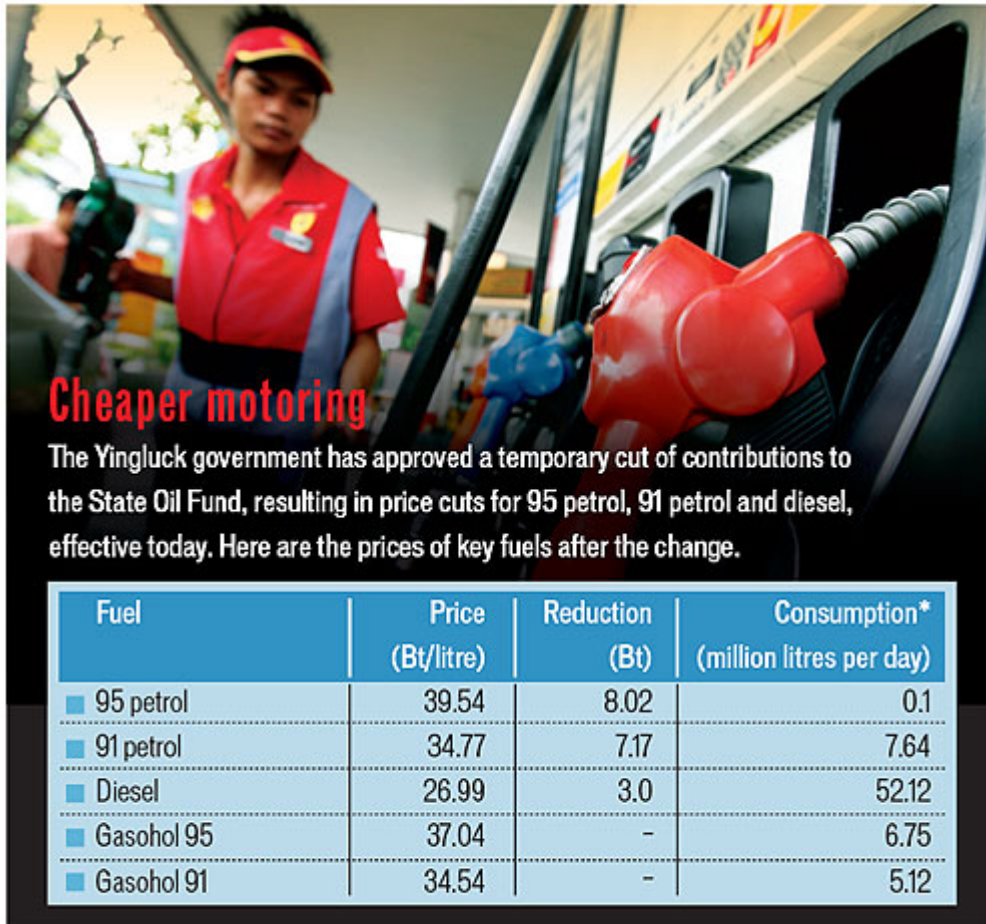


Pump prices slashed from today

Fears held for impact on bio fuels, gas prices

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Prices at the pump will tumble by as much as eight baht a litre today after the government gave the green light for a measure slashing contributions by refineries to the State Oil Fund.



Note: Average daily consumption, Jan-July

POSTgraphics

Energy Minister Pichai Nariphaphan said contributions and value-added tax have been cut by three baht a litre for diesel, 7.17 baht for 91 octane petrol and 8.02 baht for 95 octane petrol.

The National Energy Policy Committee, chaired by Prime Minister Yingluck Shinawatra, approved the reductions yesterday.

Ms Yingluck said the cuts formed part of the government's policy commitments made to parliament earlier this week and would help ease expenses for the public.

The Oil Fund collects contributions from sales of all fuel in Thailand. Contributions from diesel and petrol sales help subsidise alternative fuels such as gasohol as well as cooking gas.

Oil company Bangchak Petroleum last night cut its 91 petrol price by 7.17 baht a litre to 34.77 baht, with diesel prices falling by three baht to 26.99 baht a litre.

Policy-makers said cutting diesel prices would help ease pressure to raise prices across the economy by curbing transportation and logistics expenses. Transport officials said that bus and commuter van fares would also come down with the decline in fuel costs.

Mr Pichai said 91 petrol was primarily used by motorcycles drivers, while the price cuts for 95 petrol would assist drivers of older vehicles unable to use cheaper gasohol blends.

Overall, 10 million motorcycle drivers, 7 million diesel consumers and one million premium petrol users would benefit from the policy.

He insisted the measure would be only temporary. The Oil Fund is expected to lose 6.16 billion baht in income a month from the measure.

"The government will monitor oil prices and other economic factors, as well as progress in our policies to raise the incomes of lower-income workers," Mr Pichai said.

He added the energy policy committee had yet to consider any changes on excise taxes charged for fuel or whether to extend the tax cut measure taken by the last government that is due to expire next month. The government collects seven baht a litre in excise tax for 95 and 91 petrol, 6.3 baht for 95 and 91 gasohol and 0.005 baht for diesel.

Unleaded 91 petrol prices have risen by 8.5% this year to 41.94 baht a litre while diesel has been capped at 29.99 baht.

This is despite the fact that oil prices are now trading around US\$85 a barrel, 7% cheaper than at the end of 2010 on worries about slower global economic growth.

Democrat deputy leader Korn Chatikavanij criticised the government's energy pricing policy as ill-conceived.

The reductions in contributions to the State Oil Fund would reduce incentives for commuters to use alternative fuels, affecting long-term energy security, conservation efforts and ethanol producers.

Mr Korn, the former finance minister, said the government would also face a challenge in raising funds to support cooking gas subsidies.

Without subsidies from the Oil Fund, local prices for a 15-kilogramme tank of cooking gas would more than double to 570 baht, in line with market prices, he said.

"The government has two choices _ float gas prices, which will affect lower-income users, or use taxpayer funds to subsidise cooking gas," Mr Korn said.

Energy experts offered mixed views on the new policy.

Siriwut Siampakdee, chairman of the Ethanol Producers Association, warned that motorists would shift from gasohol to petrol with the price changes.

"Thailand has been developing alternative fuels for over a decade and has tried to encourage its use by both motorists and auto manufacturers. I think this new policy needs to be carefully considered, otherwise [alternative fuel] policies will collapse," he said.

Thailand uses some 1.5 million litres a day of ethanol for blending with petrol to create gasohol. Energy policy-makers want to raise total ethanol production to 2.9 million litres a day.

"The government says it wants to increase alternative energy to 25% of total usage from 20%. But I see this new policy as the opposite of what it previously said," Mr Siriwut said, adding that he supported allowing prices of liquefied petroleum gas (LPG) and compressed natural gas (CNG) to float with market prices.

Energy expert Manoon Siriwan said the Oil Fund cuts should be strictly temporary to avoid hurting demand for alternative fuels, which has risen in recent years primarily due to the price advantage over unblended petrol and diesel.

Longer term, prices for all retail petroleum products should be adjusted to reflect global prices, he said.

But Prasert Bunsumpun, the chief executive of PTT Plc, said the new policy is unlikely to have a long-term impact if maintained for just six months.

He agreed, however, that subsidies on LPG and CNG should be cut to help bring prices closer to market levels and ease the burden on the state.

Payungsak Chartsuthipol, chairman of the Federation of Thai Industries, cautioned that the policy would distort the energy market and take away budget resources that could be better used for research and development and other long-term development programmes.

"The government should allow for a free market policy because when implementing a reduction policy, it's quite hard to cancel," he said.