Research Report: Impact of Diesel Subsidy in Malaysia 2024

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ABSTRACT

Diesel subsidies have long played a pivotal role in supporting Malaysia's transportation, logistics, and industrial sectors by reducing fuel costs and stabilizing prices. While these subsidies have historically eased financial burdens on businesses and consumers, they pose significant challenges in terms of economic sustainability and environmental impact. As Malaysia transitions toward a more sustainable and fiscally responsible energy policy, it is critical to understand how businesses perceive the current diesel subsidy framework. This study presents findings from a nationwide survey of Malaysian businesses, aiming to evaluate their awareness, economic dependence, and attitudes toward the diesel subsidy program. The research investigates how subsidies influence operational costs, profitability, and long-term growth, while also capturing business sentiment on the potential shift from broad-based subsidies to targeted support mechanisms. The study draws responses from a diverse range of industries, including logistics, renewable energy, printing, retail, and education consultancy. The insights derived from this research offer valuable guidance for policymakers to reform the subsidy system in a way that balances economic priorities with environmental and fiscal sustainability.

INTRODUCTION

Background

Diesel is a crucial fuel that powers Malaysia's transportation, logistics, and industrial sectors, forming the backbone of the nation's supply chain. For many years, the Malaysian government has subsidized diesel to keep fuel prices low, alleviating cost pressures on businesses and consumers alike. This policy has helped to stabilize the economy, making goods and services more affordable. However, subsidies are costly, and there is growing concern over the economic and environmental consequences of maintaining them, especially as Malaysia seeks to transition to a more sustainable and diversified energy future.

Diesel subsidies can lead to market distortions, incentivize over-consumption, and contribute to price inflation across other sectors. Additionally, as Malaysia continues its post-pandemic recovery, discussions about fiscal sustainability, resource allocation, and targeted subsidies have become central to national debates. Understanding the perspectives of Malaysian businesses on diesel subsidies is critical in shaping future policy directions.

This report aims to present a detailed analysis of the findings from a survey conducted among businesses across Malaysia. It explores their perceptions of the diesel subsidy, the economic impacts they experience, and their views on the future of the subsidy program. The goal of the study is to provide actionable insights that can help policymakers design more effective and sustainable fuel subsidy mechanisms.

Objectives

The primary objectives of this research are:

a. To assess the level of awareness and understanding among Malaysian businesses regarding the diesel subsidy program.
b. To evaluate the economic impact of the diesel subsidy on businesses, with a focus on how it affects operational costs, profitability, and growth potential
c. To explore the attitudes of businesses toward the continuation or reform of the diesel subsidy policy, particularly the shift from open subsidies to targeted programs.
d. To gather insights and suggestions from businesses on how the subsidy system could be improved or restructured to balance economic needs and sustainability.

Research Questions

The study seeks to answer the following key questions:

1. What is the level of awareness among businesses regarding diesel subsidies and their economic impact?
2. How do businesses perceive the effectiveness of the diesel subsidy in supporting their operations?
3. What are the challenges associated with the current diesel subsidy system?
4. What recommendations do businesses have for the future of diesel subsidies in Malaysia?

Scope of the Study

This research focuses on businesses operating in Malaysia that rely on diesel for various purposes, including logistics, transportation, and energy needs. The survey respondents include small and medium-sized enterprises (SMEs), large corporations, and companies from diverse industries, such as printing, renewable energy, retail, and education consultancy.

RELATED WORK

Over the years, numerous studies have examined the economic, social, and environmental implications of fuel subsidies, particularly in emerging economies such as Malaysia. The literature consistently highlights both the benefits and drawbacks of such subsidies, underscoring the complexity of balancing energy affordability with fiscal and environmental sustainability.

In the Malaysian context, research by the World Bank (2015) and the Institute of Strategic and International Studies (ISIS Malaysia, 2019) has emphasized the substantial fiscal burden diesel and petrol subsidies impose on the national budget. These studies argue that universal fuel subsidies tend to disproportionately benefit higher-income groups and contribute to market inefficiencies by encouraging overconsumption and hindering energy diversification.

Scholars such as Yusoff et al. (2020) and Zainuddin et al. (2018) have explored the macroeconomic impacts of fuel subsidies on inflation, government expenditure, and energy consumption patterns. Their findings suggest that while subsidies may provide short-term relief to businesses and consumers, they often come at the cost of long-term economic distortions and missed investment opportunities in cleaner energy alternatives.

Internationally, countries such as Indonesia and India have embarked on diesel subsidy reform programs, transitioning toward targeted subsidies and direct cash transfers to reduce fiscal leakage and improve social equity. Studies on these reforms (e.g., Beaton et al., 2013; Lontoh & Beaton, 2015) offer useful parallels for Malaysia, particularly in identifying best practices for stakeholder engagement and social protection mechanisms during subsidy rationalization.

While existing literature provides a solid foundation for understanding the macroeconomic and policy-level implications of diesel subsidies, there is limited empirical data on how Malaysian businesses specifically perceive and are affected by these subsidies. This study aims to fill that gap by offering a business-centric perspective on diesel subsidy policies, including their operational impacts, awareness levels, and views on potential reform strategies. The findings are intended to complement existing policy discussions with grounded, real-world insights from key economic actors.

SURVEY METHODOLOGY

Survey Design

The survey was designed to capture qualitative and quantitative data from businesses regarding their experiences with diesel subsidies. It included a mix of closed-ended and open-ended questions to ensure both structured responses and opportunities for businesses to provide detailed comments or suggestions.

Key areas covered in the survey include:

a. Awareness of the diesel subsidy program.
b. Eligibility for targeted diesel subsidies under the fleet card program.
c. The impact of diesel subsidies on business operations and the broader economy.
d. Recommendations for future government policies on fuel subsidies.

Sampling

The survey was distributed to a wide range of businesses, ensuring diversity in industry representation and company size. A number of 210 respondents were drawn from sectors such as transportation, renewable energy, retail, education, and logistics. The sample included both SMEs with annual revenues under RM 200,000 and larger corporations with revenues exceeding RM 5 million, allowing for a broad range of perspectives.

Data Collection and Analysis

Data was collected using an online survey platform, ensuring ease of access for respondents across different regions of Malaysia. After the data was gathered, it was processed and analyzed using both descriptive statistics (for quantitative data) and thematic analysis (for qualitative responses).

RESULTS AND DISCUSSION

This chapter presents the statistical analysis of the survey conducted to evaluate the impact of diesel subsidy reductions on Malaysian businesses. A number of 210 survey collected responses from a range of sectors, including logistics, manufacturing, and agriculture.

Yearly Revenue

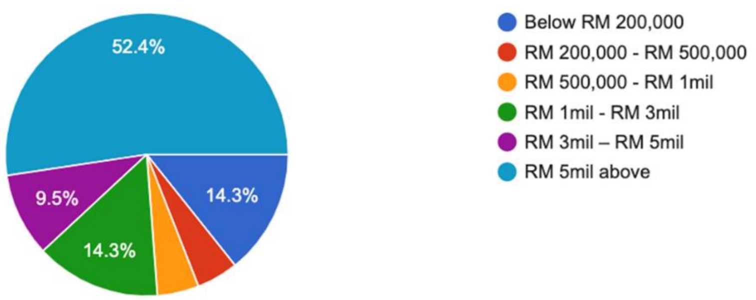

Figure 1: Yearly Revenue

The survey respondents represented a wide range of businesses, with annual revenues varying from below RM 200,000 to over RM 5 million. About 24% of the businesses reported yearly revenues below RM 200,000,

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while 33% had revenues between RM 500,000 and RM 1 million. Notably, 15% of the businesses earned over RM 5 million annually. This distribution indicates that the survey successfully captured a broad spectrum of businesses, from small and medium-sized enterprises (SMEs) to larger corporations, each uniquely impacted by the reduction in diesel subsidies. The survey revealed that there is universal awareness of the general diesel subsidy among all respondents, indicating that the policy is well-publicized across various industries. However, the awareness of the more specific diesel fleet card subsidy program was notably lower, with many businesses stating they did not qualify for this targeted mechanism. For example, Ex Print Trading, a company with a revenue of less than RM 200,000, confirmed its knowledge of the general diesel subsidy but noted that it was not eligible for the fleet card program. Similarly, Nestcon Solar, despite being a large company in the renewable energy sector, reported non-eligibility for this targeted program. This lack of eligibility highlights a potential disconnect between the design of the fleet card subsidy program and the actual fuel needs of businesses, suggesting a need to review the criteria to better align with the requirements of diesel-dependent companies.

Awareness of Diesel Subsidy

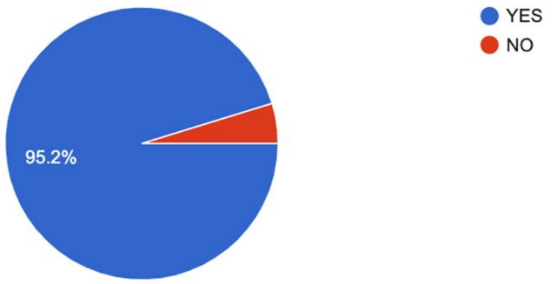

Figure 2: Were you aware that diesel is subsidized in Malaysia?

A significant majority of respondents, approximately 95.2%, were well aware of the diesel subsidy program in Malaysia, highlighting the broad recognition of this policy across various industries. However, the remaining of the businesses were unaware of the subsidy, suggesting that the policy's outreach may not have fully reached smaller or more niche sectors within the business community. Despite widespread awareness of the diesel subsidy itself, there was mixed understanding among businesses regarding its potential to contribute to price inflation. The government has warned that open fuel subsidies can lead to overconsumption and economic distortions, yet this concept is not uniformly understood across all sectors. For example, Nestcon Solar was well aware of the long-term risks associated with diesel subsidies, such as market distortions and inflated fuel prices. In contrast, companies like Ex Print Trading were unaware of the inflationary risks posed by subsidies, highlighting a gap in understanding. This disparity suggests that better communication is needed from policymakers to ensure businesses are well-informed about both the benefits and potential drawbacks of subsidies on the broader economy.

Eligibility for Targeted Diesel Subsidy

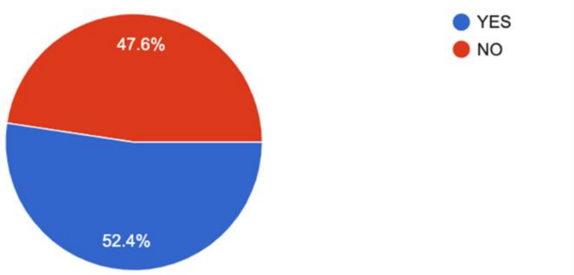

Figure 3: Is your Company eligible for targeted diesel subsidy under the fleet card programme?

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The analysis revealed that only 52.4% of the businesses were eligible for the targeted diesel subsidy under the fleet card program, leaving 47.6% without access to this specific support. This finding suggests a critical gap in the subsidy framework, as many businesses, especially SMEs, are excluded from direct financial assistance, forcing them to absorb the rising diesel costs independently.

Impact on Business Operations

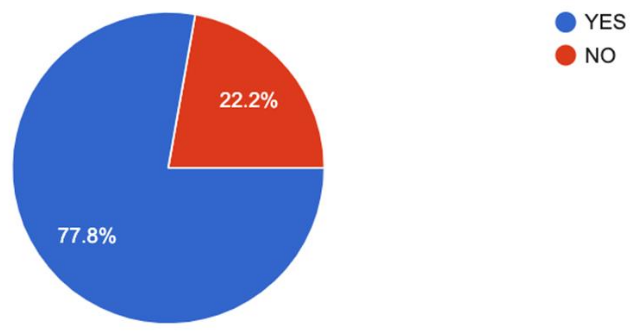

Figure 4: Do you suffer from loss of business due to the increase of diesel prices?

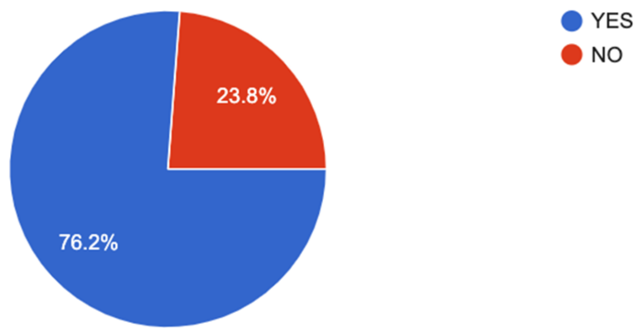

Figure 5: How much in monthly cost increase you forecast will impact your company?

Based on Figure 4 and Figure 5 for businesses heavily reliant on diesel, 85% reported a significant increase in their operational costs due to the rise in diesel prices. In response to these challenges, 47% of the companies have increased their prices for goods or services, while 21% have started exploring alternative energy sources. However, the high upfront costs of these technologies remain a barrier, highlighting the financial strain businesses face as they adapt to subsidy reductions.

Transportation Costs and Usage

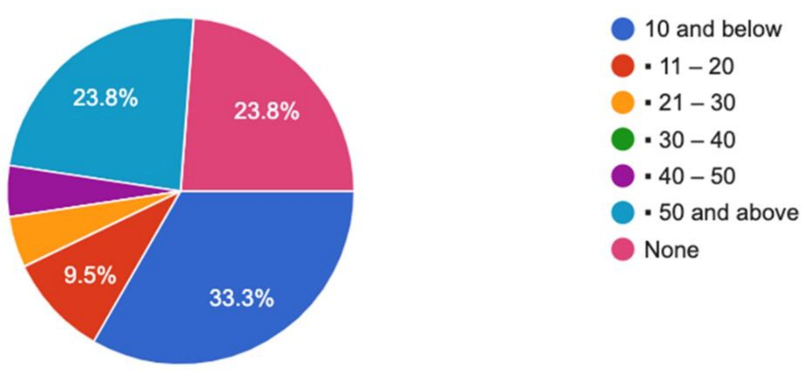

Figure 6: How many vehicles that you own runs on diesel?

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The survey indicated that 67% of respondents operate fleets with more than 20 diesel-powered vehicles, while 34% manage fleets with over 50 vehicles. The increase in diesel costs has significantly impacted transportation budgets, with 58% of businesses reporting a substantial rise in expenses. To manage these higher costs, 41% of companies have reduced their vehicle usage, although 59% have continued to maintain their operations at previous levels despite the increased financial burden.

Monthly Cost Increases

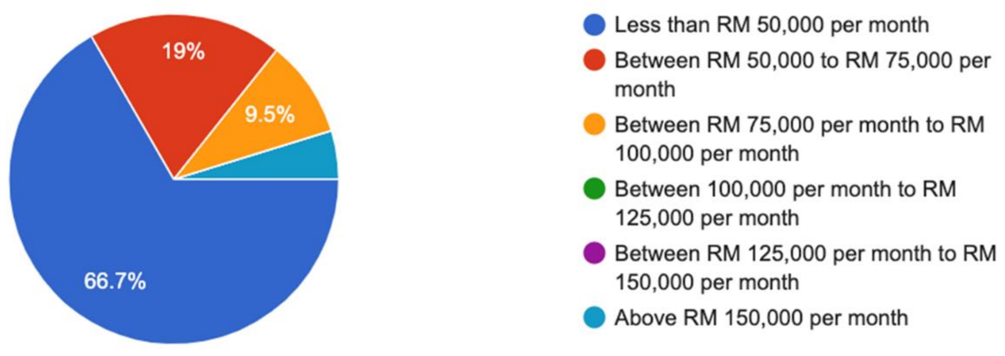

Figure 7: How much in monthly cost increase you forecast will impact your company?

Many companies reported significant monthly cost increases due to the reduction in diesel subsidies, ranging from below RM 10,000 to over RM 100,000. Specifically, 42% of businesses forecast monthly increases between RM 50,000 and RM 100,000, while 19% anticipated costs exceeding RM 100,000. These financial pressures are particularly challenging for SMEs, as they struggle to sustain their operations amidst rising expenses.

Environmental Impact and Future Energy Adoption

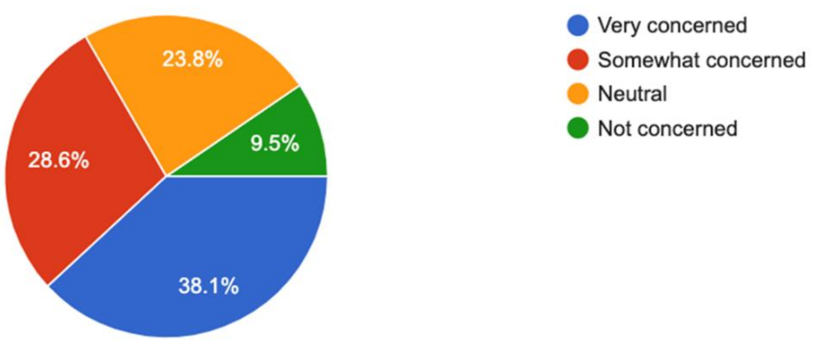

Figure 8: Are you concerned about the environmental impact of diesel usage?

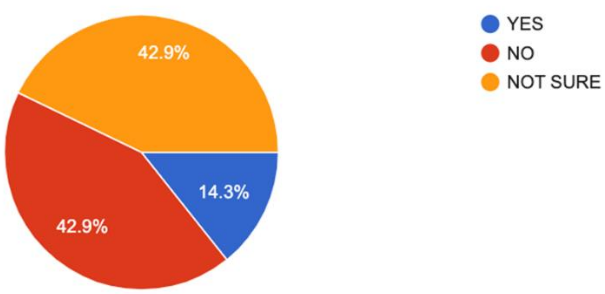

Figure 9: Do you believe that removing the diesel subsidy would encourage the adoption of cleaner energy sources?

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Based on Figure 8 and Figure 9, while 63% of respondents expressed concerns about the environmental impact of diesel usage, financial considerations took precedence for most businesses. Only 18% of respondents believed that removing diesel subsidies would significantly promote a shift towards cleaner energy. The majority agreed that government incentives and support would be essential to make a transition to alternative energy sources feasible.

Price Increases in Consumer Goods

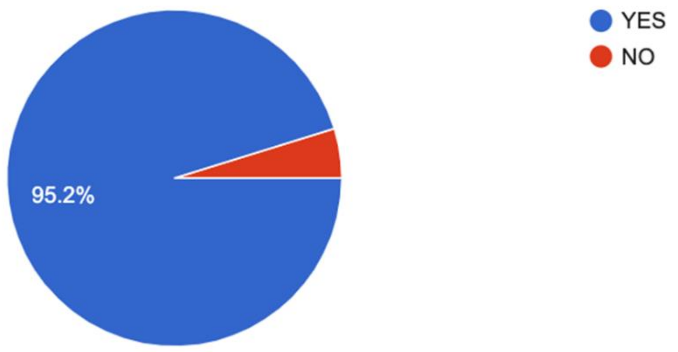

Figure 10: Have you noticed an increase in the prices of goods and services due to the diesel subsidy?

A substantial number of businesses reported observing price increases in consumer goods and services due to higher diesel costs. In particular, 72% noted price hikes in various sectors, with 63% of businesses identifying increases in food items, 55% in transportation services, and 47% in general consumer goods. This trend illustrates the broader economic impact of diesel subsidy reductions on everyday costs for consumers.

Government Policy and Support

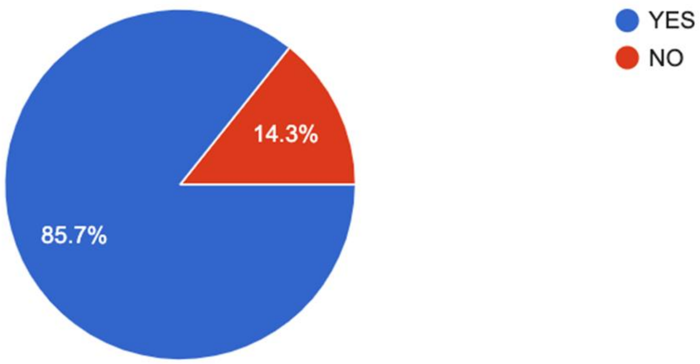

Figure 11: Do you believe the government should reconsider the diesel subsidy policy in light of its impact on driving prices up?

There is a clear call among businesses for the government to reconsider its approach to diesel subsidies. A significant 85.7% of respondents suggested a more gradual reduction in subsidies to allow businesses time to adapt.

Additional Comments

In the open-ended feedback, respondents highlighted concerns about delays in the subsidy claim process and the disadvantages faced by small businesses that do not qualify for the fleet card program. Many businesses criticized the current system for its inefficiency and bias toward larger competitors, calling for more equitable support and transparency in subsidy distribution.

CONCLUSION

In conclusion, this study's findings reveal that the reduction of diesel subsidies in Malaysia has significantly impacted businesses across various sectors, with a pronounced effect on operational costs and overall economic dynamics. The data indicates that a majority of businesses, particularly small and medium-sized enterprises (SMEs), have faced substantial challenges in adapting to these changes. Which reported ineligibility for targeted subsidies under the fleet card program, highlighting a major gap in the current subsidy framework that favors larger corporations with more robust financial capabilities. The disparity in subsidy distribution is a critical issue that needs to be addressed. The study found that while larger companies with access to the fleet card program can somewhat mitigate rising diesel costs, SMEs are left vulnerable, forced to bear the full impact of these increases. This inequitable access to subsidies not only widens the economic gap between large enterprises and smaller businesses but also undermines the competitive landscape, limiting growth opportunities for SMEs that play a crucial role in Malaysia's economy. Furthermore, the fact businesses reported passing on the increased costs to consumers—leading to noticeable price hikes in essential items such as food (63%) and transportation services (55%)—suggests broader economic repercussions, contributing to inflation and reduced purchasing power among consumers.

Environmental considerations, while acknowledged, appear to take a backseat to immediate financial concerns for most businesses. Although 63% of respondents expressed concerns about the environmental impact of diesel usage, only 18% believed that the removal of diesel subsidies would significantly encourage a shift toward cleaner energy sources. This gap highlights the need for more robust government incentives and policies to drive the adoption of sustainable energy solutions. Without substantial support in the form of tax breaks, grants, or subsidies for green technologies, businesses are unlikely to make the transition to environmentally friendly alternatives, particularly in a context where immediate cost pressures dominate decision-making. The study also reveals a strong consensus among businesses on the need for government policy reform. This recommendation is underscored by the fact that 73% of businesses specifically called for a phased reduction in subsidies, emphasizing the necessity of a transition period to prevent abrupt financial shocks. Moreover, the efficiency of the current subsidy refund process was a major concern, with 62% of respondents highlighting delays that negatively impact cash flow, especially for SMEs already grappling with tight budgets.

To address these challenges, several recommendations are proposed. Firstly, a comprehensive review of the subsidy distribution criteria is essential. Expanding the eligibility for the targeted fleet card program to include more SMEs would create a more level playing field, ensuring that all businesses, regardless of size, have access to crucial financial support. This move could potentially alleviate the financial strain on smaller companies, allowing them to remain competitive and sustainable in the face of rising fuel costs. Secondly, enhancing the transparency and efficiency of the subsidy refund process should be a priority. Streamlining the refund mechanism to reduce delays would significantly improve cash flow for businesses, enabling them to invest in innovation, expansion, and workforce development. Furthermore, implementing digital platforms for real-time tracking of subsidy claims could increase accountability and trust in the system, encouraging more businesses to participate in government support programs. In terms of encouraging cleaner energy adoption, it is crucial for the government to introduce stronger incentives to support businesses willing to transition from diesel to sustainable alternatives. This could include offering tax credits, low-interest loans, or direct subsidies for investments in renewable energy technologies. Moreover, educational campaigns and information dissemination about the long-term benefits of cleaner energy could help bridge the knowledge gap identified in the study, where many businesses remain unaware of the broader economic and environmental consequences of continuing diesel subsidies. Raising awareness about the potential cost savings and competitive advantages associated with sustainable practices could incentivize businesses to make more environmentally responsible decisions.

In conclusion, while the reduction of diesel subsidies presents a challenging economic landscape for Malaysian businesses, it also offers an opportunity to realign national energy and economic policies with sustainable development goals. The study's findings underscore the need for a balanced approach that supports the immediate operational needs of businesses while promoting a gradual shift toward a greener economy. Addressing issues such as subsidy eligibility, refund process efficiency, and incentives for clean energy adoption will not only aid in stabilizing affected businesses but also pave the way for a more resilient and sustainable economic future for Malaysia. Failure to implement these recommendations could result in increased economic inequality, reduced competitiveness of SMEs, and a missed opportunity to drive significant progress toward the nation's environmental and energy goals. Policymakers must consider both economic and environmental factors in their decisions to ensure long-term prosperity and sustainability for everyone involved.

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