

Reforming LPG and Kerosene Subsidies: Short-term priorities and longer-term ambitions

Prices for liquefied petroleum gas (LPG) and public distribution system (PDS) kerosene are regulated by the Indian government, resulting in substantial subsidy payments from the government budget – payments which are often poorly targeted and which fail to reach intended beneficiaries. In FY 2012-2013, 13.7 per cent of India’s budget expenditure was allocated to fuel subsidy payments. Reforms are underway, particularly in the case of diesel, where gradual diesel price increases have resulted in a significant cumulative price increases since early 2013. In contrast, the government has not raised domestic LPG and PDS kerosene prices, but instead has experimented with other ways to reduce the subsidy burden and improve subsidy distribution. In late-2012 a cap was introduced on the consumption of subsidised LPG cylinders, restricting households to a maximum of nine subsidised cylinders per annum. This was followed by the transition of the LPG subsidy to India’s cash transfer system—the Direct Benefits Transfer (DBT) scheme, intended to reduce leakage and the duplication of household connections. However, the DBT scheme was abruptly suspended earlier this year, and the quota of subsidized cylinders was raised to twelve. In the case of kerosene, a variety of expert committees have recommended gradually increase prices, but so far this advice has not been heeded. The government has considered distributing subsidized kerosene through a cash transfer, and currently states may volunteer to do so, although most do not.

LPG and kerosene subsidies have been criticized on a number of grounds. They result in a flourishing black market, particularly in the case of kerosene. LPG subsidies, meanwhile, are poorly targeted to poorer households, with most of the subsidy benefit accruing to richer, urban households. Despite their fiscal cost, LPG subsidies have largely failed to allow households in India’s poorest communities to adopt safer, cleaner forms of energy use.

Despite their failings, reforming LPG and kerosene subsidy arrangements has proven extremely difficult. This workshop will review recent subsidy policies for domestic LPG and PDS kerosene and identify priorities going forward. It will put the emphasis on the social and political challenges associated with reform, and seek practical changes that safeguard the poor and vulnerable