



INDIA ENERGY SUBSIDY BRIEFING

A bimonthly review of developments in Indian energy subsidy policy and energy markets

Highlights

- Using the low oil prices, India de-regulated diesel in October 2015 (Singh 2014). The Finance Minister, Arun Jaitley, has said that subsidies for both LPG and Kerosene will be reformed. He made the announcement at the World Economic Forum at Davos in January (Economic Times 2015).
- The Economic Survey 2015 focused on subsidies not benefiting the poor and the need to eliminate leakages
- The new budget for 2015-16 has slashed petroleum subsidy estimate by 50 per cent from the previous budget
- The government has decided that most welfare schemes including subsidies for food, fuel and fertilizer will be delivered through cash transfers.
- Kerosene will now be sold in the open market as well as subsidised rates available through government shops. This move to create dual pricing is to stop black marketing of subsidised kerosene.

Ministry of Finance Focuses on Subsidies

Economic Survey 2015 focuses on Subsidies

While releasing the Economic Survey 2015, the Finance Minister, said that price subsidies are regressive and are not benefiting the poor. He further recommended using cash transfers to eliminate leakages of subsidies (Indian Express 2015). The Economic Survey is a flagship document of the Ministry of Finance and is released annually to track the economic developments of the country. The Finance Minister made this statement referring to all subsidies, including food, LPG, Kerosene, fertilizers and electricity.

The Economic Survey also said that by reducing subsidies and increasing taxation on fossil fuels, India is positioning itself for the forthcoming climate negotiations in Paris. India has increased taxes on petrol, diesel and has also increased tax on coal. The survey asks for further pricing reform in petroleum and coal (Business Standard 2015).

Union Budget 2015 slashes Petroleum Subsidy Budget

The Finance Minister announced the union budget in February 2015 and estimated the petroleum subsidy for 2015-16 at INR 30,000 crore (US\$ 4.9 billion). This is a 50 per cent reduction from the 2014-15 budget estimate of INR 60,000 crore. The estimate for the new financial year has been calculated using an oil price of US\$110 per barrel. The new budget announcements asked for plugging leakages in subsidies by using the mechanism of JAM for cash transfer of subsidies. JAM stands for Jan Dhan Yojana (opening bank accounts for poor), Aadhaar(unique identity cards) and Mobile phones (Bhaskar 2015).

Gas

Fertilizer Plants to Benefit from Pooling of Gas

All fertilizer plants will now receive gas at uniform prices from 1 April 2015. The Oil Ministry has submitted a proposal to the CCEA (Cabinet Committee on Economic Affairs), which asks for averaging the rates of domestic and imported gas. Currently the cost of gas for different plants varies based on the source of gas, domestic gas retails for US\$4.2 per BTU while imported LNG is three times that cost. This uniform pricing of gas will benefit 30 gas fertilizer plants across India. A similar gas pooling price is being considered for power plants (Business Standard 2015). However, the latter will increase the burden for electricity subsidies. Since pooled gas price will be higher than domestic price and electricity tariff is currently subsidised. Therefore, the increased electricity cost will create a further revenue shortfall (NDTV 2015).

Subsidy Distribution Schemes

More welfare schemes to be brought under cash transfers

The government may start using the existing cash transfer methodology (Direct Benefits Transfer) to transfer food and fertilizer subsidy directly to the bank accounts of beneficiaries. Currently the DBT is used to transfer benefits of 35 welfare schemes, including cooking gas or LPG. The government has noted that the current DBT for LPG scheme saves the government money because it prevents diversions and black marketing. Therefore, under the DBT system for food subsidy, subsidised food grains won't be sold through the PDS preventing diversion. Instead, the subsidy will be transferred to the bank accounts and beneficiaries can buy food grains from the open market (NDTV Profit 2015). Similarly for fertilizer subsidy, cash subsidy calculated per hectare of farmland will be given to the farmer (Mohan 2015).

The move to use cash transfers for food subsidy is based on a report submitted by Shanta Kumar, former food

minister. In the first phase of implementation, the government is planning to ask union territories and urban areas of some states to pilot the scheme (Sethi and Agarwal 2015).

Kerosene

The Government has introduced dual pricing in Kerosene and made the market priced kerosene free from regulatory control. Subsidised kerosene continues to be available through the public distribution system. The two products will be differentiated through colour, the subsidised kerosene will be blue while market price (non-PDS) kerosene will be available as white (Times of India 2015)

LPG

DBT, the cash transfer scheme for LPG Subsidy (also now called PAHAL) became the largest cash transfer scheme in the world. On 31 Jan 2015, nearly 10 million citizens joined the scheme (Zee News 2015). The Prime Minister has reviewed the DBT for LPG cash transfer scheme and has congratulated the officers for its success. The scheme has seen enrolment from 66 per cent of the LPG consumer base, resolved 85 per cent of the complaints registered and further allows consumers to register through a single web portal (DNA 2015)

The Finance Minister has requested ministers to opt out of the LPG subsidy scheme and pay market prices. Though the move does not have a financial implication but the Finance Minister believe it sends the right message to the public (DNA 2015).

Diesel

Since diesel has been freed from price control and because of low international oil prices, the current retail price of the fuel has decreased. This prompted a demand for decrease of rail and bus fares. But these demands have been shot down since rail fares are already subsidised (Economic Times 2015).

The retail price of diesel is not reflective of low oil prices since the government has increased the excise duty on diesel, making its retail price the same (Times of India 2015).

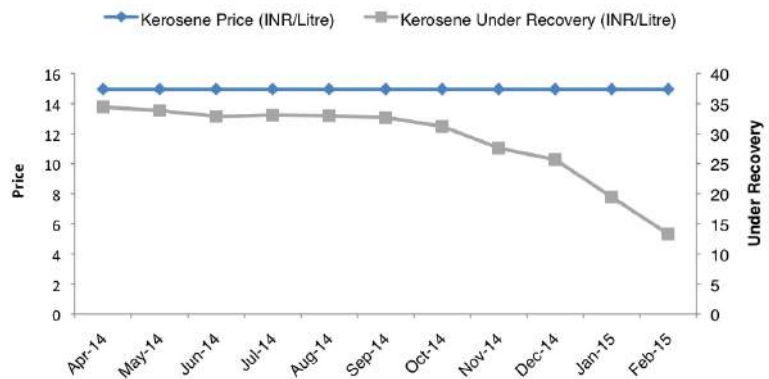
Electricity

The newly elected Delhi state government is planning to give power subsidy to residents in Delhi. The decision will be taken after an on-going audit of electricity discoms is completed. In its election manifesto, the political party had promised a subsidy of 50 per cent on electricity tariffs (DNA 2015).

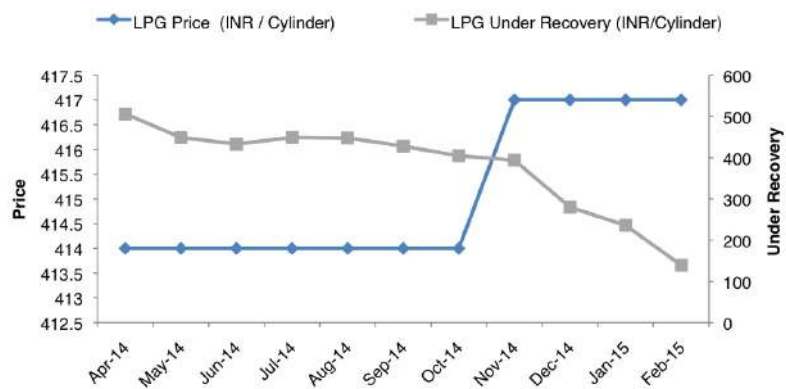
The Finance Minister acknowledges that subsidising power is not sustainable. The finance minister spoke about the coal auctions and said the cost of fuel bided will be reflected in the cost of power (First Post 2015).

Electricity Discom of the state of Karnataka faced severe opposition when it tried to revise electricity tariff by 80 paise per unit (Ray 2015).

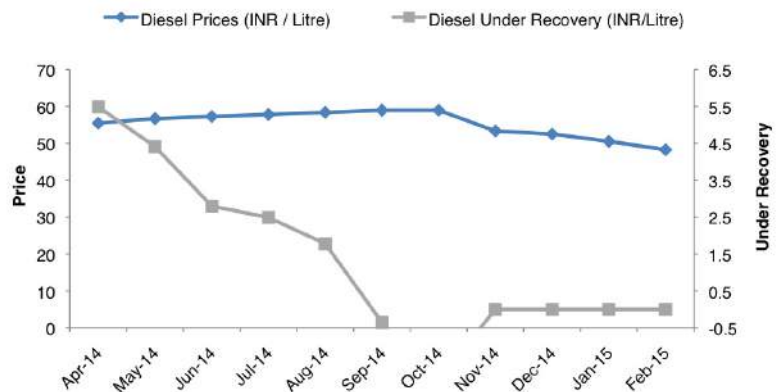
Kerosene Price and Under Recovery



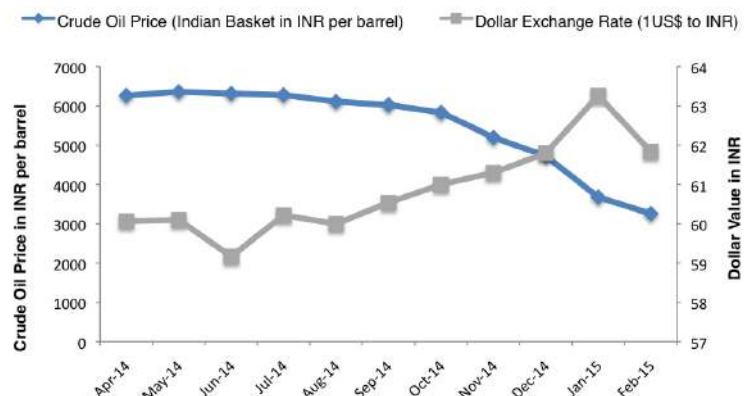
Subsidised LPG Price and Under Recovery



Diesel Price and Under Recovery



Crude Oil Price and Dollar Value



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About GSI

GSI is an initiative of the International Institute for Sustainable Development (IISD). GSI puts a spotlight on subsidies—transfers of public money to private interests—and how they impact efforts to put the world economy on a path toward sustainable development. In cooperation with a growing international network of research and media partners, GSI seeks to lay bare just what good or harm public subsidies are doing; to encourage public debate and awareness of the options that are available for reform; and to provide policy-makers with the tools they need to secure sustainable outcomes for our societies and our planet.

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