Autogas in India: back in business

A reform of LP Gas cylinder pricing is set to give a huge boost to official Autogas sales.

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An estimated 2.5 million vehicles in India run on LP Gas, or Autogas, which effectively makes it one o top five Autogas markets in the world in terms of fleet size. But in terms of fuel sales at filling stations Autogas market is still very small, at only about 350 000 tonnes, putting it close to the bottom of the t of the leading markets globally.

However, all that is set for a complete makeover. The main reason for the very small sales at Indian f stations today is the diversion of subsidised domestic LP Gas in cylinders into illegal use as Autogas highly dangerous and fraudulent practice. This problem has been growing, particularly since 2007-2 when international LP Gas prices starting to climb again to the high levels we see today, driving up price of unsubsidised Autogas at the pump. On the other hand, the prices of domestic LP Ga politically sensitive commodity, have been insulated from high international prices by subsidies. A result, the gap in prices between domestic LP Gas and Autogas sold in filling stations has wide increasing incentives for diverting LP Gas to unofficial use as a vehicle fuel. In addition, gasoline diesel prices were also subsidised during that period, causing Autogas to lose its price advan compared with those fuels.

Retail fuel pricing decontrol and reduced subsidies to domestic LP Gas

This situation is now changing with the recently introduced decontrol of retail pricing of transport fuels tighter limits on the volumes of subsidised domestic LP Gas. The government completely decontr gasoline prices over two years ago, allowing the oil companies to set freely the price of the fuel at ma levels. More recently, the government was forced to also initiate the decontrol of diesel prices, which rise by a fixed amount every month, irrespective of fluctuations in the international prices; the huge f deficit and the subsequent threats from leading credit rating agencies like Standard and Poor' downgrade the country's credit rating left the government with no choice but to rein in costly subsidies.

But the single most important government move was the complete revamp of the subsidy mechanism domestic LP Gas, announced on 13 September 2012. Phase I of the reform of the subsidy administra regime involved limiting the number of subsidised cylinders available to each household to six per y This was increased to nine cylinders later, as a result of political pressure. This was backed with a m campaign to stamp out the fraudulent practice of multiple connections in each household, with diffe family members claiming subsidised fuel. While the implementation of this phase of the reform did r with a lot of political resistance, the government remained on course. To put things into perspective government over the last year has already saved more than $1 billion through these measures.

However, what was most surprising was the speed of implementation of phase II of the program involving the direct transfer of cash to poor households as an alternative to subsidising cooking fuel. L by the success of phase 1 of the programme, together with the fact that more than 400 million pe were already covered by the Aadhar umbrella (Unique Identity Programme for citizens) by early 2013 government embarked aggressively on the implementation of this phase.

The government launched the programme, known as the direct benefit transfer (DBT), on a test bas 18 cities, starting on 1 June 2013. Under the programme, most of the qualifying households in these c received the cash transfer of the subsidy amounts in their bank accounts. Following the success of test, the government has notified 269 more cities that they will be included in the DBT programme fro January 2014.

An opportunity for Autogas to catch up – at last!

These reforms are already having a positive impact on the Indian Autogas market and this trend is s continue. Autogas retailing companies have already reported significant increase in sales in almos cities where DBT is in the process of being rolled out, as it seriously impedes the unscrupulous diver of domestic LP Gas to Autogas. Sales at filling stations are bound to quickly catch up with the pote sales required to service an Autogas vehicle fleet of more than 2.5 million. More of the 500 or so c where Autogas is available will be covered by DBT and many more stations will be set up in those c boosting sales.

Autogas sales at retail stations are, at last, assured of much needed growth, which should quickly p the way for India to gain its rightful place towards the top of the list of major Autogas countries world *– in terms of volumes sold as well as the size of the vehicle fleet*.

For more information about Autogas developments in India, please do not hesitate to contact Su Gupta at suyash@vsnl.com.

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