India

# Energy Subsidy Briefing

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## Ministry of Finance reportedly considers pushing subsidy costs to next year's budget

The Ministry of Finance may push US$15 billion in subsidy costs into next year's budget in order to keep the fiscal deficit at 4.8 per cent of the GDP by March 31, 2014, according to ministry officials. Some of the costs could be reduced by increasing fuel prices; however, that is becoming more politically challenging as the country moves closer to national elections next year. A similar move was made last year when the finance minister shifted US$15 billion into this year's budget, reducing the fiscal deficit by 1 percentage point (Reuters, 2013).

## Kirit Parikh Panel issues draft report on diesel pricing

As part of the diesel pricing reforms, the Kirit Parikh Panel suggested in late September that diesel prices should be increased by INR 1-1.5 per litre per month, instead of the current INR 50p per litre per month.

The panel, set up by the Ministry of Petroleum and Natural Gas earlier in the year to examine diesel pricing, also suggests in its draft report that diesel prices should to be determined using a trade parity formula, which is the weighted average of import price (80 per cent) and export price (20 per cent).

In doing so, the panel runs against the the recommendation of the Finance Ministry, which favours export parity pricing (i.e. the export price of domestically produced petroleum products). The panel explains that export parity pricing is not an appropriate benchmark in India given that more than 80 per cent of India's crude oil is imported (HinduBusinessline, 2013).

## Petrol prices come down, as diesel goes up

The price of petrol was reduced by INR 3.66 per litre on October 1st, bringing the price to INR 72.4 per litre in Delhi (Times of India, 2013). In contrast to diesel, petrol prices are deregulated, and this latest price revision is due mainly to a stronger rupee.

Meanwhile, the price of diesel was increased by INR 50p per litre on October 1st, the ninth price increase so far this year. Through these regular price increases the government is aiming to eliminate under-recoveries on diesel by next year. That plan, however, faced set-backs earlier in the year, as a severely weakened rupee led to mounting under-recoveries even as pump prices were raised. Under recoveries rose to INR 14.5 per litre on September 16th (Penagonda, 2013) but fell to INR 10.52 per litre on October 13th (PPAC, 2013), primarily because of the rupee appreciating against the dollar and a fall in international oil prices (Outlook, 2013).

 

## Aadhaar not mandatory to receive LPG cash transfers, says petroleum ministry

On October 9th the Minister of Petroleum and Natural Gas, Veerappa Moily, affirmed that an aadhaar number (the unique identification) is not mandatory for accessing LPG subsidies, in light of an earlier Supreme Court decision (Mehdudia, 2013). Aadhaar numbers have been central to the government's scheme of delivering subsidies for LPG through a direct cash transfer, rather than selling cylinders at subsidized prices. But the Supreme Court recently decided that the government could not condition the receipt of public services and subsidies on the possession of an aadhaar number.

Under an ambitious plan, the government is aiming to have the cash-transfer scheme (termed Direct Benefits Transfer) operating across India by the end of the year, starting first in districts where aadhaar registration is high. However, the press has reported several operational challenges in districts where the scheme is up-and-running, such as confusion over the amount of subsidy amount transferred (Jalali, 2013), not receiving the subsidy (Milton, 2013) and trouble with the software dealing with LPG cylinder deliveries (Times of India, 2013).

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