

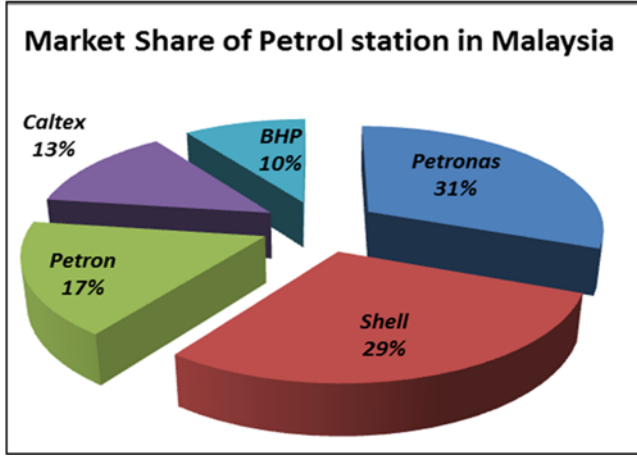
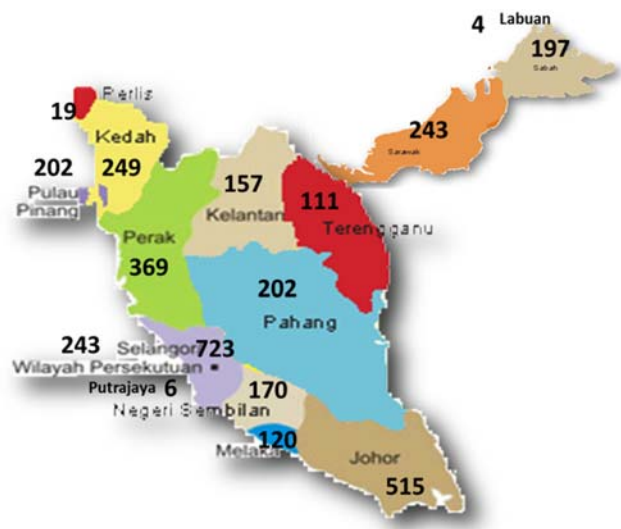
## RETAIL PETROL INDUSTRY (Jun 2017)

Around 70% of petrol stations are based on dealer owned, dealer operated (DODO) with highest market share by Petronas. DODO refers to dealer owned dealer operated in which the Dealer will co-invest with the oil company for the development and construction of the service station. In this case, dealers would provide properties and investment while the oil companies provide\_\_\_\_\_??. The Dealer/Landowner owns the land, building, and some equipment. Dealer also takes ownership of fuels, convenience store, and inventories. Under DODO station Dealer will sign on a Retail Trade Agreement with the oil company for an extended period of time roughly between 10-15 years. The Dealer will also receive additional margin over and above the Government’s regulated dealers’ margin.

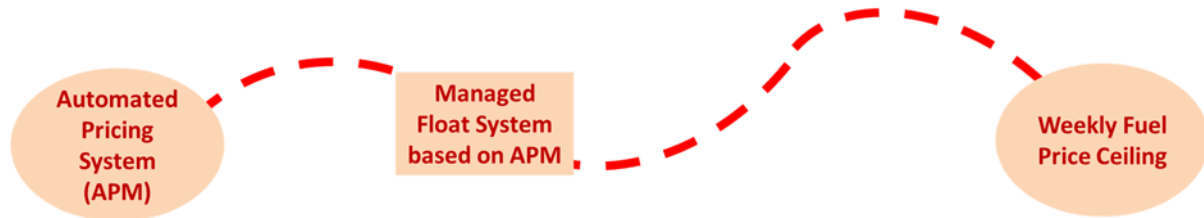
Meanwhile another type of programmes includes CODO or company owned dealer operated in which entrepreneurs manage and operate petrol service stations on behalf of the oil companies. This type of programme represents about 30% of the petrol service station in Malaysia.

Petrol service stations also vary in the terms of service offering ranging from full or semi service stations and petrol station with NGV services. This type of services represents majority of petrol service stations in Malaysia; around 3,530 nationwide. In the rural areas, there are scattered mini petrol stations; around 267 stations that provide basic petrol needs for the people in the rural area.

The market share for petrol station is clearly dominated by Petronas which represents around 31% of the market share closely followed by Shell and Petron with around 29% and 17% of market share respectively.



**Regulated retail pricing mechanism based on the automated pricing system (APM) with fixed commission of fuel retailer's margin**



**Automated Pricing System (APM):**

The formula used to calculate the price of fuel is called the *Automatic Pricing Mechanism* which was in place since 2 April 1983. Its function is to stabilize the price of petrol and diesel in the country to a certain extent, via a variable amount sales tax and subsidy, so the retail price only has to be changed if the difference in price exceeds the threshold of the tax and subsidy, at the discretion of the government.

The refined product cost refers to Means of Platt Singapore (MOPS) average price denominated in US dollars. Many countries in this region base their fuel prices on the MOPS, including few ASEAN countries and even Australia. The buyer of a finished (refined) oil product will refer to the MOPS index as a better indicator/benchmark of world prices rather than crude oil prices. The MOPS price typically has a premium over the crude oil prices. This is why the Malaysian government uses MOPS to determine fuel prices rather than NYMEX crude oil prices.

BREAKDOWN: FUEL PRICE IN MALAYSIA	
<b>COST OF PRODUCT</b> Based on Mean of Platts Singapore	
<b>ALPHA</b> 5 sen per liter for petrol 4 sen per liter for diesel	
<b>OPERATIONAL COST</b> Peninsular Malaysia - 9.54 sen per liter Sabah - 8.98 sen per liter Sarawak - 8.13 sen per liter	
<b>OIL COMPANY MARGIN</b> 5 sen per liter for petrol 2.25 sen per liter for diesel	
<b>PETROL DEALER MARGIN</b> 12.19 sen per liter for petrol 7 sen per liter for diesel	
<b>SALES TAX OR FUEL SUBSIDY</b> 58.62 sen per liter for petrol 19.64 sen per liter for diesel Subsidy if price is higher than fixed retail price Tax if price is lower than fixed retail price	

Source: Paultan.org, February 2009

**Managed Float System based on APM:**

Effective 1<sup>st</sup> December 2014, the government implemented the managed float system where the government set pump prices based on the average cost of MOPS fuels of the preceding month. Pump prices (per litre) also include an 'alpha' (fixed payment to cover cost differences between published MOPS prices and prices actually paid by oil companies for the fuels), a fixed payment for operational (including marketing, freight and distribution) costs, a fixed margin to cover the oil companies' capital and other operational expenditures, and a fixed commission to the dealers to cover their capital and operational expenditures. Changes to the retail prices of RON95, RON97 and diesel are to be made on the first day of each month which the average

change in the cost of a product for the current month would determine the retail price in the next month.

## Weekly Fuel Price Ceiling

Effective 29 Mar 2017, a new weekly ceiling price for fuel and under the new mechanism, retail petrol and diesel prices will be announced on a weekly basis on Wednesday night, and enforced the next day at 0001 hours. This differs from the current retail petrol and diesel price setting system whereby monthly revisions are made on the last day of each month, as guided by the Automatic Pricing Mechanism (APM). Petrol station operators are allowed to set prices below the announced ceiling, subject to obtaining prior permission from the Ministry of Domestic Trade, Cooperatives and Consumerism (KPDNKK).

The new price mechanism raised alarm to the Petrol Dealers Association of Malaysia (PDAM) which represents more than 2000 petrol dealers in Malaysia. The new mechanism is seen not to bring benefit to consumers in the long run and will create price wars among oil companies and potentially can create a monopoly market by large companies with sound financial ability that are able to sell at lower prices over a long period of time. In the long run, continuous reduction of profit margins of petrol station operators may result in higher cases of many dealers closing shop.

Almost 55% of petrol station retailers face the challenges of low sales turnover contributed by several factors including:

### Almost 55% of petrol station retailers face the challenges of low sales turnover

**Escalating operating cost**

- Minimum wage
- Increase in electricity tariff
- Levy for foreign workers

**Loss incurred due to the trend of oil price decline**

- Petrol station retailers are still recovering from the impact of loss
- Estimated loss around more than RM30K up to maximum of RM120K
- Recovery period around 6 months

**Increase usage of credit card payments**

- Estimated an increase by 20% of credit card usage
- Increase in terms of Merchant discount rate (MDR) fee to between RM1.5K to RM5K depending on sales volume

**Increase of Operating license fee upon signing new agreement and inconvenience when applying to different ministries**

- A retail license for selling controlled goods from MDTCC under the a Petroleum and Electricity (Control of Supplies) Act 1974.
- For petrol stations with convenience store, need to apply for retail license for Control of supplies Act 1961 and Supplies Control Rules & Regulations
- For selling rice, the petrol stations retailers need to apply license from the Ministry of Agriculture.
- Estimated an increase between RM1.5K to RM15K depending on sales volume

**Quota on petrol supply from oil companies**

- Dealers are required to possess at least three days' worth of stock due to essential items.
- Anticipated that oil companies would enforce prices structure depending on the availability of stocks.

**1. Regulated market with fixed Commission rate for petrol station retailers as determined by the government with fixed stock by the oil companies**

- Lower profit margin
- The recent increase in fuel prices will not make any difference to the dealers because the commissions and margins are fixed by the government.
- Commission fee:
  - RON95 - 14 sen per litre
  - RON97 - 16 sen per litre
  - Diesel - 12 sen per litre

**2. Quota and levy on foreign workers**

- Shortage of workers and have to make do with temporary staff.
- Require continuous training of new employees.
- Create operational instability for the business.

**Increase by OLF by some oil companies:**  
**Petron:** Between 1.1 to 4.1 sen per litre  
**Shell:** Increase from 0.35 sen - 2.53 sen per litre to 0.4 sen - 3.34 sen per litre (PDAM)