel subsidies cannot be done in isolation. SERI stresses the need to view policy as a holistic process, impacting not just the government and large corporations but also families, communities and marginalized groups. This comprehensive approach is essential to ensure that the policy changes are equitable and beneficial to all sectors of society.

*SERI is a non-partisan think-tank dedicated to the promotion of evidence-based policies that address issues of inequality, particularly at the intersection of technology and society. For more information, please visit [www.seri.my](http://www.seri.my) or email us at [hello@seri.my](mailto:hello@seri.my).*