India bites the bullet on fuel subsidies
The Government of India has introduced a major reform of the way LP Gas subsidies are administered, which is starting to curb the illegal use of LP Gas as a transport fuel and boost l sales of Autogas.

Suyash Gupta, General Secretary of the Indian Autogas Coalition (IAC), reports.

On 13 September 2012, the Indian government announced the notification of a major change in the LP Gas subsidies are administered, capping the number of subsidized domestic cooking gas cylinde six per year per household. The move, aimed at limiting the financial burden of subsidies on th companies, was widely expected by the industry. The issue of subsidies is highly political in India and move attracted enormous media attention – and pressure to raise the cap. This reform is already ha positive knock-on effects for the Autogas sector.

Background: the situation before the reform

Domestic use of subsidized 14.2 kg cylinders accounts for close to 90% of total Indian LP consumption of more than 15 million tonnes annually. Up to 35% of India's LP Gas has to be importe subsidies constitute a huge drain on national resources: the oil-subsidy bill totalled more than 835 b rupees (Rs), or US$16 billion, in the fiscal year 2011-12.

Before the reform in September 2012, the number of subsidised LP Gas cylinders available to dom consumers was unlimited, with actual consumption ranging typically from 15 to 25 cylinders connection per year. In reality, consumption is even higher, as some households have more than connection – despite the efforts of the of the LP Gas distributors of the public sector undertakings (PS to rationalise distribution. And many of these subsidised cylinders are being diverted illegall commercial uses and as Autogas. Not only is this augmenting the cost of subsidies on the public purs is also highly dangerous.

Diversion of subsidized LP Gas to use as Autogas

The exact scale of the problem is not known as no official figures are available. But a simple compar of global statistics with those for India suggests that a very large amount of LP Gas is being used ille as Autogas.

Globally, 21 million vehicles run on Autogas, consuming about 23 million tonnes. In India, there are c to 2 million vehicles on the road that are able to run on Autogas (though some estimate put the real fi at between 2.5 and 3 million vehicles). Applying the average consumption of Autogas per ve worldwide to India yields a figure for total annual Autogas consumption of around 2 million tonnes. Ye official figures for Autogas use based on sales from formal refilling stations is barely 350 000 tonnes.

Of course, average consumption per vehicle in India may be somewhat lower than that in the rest o world, especially in view of the congestion problems that India suffers from, which restricts mobili towns and cities. But it is nonetheless pretty obvious that diversion of LP Gas is taking place on a large scale.

The impact of the reform on Autogas

Under the notification, every household shall be entitled to a maximum of six subsidized LP Gas cylin per year. They are currently sold at a fixed price of around Rs 450. Households may consume more six cylinders per year, but they must pay a higher non-subsidized price for the additional ones prevailing international LP Gas, the unsubsidised price would be about twice that if the subsidised pr i.e around Rs 900. Each household is entitled to one connection only.

At current prices, retailers lose approximately Rs 10 per litre of diesel, Rs 32 a litre of kerosene an 478 per subsidised cylinder of LP Gas. After the imposition of the cap on the number of cylinders demand for subsidized LP Gas grew by only 2% year-on-year in September and October 2012, comp with 6.7% during the same period in 2011. By contrast, sales of non-subsidized LP Gas in the same months in 2012 jumped by 17.4% compared with 1.4% growth in 2011.

The introduction of 6-cylinder cap is expected to reduce the government's import-subsidy bill by in ex of Rs 60 billion (over US$1 billion). The reform will also open up commercial opportunities for the pri sector and limit the volume of subsidized LP Gas available for diversion to other uses, including Auto There are already signs that this is happening: Autogas sales in October 2012 rose by an impressive compared with the previous month.

Another aspect of oil-subsidy reform process in India is the roll-out of the Aadhaar card scheme Card, National Unique Biometric Identification Programme) in 51 districts across 15 States across country, starting on 1 January 2013. The scheme, which allows a direct transfer of cash to households, aims to cover the entire country by the end of 2013. As the subsidies are better targeted scheme is expected to save the government another US$ 2-3 billion.

The silver lining!

The reform has inevitably come under attack and talk of raising the ceiling on the number of subsic cylinders has increased. Yet even if a review were to happen, it would be largely symbolic. M changes, if any they were to happen, would have happened within a few weeks of the i announcement.

I suspect that the government will indeed concede an increase in the cap, possibly to nine cylinders year. But even if this does happen, the positive impact on the industry – and on public finances – w still be very significant.

The fact remains that the government has finally bitten the bullet on LP Gas Subsidies. It has alterec dynamics of the Indian LP Gas market and given a major boost Autogas demand. With this shot ir arm, Autogas in India seems to be back on the path to sustained long-term growth!

For more information about Autogas and LP Gas more generally in India, please do not hesitate to contact Suyash Gupta at suyash@vsnl.com.

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