India Energy Subsidy Briefing

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Incremental increases to diesel prices continue

Diesel prices were increased by 50p to INR 53.1 per litre on November 1st, marking the 10th price increase since January 2013. At current prices, diesel under recoveries amount to INR 9.58 per litre (FirstPost, 2013). At the start of the reforms in January 2013, the diesel under recovery was INR 9.6 per litre, before shooting up to INR 14.5 per litre in September due to a weak rupee and high international oil prices. These two factors have since stabilized, helping to reduce under recoveries (PPAC, 2013).

A panel, led by Kirit Parikh, set up to review diesel pricing has recently recommended that diesel prices should be immediately hiked by INR 5 per litre, which would cut the annual fuel subsidy bill by INR 400 billion (approx. US$ 6 billion) (Reuters, 2013). In response, the Minister of Petroleum and Natural Gas, Veerappa Moily, said that a steep price increase will not be considered at this time, but the monthly increases of 50p per litre will continue (Airy, 2013). He added that upcoming elections will not come in the way of price deregulation (Mishra & Saikia, 2013).

Budget for petroleum subsidies may fall short

The Indian government may rely on next year's budget (2014-15) to compensate Oil Marketing Companies (OMCs) for the losses they incur from selling subsidised petroleum products (the 'under recoveries'). For the current financial year the government has allocated INR 650 billion for petroleum subsidies; of this INR 450 billion has been used to pay the balance owing to OMCs from the previous year. The rolling over of the subsidies to next year is a move to contain the fiscal deficit to 4.8% of GDP (Sahu, 2013).The government has also sanctioned a payment of INR 17.72 billion to the OMCs as compensation for half of their under recoveries in the second quarter of 2013-14 (ZeeBusiness, 2013).

Confusion over unique IDs and access to LPG cash transfers

Liquefied Petroleum Gas (LPG) distributors are receiving mixed messages over whether they are to ask consumers for aadhaar (unique identity) cards. A national scheme to distribute LPG subsidies through a cash transfer had been reliant on aadhaar cards, but the Supreme Court recently ruled that access to government subsidies and services should not require possession of the unique ID. Since that ruling, some district administrations have stopped not asking for aadhaar cards; however, some OMCs are reportedly demanding that distributors continue asking consumers for their unique ID number (Samaga, 2013)

Despite controversy, Reliance Industry to benefit from higher gas prices next year

GAIL India, the largest state-owned natural gas processor and distributor, is planning to set up a green corridor from the city of Jalandhar in the north to the southern city of Bangalore. The plan is to set up gas fuelling stations along this corridor and widen the access of gas beyond cities. The move is aimed at increasing usage of gas by transportation vehicles, which may find gas a cheaper alternative than deregulated diesel prices (DNA, 2013).

The Minister of Petroleum and Natural Gas, Veerappa Moily, has confirmed that there will be uniform gas pricing for domestic producers, including Reliance Industries. Earlier in the year, the Cabinet approved a new gas pricing formula from April 2014. Debate has focused on whether Reliance, the largest private producer, should benefit from new pricing next year. Some have alleged that Reliance has been under producing gas so as to make a windfall profit from the new pricing in April 2014. The ministry is allowing uniform pricing for everyone but asking Reliance to submit a bank guarantee of $135 million for every quarter to ensure production meets targets (IBNLive, 2013).

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