India

The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries, eight partner economies (Argentina, Brazil, the People’s Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa) and EU Eastern Partnership ( EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine).

Energy resources and market structure

India is one of the world’s fastest growing energy markets. It is the world’s second-largest coal producer, but is also the second largest coal net importer to meet its coal demand, behind China in both cases. India also had proven oil reserves of 4.4 billion barrels in 2018. Most crude oil and natural gas reserves are located along the country’s western continental shelf.

Coal India Ltd. (CIL) has a virtual monopoly on coal extraction in the country, accounting for about 95% of the total. In response to rising domestic shortages, external imports of coal have surged in the last five years that in January 2020, the Government announced the opening of coal mining to all companies. In an effort to attract more investments into the sector. Unlike CIL however, private investors will be required to bid for mines.

State-owned companies also command a large share of the market in all segments of the oil and gas sector. In the past, the regulated pricing of petroleum products has discouraged the entry of private companies into the downstream segment. However, in 2002, the Government liberalised the petroleum sector by allowing private sector in retail. This act was followed in 2007 with the establishment of an independent domestic regulator (PNGRB) to regulate the Indian midstream and downstream sectors.

In a push for universal electrification, the Government launched the Pradhan Mantri Sahaj Bijli Har Ghar Yojana (SAUBHAGYA) in October 2017. As of January 2020, 26,284,350 households have been electrified reducing the number of unelectrified households to 18,734, or less than 0.01% of the total population.

Energy prices and taxes

In India, the Government regulates energy prices to protect domestic consumers from international volatility. Coal prices inside the country are not aligned to international prices. The Ministry of Coal allocates coal supplies to priority sectors such as electricity generation. As prescribed by the 2003 Electricity Act, tariffs for electricity generation and transmission charged by companies owned by the Central Government are regulated by the Central Electricity Regulatory Commission, whereas those for generation, transmission and distribution charged within the state are determined by each state’s Electricity Regulatory Commission. Natural gas is priced according to the new domestic pricing guidelines, in effect since April 2014, which differ from the previously more restrictive Administrative Pricing Mechanism (APM) in that benchmark global gas rates are now taken into consideration.

On 1 June 2017 India implemented a major tax reform introducing a Goods and Service Tax (GST) regime to replace several indirect taxes including the Central Excise Duty and Value Added Tax. This implied a change in taxation for coal products, kerosene, LPG and petrochemical products. However, this reform did not cover crude oil, natural gas and key petroleum products including diesel and aviation fuel.
Recent developments and trends in support

Most of the support for fossil fuels in India is targeted towards consumers in the form of direct transfers for the purchase of petroleum products such as kerosene and LPG. The support has decreased sharply since its peak in 2012 as a result of the reform process initiated by the Government in order to reduce fiscal deficits. The price of petrol and diesel has been de-regulated, with the Government progressively increasing prices until levels were achieved to eliminate subsidies in the second half of 2014. However, some support still remains for other fuel types, mainly liquefied petroleum gas (LPG) support targeting low-income families. In 2014, the Government introduced direct benefit transfers (DBT) to support individual households purchasing LPG cylinders for cooking purposes. In May 2016, the Government launched Pradhan Mantri Ujjwala Yojana scheme to provide LPG connections to Below Poverty Line (BPL) families. As of January 2020, over 80 million households have been connected having met the revised targets. Consequently, these schemes have led to a sharp increase in LPG consumer subsidies in recent years. The total LPG subsidy amount allocated in 2019-2020 (spanning all LPG schemes) is 63% higher than the subsidy amount in 2018-2019. These higher outlays are driven by new connections and hardening crude prices. In 2017, the government also launched the household electrification scheme called Saubhagya, providing free electricity connections to identified poor households.

Examples of Measures

| Compensation for under-recoveries incurred by downstream oil companies (2002-)| This policy cost INR 613 billion in 2014-15 but was reduced to INR 59.5 billion in 2018-19. The government has reformed its subsidies on petrol in 2010 and on diesel in 2014, and is currently making efforts with respect to kerosene and LPG. In addition, world oil prices have fallen. As a result, under-recoveries have been significantly reduced and income support payments for OMCs have fallen accordingly. |
| DBT Subsidy on Domestic LPG and Permanent Cash Advance pertaining to DBTL (2014-) | Direct Benefit Transfer for LPG Consumer (DBTL) Scheme was launched with effect from 1st June 2013 to provide capped number of subsidised cylinders to domestic LPG consumers and transfer the subsidy amount directly to their bank account. This policy cost INR 39 billion in 2013-14 but increased to INR 315 billion in 2018-19. |
| DBT Subsidy on Kerosene and Permanent Cash Advance pertaining to DBTK (2016-) | In 2016, a Direct Benefit Transfer scheme was launched for kerosene where a consumer will pay the market price at the time purchase and later a subsidy amount is directly transferred to their account. This policy cost has grown from INR 0.11 billion in 2016-2017 to INR 1.17 billion in 2018-2019 |