GSI Global Subsidies Initiative

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INDIA ENERGY SUBSIDY BRIEFING

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

Highlights

- A new fuel subsidy reform path has been set by the government that aims to reduce the expenditure to 1% of the GDP by 2019-20
- The revision in gas pricing has reduced the urea subsidy bill and also the introduction of the gas price pooling will further decrease the government's expenditure on providing subsidised gas.
- The government is planning to introduce cash transfers for kerosene along the line of the LPG cash transfer scheme.
- The government is planning to introduce subsidised gas through bidding to some gas based power plants and has decided on offering subsidised gas worth INR 35 billion (US$ 0.5 billion) in 2015-16.

Subsidy Bill

The expenditure for subsidised LPG, Kerosene and diesel* in 2014-15 was INR 723 billion (US$11.3 billion). Of this amount, INR 220 billion (US$3.45 billion) was paid by the government and the rest was borne by upstream oil companies (Economic Times, 2015).

The finance minister has announced a gradual path to subsidy reform from the current 2% of the GDP in 2014-15 to 1% of the GDP by 2019-20. In the medium term, the government aims to reduce it to 1.6% of the GDP by 2016-17. The aim is to not eliminate subsidies but rationalize them since one-third population is below the poverty line (The New Indian Express, 2015). The subsidies referred to are a sum of food, fertilizer and fuel.

Change in Subsidy Sharing Formula Between Government and Oil Cos

The government has changed the subsidy burden sharing formula between upstream oil producers and the government. This change follows from the change in subsidy mechanisms of two fuels - diesel and LPG. In 2014, the government freed diesel from subsidies and began paying LPG subsidies through direct cash transfers. Hence Oil Marketing Companies were only bearing a loss on account of selling subsidised kerosene. The Ministry of Petroleum has sent a notification to the upstream producers, ONGC (Oil and Natural Gas Co) and Oil India describing the new subsidy sharing formula that will be applicable from April 2015 to compensate the OMCs.The subsidy formula states that if the crude oil price each quarter averages less than US$60/barrel then upstream oil companies will not bear any subsidy costs. When oil prices are above US$60/barrel, upstream companies will have to bear 85% of the incremental cost above US$60/barrel, and if oil price cross US$100/barrel then oil companies will bear 90% of the incremental cost above the $60/barrel price (Economic Times, 2015).

Subsidised Kerosene and Under Recovery

After the successfully achieving savings on LPG subsidy expenditure through the DBTL cash transfer scheme, the government is planning to introduce a similar cash transfer mechanism for delivering kerosene subsidies. Minister for Petroleum & Natural Gas, Dharamender Pradhan, made the announcement and though no date has been set, the government plans to launch this in initially 5 to 6 states (Dutta, 2015).

The plan is being prepared by the Expenditure Management Commission (EMC) with the main aim of reducing pilferage, leakage and adulteration of subsidised kerosene, and gradually shifting to cash transfer. The EMC came out with an interim report in January 2015, which made a case for the shift based on the 67% savings in subsidy expenditure based on a cash transfer scheme piloted in Alwar district, Rajasthan (Sikarwar, 2015).

Natural Gas

The gas price pooling- averaging prices of domestic and imported gas – will be applicable from 1 July 2015. The decision was deferred, since the price pooling was scheduled to begin from 1 April. Under the pooling, gas based urea plants will benefit from receiving an averaged out price and this, it is claimed, will also save save the government a higher subsidy bill.

* Diesel was subsidized until October 17, 2015 after which the price was market linked

The recent revision of gas prices has reduced the urea subsidy bill. From November 2014 to March 2015 the gas price was US$ 5.61 mmBTU. From April 2015, owing to fall in global gas prices, the gas price has been revised to US$ 4.66 and will be valid till September* 2015. This price revision will save the government INR 9.3 billion (US$ 146 million) in urea subsidy, since urea manufacturing facilities rely on subsidised natural gas for power (Economic Times, 2015).

The government is considering allowing gas produced from a few difficult fields to be sold at market prices. This will meet the expectations of the industry and encourage private companies to explore and increase production (NDTV, 2015). The remaining gas continues to be sold at $4.6 per mBTU, the price that was fixed by the government since 1 April 2015.

There are several gas based power plants in the country which are running at sub optimal levels and need more gas at affordable prices. The government is planning to offer imported natural gas at subsidised prices to these power plants. The government is offering 8.9 million standard cubic meters of gas per day at a highly subsidised price and is offering this through an auction. The power plants can bid for this gas and the power plant with the lowest subsidy will win the bid. The government has earmarked INR 35 billion (US$0.5 billion) as subsidy for these power plants in 2015-16 and will offer INR 40 billion (US$0.6 billion) in 2016-17 (Economic Times, 2015).

The price of CNG (compressed natural gas) and piped cooking gas was increased in Delhi. The price rise came because the base price of natural gas is dollar linked and a revision in dollar rates is passed onto the consumers. On 20 May, the rupee fell sharply against the dollar thereby triggering an increase the price of CNG and cooking gas (Times of India, 2015).

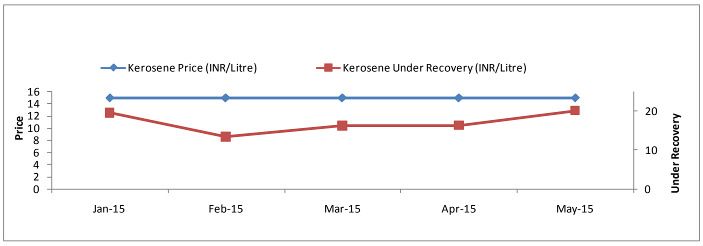
Cash Transfers

Following the cash transfer for LPG, the government is set to roll out cash transfer schemes for food and fertilizer. For food, union territories like Chandigarh, Pondicherry, Daman & Diu etc have been identified.

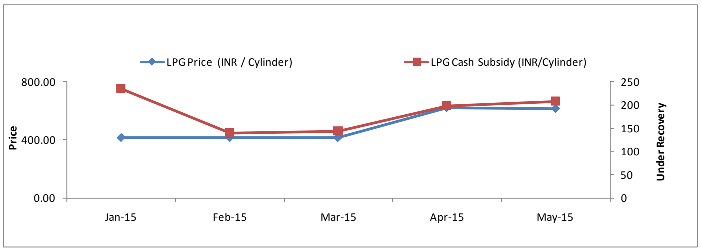
Government wants to reduce the subsidy expenditure on food and also reduce the need to stock food grains at government warehouses run by the Food Corporation of India (Siddhartha & Dash, 2015). The subsidy will be transferred to the beneficiaries' bank account so they can purchase food from the open market and prevailing rates. But the cash transfer piloted in Pondicherry has already been stopped because there are such few bank branches that beneficiaries cannot access their subsidy. Also since some of the beneficiaries are in debt every time a subsidy is transferred to their banks; the bank auto-debits the subsidy amount for an outstanding payment. Hence the beneficiaries have not received the food subsidy and the programme has been stopped in Pondicherry (Scroll, 2015).

For fertilizer subsidy transfer, 10 districts in Odisha and Gujarat have been identified for piloting the scheme. The fertilizer subsidy is currently transferred to manufacturers based on quantity of fertilizer produced; but the government wants to change the subsidy to a mechanism based on sales and then finally digitize data on beneficiaries (which currently doesn't exist) and move to cash transfers so beneficiaries can benefit directly. The move will help the government to plug leakages and diversions (Siddhartha & Dash, 2015).

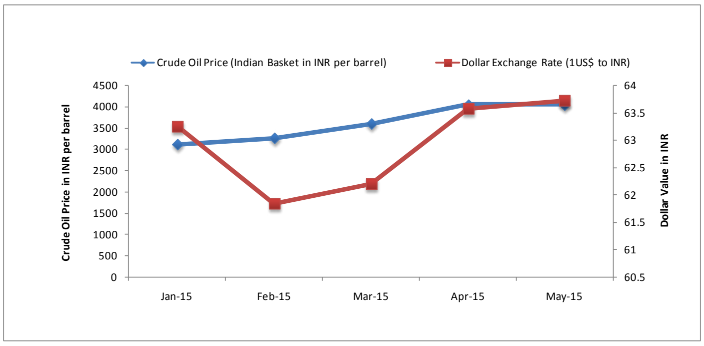
Kerosene Price and Under Recovery



LPG Price and Subsidy



Crude Oil Price and Dollar Value



Electricity

The Government of Punjab has to bear the electricity subsidy bill for 2015-16 (estimated at) INR 54.8 billion (US$ 0.8 billion). The state budget already has an estimated revenue deficit of INR 63.9 billion (US$ 1 billion) and the electricity subsidy will be an additional burden on the state budget. The chief minister of Punjab has been unable to rationalize electricity subsidies even when the central government asked him (Vasudev, 2015).

* Gas prices in India are benchmarked to international prices and revised every six months.

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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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