India

Energy Subsidy Briefing

FEBRUARY 2014

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Government increases the quota for subsidized LPG

The Minister of Petroleum and Natural Gas, Veerappa Moily, announced plans in late January to increase the annual quota of subsidised Liquefied Petroleum Gas (LPG) cylinders available to households from nine to twelve. It has been estimated that the larger quota will cost an additional INR 33 to 58 billion (USD 0.5 ~0.9 billion) in subsidy expenditure (Suryamurthy, 2014).

The higher quota benefits a small portion of population; The Ministry of Petroleum estimates that only 10 per cent of households have been purchasing more than nine cylinders at market prices (Ranjan & Singh, 2014). Minister Moily had earlier indicated reluctance to increase the LPG quota, but explained there is "public demand" (Ranjan & Singh, 2014). The Governor of the Reserve Bank of India, Raghuram Rajan, called the new LPG quota "misdirected" because it will benefit people who can afford market rates (Mehdudia, The Hindu, 2014a)

Cash transfer scheme for LPG subsidies suspended

A national plan to distribute LPG subsidies via a cash transfer has been placed on hold. The aadhaar card-based system used for delivering subsidies had faced a number of complaints since its implementation last year (Hindustan Times, 2014). The government has said it will convene a committee of experts to analyses the scheme and provide recommendations on next steps (Nanda, Rao, & Jain, 2014). The decision was announced by Minister Moily on behalf of the Cabinet Committee on Political Affairs (Hindustan Times, 2014).

The LPG cash transfer had been built on the back of a larger cash-transfer program called the Direct Benefit Transfer (DBT). The DBT uses aadhaar cards (a unique identification) linked to bank accounts to distribute subsidies. However, in September 2013 the Supreme Court ruled that possession of an aadhaar card should not be a pre-condition for receiving government subsidies. Since then LPG suppliers have been confused on how to proceed.

As of December 2013, more than INR 20 billion (USD 320 million) had been deposited in 66 million bank accounts across 184 districts as part of the LPG cash transfer (Economic Times, 2014). However, the scheme faced a number of practical hurdles and a lot of bad press.

A number of states asked for extensions because many of their residents were not in possession of aadhaar cards. In the state of Odisha, for example, only 16 million had aadhaars numbers against a target of 38.3 million (NDTV, 2014). A similar extension was expected for West Bengal (Times of India, 2014a).

Many LPG consumers have also been rushing to change the names under which their LPG connections are registered. The DBT for LPG requires that the name of the LPG consumer match the name on the aadhaar card and bank account, but many LPG connections are listed under family names that don't match the subsidy beneficiaries. The city of Nashik, for instance, had a back log of 9000 consumers waiting for a name change. (Times of India, 2014b).

There has also been confusion over how the subsidy amount is calculated. For example, in Pune, the current market rate for a 14 kg LPG cylinder is INR 1287 and the subsidised rate is INR 451. After the deduction for value added tax, consumers should be eligible for a subsidy of INR 811. However consumers have reportedly received between INR 200 to 400 in their bank accounts, leading to complaints that they are paying more under the new system for the same size cylinder (Madaan, 2014).

Electricity tariffs set to come down for poor consumers in some states

In January the state governments of Delhi, Mumbai and Haryana announced plans to cut electricity tariffs for poorer households by half. In Delhi the lower rates would cover 2.8 million out of Delhi's 3.4 million power consumers. However, it has been noted by some that the subsidy does not reach the poorest, since most do not have electricity connections with meters and are still waiting for formal connections (Parikh & Parikh, 2014).

New natural gas pricing guidelines released

The Ministry of Petroleum and Natural Gas has issued its *Natural Gas Pricing Guidelines, 2014*. The new pricing formula, which will be applied starting April 1st to all domestically produced gas, takes the average of all the LNG imported by India and global benchmark gas rates. Prices will be adjusted every quarter (Mehdudia, The Hindu, 2014).

The immediate impact of the gas price hike will be felt by compressed natural gas (CNG) consumers like public transport vehicles. The Ministry of Petroleum and Natural Gas estimates that if gas prices double under the new formula, the price of CNG will increase by INR 8 per kg in Delhi and INR 11.7 per kg in Mumbai (Zee News, 2014). CNG prices were last raised in Delhi by INR 4.5 per kg in December 2013, leading to a number of protests. The impact of higher natural gas prices on the costs for fertilizers and electricity supply are currently being estimated by the Ministry.

Higher diesel prices lead to reduced sale of diesel-fuelled cars

The government is continuing to increase the price of diesel by INR 0.5 per litre a month; the price was revised most recently on 1 January 2014, bringing the retail price to INR 53.7 per litre in Delhi. This is the twelfth increase since January 2013.

A survey conducted by the Petroleum Planning and Analysis Cell shows that the biggest beneficiary of diesel subsidies are light and heavy transport vehicles. The transport sector consumes 70 per cent of diesel sold in India, while agriculture consumes 13 per cent. Within the transport sector, trucks consumed 28 per cent while private cars consumed 13 per cent (Business Standard, 2014)

The share of diesel cars is set to drop in the next two years according to a report by the Investment Information and Credit Rating Agency of India. Annual diesel cars are expected to drop to 30-35 per cent of total car sales by 2016 from the current 55 per cent. Diesel car sales had picked up in 2010 when petrol prices were deregulated, but diesel continued to be subsidised, leading to a significant price difference between the two fuels. However given recent increases in diesel prices and also a higher tax on SUVs, there has been a decline in sale of diesel cars in 2013-14 (Das, 2013).

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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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